global forum for rural advisory services
forum mondial pour le conseil rural
foro global para los servicios de asesoría rural

Module 11: Agricultural Entrepreneurship

Global Forum for Rural Advisory Services (GFRAS)
c/o Agridea, Eschikon 28, 8315 Lindau, SWITZERLAND
Phone +41 (0)52 354 97 64, Fax +41 (0)52 354 97 97
info@g-fras.org, www.g-fras.org

In 2012 GFRAS developed the "New Extensionist" document, which details the role that extension plays in an agricultural innovation system, and the strategies and capacities needed (at individual, organisational, and system level) http://www.g-fras.org/en/activities/the-new-extensionist.html. Based on this document the GFRAS Consortium on Extension Education and Training emerged to promote the New Extensionist, mainly through training, curricula review, and research on extension.

The Learning Kit contains 13 modules designed for self-directed, face-to-face, or blended learning and can be useful resource for individual extension field staff, managers, and lecturers.

The Agricultural Entrepreneurship module is developed as part of the New Extensionist Learning Kit http://www.g-fras.org/fr/652-the-new-extensionist-core-competencies-for-individuals.html.

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Lead author:	Shaun Ferris
Technical writer:	Lucia Geyer
Editor:	Caryn O'Mahoney
Quality assurer:	Margeaux Erasmus
Layout:	Deborah Els
Coordination team:	Kristin Davis, Hlamalani Ngwenya, Lorenz Schwarz & Natalie Ernst

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Contents

1. Before you begin

1.1 General instruction

This module should be used in conjunction with the workbook provided. As you read through the module, you will find different visual features that are designed to help you navigate the document.

Figure 1: Icons used to highlight important information throughout the manual

The module makes use of keywords (difficult or technical words that are important for you to understand). To ensure that you receive the full benefit from the module, keywords will be marked the first time they occur and defined in a box containing the keywords symbol. Make sure that you read the definition of any words that you are unsure about.

1.2 Activities

Each session in the module will contain various types of activities to help you become knowledgeable and competent. The module contains three types of activities:

A **pre-assessment** is to be completed before reading through the module overview and introduction, and a **post-assessment** is to be completed once the entire module has been covered. This will measure the degree to which your knowledge has improved by completing the module.

Each session contains one or more **session activities** to be completed, in the workbook, where indicated in the module. These activities measure your ability to recall and apply theoretical knowledge.

At the end of each study unit a **summative assessment** needs to be completed. These assessments are longer than the session activities and will test your knowledge on all the work within the study unit.

1.3 Assessment instructions

Keep the following in mind before doing any of the assessments:

- All assessments are to be completed in the provided workbook.
- The manual contains all relevant information you will need to complete the questions, if additional information is needed, such as the use of online sources, facilities will be made available.
- Work through the activities in a study unit and make sure that you can answer all the questions before attempting the summative assessment. If you find that you are not certain of any part of the training material, repeat that section until you feel confident.
- The summative assessment must be done under the supervision of your trainer at the end of your learning period.

Module 11: Agricultural entrepreneurship

Module outcomes

After completing this module, you will be able to:
1. Understand the concept of agripreneurship;
2. Evaluate the key skills involved in running a business;
3. Identify markets, map resources and conduct business planning;
4. Understand the basic principles of financial management, sales and risk management;
5. Perform operations and financial record keeping; and
6. Build a business and manage relationships.

Module overview

Over the past 30 years, there has been a major shift in agricultural markets and the international trade of agricultural products. The world is moving from local and national markets towards a global system of trading, which means that neighbouring farmers working on small plots of land may be competing with large industrial farmers from another country in a single marketplace.

In developing countries, there is increasing pressure on farmers to commercialise their operations. This change is driven by the following factors:
- Declining land size, which means that farmers need more intensive production systems to support their family needs;
- Urbanisation and rapid population growth and
- General modernisation, which means that farming families need to generate larger incomes to support their family needs and expectations in terms of medical support, education, transport, communication and to cover the rising costs of their cultural traditions.

In order to meet the drive for greater commercialisation, extensionists need to develop new skills to support the **agripreneur** needs of farmers and other actors in the **value chain.** For the farmer, this includes working with individual farmers to develop farm plans, as well as working with various levels of farmer organisations—from groups to cooperatives—in areas of market analysis, financing, sales and building business opportunities for farming clientele.

New extensionists also need to take on a more market focused and systems approach to work in ways that strengthen the roles and opportunities of other actors in a value chain, such as farm workers, input **suppliers**, warehouse managers, transport companies and financial services, so that they can all work towards a common business goal.

This module familiarises extensionists with the key terms and concepts required to introduce agricultural entrepreneurship to farmers, farmer groups and agricultural businesses and to support improved productivity and market engagement. The module provides a practical approach to improving the knowledge, skills and attitudes of extension agents as they seek to help the farming community take on new enterprise skills.

Agripreneur: An individual who starts, organises and manages a business venture focusing on the agricultural sector.
Value chain: A set of connected actors that work together to add value to a product and increase efficiency and competitiveness, while linking producers to processors and markets.
Supplier: A company or a business that supplies goods or services to another business, in this case a farming operation or an agripreneurship.

Module introduction

Approximately 1,5 billion people are engaged in **smallholder** agriculture across the world. This mainly rural community includes 75% of the world's poorest people whose food, income and livelihood depend on agriculture. Despite their important role as food producers, the commercial prospect for millions of poor smallholders remains challenging. There is a growing perspective that better market engagement is a critical element in improving the livelihood prospects of rural families. However, poverty is **endemic** to this community and, in order to support this farming sector, several global agencies have renewed their investments in smallholder agriculture, but with a stronger focus on upgrading the agripreneur opportunities for farmers.

To stay relevant and meet the needs of the rural community, the new extensionist must acquire new skills in business support. The methods used will depend on the scale of the business venture involved. With the more **pluralistic** nature of extension, business services will be provided in a combination of free and fee-based-service business models.

Smallholder: Farmers who owns a small plot of land on which they grow self-sustaining crops, and who rely mainly on family labour.
Endemic: A condition that is regularly found in a particular area or among particular people.
Pluralistic extension: Extension that is characterised by the inclusion, interaction and coordination of multiple public and fee based providers, services and information sources.

Complete the pre-assessment in your workbook.

Study unit 1: Introduction to agripreneurship

Study unit outcomes

After completing this study unit, you should be able to:

- Understand the role of the new extensionist in agripreneur development;
- Identify the clients of agripreneurship; and
- Define a business idea.

Study unit overview

There is an increasing awareness in extension work that agriculture should be seen as a **commercial activity**. Within this context, farmers are seen as agripreneurs and farmer groups or cooperatives are seen as **enterprises**. This means that the goal of extension services will be to enhance profitability and sustainable productivity. In this way, the focus of extension needs to expand from focusing on poverty reduction to include **value capture** and wealth creation.

In this study unit, you will be introduced to agricultural entrepreneurship, the role of the extensionist in agripreneur development, agricultural entrepreneurs and successful business ideas.

Commercial activity: Activity that involves trade and trading.
Enterprise: Any business operation or organisation that provides goods or services with the primary motive of making a profit.
Value capture: The process of maintaining a percentage of the value provided in every transaction.

Study unit introduction

Entrepreneurship refers to the capacity to take risks, develop, organise and manage a new business venture in order to make a profit. **Agricultural entrepreneurship (agripreneurship)** relates to marketing and producing various agricultural products, as well as **agricultural inputs**. Most smallholder farmers produce food for their families, but at the same time, almost all smallholders sell a portion of their produce into various markets and that level of market sales is growing. Therefore, smallholder farmers are working towards being, or already are, agricultural entrepreneurs. All types of entrepreneurship have the common goal of making a profit. Entrepreneurs may work alone and keep the profit of their ventures for themselves, or they may choose to become part of a farmer group where they invest in their production system as an individual but sell collectively. Farmers are increasingly entering into regular business relationships with other value chain partners. Over time, farmers tend to shift from working as individuals towards some form of cooperative or **contractual marketing** approach and, if successful, they go on to create medium to large-sized businesses.

Agripreneurship: Entrepreneurship that relates to the marketing and production of various agricultural products, as well as agricultural inputs.
Agricultural inputs: Products or resources that farmers use in farm production, e.g. seed, fertilisers and agro-chemicals.
Contractual marketing: A marketing approach in which companies at different levels of the value chain (e.g. production and distribution) work together to achieve greater financial advantages than they would have on their own.

Session 1.1: The role of the extensionist in agripreneur development

Session outcomes

After completing this session, you should be able to:

- Understand why agripreneur development is important;
- Identify the clients of agripreneurship;
- Identify the characteristics of a successful entrepreneur;
- Identify the criteria for a successful business;
- Outline the elements to consider when starting a business; and
- Understand free service methods and fee-for-service methods for business upgrading for farmers or farmer groups.

Introduction

In order the meet the challenges of becoming agricultural entrepreneurs, farmers—particularly smallholder farmers—and farmer groups need to expand their understanding of markets and economic opportunities. In this way, they should be able to achieve success in running their farms, groups and cooperatives as sustainable and profitable businesses. Even though farmers may be innovative and entrepreneurial, they often lack the know-how to engage with markets on a consistent basis and they need the advice and support of extension services to shift from **opportunistic sales** to regular and consistently profitable sales, based on the selection of sales opportunities that support business goals.

Opportunistic sales: Sales that are based on responding to any sales opportunity that becomes available.

The importance of agripreneur development

In research that was conducted in 2015, the World Bank established that:

- Only 10%–12% of small farmers were able to access vital extension services, mainly because large farms were crowding out the smaller farmers' access to key benefits;
- Small farmers focused on their own livelihood needs first and not on their farms as enterprises; and
- Any extension support that small farmers received was geared towards improving productivity and not towards improving profitability to make sure that their livelihoods were sustainable.

Based on this information, it was decided that a new perspective to extension services and practices needed to be introduced that involves the following changes:

- Agriculture should be seen as an enterprise and the farmer as an entrepreneur;
- The perspective of extension services should move from poverty reduction to wealth creation; and
- The goal of extension services should expand from productivity enhancement to include profitability enhancement.

Rural development is increasingly linked to entrepreneurship, which is seen as a development intervention that could promote and speed up the rural development process. Furthermore, institutions and individuals agree that there is an urgent need to promote rural enterprises. Apart from the potential benefit of offering employment, rural entrepreneurship is seen as a way of improving the quality of life for individuals, families and communities and sustaining a healthy economy and environment. The main idea was to get the farmers to think as entrepreneurs, then to learn as entrepreneurs and, finally, to perform as entrepreneurs.

Entrepreneurship is becoming a key factor in the survival of smallholder farms that have to keep up with the demands of a changing and increasingly complex global economy.

How is agripreneurship different from traditional extension methods?

Traditionally, most extension agents, especially those supported by Governments and NGOs have focussed on helping farmers to work in groups, to grow more produce and to develop agri-enterprise options with a cooperative approach.

Since the 1990s, much of the extension work has included a marketing component to their work with the aim of linking farmers to markets. The marketing approach has, however, mainly focused on achieving economies of scale through aggregating produce to sell through collective group marketing.

The farmer group support model has a proven track record and should not be considered as outdated, because this approach works to the advantage of millions of farmers around the world, in diverse product ranges and different types of markets.

However, the farmer cooperative model is not the ONLY approach and this guide offers a complementary approach which seeks to support the more **individualistic** agripreneurs.

This approach in considered catalytic, especially within value chains, and the aim is to foster new business opportunities which create greater value and more jobs.

There is also a general recognition that agriculture is not offering enough farmers sufficient value to keep them on the land and many of the more entrepreneurial members of rural communities are migrating to urban centres where they can realize their business ambitions more readily. Fostering more agripreneurs is therefore a means to support latest trends in extension work. The role of some extension agents is then to work in ways that support agriculture as a fully commercial activity. The value of extension in agripreneurship is to help agripreneurs to:

- Create more agricultural businesses;
- Create wealth, jobs and work opportunities both on and off farm;
- Help agripreneurs to modernise their local farming community; and
- Provide more opportunities for more farmers to access better pay to support better lives.

Advisory services need to support this new set of clients to take on new opportunities in new ways.

The role of extension agents working on agripreneur development

In order to meet the drive for greater commercialisation, farmers need the support and advice of extension agents. Extensionists can work with individual farmer-entrepreneurs and with farmer groups, associations and cooperatives, in order to support them in:

- Conducting market analyses;
- Working in value chains with partners;
- Developing farm plans;
- Financing;
- Sales;
- Building business opportunities for farming clientele; and
- Developing skills and competencies required for successful entrepreneurship.

Agripreneur development is a complex task that involves working with actors within a market chain and linking to business services supporting the value chain. In this way, the success of an agripreneur generally requires working with others and being part of an organisation that can help find partners from the public and the private sector to support the business process at specific points. Given the range of needs, the farming community and governments are increasingly turning to pluralistic advisory service approaches.

Pluralistic extension and extension agents working with other agents

Pluralistic extension recognises the differences in farmers and farming systems and the need to address challenges in agriculture development with different approaches. It is characterised by the cooperation between different public, private and mixed extension systems and approaches, multiple providers and types of services, different funding streams and multiple sources of information.

Pluralistic extension offers a number of benefits in agripreneurial development, in that it:

- Addresses the need for specific extension services for specific contexts, economic enterprises, livelihood operations and for different farmer categories;
- Addresses the wide variety of demands, while making better use of the variety of service providers available;
- Develops better services through cooperation between community-based, public and private sector actors;
- Shifts the coordination and accountability between extension services and other service providers to the level of the farmers, farmer groups and organisations; and
- Provides a system in which the quality and content of extension services are more responsive to the needs and priorities of farmers, e.g. some services focus on enhancing the social inclusion of vulnerable groups and others focus on developing and empowering the value chain.

In pluralistic extension services, the extension agent may team up with farmers and lead farmers, farmer groups and associations, local volunteer agents, commission agents, business support services, NGO field agents and private sector service providers.

Farmers and lead farmers

Farmers play a central role in agricultural development and transformation. They grow crops or raise livestock and they, or their family members, do the initial processing (harvesting, drying, sorting, etc.). Farmers can sell their products directly to consumers (often other people in their village) or to traders.

Lead farmers are farmers with agricultural expertise. They are often the more progressive farmers with a higher level of education than their peers, which means that they are likely to be literate and numerate, although this is not a general rule. Based on local respect and their status as a leading member of the local farming community, lead farmers often play a dominant role in extension services.

Lead farmers: Farmers who lead farmer-to-farmer extension services, based on their agricultural expertise.

Farmer groups, cooperatives and associations

Farmer groups are primarily organisations of farmers, typically informal in nature with a membership of 15–50 farmers. Cooperatives are larger, second-order and more formal associations that look after the interests and causes of farmers. Farmer organisations, which are often community-based, can be grouped into two types: resource-orientated organisations and market-orientated organisations.

Resource-oriented farmer organisations

This type of farmer organisation deals mainly with production inputs needed by the members (farmers) in order to enhance their productivity. Resource-oriented farmer organisations are:

- Generally small organisations, with well-defined geographical areas;
- Predominantly concerned with access to inputs; and
- Typically focused on a small number of the most commonly grown products in their area.

Market-oriented farmer organisations

These farmer organisations have taken on a more commercial role and they often specialise in a single **commodity**. They are not specific to a single community and their members can include farmers from an entire region who are interested in investing **capital** to acquire the most recent processing technology and professional manpower. These farmer organisations, which are generally bigger and more competitive than the resource-oriented organisations, focus on areas such as new technology and innovation, input supply, credit, **bulking** and storage and processing and marketing, with the aim of maximising the returns on investment for their members.

Commodity: A raw material (e.g. copper) or an agricultural product (e.g. coffee) that can be bought and sold.
Capital: Money or other assets that farmers have available and that they can use to contribute to particular cause or invest in a business effort.
Bulking: Storage of a large quantity or volume of a product.

Commission agents

As farmers make the shift towards more commercial farming, they require access to improved agricultural inputs, such as new varieties of improved seed, fertilisers, credit and agro-chemicals. Input suppliers are steadily expanding their input supply outlets and networks to meet this demand. In order to accelerate the process of marketing inputs to farmers, local input firms are hiring progressive farmers as agents—known as commission agents—to help advertise their goods and to inform farmers about the benefits of using improved technologies.

Business development services

Agripreneurs and smallholder farmers often face financial and non-financial factors that have a negative influence on their business growth, e.g. low educational level, inadequate technical skills, lack of information and poor market access. **Business development services** assist these farmers by providing services that help them to increase their productivity and profitability, as well as their competitiveness in the market.

Business development services: Services that improve the performance of agripreneurs and entrepreneurships, their access to markets and their ability to compete in these markets.

With the growing pluralism of extension agencies, farmers are gaining access to business development services through different types of supporting agencies. To meet the business needs of farmers and farmer organisations and to enable them to compete more effectively in target markets, the new extension agencies or more diversified service industries must build their ability to help farmers gain business skills, particularly in the following areas:

- Analysing market opportunities and market demand;
- Mapping market chains;
- Making production and demand led decisions for product(s) selection;
- Defining and recording production costs;
- Undertaking profitability analysis;
- Keeping financial records;
- Evaluating which business development services are needed to improve their competitiveness;
- Developing a common business vision for investment; and
- Both preparing and investing in a business plan.

As the business skills of farmers and their organisations become more sophisticated, the groups will need to learn more about:

- Meeting product specifications at a profit;
- Negotiating new business models with chain partners;
- Evaluating sales, growth and profitability on a seasonal basis;
- Whole farm profitability; and
- Generating long-term upgrading plans that include chain wide processes.

Providing business development services requires organised and cooperative actions—which are focused on creating favourable business environment for agripreneurs—between all stakeholders in the value chain.

Table 1 shows the categories that business development services can be divided into.

Table 1: Business development service categories

Service category	Description
Technology and product development	Services that support research and identify new ways to produce, process and market agricultural products, e.g. new mobile information systems and improved, drought-resistant seed.
Training and technical assistance	Services that develop the capacity of farmers and enterprises to plan and manage their operations better and to improve their technical expertise.
Input supply	Services that help farmers to improve their access to, and use of raw materials and production inputs, such as seeds, fertiliser, agro-chemicals and tools. These services also facilitate the linkages between farmers and suppliers and enable suppliers to expand their outreach to farmers and offer better, less expensive inputs.

Service category	Description
Finance	Financial service providers offer credit to smallholder farmers and agri-entrepreneurs, usually in the form of loans, (for example, from formal service provides such as commercial banks) and informal service providers, such as money lenders and savings cooperatives. Financial services can also include supplier or buyer credits, warehouse financing and venture or private equity capital.
Market access	Services that: • Identify and establish new markets for smallholders and agri-enterprises; • Facilitate linkages between all actors in a given market; • Enable buyers to expand their outreach to, and purchases from rural producers; and • Help entrepreneurs develop new value-added products and meet buyer specifications.
Infrastructure	Services that establish sustainable infrastructure and distribution networks that enable producers to increase production, sales and profitability, e.g. irrigation, refrigeration and storage, processing facilities, transport systems, loading equipment, communication centres, improved ports, and expanded road and rail routes.

Service category	Description
Policy	Policy service providers: • Conduct research and analysis to improve overall terms of trade, strengthen sectoral governance and correct any power imbalances; • Identify and reform policies and regulations that restrict smallholder farmers and agri-enterprises; and • Facilitate the organisation of businesses, donors, government officials and academics around policies.

In terms of payment, business development services are supported in the following three ways:

- Free public services, which are financed by government, NGOs or public sector agencies;
- Specialised fee-based services, which are provided by private and specialised companies at a cost; and
    - Embedded services, which are included in a commercial transaction in which the farmer or agripreneur does not pay direct fees for the embedded services, but the cost of the services is included in the price paid for a particular product, e.g. quality specifications and production tips from a buyer to a small-scale supplier.

NGO field agents

Over the past 20–30 years, there has been a rapid establishment of NGO-based extension agents. Although the NGO field agents do not have as broad a coverage as the government extension systems, they often have better resources and they have more clearly defined objectives and work plans.

The accountability and management expertise of the international NGOs and contracting companies for short-term interventions has often favoured them as implementing partners for externally funded agricultural projects. The contracting companies' access to resources has enabled them to strengthen and specialise their extension services.

Most government extension agents still focus their efforts on basic production systems, whereas many NGO field agents have broadened the types of services to include issues such as financial education, savings and loans, credit, business planning, nutrition and farm plan diversification. This complementary service can provide more balanced services to the farming community.

Private sector service providers

There are various forms of private sector extension services, such as those paid by producers and those paid by a lead firm. Private sector field agents are paid by a farmer or a farmer organisation to provide specialised training targeted at a specific product or sector. These extension agents work with farmers to help them sell higher volumes of quality produce to meet market requirements. In most cases, the more commercial farmers pay for these services to increase their share of produce that will achieve the highest premium prices.

When lead firms offer private extension services to farmers, it is often part of a contractual sales agreement. The extensionist is paid to work with farmers or farmer organisations to enhance production and quality. The field agents essentially make sure that certain production practices are maintained, that farmers grow a specific variety of produce and that they are using a tested production system to meet the quality specifications required.

The field agents providing these services are assessed by the lead firm in terms of their ability to improve the supply of goods from the farmers. Farmers are keen to access this type of support, because it provides them with knowledge, new technologies, access to more reliable markets and often credit, which enhances their ability to increase their income through the sales of higher value goods.

Fee-based agents

As NGOs transition their roles from a large, paid field force to a lighter and more sustainable approach, there has been a shift from paid field agents and free services to farmers to a greater use of commission agents and fee-based service providers. In this case, field agents are trained by NGOs to become local **knowledge brokers**, offering their services to the farming community at a fee.

Knowledge broker: An intermediary (an organisation or a person) that develops relationships and networks between or among the creators (producers) and users of knowledge by providing linkages, information or knowledge sources, e.g. technical knowledge, market insights and research results and findings.

In the past, farmers have been reluctant to pay for any services that were also offered by the government for free. However, farmers now realise that they are unlikely to receive the levels of support they need from government services, as there are not enough government agents in most countries and the services offered by the government are limited in scope. It has also become clear that farmer organisations need support from a range of service providers if they are to run competitive enterprises.

As such, there is a trend towards fee-based service providers and field agents who offer services such as:

- Seed supplies;
- Tractor or power services for tillage, harvesting and post-harvest services;
- The application of agro-chemicals in field and in storage;
- Veterinary products and services;
- Financial education and links to credit;
- Farm business planning;
- Farmer group financing; and
- Advanced production advice.

These services are linked to greater commercialisation and farmers are willing to pay for such support to enhance their production, financial and market performance. The performance-related payments of fee-based agents are typically based on the sales of goods and services.

Identifying the clients of agripreneurship

It is important for extensionists to know who their agripreneurship clients are. They have to identify their entrepreneurship clients within their farmer client base. There are different types of farmer that an extensionist can look at to identify potential agripreneurs based on their assets, natural resources, farm size, expertise, technology use, access to markets, level of organisation, access to agricultural services and the types of products that they produce. The categories of farmers, as identified by Bill Vorley, are:

- Rural World 1: Farmers who are globally competitive, embedded in agri-business, commodity producers and processors, politically connected, linked to formal markets and often export-driven;
- Rural World 2: Locally orientated farmers with access to and control of land, multiple enterprises, who are often undercapitalised and declining in terms of trade; and
- Rural World 3: Farmers known for their fragile livelihoods, limited access to productive resources, multi-occupational migrants straddling rural and urban residencies, unskilled and uneducated and dependent on low-waged, casual family labour.

Within these larger segments of farmers, the farmer types discussed below are involved in the identification of entrepreneurs.

Women farmers

The economic importance of women farmers and their role in increasing household income is often overlooked and so is their potential as clients of extension services and, therefore, potential clients for entrepreneurs. Women farmers often experience a unique set of challenges, including the availability of labour, lack of authority and decision making within the family, which impacts on their farming system options.

Small-scale family farmers

Small-scale family farmers are characterised by limited resources in terms of land (generally less than two hectares), water and money. These farmers are an aging population, they are often not well educated and, therefore, they are a more challenging set of clients for the extension agent when it comes to communicating with them about potential entrepreneurship.

Figure 1 highlights the fact that within many farming communities, most smallholder farmers are net buyers. Therefore, there are few smallholder farmers who have the capital, capacity and desire to become agripreneurs. However, smallholder farmers are an important farmer segment as they make up the bulk of farmers in a country. To support these farmers, extension agents need to find ways of identifying the catalytic farmers, and then develop methods to foster their business ambitions.

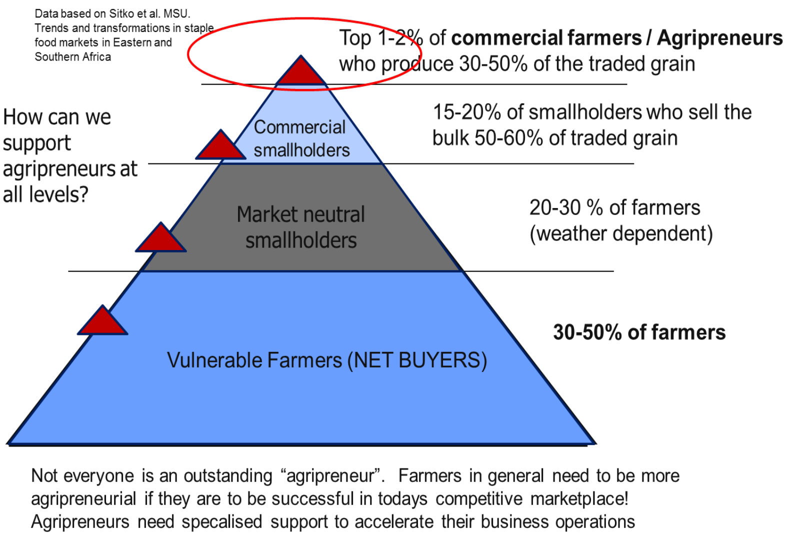


Figure 1: Smallholder farmers as net buyers

Small-scale family farmer: Self-sustaining farmers who focus on growing enough food to feed their families with occasional sales of goods to market. This is a group in transition and in many cases, the farm is a complementary source of food and income, but their livelihoods often include other non-farm and off-farm activities.

Medium-scale farmers

Medium-scale farmers are key contributors to the production and marketing of major food crops such as cereals and oil seeds. They typically have access to at least 2–10 hectares of land, may have a primary school education and have better access to credit and other resources than small-scale farmers. Because of their higher socioeconomic status in the community, these farmers are often more progressive and may be more easily approached about new business enterprises. These farmers are often in positions of leadership within farmer organisations.

Commercial farmers

Large-scale commercial farmers usually do not make use of public extension services. They have access to resources, such as capital, marketing information, technologies and **Information and Communications Technology (ICT)** tools. It is likely that commercial farmers are entrepreneurs and that they pay for specialised services which will include market development, management and financial aspects of entrepreneurship.

Information and Communications Technology: The integration of communication devices, applications and services, including computers and computer networks, mobile phones and television to enable users to access, store, transfer and manipulate information.

Farmer Cooperatives

In addition to the farmers, there are also opportunities to develop the business skills of target farmer organizations and or the marketing managers who work within these organizations. Most farmers are engaged with some sort of farmer organization and much of the support work done by extension agents is to help farmers come together in groups to improve their access to learning, technologies and markets.

As shown in Figure 2, there is a steady progression of farmer organisations from individuals, through small groups to associations and farmer cooperatives who may become businesses. As these organizations become more sophisticated in their operations, they also take on personnel that support specific roles and one of these is generally related to business management. There may be interesting opportunities for extension agents/services providers to support the enterprise operations of these staff members, so that the organization as a whole improves their competitiveness.

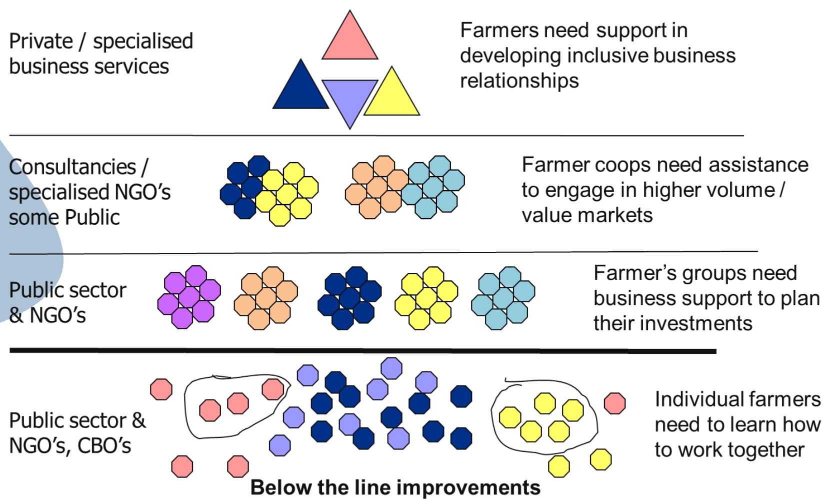


Figure 2: Progression of farmer organisations

Processing firms

In addition to farmers, a growing number of agripreneurs are found off farm, these are often processing companies who may have a farm to supply some of their raw materials. This is illustrated in Figure 3. These firms typically buy a considerable amount of their raw materials from other farmers. This category of agripreneur is focused on value addition and exploring new, higher value market opportunities. They are seeking new types of technologies to give them a competitive edge and they generally have a strong business background. They will be seeking both private and public types of extension support to improve production, processing efficiency and marketing.

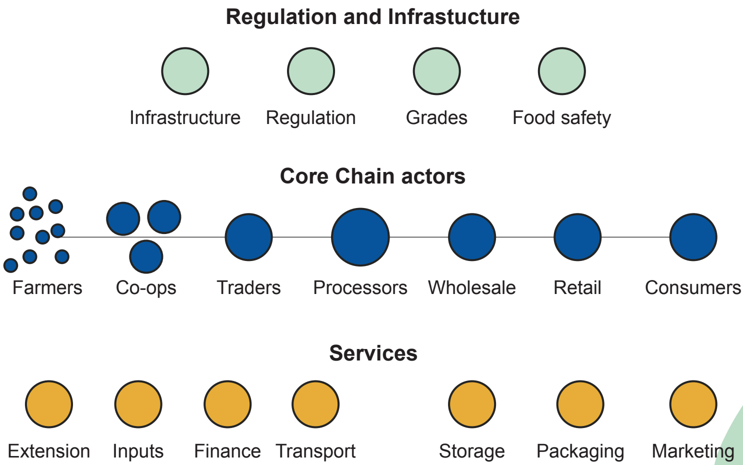


Figure 3: Categories of agripreneurs

In order to identify clients who can be considered for entrepreneurship, the extension agent has to be familiar with the characteristics of a successful entrepreneur. These characteristics are discussed in the following section.

The characteristics of a successful entrepreneur

Successful entrepreneurs usually have a number of common characteristics, in that they:

- Have the initiative, drive and ability to identify and take advantage of opportunities;
- Are single minded, willing to take on ideas and unconventional views;
- Can operate in a zone that takes on ideas that may not be popular with established views and perspectives;
- Are creative leaders, ready to disrupt the status quo;
- Are always looking for opportunities to improve and expand their businesses;
- Are determined to implement their vision and ideas to achieve their goals;
- Thrive on change and cope well with risk and uncertainty;
- Know how to identify and evaluate risks and are willing to take calculated risks, while accepting responsibility for both profits and losses;
- Can organise people, strategies and technologies to fit changing environments;
- Are creative problem-solvers, understand the decision-making process and enjoy making decisions;
- Establish strong partnerships and other relationships and work well with other people;
- Are **innovators** who are always looking for better and more profitable ways to do things, which is particularly important in the face of strong competition and a changing market environment;
- Are honest and trustworthy, but often highly demanding and singularly focused (they are not always good team players); and
- Are eager to learn and keep themselves informed about the latest developments and trends in the agricultural environment.

It is important to mention that determination and optimism are a true entrepreneur's main features. Although planning, **market analysis** and **market opportunity identification (MOI)** are necessary parts of starting an enterprise, real entrepreneurs often do not wait for the results of these analyses to see whether they should launch their new idea: they see an opportunity and they jump in.

Innovator: An individual who is known for creative thinking and for introducing new methods to existing processes and ways of doing things.
Market analysis: The study of a market in order to determine the attractiveness of the market in a particular industry and to understand the opportunities and threats in the market as they relate to the strengths and weaknesses of an enterprise.
Market opportunity identification: A systematic, participatory method for collecting market information to identify and select products and services for investment and agripreneur development.

Examples of some individual farmers as agripreneurs

Mr Srikanth Mannam is a retired Air Force officer living near Hyderabad. On leaving the Air Force he decided to set up an Organic Dairy Unit of indigenous cows, focussing on A2 milk properties (A2 type of beta-casein protein rather than the more common A1 protein commonly found in regular milk). This milk is free from antibiotics. This agripreneur has targeted a premium market and is selling branded milk, at a premium market price. He is ahead of his counterparts in the region who continue with conventional milk production.

RAS Options: Mr Srikanth Mannam was supported in developing his business through the Agri-business Incubator established by the National Academy of Agricultural Research Management (NAARM), which is an outreach organization of the Indian Council of Agricultural Research (ICAR) in Hyderabad

Mr Amar Singh, shown in Figure 4, is a pig farmer who maintains 400 pigs of various breeds and he is selling piglets at the age of 2 months for approximately for $40/piglet. He has annual sales of 800 piglets with a net annual income of approximately US$20,000.

RAS Options: Mr Singh was trained by Krishi Vigyan Kendra (Farm Science Centre) of ICAR- IVRI. The centre is now working with Mr Singh to train other farmers in upgrading their piggery businesses. The agripreneur becomes the catalyst for change.

Figure 4: Mr Amir, his farm and his pigs

Mr Karamvir is a cow breeder, who has become a millionaire, not through selling meat, but by selling semen of his prize winning bulls as shown in Figure 5. This farmer has developed a high quality genetic stock and a state-of-the-art farm and facilities where he is able to collect semen and store it safely. The semen is diluted scientifically from each session and he is able to make 500 to 600 doses for sales to surrounding farmers. He sells a single dose, preserved inside plastic straws and stored in liquid nitrogen containers, for Rs 300 (US$5)

RAS Options: Extension wing of ICAR- Central Institute for Research on Buffaloes helped him to develop semen collection and marketing infrastructure and now the field agents refer their farmers to Mr Karamvir's farm to improve the genetics of the cattle in their herds.

Figure 5: Mr Karamvir and a prize bull

Remo Pedon is the CEO of the Agricultural Commodity Supplies firm (ACOS) which is a joint owned Italian/Ethiopian company set up in 2005. The company established a modern bean processing centre at Adama City in Ethiopia. This company aimed to supply high quality beans into the canning factories in the United Kingdom, rather than selling beans to wholesale traders in Ethiopia, and exporters who supplied low value markets in the Middle East.

The target markets for the bean sales were as follows:-

- Bean Canning markets – export (70%)
- Local food markets – local (15%)
- Local Feed markets – (15%)

ACOS buys beans from approximately 20,000 farmers and may in the future invest in a farm to produce its own beans, to maintain supply to the processing factory.

There were many challenges in establishing a new market for the Ethiopian bean sales. The first being access to access to sufficient volumes of quality beans. To access larger volumes the company worked with local NGOs to set up regular meetings between the farmer groups and the sales team from ACOS. Over 2-3 seasons, these groups developed improved relationships and this led to higher volumes being sold to ACOS. ACOS also were able to explain to farmers, that the quality of the beans was critical to being able to access the premium markets and this meant that farmers should not store on farm where the beans were infested with bruchids.

In addition to the farm to factory challenges, the company also faced problems in getting the produce to port, which was 1000 km away and maintaining fumigation all along the distribution points.

As with all trade operations, having sufficient capital is a major restraint to procurement, but having the Italian partners, enabled the factory to access sufficient levels of funds to support the buying.

RAS opportunities:

- Improved genetics: The Government researchers were able to work alongside the processing firm and the farmer groups to introduce new, higher yielding varieties for farmers to test and grow for sales to the factory.
- Financial services: Catholic Relief Services, (CRS) the NGO who were supporting a value chain project on white pea beans in the Rift Valley, were able to work with local micro-finance institutions, to offer a loan instrument, which enabled farmers to buy seed, and repay at the end of the season.
- Famer Organization: The NGO sector worked with the Government extension teams to strengthen farmer groups to multiply seed and also to bulk grain for sales to ACOS.
- To supply quality beans in groups
- Upgrading Trade storage: CRS also worked with the major traders, who linked small traders and farmers with the factory, to provide basic standards for the storage of beans at the warehouse, to reduce damage from pests and disease.

Note in all these examples, this is not business as usual! Agripreneurs pose a challenge to many extension agents, especially those who focus on the traditional approach of giving lessons on basic capacities.

When working with extraordinary farmers and business owners, the Rural Advisory Services (RAS) have to be extraordinary if they are to be relevant and helpful to agripreneurs. Working with agripreneurs is a learning partnership! Sometimes the extension team will lead and sometimes the agripreneur will lead.

To remain relevant, RAS cannot rely on production advice to play an effective role, extension agents who work with agripreneurs will need new skills and attitudes to support business owners working in value chains. Most extension agents will need to upgrade their technical, business and soft skills training to become enterprise advisors.

New extensionists will need to work alongside agripreneurs to help design, foster and mentor new business models that transform value chains. Extension services should use their resources strategically, as the aim is to speed up agri-transformation process and create growth and employment.

Complete Activity 1.1 in your workbook.

Who are the agribusiness service providers?

Extraordinary farmers and business leaders, seek extraordinary agro-enterprise service providers. These agribusiness service providers can be public or private. Many are fee based and they generally offer specialised services which can rapidly yield value to their clients.

What types of services do agribusiness providers offer?

Business mentors: Farmers generally know how to produce crops and raise livestock, what they want to learn is how to improve their farming business skills from long-term business mentors, who can advise them on how to make investments to improve existing enterprises.

Marketing experts: agents who can work with farmers to identify new markets to explore.

Production experts: Specialists who can provide information on how to improve productivity

Technology experts: Specialists who can support rapid innovation in technology options

Postharvest handling experts: Specialists who support value addition

Financial services: agencies who can advise on the most appropriate financing method

Value chain specialists: who can work on ways to strengthen investments across a value chain

To support this new type of client, RAS will need to develop new approaches and working relationships where they can engage with agripreneurs. There are a range of possible strategies, approaches and methods that can be used to support agripreneurs. These approaches often use pluralistic models that combine free and fee-based RAS business services to foster agripreneurs through various stages in their development. Some examples of ways to support agripreneurs are listed below.

Agripreneur workshops

Agripreneur workshops design training sessions that work with combinations of agro-enterprise agencies, investors, production experts and marketing experts. At these workshops, service providers can work with different types of agripreneurs on specific aspects of their business models. For example having specific topics around key issues such as product development, marketing strategies, book keeping, investment management and how to grow the customer base.

Agripreneur competitions

RAS agencies can sponsor enterprise competitions, where the best business plans are funded to a specific level, or winners enter into training programs that helps agripreneurs to plan and launch their businesses. This is a useful way to help identify the promising agripreneurs and filter out the business teams who have most promise for growth and continued growth and investment.

Agripreneur incubators

Capacity building programs that enable RAS providers to identify agripreneurs and work directly with agripreneurs. Incubators take on different approaches depending on the type of agripreneur that is being selected for support. Once a cohort of agripreneurs are selected the incubator teams can provide specialized assistance in helping to identify new markets, strengthen business models, provide training in key areas of business management, book keeping and brokering business relationships.

Agripreneur accelerators

Short term booster services that work with agripreneurs to fine tune specific parts of a business model. The Santa Clara University in California runs booster courses to help agripreneurs launch, maintain and upgrade new ventures.

Agripreneur mentoring/coaching services

Once agripreneurs have launched their businesses, these services provide occasional support as required to maintain business focus, competitiveness and innovation. These types of services are often provided by networks of investors or agripreneurs who have the experience to diagnose weaknesses in existing firms and find ways to work with the business teams to address these issues.

Informal Youth Incubators

There is a growing realization that more needs to be done to motivate younger farmers to enter the agricultural sector. Attracting youth agripreneurs and especially highly skilled youth, into working the land requires RAS to provide new thinking and one of the options that is being tested include

Business basics courses for Youth

To address the concerns around increasing migration of youth from rural areas into low paid or unemployed situations in urban centres, Government and development agencies are explore methods to support rural youth business training courses. These short, but intensive courses aim to bring together small teams of youth or individuals and give them a crash course in basic business management. This help the clients to visualize a business idea and then over a period of 1-5 weeks to gather information to develop a basic business plan.

These plans are regularly monitored by business advisors, who help the youth teams to develop viable business options and also learn the most essential book keeping skills, such as cost ledgers, receipt books, revenue ledgers and then develop basic cash flow information. These book keeping skills are complemented with skills training in production, use of improved, or more effective technologies and the basics of how to sell and maintain business relationships.

At the end of the business training period, the business plans are typically presented to an advisory panel, who make decisions on whether the individual or group are ready to take on a loan of $50-$500, depending on the type of business being developed.

At the business launch stage, the credit is often disbursed based on initial needs with subsequent disbursements being given based on milestones that need to be achieved. The progress of the agripreneurs is then mentored for an additional 5-10 weeks to help get the businesses on their feet.

Formal Youth business incubators

More formal training is given through incubators, such as the youth agripreneur incubator being run by the International Institute of Tropical Agriculture in Nigeria. This incubator offers more specialised training over a 6-18 month period, which enables youth agripreneurs to learn and hone their business skills. These types of incubation approaches are high cost and so there are currently few of these in operation. The types of training they offer includes:

- Business training;
- Market gap identification;
- Developing products and Pilot testing;
- Business plan development for investors;
- Loan preparation;
- Launching the business;
- Coaching and Mentoring; and
- Cohort management.

Complete Activity 1.2 in your workbook.

Matching clients with market opportunities

If RAS is to provide inclusive agribusiness services to all types of farmers, then we must find ways to identify and target specific types of clients and then identify specific business opportunities with them. Matching clients with appropriate markets is a skilful process and it takes trust and judgement to know how much risk farmers/business owners should sensibly take on.

Risk analysis tools

The Ansoff matrix is a simple way to assess levels of risk that certain business opportunities offer. In Figure 6, the least risky businesses are those which focus on market penetration and are essentially selling more of an existing product into an existing market.

	Existing product	New product
Existing market	1. Market penetration	3. New product
New market	2. Market development	4. Diversification

Figure 6: Ansoff matrix

The most risky businesses being those which sell new products into new markets. Depending on the clients, business advisors can work with clients to make informed decisions about the level of risk they would like to take on.

Risk assessment questions

When talking with your agripreneurs, it's also helpful to review the following questions:

- How much money is needed to start the business?
- How long until first payment?
- How long to break even?
- How long to profitability?

The answers to these questions are important, as the extension agent can judge whether the responses match the means and ambitions of the client and if the match works.

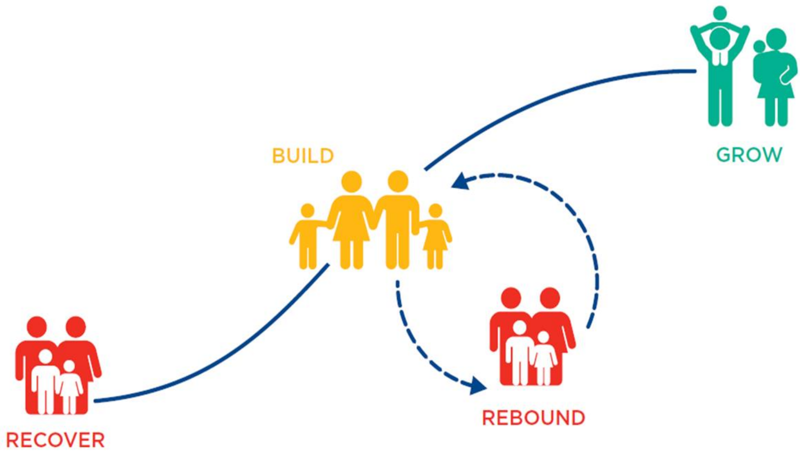


Figure 7: Pathway diagram

Catholic Relief Services uses the graphic in Figure 7 to gain an idea of where farmers are on an economic scale within their communities. Based on where farmers fall in this pathway diagram, field agents can assess the types of risk that farmers want to take on and the levels of investment that they have to set up and maintain their business operations.

Recover: These are established farmers, who are either recovering from a major shock or who face regular shocks, these farmers are often dealing with chronic poverty. Farmers in this category often struggle with basic food security. They have limited land and often limited access to water and they only sell into markets when they occasionally have surplus. This is the largest segment of farmers, in developing countries, they are often described as net buyers, as they do not produce all they need to support the food for their families. Given their high level of vulnerability, these farmers have a high level of risk adversity, nevertheless, there are potential agripreneurs in this segment and RAS can help to identify the innovators and work with them to build their business options.

Build: Farmers within this category, are more stable, generally have more assets but are lacking in a number of skills areas, which would enable them to use their assets more productively. This group of farmers have more regular engagement with markets and may be actively seeking farmer groups to join, so that they can upgrade their farming systems.

Grow: These farmers are often the most progressive farmers within a community. They already have productive assets and are regularly engaged with markets. However, they may not have access to new technologies and often lack critical business and marketing skills that could enable them to significantly raise their business capacity. These farmers are prime clients for agripreneurial support and they can play strong leadership roles within communities, helping to raise opportunities for their neighbours and farmers within cooperatives.

Off farm Agripreneurs: In addition to the different types of farmers, there are other potential agripreneurs who live and work in rural areas or are associated with a particular value chain. These are aggregators, food and feed processors and service providers that also seek knowledge and advice in how to develop business ideas and invest in agricultural markets.

Type of agripreneur clients

This section will take a more in depth review of the types of clients that an extension may need to work with to achieve inclusive agripreneurial support services.

Smallholder Agripreneurs

These smallholder farming families typically have 2-3 acres of land and mainly farm for their home needs, with some sales into markets. These farmers make up the bulk of smallholder farmers. Within this group of farmers there are a few exceptional farmers, and some budding agripreneurs, who in addition to growing basic grains, are also producing some high value products, such as spices, wood, fruits, nuts, vegetables, honey livestock, they may also do some basic processing in areas such as special foods, drinks or fabrics and by selling these higher value products, they can develop very successful micro-businesses.

These smallholders however, need considerable support to transition from farming for the family to farming as a business. Although these farmers have fewer assets and make lower investments, the transition towards being an agripreneur uses the same methods and skills as it takes to transform a larger farmer. The key for the extension agent is to identify the best in class farmers and foster the ambitions of the most innovative producers and help them grow into local business people. Figure 8 shows the interventions and constraints for smallholder farmers.

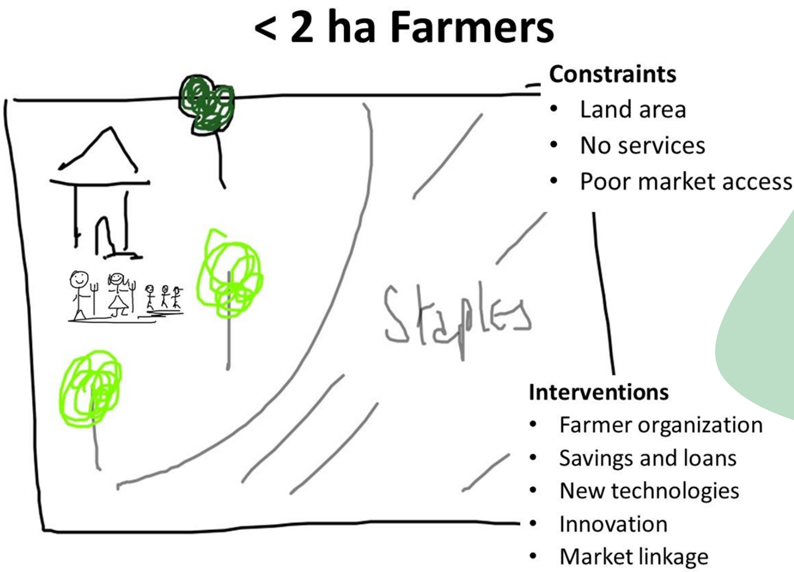


Figure 8: Smallholder farmer constraints and interventions

Development horizons for vulnerable smallholder farmers

The development prospects for land constrained smallholders in poor countries with conventional extension approaches are limited. Even with significant gains in technology, most of these farming families have insufficient land to become middle income. Investments in this social segment should aim to support stability and resilience as rapid growth is unlikely in most cases. These farming families can however, achieve transformational change across generations. Improvements in food security and modest improvements in market linkage, will enable more of these farmer types to educate their children, so that they have better prospects in off-farm activities.

Increasing production of staples is unlikely to provide major changes in income, as production levels are limited by land area and labour and grains are generally low value products. However, production gains will reduce hunger and levels of food buying as famers shift from net buyers to market neutrality and limited surplus for sales.

Support to market linkage will improve aspects of collective marketing and powers of negotiation with buyers. This category of farmers, in prevailing resource and market conditions, should aim towards increased consistency in earnings and greater resilience through food and income stability.

RAS role in developing marketing strategies for more vulnerable farmers

In the first place, the extension agent will need to consider helping these farmers to improve their food security and social organization first, to build the capacity to take on additional upgrading, before embarking on more commercial activities. Due to their limited land area, it is important for these farmers to consider commercialization plans that include **diversification** in their production. Their business plans should include incrementally increasing their staple food production whilst investing in small plots for higher value products and or small livestock options.

Off-Farm incomes: Farming families working on small plots will increasingly need to make ends meet through access to other off farm incomes. Some of these will be agricultural in nature, others will require non-agricultural work and in many cases business options will include periods of migration, for short and longer durations.

By helping farmers to upgrade their farm plan, extension agents can help farmers to develop a clear vision for their farm businesses. Improved organisation can help farmers to realize economies of scale and support business planning and marketing:

- Production gains: Identify specialized markets and link farmers into growing supply chains.
- Market linkage: Focus lower risk, producer to first link buyers.
- Income Diversification: Poor farmers cannot rely on a single value chain, they need a mix of products to stabilize cash flow.
- Increased staple food production, (food security first).
- Market identification.
- Product diversification.
- Stable cash flow.
- Slow asset accumulation.
- Improved family nutrition.

More commercial farmers

For smallholder farmers, with 2-10+ acres of land, their asset levels allow them to develop more extensive business plans. With larger areas of land to test new technologies these farmers are often termed progressive farmers. These farmers have assets, skills and ambition, but are often limited by access to new technologies and services which would enable them to transform their existing assets to economically productive assets. These farmers are interested to take on new ideas and are often interested to join groups of other farmers with commercial ambitions.

Prospects for farmers with land and labor assets that they are unable to use effectively can change relatively quickly when given the opportunity to link with higher value or higher volume markets. These farmers are likely to show gains in productivity when exposed to better genetic materials and improved production technologies. However, they need to be able to sell their surplus if they are to make gains on their investments. There are numerous cases, where growth, in higher value crops for urban domestic markets are providing farmers with stable income gains. Figure 9 shows the constraints these farmers have.

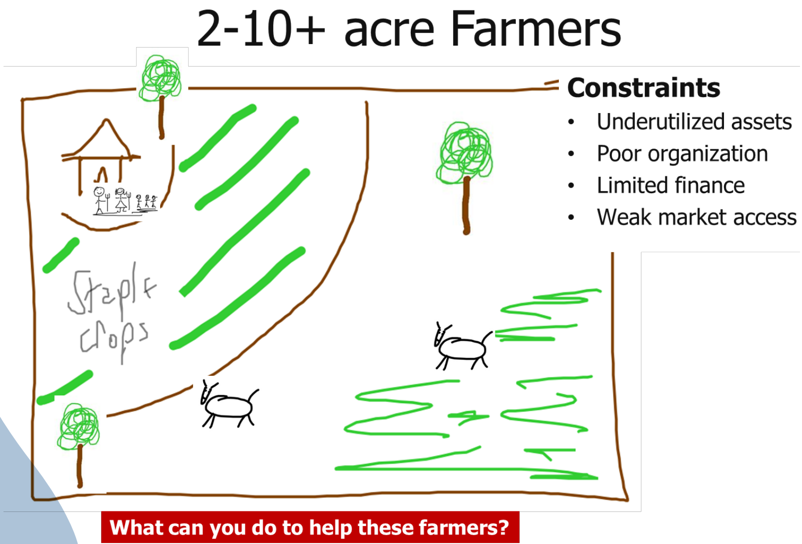


Figure 9: More commercial farmer constraints

Given their ability to expand production and productivity, gains by this segment of the farming community can rapidly go beyond reducing hunger and shift towards increasing surpluses to bulk sales of key staple and cash crops. As these farmers can benefit from economies of scale, they are more able to rely on a less diversified market strategy, as they can raise their incomes through greater specialisation in value chains to provide growth in their incomes.

Role of RAS

Support farmers in market analysis to enable farmer groups to identify and secure new business opportunities. Expose farmers to the use of new technologies, such as new varieties of existing crops, to increase on-farm productivity. Improved financial and business planning skills to support more systematic farming and work with farmers on basic cost and revenue book keeping so that they can track their profitability.

Work with farmers in collective marketing groups to help aggregate produce for sale to target buyers. Identify better market linkage options and more reliable buyers, to enable farmers to grow farm their enterprises and increase sales to target markets. Raise women's roles in management and marketing, especially when many of the men are engaged with migratory work.

Business for Farmer Groups

Examples of methods for farmer organisation in market linkage include:

- Farmer group management;
- Financial skills and access to credit;
- Linkage to agri-dealer networks;
- Value chain support within the chain;
- Collective marketing;
- Agent networks; and
- Community fee-based service providers.

Beyond the farm

There are a growing number of agripreneurs and firms, who are more focused on value addition and processing rather than production. These agripreneurs may have land and some may farm, but they generally are seeking value addition options and supplies of goods from other farmers to support their processing activities

These agripreneurs are interested in accessing suppliers from other farmers and investing in technologies that will enable them to access higher value markets.

Example 1: Karite Oil Ltd.
Karite Oil is a shea processing company based in central Nigeria. They buy shea nuts from women's groups living in Northern Nigeria and bring them to their factory in Ondo State.
Whilst there is a robust market for shea oils in Nigeria, the company is targeting the export market in confectionary and cosmetics.
Shea is not commercially grown, but the nuts are collected through women's groups who collect the nuts as they fall from the trees. The company aims to work with at least 6,000 women collecting shea nuts to supply their factory.
Key challenges:

- Logistics/transport
- Quality of shea
- Availability of trade finance
- Sufficient supply of raw materials
- Cost of staff in field for training

RAS opportunities:

- Improved market analysis
- Production upgrading at Factory
- Training for women's groups –
- Business skills and
- Financial management to meet Investor requirements.

There are different levels of farmers, but all can engage in agripreneurship. Smallholders that are limited by land size need to focus on a full farm plan that is diversified. Smallholders with more assets may be able to take on more risk and can specialise in a few value chains.

Off farm agripreneurs, or those who add value to produce, may be seeking ways to link to more lucrative or higher volume markets. RAS needs to identify the type of client and then find ways to match markets with their risk profiles

Complete Activity 1.3 in your workbook.

Session 1.2: Criteria for a successful business

Session outcomes

After completing this session, you should be able to:

- Identify the different business types;
- Identify and analyse the cost of resources needed to start a business;
- Identify the risks involved in starting a business; and
- Discuss free services versus fee-for-service methods for business upgrading.

Introduction

In agriculture, the criteria outlined in Figure 10 are generally regarded as essential to a successful business:

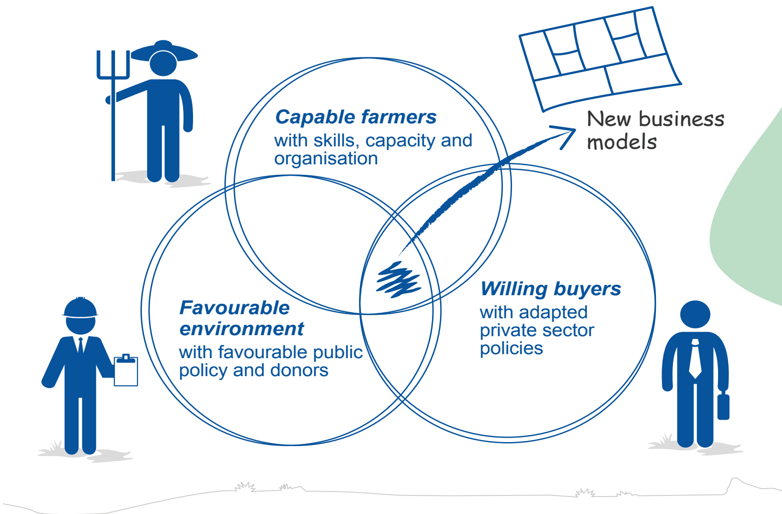


Figure 10: Agripreneurship criteria

Then to:

- Product management involves selling a product that holds unique benefits to customers (i.e. a benefit that they cannot find anywhere else);
- **Marketing** is one of the key elements in business success, in that it coordinates the efforts of ensuring that the product actually reaches the customers by coordinating product, price, place (distribution channels) and promotion;
- In order to achieve business success, the enterprise should have a strong **reputation** with its customers;
- Sales are the lifeline of any business and, in order to achieve success, a business should focus on setting objectives for increasing sales to regular customers, attracting new customers, increasing or improving distribution strategies and opening new possibilities;
- Even if a business has a great product and a solid customer base, it still has to manage its finances properly, in order to achieve business success. This includes compiling the following financial statements and/or documents:
    - An annual **budget**;
    - Regular **cash flow statements**;
    - Regular **income statements**; and
    - **Profit and loss statements**.

Marketing: The process responsible for identifying, anticipating and satisfying customer requirements profitably.

Reputation: The beliefs or opinions that customers generally hold about a business, its products and services.

Budget: A financial document that gives the estimated future income, costs, expenses and resources of a business for a particular period, e.g. a year.

Cash flow statements: A financial report that gives information on the cash generated and used in operations, investments, financing and supplementary activities, such as income tax and interest.

Income statements: A financial statement that shows the profitability of a business during a particular period.
Profit and loss statements: A financial statement that summarises the income, costs and expenses of a business during a particular period in order to provide information on the ability of the business to generate profit by increasing income or by reducing costs.

Profit and growth relate to the generation of wealth and are often used as the main criteria for the performance and success of a business; No business can be successful unless it achieves **customer satisfaction**. To support long term operations, a business owner has to ensure **employee satisfaction** as far as possible because it influences the performance of employees. A business owner's ability to continue the business, while maintaining growth for an indefinite period is a crucial requirement for maintaining a **competitive advantage** and continuous business success.

Customer satisfaction: A term that is often used in marketing and that points to the extent to which the products or services of a business meet or exceed customers' expectations.
Employee satisfaction: The extent to which employees are happy and content in their jobs or in their positions in a particular business.
Competitive advantage: The factors that allow a business to differentiate its product(s) or service(s) from those of its competitors in order to increase its market share.

Elements to consider when starting a business

When an entrepreneur starts a new business, there are a number of elements that they need to consider, including:

- The type of business they want to establish;
- The amount of money involved in starting a business;
- The costs of getting into the business;
- Time for first income and time to break even;
- The potential profit that the business may generate;
- The location of the business;
- The number of employees that may be needed; and
- The market where they will be selling their products.

The main elements to consider when starting a business are discussed in the following sections.

Identifying the type of business

The first element to consider is the type of business that the agripreneur wants to establish. The types of business that the agripreneur may consider are working as an individual and as a partner within a farmer organisation or group. These business types are outlined in the following sections.

Single ownership (Individual ownership)

Single ownership is the simplest business form. It is a business that is owned and controlled by one person (individual) or with their family. In agripreneurship, this would be the farmer and/or their family, a trader, processor or a retailer.

Single ownership: A business that is owned and controlled by one person—the owner (producer or trader).

The main characteristics of single ownership are:

- The business is owned and managed by a single individual or family;
- The single ownership is not a legal identity, which means that it has no existence separate from the single (individual) owner;
- Although he owns and controls everything himself, the single trader may employ paid workers to assist him;

- The owner receives all the profits of the business;
- The owner is also responsible for all the debts and taxes of the business; and
- Because the owner represents the legal identity of the business, there are no other legislated structures and positions involved in the single ownership.

Organised farmer organisations

Smallholder farmers, who operate as individual ownerships, generally receive poor market prices for inputs, services and produce sales, particularly farmers selling lower value field crops. One of the most important reasons for farmers working together in groups is that it enables them to come together and enjoy the benefits of **economies of scale**, so that they can compete more effectively with larger farmers. Farmer groups or organisations can plan together and, for example, buy inputs at a lower cost through bulk procurement. Farmers can also use their economies of scale in groups and cooperatives to support bulk sales of aggregated goods, so as to access better unit prices, higher volume and higher value markets.

Economies of scale: The cost advantage resulting from an increased output of a product.

Identifying resources

A resource can be regarded as any physical entity that is required to carry out a particular task, activity or project, e.g. materials, money, people, equipment or facilities. In this way, it is possible to distinguish between financial resources (e.g. cash and investments), physical resources (e.g. land, animals, water, buildings, facilities, machinery, tools, equipment and vehicles), human resources (workers) and information resources (e.g. internal documents and procedures).

The type of resource that you as the extension agent will identify relates to the farming business, the farm product, business processes and the goals and activities involved in the business.

Once you and the agripreneur know which resources they will need to start the business, you also need to analyse the costs involved in the identified resources.

Analysing the cost of resources

The best way of analysing the costs involved in the identified resources is to inspect all the information about the resources. This is often referred to as the cost of production. The following process can help you identify, analyse and prioritise resources:

Step 1: Visioning

Identify all the possible costs and benefits of each resource by:

- Listing all the activities that have to be performed from planning, production, post-harvest and getting the product to market;
- Allocating costs to each of the identified activities and resources; and
- Identifying the benefits of the resources listed.

Visioning: A group discussion that is conducted in order to map out a situation or process and use the information to produce solutions to problems or develop new ideas.

Step 2: Prioritise resources by comparing costs and benefits

It is important to compare the value of costs to the value of benefits and to use this analysis to prioritise resources. This is done by calculating the total costs and total benefits and compare the two values to determine whether the benefits outweigh the costs.

After analysing the cost of your resources, you can further prioritise your resources in terms of advantages and disadvantages.

Evaluating the identified resources

After the activities and resources have been identified and analysed and then prioritised, they will have to be evaluated according to the contribution they will make towards achieving the business' goals. The following questions will help you as the extensionist evaluate the resources available to the agripreneur to determine the potential competitive advantage they would give:

- Is the resource valuable to the business? Will this resource provide a competitive advantage to the agripreneur? For example, will a new type of seed improve yield?
- Is the resource easy to find or gain access to? For example, is a tractor available to smallholder farmers?
- How well is the agripreneur organised? If it is being run by a farmer group or cooperative, are all the members in agreement and do they all understand their role in the enterprise?

Once the resources have been clearly identified, the agripreneur has to be organised around these resources to make sure that they are used effectively and efficiently. One this has been done, the next step would be to identify the risk issues involved in starting the business.

Identifying risks

A risk is anything that may lead to loss, damage, danger or injury. There are four major types of risks: financial risks, operational risks, reputational risks and employee-related risks.

Financial risk

Financial risk refers to the money flowing in and out of the farm enterprise and the possibility of a financial loss occurring. For example, if a large part of the farmer's income comes from the sales of a single crop and that crop fails, the farmer will run a high financial loss. If the farmer cooperative is selling to a single large customer and that customer buys elsewhere, the enterprise runs a high financial risk. If that customer is unable to pay or makes a late payment for whatever reason, then the enterprise may face serious financial problems. If the enterprise has a great deal of debt, it will run a high financial risk.

Examples of financial risks include:
- External economic pressure which may lead to changes in currency values, which, in turn, affects the import of inputs, such as fertiliser and agro-chemicals and also affects the prices for export goods, such as coffee or cotton;
- Loss of a key supplier or a key customer;
- Increase in production or operational costs; and
- Increase in lending rates, bank charges and interest rates.

Operational risk

Operational risk refers to an unexpected failure in production or the business, which may be caused by:
- A climatic effect that leads to crop failure, low yields or animals losses due to drought, pests or disease;
- Storage infestations leading to major losses in quality; and
- Problems at a key processing stage.

Operational risks may also be caused by external events, which are beyond the farmer's control such as a natural disaster or political unrest.

Employee-related risk

The workers in the farmer's employ may also cause risk in the business, for instance:
- Seasonal labour not being available at the right time, such as at harvesting;
- Lack of knowledge and/or training;
- Employees providing poor **customer service**;
- High **staff turnover**; and
- Theft.

Customer service: The process of ensuring customer satisfaction with a product or service by taking care of customer needs and providing professional and helpful assistance to the customer.

Staff turnover: The number of permanent employees who leave a business within a reported period versus the number of actual active permanent employees on the last day of the previous reported period.

Reputation risk

The reputation of a business is linked to the beliefs or opinions that customers generally hold about a business, its products and services. Reputational risk may occur if the enterprise is seen as unreliable in terms of being unable to meet the quality and volume needs of buyers, not honouring contract agreements, selling to alternative customers at the last minute, and not repaying loans. These types of activities and decisions can lead to negative publicity about the business, criticism of the quality of the products and, in some cases, legal action.

If the reputation of the enterprise is damaged, it may result in a loss of income, as customers will hesitate to buy from the business. Suppliers may also start to question the business and offer less favourable terms.

Free service methods and fee-for-service methods for business upgrading for farmers/farmer groups

Because the budgets for extension services have been cut in several countries, other options and approaches to these services have been explored. These options include structural changes and financing alternatives, and fee-for-service methods. As a result of alternative financing approaches being investigated and implemented, terms such as private extension services, paid extension, commission agents and commercialised extension are being used to refer to the emerging fee-for-service extension services.

There are different types of fee-for-service methods, depending on the local physical, economic and institutional conditions involved in a particular agriculture sector. For example, in developing countries, the following types of fee-for-service methods have been implemented:

- Direct contracts between governments, local authorities and private consultants to provide extension services for a limited period (for example, in Uganda and Nicaragua);
- Direct contracts between governments, local authorities and private consultants, which include payment rates based on the producer's' income level (for example, in Chile, Mexico and Columbia);
- Direct agreements between producers and extension services in which payment is calculated in terms of crop or profit share (or example, in Ecuador);
- Tradable extension vouchers that are funded and awarded to low income farmers by government, based on certain criteria (for example, in Costa Rica);
- Direct contracts between farmer groups and extension services and other experts (for example, in Kenya, Nigeria, Argentina and China);
    - At source payments made between farmers and **para-vet extension agents** who offer advice and veterinary services, (for example, in Kenya and throughout Africa);
- Direct instalments paid per training session to local community-based private service providers, who train farmers in NGO-managed capacity building courses for basic financial services and marketing services, (for example, in Malawi, Zambia, Kenya and many others in Africa);

Para-vet extension agent: A local service provider that provides basic frontline medical services for farm animals, in most cases diagnosis for common pests and diseases and sales of medical/veterinary products.

- Mobile phone based payments paid by farmers to service providers, for regular advice for key products in terms of tips and access to experts, (for example, in Ghana, Kenya, Malawi); and
- Mobile apps linking farmers to services such as tractor use and transport of farmer goods (for example, in Nigeria).

In developed countries, the following fee-for-service methods are applied:

- A combination of funding options via direct payment by farmers and contributions by agricultural organisations (for example, in France);
- Charge on a time-cost basis for certain services (for example, in the United Kingdom); and
- Negotiated fee per an agreed, project-based activity performed by the extensionist (for example, in Queensland, Australia).

Investigative studies undertaken in a number of countries have identified the following key characteristics of farmers' willingness to pay for extension services:

- Gender of the head of the household: The fee-for-service requires sufficient resources (e.g. land and livestock), which women farmers often do not have and, therefore, men appear to be more willing to pay for services;
- Leadership status of the farmer: Farmers with higher social status in their communities are more willing to participate in fee-based extension services;
- The use of credit: Farmers with access to credit are more willing to pay for their extension services;
- Exposure to mass media: It has been determined that farmers who listen to the radio were more easily convinced to take the option of fee-for-services models;
- Age and experience of the farmers: Experienced farmers in their thirties and forties are willing participants in fee-for-service models;
- Education background: Farmers who learn more from formal education interpret and understand information better and manage their farms better on a fee-for-service basis;

- Family size: It is generally farmers with a smaller family size who are willing to consider the fee-for-service approach; and
- Land holdings and farm income: Farmers with bigger farms and higher income are willing to pay a fee for extension services and support.

Complete Activity 1.4 in your workbook.

Session 1.3: Evaluating entrepreneurs (clients)

Session outcomes

After completing this session, you should be able to:

- Determine the reasons and motivation for a farmer/farmer group wanting to be an entrepreneur, or invest in a collective enterprise;
- Assess client readiness to take on a business approach;
- Identify the main business opportunities in a farmer's location;
- Design a farm plan for individuals; and
- Design a group plan for farmer groups and cooperatives.

Introduction

In this session, the reasons for farmers wanting to be entrepreneurs will be investigated and their readiness to be entrepreneurs will be assessed. After identifying the main business opportunities in a particular location, the design of individual and group plans for farmers will be outlined.

Identifying reasons and motivation for becoming an entrepreneur

Farmers may want to become entrepreneurs for different reasons, such as being able to take control of their own lives and building a successful business. Establishing a business requires a clear vision of the opportunities and goals, a great deal of commitment and the willingness to master numerous skills. Therefore, any entrepreneur or farmer organisation needs to fully understand their reasons for starting or upgrading their business.

To identify the reasons why your clients want to become entrepreneurs, you may start by asking them the following questions:

- What is the driving force behind your wish to set up a new business?
- Do you know exactly what your business will do?
- Will you be making the most of your strengths?
- Can you make decisions and work well on your own?
- Will your business make enough money for you?

The reasons for becoming an entrepreneur or establishing an agripreneur are generally identified in four main categories: personal satisfaction, financial gain, independence and self-fulfilment. These are based on the type of reward that they believe results from being an entrepreneur, as shown in Table 2.

Table 2: The rewards of entrepreneurship

Nature of reward	The entrepreneur
Personal satisfaction	Wants to do something different and wants to choose his/her own way of doing things and making a life.
Financial gain	Sees an opportunity to make a profit by starting his/her own business enterprise.
Independence	Seeks the opportunity to make his/her own decisions and to set his/her own targets and standards.
Self-fulfilment	Wants to use his/her own skills and abilities more meaningfully and profitably.

Assess client readiness to take on a business approach

As an extension agent, it is important to make sure that your clients are ready to undertake the challenges and demands of entrepreneurship. Farmers who decide to take the route of agripreneurship, are taking on a business approach to their farming operations. Therefore, they have to understand that taking a business approach to farming requires:

- The primary goal of making a profit;
- Decision-making ability;
- An investment in infrastructure that includes elements such as improved production methods, farming more land, business management, financial management and mastering new technology;
- A strong focus on customer needs and requirements; and
- Facing the challenges involved in maintaining and growing a business.

In order to assess your client's readiness to take on a business approach, you may consider asking them the following questions.

Problem-solving

- Do you usually come up with solutions to the problems in your farming operation or do you turn to others for help in finding a solution?
- Do you consider the needs of your buyers when approaching problems in your regular farming operation?

Facing challenges

- When you fail at a particular task, do you see it as a challenge to try even harder in order to succeed, or do you give up?
- When you face a challenge or a difficult situation, are you committed to finding a new way to succeed?

Approaching money matters

- Do you believe that your hard work will eventually pay off, even when you cannot see immediate financial rewards?

- Do you consider the profitability of a specific product or the financial well-being of your entire farm operations when making decisions and solving problems?

Communicating effectively
- Can you easily explain processes and procedures to your group/cooperative members?
- Can you express yourself clearly when communicating with suppliers, distributors, buyers and other role players in your farming operation?

Identifying the market opportunities in your location

Before entering into any business venture, you, as the extensionist, need to work with the farmers/agripreneur to explore a relevant business opportunity. Farmers should look for the following elements in a good business opportunity.

Elements of a good business opportunity

In order to identify a good business opportunity, farmers should look for the elements discussed below.

The product meeting a need

The most important element in a business opportunity is whether the product has demand in the market. When evaluating a business opportunity, make sure that the farmers consider the following questions:

- Is there actually demand for the product in the market?
- Does the product solve a problem for consumers/customers?

The opportunity working in a location

Demand and prices change for certain products according to location. Therefore, farmers must find out how prices and costs change when selling into different types of market, such as their local village market or the wholesale market in the next town.

Access to resources

The farmers need to decide if they have the resources to take on the business opportunity, even if there is demand for the product and the selling price is attractive. As an advisor, you have to help the farmers determine if they have access to the necessary amounts of money, information, technology and people (employees) to enter into the business venture.

Providing the product at the right price

The farmers have to consider the market that they intend to enter and the product price. As the advisor, you need to ask them:
- Can you provide the product at a price that the market is willing to pay?
- Will the price attract customers, while still making a profit?

Timing

Timing is a key element when evaluating business opportunities. Everything has to line up in order for the opportunity to really work. If the timing is not right, the farmer may want to consider exploring the opportunity at a later stage.

Methods for identifying business opportunities

The question that every farmer or farmer organisation who is thinking of starting a new business has to face is how do you find the opportunity that is right for you? The following methods may be considered when identifying a business opportunity:
- Identify a market opportunity: Study the agricultural market and find out what is in high demand, and when, and what is in scarce supply and why;
- Explore new markets: Many farmers tend to sell traditional products into their nearest market. Often farmers can gain information on new opportunities by visiting other markets, or larger, more distant markets, or by visiting new types of markets such as processing companies, poultry or beer

factories, rather than only selling into an informal **wet market**;

Wet market: A market that sells fresh meat and produce.

- Matching risk with resources: One of the key skills of a good business advisor is to match the risks of a specific market opportunity with the skills, resources and ambitions of the clients. The aim of business development is not to match the most vulnerable farmers with the most profitable and volatile markets. This process of risk assessment is a particularly important part of the commercialisation process. Farmers may need help in supplying to the local market or to export markets and the extension agent needs to match risk with farmer capacity;
- Identifying customer (buyer) problems: Farmers should investigate the key problems or issues that their customers face when buying a product in their market and think about the ways they can improve on the product or introduce a better product to the market e.g. selling in bulk rather than small lots or selling sorted goods rather than selling mixed quality goods;
- The farmer should investigate the key problems or issues that customers face when buying a product in a market and think about the ways they can improve on the product or introduce a better product to the market;
- Addressing the customer's need for something new: If there are clear demands in the market, the farmer may consider the customers' need for new or alternative products, e.g. in the food market, customers have developed the need for all organic products;
- Considering a growing industry or market: A growing industry always offers a high demand, which, in turn, gives the opportunity to establish and grow your business. For example, in many countries, meat production is increasing—particularly poultry—but they do not have enough quality feed which opens the growth opportunity of supplying to the feed factories;

- Deciding on a differentiating factor: Determine what would make the farmers' product a better option for their potential buyers, rather than buying from existing producers or suppliers; and
- Considering seasonality: The agricultural market is highly seasonal and, therefore, farmers should explore ways to expand and raise value in their markets by selling early or late in the season. Farmers also need to consider ways of using their farm assets during the off-season.

Designing individual plans for farmers

As extension services adapt to the new, more commercial farming environment, in which farmers are more focused on modernising to support their goals in terms of food, finances and nutrition, the public and private sector extension agents will need to work in new ways to meet the various demands of different types of farmers. In many cases, extension agents will need to support a combination of individual farmers and farmers in an organisation. In all cases, the extension agent will need to help these clients gather information and develop production and marketing plans based on their abilities and aspirations. For the individual or family farm situation, the support will focus on how to use the existing assets, market options and business capacity of target farmers and find ways to upgrade them.

Extension agents may receive enquiries from larger individual farmers or they may meet farmers as part of a farmer organisation who will seek out specific information to help optimise their farming systems. This transition to working with both farmer groups and farmer organisations is apparent in most countries. In some ways, the balance of individuals versus group support will depend on who pays for the service.

In Nicaragua, some of the more progressive coffee cooperatives are providing individual coaching plans to farmers, so that they can supply the cooperative with high quality coffee but also develop a long term investment plan to upgrade their farms.

In addition to assisting with coffee production, the cooperatives are also keen to help farmers manage their risk by helping them to manage their soil and water resources, diversify their production systems to increase their incomes and improve their dietary options. As part of this upgrading process, farmers need to gather relevant information, develop upgrading plans for their production systems and learn basic business methods so that they can make more informed investment decisions. Figure 11 shows a farm plan, developed with a coffee farmer in Nicaragua.

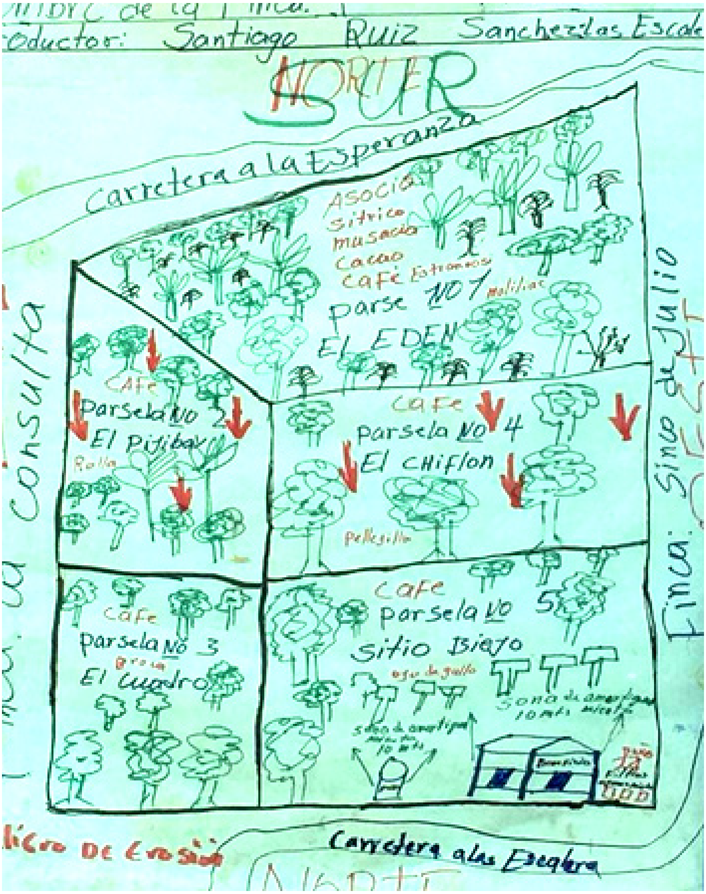


Figure 11: A farm plan, developed with a coffee farmer in Nicaragua

In this case, the extension agent has helped the farmer divide his farm into parcels of land, each with a specific set of plans, so that the farmer can work on upgrading one part of his farm at a time. This approach helps the farmer to work in smaller and more manageable steps, while slowly working towards a farm that is more productive and meets the diverse needs of the family. Table 3 outlines the types of steps that an extension agent can consider when working on a farm family plan.

Table 3: An example of the steps to create a farm family plan

Management	Finances	Production	Marketing
Create a profile of the farmer and include their age, land size, phone or contact number, family members, estimated annual income and their annual investment levels.	List their main income products and costs.	Map the existing farm production by plot and develop a map of the plans for the future farm.	Analyse the cost of production for main income product(s), compare values with neighbouring farmers and identify current market options.
List the key food/income crops and the main food items that are procured on an annual basis. Create a food balance sheet.	Develop a seasonal calendar of income and costs.	Develop a seasonal production calendar. List key activities for target plots and products.	List the current market outlets and prices for products. Analyse new market opportunities (this can be done for individuals or groups). Decide on target products and market options with the farmer.

Management	Finances	Production	Marketing
Review and prioritise key challenges the farmer is experiencing, e.g. productivity, markets, access to water, etc.	Identify means of access to credit/ resources to support the farming system.	Develop a soil and water upgrade and management plan.	Compare sales options as individual versus through a collective marketing group.
Use visioning to map the current situation versus the farmer's goals, assets, skills and marketing ambitions.	Initiate entry to a savings and loan club.	Identify key threats to the production system.	Link production and marketing plans and set marketing goals.
Develop a farm plan with goals for the main plots over the next seasonal cycle.	Enrol the farmer in a financial education process and prepare a financial plan.	Assess options for diversification and devise a diversification plan.	Evaluate market performance at the end of a season.

Management	Finances	Production	Marketing
Work with the farmer to prepare an implementation plan with achievable steps based on the farm plan.		Work with the farmer to prepare an implementation plan with achievable steps.	
Develop a farm diary so that the farmer can follow the steps.		Develop a farm diary so that the farmer can follow the steps.	
Set indicators for monitoring progress. Set baseline with soil test, water assessment and agronomic practices. Establish dates to assess performance and a payment or visiting schedule.			

Designing group plans for farmers and cooperatives

Extension must simultaneously focus on farmer organisations and on upgrading the management skills of existing structures, in order to help farmers raise their competitiveness within a market or value chain.

Examples of methods for farmer organisation in market linkage include:

- Farmer group management;
- Financial skills and access to credit;
- Linkage to agri-dealer networks;
- Value chain support within the chain;
- **Collective marketing**;
- Agent networks; and
- Community fee-based service providers.

Collective marketing: A marketing approach in which a number of farmers, producers or growers work together to sell their combined crops.

Farmer groups in collective marketing

A study tour organised by the Catholic Relief Services (**CRS**) and the International Centre for Tropical Agriculture explored how their support to farmer groups could be improved in order to improve market linkage. The study tour discovered that a common feature of farmer groups who were more successful in their ability to link with markets was their ability and drive to acquire and combine five basic 'skill sets'. This set of desired skills was common across wealth levels and locations in the farmer groups.

The skill sets were classified as follows:

- Group management skills;
- Financial skills (starting with internal savings and lending);
- Marketing skills;
- Innovation skills for accessing new technology; and
- Sustainable production and natural resource management (NRM) skills.

Most groups proactively sought to develop most, if not all of these skill sets, even in the absence of external support. This provides a strong signal to modern extension services that their strategies could benefit from developing programmes that address the demand for this set of skills.

The area of innovation is also often limited to ideas of **demonstration plots**, but this is a somewhat outdated top-down approach. Extension systems need to change their approach to farmer-led experimentation and information gathering significantly if innovation is to address the highly diverse needs of farming communities. Instead of demonstration plots, extension agents, the private sector and farmers need to work together at learning points, where new ideas in terms of new varieties, new ways of **tillage** and new business methods are tested, assessed and, if effective, adopted by the group.

Demonstration plot: A field or a small area of land that is used to teach, experiment and share ideas about agricultural practices, so that farmers and farmer groups can learn, practice and track the cost of new crops and improved techniques.
Tillage: Preparing soil or land for growing crops.

Farmer organisation to support collective marketing

One of the most important aspects of a marketing approach is to help farmers organise and gain economies of scale, in order for them to compete with larger farmers. Extension agencies need to help farmers to buy inputs at lower prices by buying in bulk and then support bulk sales of the produce to gain higher unit sales prices.

In a typical value chain project, the approach will have an upgrading package that includes organisation, access to better inputs, market analysis and the use of improved production technologies to enhance productivity, post-harvest cleaning and bulking and sales to an identified buyer. The ultimate goal of an extension process is, however, not to do all of these things for the farmers, but to build the capacity of the farmer organisation to invest in these methods and develop durable trading relationships.

The following sections explore some of the farmer organisation methods being testing and scaled by various extension services that have successfully linked farmers to markets.

Collective marketing groups

At the most basic level, extension workers can work with farmers to bring together groups of farmers to learn new technologies and prepare basic production and sales plans to produce a specific level of surplus production for sale to a local trader. Organising farmers into groups helps in training events and provides farmers with better negotiating powers at the time of sale through collective marketing.

Figure 12 provides an example of a flexible approach to combine produce for sales that can be applied at the local level with less than 100 farmers. When only a few farmers are involved in this type of structure, the management can be minimal and meetings beyond the farmer group unit to agree on sales conditions may only be required at the start of the season and at the time of storage and sales. It is important that when farmers start to associate beyond the primary group, they have a transparent system for group representation at the association level, as well as reporting mechanisms to provide regular and timely feedback to members. This process can be scaled to include several thousand farmers, but as the number of associated groups expands, more effort is required at the second order level to provide effective and transparent management. Many farmer groups and cooperatives fail when they become too large.

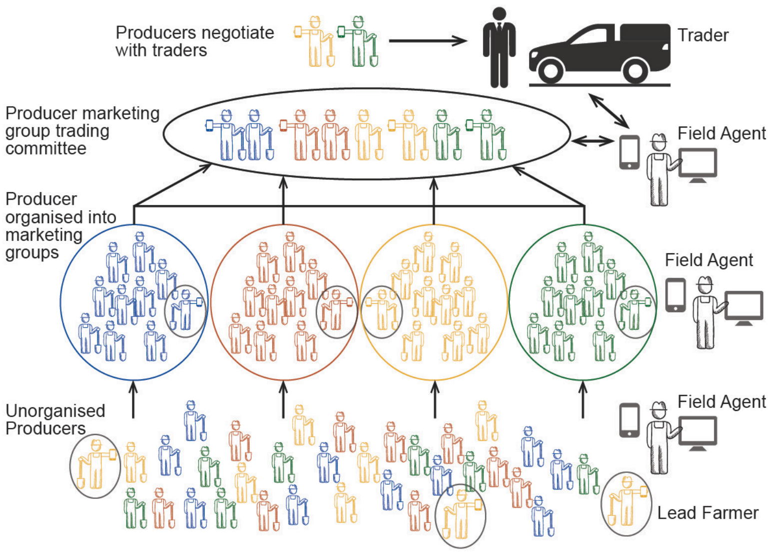


Figure 12: Collective marketing organisation

Cooperative support

The classic farmer-based organisation is the farmer cooperative. The cooperative movement has a long history based on a more formal arrangement of farmer groups linked to professional associations, or second tier organisations. When it has worked well, the cooperative movement has made huge changes in the prosperity of millions of farmers. Cooperatives, through market linkage mechanisms such as certification schemes like Fair Trade, have improved long-term trading relations in specific value chains, i.e. coffee.

However, the cooperative movement has also suffered from major problems with corruption and inept management, particularly those systems where governments were instrumental in establishing the organisations. Many of these cooperatives were manipulated for political means, with cooperative funds being misdirected to support political campaigns at the expense of the farmers. Frustration with years of mismanagement and government interference, often linked to poorly managed financial arrangements, led many farmers to abandon the cooperative movement and strike out as lone operators. Even if working alone reduced their market options, it protected them from extortion and intimidation.

As the role of governments in most agricultural marketing systems has declined due to reforms such as the structural adjustment programmes, farmers have started to return to more formal farming organisations. However, they often need considerable capacity building in terms of management and financial operations and, at the same time, they need lean management systems to hold down administration costs and to retain members to show fair representation and effectiveness in the market place.

Value chain support

Where there is reluctance from farmers to work in cooperatives, or the lack of farmer cooperatives in key value chains, modern extension services will need to devise different systems of organisation that support greater collective action. NGOs have piloted a number of interim structures that support better market coordination of farmers.

Important factors in the design of these value chain structures include the level of maturity or formality within the chain and the emphasis that is placed on developing more durable trading relationships with farmers.

In the example in Figure 13, support from the external facilitating agency is planted firmly within the supply chain. In this process, the facilitating agency controls inputs to farmer groups, has staff hired to play coordinating roles within the supply chain and manages pack house operations. This type of support investment method seeks to support rapid integration of farmer produce with the needs of the buyers.

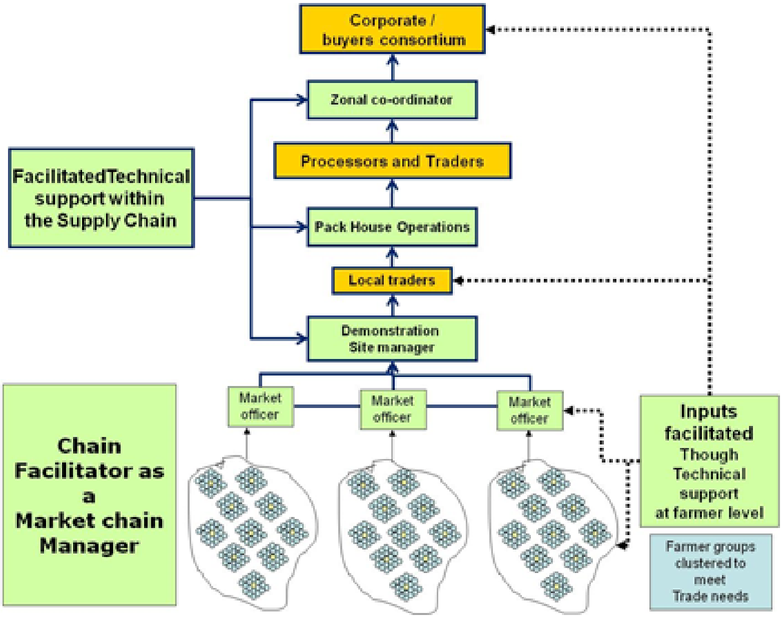


Figure 13: Extension support to value chain with fully integrated support

This type of approach can be very effective in introducing farmers into a formal supply chain, but the costs are generally high and can be a challenge to maintain when the project ends. If the local input services, farmers, traders and processors are not able to take on these roles at a profit by the end of the project, the viability of the chain can be compromised. A modern example of this type of integrated market support is demonstrated by the One Acre Fund in Kenya and Babangona in Nigeria.

The One Acre Fund is a NGO that supports smallholder farms in East Africa by providing agricultural training and asset-based financing.

Facilitated value chain support

To avoid problems associated with being too heavily involved within the chain, many external agencies now attempt to facilitate the roles of the chain actors, rather than work within the chain. In this case, technical advice and training is given to the chain actors to establish an upgrading process, which is implemented by the chain actors. The purpose of remaining outside the chain is to support greater sustainability of the value chain when the facilitation process ends. You can see an example of this in Figure 14.

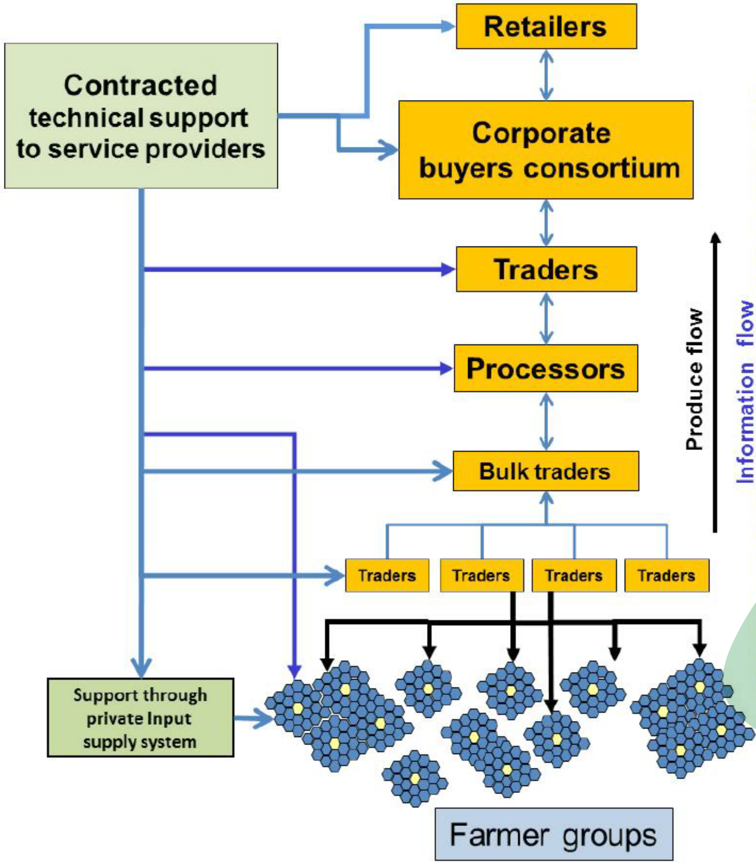


Figure 14: Extension support to value chain as external facilitator

Complete Activity 1.5 in your workbook.

Session 1.4: Defining the business idea

Session outcomes

After completing this session, you should be able to:

- Assist clients in defining their business idea;
- Identify the business gap;
- Define the value proposition;
- Identify and describe the farmers' customers;
- Outline the key activities involved in the agripreneur; and
- Test the viability of the business idea.

Introduction

At this point, you should understand the importance of agripreneurship, the characteristics of a successful entrepreneur and the motivation for becoming an entrepreneur, the readiness to take a business approach, the characteristics of a successful business and the elements involved in starting a business. In this session, you will learn about the business idea as the first step in starting a new business venture. You may find it helpful to study this session along with the elements of a good business opportunity, as discussed in Session 1.1.

Assist clients in defining their business idea

A business idea is the starting point for all entrepreneurs. Defining and expanding a business idea will help the entrepreneur decide what they want to accomplish, identify the tasks involved and evaluate the potential challenges and pitfalls involved in the new business. In their business ideas, entrepreneurs have to:

- Identify products or services;
- Define the market;
- Identify their main competitors; and
- Identify resources.

Identifying a product or service

Every business relies on a product that is sold to customers and the business idea has to identify and define that product clearly and accurately. The extensionist may need to ask the following questions about the product:

- What product will the enterprise or farming operation be offering to customers or buyers?
- What are the main features of the product?
- What are the benefits that the product will bring to potential customers?
- Are there any additional services offered by that product?

Defining the market

Once your client—be it the farmer, a trader or a local service provider—has decided on a particular product or service, the market where the product/service will be served must be defined. The following questions are relevant when defining the market:

- Where is the market? Which value chain? Which city, region, country or continent?
- Who are the target customers and what are their characteristics in terms of gender, age, ethnicity, income, etc.?
- When will the product be sold: season, time of day and dates?
- What will be the frequency of sales: will the product be sold at one time, regularly or all year?
- What are the terms of payment: cash on delivery, cheque, within 60 or 90 days, after delivery?

In many cases, people use the 4 P's of marketing to determine

- Product: What are you going to sell?
- Place: Where will you sell from?
- Price: What price will you sell at?
- Promotion: How will you find/attract your customers?

Identifying the main competitors

All businesses have to face competition and, therefore, it is important that the business owner identifies the main competitors. In terms of competitors, the agripreneur needs to consider the following questions:

- Who are the five largest competitors in the market?
- What, where and how do these five competitors offer their products to the market?
- What are the main features of their products?
- What are the benefits that they provide to the market with their products?

At the same time the agripreneur needs to think why will customers buy my product? Is it better? Is it cheaper? Is it faster, more convenient? What is the advantage of your offer? Your value proposition?

Identifying resources

Identifying the resources available involves answering the following questions:

- How many farmers and/or workers will be needed to produce the product and deliver it to the market?
- What knowledge and skills would farmers and workers need to perform their jobs?
- What financial resources are needed and where will the agripreneur find those financial resources?
- What material resources will the farmer need and where will they find them?
- Which information resources does the farmer need and what are the chief sources of this information?

Defining a business idea relates to identifying a business gap, which is discussed in the next section.

Identify the business gap

The ideal situation for an agripreneur is to find a profitable niche market on which to focus their efforts. Finding a **niche market** involves identifying a business gap for a product, which is not addressed by mainstream providers or competitors. A business gap can be found in an area in which consumers are not yet buying a particular product, or in which there is a customer demand that has not been met. However, for many business ideas, the gap is quite small and there may be many people offering similar products. Business gaps range from the need for similar products that are better quality, or lower price, to new products and to changing a current product, or offering it in an alternative way, e.g. importing bulked soybean or providing organic coffee to the international market.

Niche market: A profitable portion of a particular market where business efforts are focused. Note these markets are often quite small and therefore prone to being oversupplied!

Identifying a business gap involves the following:

- Study trends in the market that the farmer or producer intends to enter; determine if this is a growth market? Or if it is static or even declining?
- Listen to customers and try to determine what their expectations and concerns are and what they like or dislike about the farmer's competitors;
- Establish what customers require in terms of product cost, quality and service delivery;
- Identify customer needs that are not currently being addressed;
- Determine if there is room for the farmer's product in the market by identifying competitors' strengths and weakness in order to identify gaps in their services that the entrepreneur may offer;
- Identify areas of specialisation that the entrepreneur's competitors do not address; and
- Define the competitive advantage of the entrepreneur's product.

Defining the value proposition

A value proposition is a statement that identifies and briefly describes the unique value that a bundle of product(s) and services would bring to the agripreneurs customers that its competitors' products do not offer. In other words, the value proposition summarises the reasons for a customer buying a particular product and, in this way, it:

- Offers a clear explanation of the product or service;
- Gives an indication of the way in which the product differs from alternatives on the market; and
- Shows the reasons why customers would prefer this product over competitors' products.

Before the value proposition is finalised, the farmers or producers may want to ask themselves the following questions:

- Do I offer a product/service bundle with superior quality, or a product that can solve an existing problem in an alternative way?
- Can my product be customised to suit the needs, requirements or preferences of customers?
- Are my prices lower than those of your competitors?
- Does my product offer a set of unique benefits to the customer?
- Are my distribution methods better to those of my competitors?

Steps in writing a value proposition

As an extensionist, you may use the following steps to assist your client in defining a value proposition. Please note that market research may be required to obtain the information involved in the value proposition.

Step 1: Know the customer

Knowing the customer involves the following information:

- Who are the agripreneurs' customers?
- Which customer problems or needs should the agripreneurs

product address?
- What product improvements or benefits are the customers looking for?
- What do they value?
- What are the gains that they are offering their customers?
- What are the obstacles that they are removing for their customers?

Step 2: Know the product

Knowing the product requires knowledge about:
- How the product addresses the customer's problem; and
- The value or benefits the product offers the customer.

It is important to be as specific as possible, which may require the entrepreneur to add numbers or percentages regarding their product in their value proposition, e.g. expected crop yields, etc.

Step 3: Know the competitors

You and the agripreneur or farmer must ask yourselves how the product creates better value or more benefits for the customer than those of the farmer's competitors.

Step 4: Write a customer-oriented value proposition

The final step is to write a customer-oriented value proposition. You and your client may consider approaching it from the customer's viewpoint, by answering the following questions:
- 'I want to buy this product, because it will …'
- 'What I value most about this product is …'
- 'This product is better than competing products, because …'

Identify and describe your client's customers

In the agricultural industry, there is a range of customers starting with farmgate customers. These customers buy directly from the farmer. Farmgate sales occur when the farmers sell their products directly from their farm to their neighbours, traders who travel in search of goods to buy, or to local buying agents.

Selling to farmgate customers:
- Is convenient for the farmer;
- Has no additional marketing cost, such as loading or unloading; and
- Has no problems in reaching agreements with the other members of a marketing group before the sale is made.

As the agripreneurs business grows, sales shift from local informal sales to larger and more formal markets. Individual farmers, who have regular surpluses of goods or farmers in groups, can bulk their goods for sale in a range of informal markets. As farmer organisations become more specialised they tend to sell higher quality and volumes of goods into the more formal markets, where they can access better buying conditions and often higher prices.

In the following sections, the different customers in informal and formal markets will be discussed.

Customers in the informal market

Informal markets include local assembly markets, where farmers sell to traders, informal wholesale markets and informal retail customers. In developing countries, informal markets make up more than 60-70% of the available markets, this is the mainstream marketing area. Markets are formalizing with greater urbanization and increasing numbers of middle class buyers, who want more regulated food products, but this transition will take several decades.

Informal assembly markets

Informal assembly markets involve farmers and small local traders coming together regularly to sell their goods to larger traders. In other words, the buyers in assembly markets are traders, not individual consumers.

Assembly markets are normally found in rural areas or in small towns close to farming areas. Many assembly markets are held only once or twice a week and some are held in the harvest season only.

Informal wholesale markets

Informal wholesale markets, which are generally found on the outskirts of larger towns and cities, are markets where farmers deliver produce in bulk. **Retailers** come to these wholesale markets to buy bulk goods, which they make into smaller lots to sell in their stalls and shops.

Retailers: Businesses that sell goods directly to individual consumers.

Wholesaler: A company that buys large quantities of products or goods from different producers or farmers, stores them and sells them to retailers.

Informal retail customers

Informal retail customers are consumers and small businesses (such as restaurants and street-food vendors), who buy their daily or weekly supplies of food. It is possible for farmers to sell in bulk directly to these customers, but in order to do so they must work out a system with the retailer. **Wholesalers** may try to prevent farmers from selling directly to retailers.

Formal markets

Formal markets consist of all the businesses, enterprises and economic activities within the agricultural and food sectors that are structured, monitored, protected and taxed by government. The formal agricultural markets include supermarkets, hotels and restaurants, feed markets, selling to government buyers and export markets.

Supermarkets

As towns grow, people want to buy in convenient, one-stop shops. Supermarkets enable consumers to buy a large variety of different types of goods at the same time. The food is attractively packaged and of a standard/good quality. In developing countries, supermarkets serve mainly middle to higher income urban people. Farmers can sell directly to supermarkets, but they must meet strict volume and quality requirements.

Hotels and restaurants

> **Urbanisation:** The process by which towns and cities are formed and become larger as more and more people begin living and working in central areas.

One of the market consequences of **urbanisation** and rising incomes is changing diets, with consumers buying higher quality food products and also buying higher value products, such as vegetables, meat, dairy products, processed foods and other agricultural goods such as flowers and ornamental plants. Urban centres also concentrate large numbers of consumers whose lifestyle involves buying meals at restaurants in addition to food that is prepared later. Hotels and restaurants pride themselves on serving customers with food made with fresh, high quality produce. In order to ensure the supply of high quality goods, chefs often work directly with farmers or with reliable suppliers of high quality produce. The higher value of these markets offers new opportunities to farmers for higher income buyers.

Feed markets

In urbanised countries, consumers' diets have changed to include an increasing consumption of meat and milk products. There is also a growing demand for animal feed products, which is driving a new market opportunity for farmers.

Livestock feed processors require sources of both carbohydrates and protein in the feed they develop, which offers farmers the opportunity to grow a range of crops, including maize and soybean to supply these to feed processor markets.

Government or public sector markets

Governments are major buyers of products and they offer regular tenders to buy food and feed for their different service industries such as schools, hospitals, prisons, as well as for the military.

Export markets

Export markets involve goods produced in one location or country that are sold and consumed in another country. Examples of export trade traditionally included a mix of food and fibre products, such as coffee, cocoa, tea, tropical fruits, nuts and cotton. However, nowadays the export trade in agricultural produce is a fully globalised process with goods moving in all directions.

The global trade in goods is particularly being fuelled by the current consumer demand for year-round supply of all food products, which requires retail outlets to have suppliers from across the world provide their fullest inventory of goods through the local seasons.

Farmers have experienced major threats and benefits from the globalisation of agricultural markets, but the growth in this market sector offers farmers real opportunities to sell high volume, high value produce—if they can meet the increasingly strict food safety and traceability requirements of these markets.

Outlining the key activities involved in an agri-business

Although the key activities involved in a business may differ, the key activities outlined in the following sections are generally performed in any agricultural business.

Crop production activities

The following core activities relate to crop production:

- Land preparation;

- Planting and fertilising crops;
- Weeding and pest and disease control or prevention;
- Harvesting the crops; and
- Crop conditioning, including cleaning, bulking, bagging and storage.

Marketing and sales

Marketing and sales involve the following key activities:

- Managing the **marketing mix**: product, price, distribution and **promotion**;
- Managing the **marketing communication mix**: advertising, sales promotions, public relations (PR) and direct selling (personal selling);
- Writing advertisements and press releases; and
- Selling the product to target markets.

Marketing mix: A set of tactics and strategies that an enterprise uses to promote its product in a particular market and that is made up of the so-called four P's of marketing: product, price, place and promotion.
Promotion: The process of creating customer awareness of a particular product in order to generate sales and increase customer loyalty.
Marketing communication mix: The specific blend of advertising, sales promotions, public relations, personal selling and direct marketing tools that an enterprise uses to communicate product value to its customers.

Accounting activities

Accounting activities include:

- Doing financial planning and compiling and managing the budget;
- Paying bills; and
- Managing the credit of the business.

Managing farmer groups and human resources

Although this section is more relevant to farmer groups and agricultural processing companies, the principles apply to farms and farmer organisations too. The activities involved in managing human resources include:

- Having clear roles for the business team;
- Having elected committee members and constitution for the farmer group;
- Planning human resources (employees/workers) for the business;
- Recruiting and selecting suitable workers for the business;
- Developing and training workers;
- Paying employees and managing the **payroll**;
- Managing employee performance and productivity; and
- Resolving conflict among employees.

Payroll: The record of the salaries, wages, bonuses and taxes for the workers employed in a company.

Administrative activities

The following key administrative activities are usually performed in a business:

- Responding to customers;
- Managing financial resources;
- Answering customer enquiries and queries; and
- Filing.

Testing the viability of the business idea

In the business context, viability refers to the ability of an enterprise to operate and compete effectively in a particular market and to make a profit. A viable business is one that:

- Covers the expenses of manufacturing a product or delivering a service and running the business;
- Generates adequate profits;
- Withstands business risks that it may encounter;

- Remains viable in the long-term; and
- Meets the goals set by the founders or owners.

One way of determining the viability of a new business is by using the results and findings of **market research**.

Market research: The process of collecting and analysing information about the market into which an enterprise or a new business is entering in order to evaluate the viability of the new product or service.

Market research

When a new business opportunity is identified, market research will give an indication of whether the idea is going to be successful or not. For example, market research results can provide the agripreneur with information on:

- The way in which customers in a target market view the product;
- Whether they would actually buy the product;
- How much they would be willing to pay for the product; and;
- Any additional features they would like to see on the product.

Another way of determining the potential success of a business is to conduct a feasibility study.

Feasibility study

A feasibility study is an analytical tool used to study the viability of a business idea by:

- Identifying potential problems and opportunities;
- Determining objectives;
- Defining successful outcomes; and
- Assessing the costs and benefits involved in the alternatives for solving problems.

A feasibility study usually addresses the market viability, financial viability, technical viability and management viability of a business.

Rather than just diving into a project and hoping for the best, a feasibility study allows entrepreneurs and new business owners to investigate the possible negative and positive outcomes of a project before investing too much time and money.

Complete Activity 1.6 in your workbook.

Complete Activity 1.7 in your workbook.

Concluding remarks

In this module, you learned why it is important to develop agripreneurship and who the potential extension clients of agripreneurship are. You also learned what the characteristics of a successful entrepreneur are and what makes a business successful. You learned how to determine the motivation and readiness of farmers to go into business. The difference between free and fee-for-service approach to upgrading farmers and farmer groups was discussed. You learned how to identify business opportunities in a particular location, how to define a business idea, how to identify a business gap and how to define a vision and value proposition for a business. Finally, you learned how to test the viability of a business idea and what the key activities involved in a business are.

Complete the summative assessment in your workbook.

Study unit 2: Evaluating the key skills involved in running a business

Study unit outcomes

After completing this study unit, you should be able to evaluate the key skills needed to run a business, including::

- Business planning;
- Market analysis;
- Making decisions on market opportunities;
- Learning basic calculations;
- Financial basics;
- Mapping the production operations;
- Managing equipment and labour;
- Basics of negotiating with partners;
- Developing customer relations;
- Marketing and sales;
- Basic and advanced bookkeeping;
- Skills/competencies and scale assessment; and
- Developing a training programme.

Study unit overview

This study unit identifies the different types of skills that extension clients need to design, start, and run and grow an agricultural or a rural business. The study unit focuses on business principles and skills, stepping away a little from the **agronomic** thinking to a more focused approach to the business methods and skills that will help agripreneurs to upgrade their production and business operations.

Agronomic: A branch of agriculture that deals with crop production and soil management.

Study unit introduction

In order to facilitate the process of agripreneurship, the extensionist will need to use their skills to support agripreneurs establish, run and grow a business. Completing this study unit should allow you to identify the basic competencies that a client/ client group should have and to work on developing a learning programme that will enable your extension clients to acquire the skills they need to run their businesses.

Session 2.1: Evaluating the key skills involved in running a business

Session outcomes

After completing this study unit, you should be able to evaluate the key skills needed to run a business, including:

- Business planning;
- Market analysis;
- Making decisions on market opportunities;
- Learning basic calculations;
- Financial basics;
- Production operations;
- Management of equipment and labour;
- Basics of negotiating with partners;
- Developing customer relations;
- Marketing and sales;
- Basic bookkeeping;
- Skills/competencies and scale assessment;
- Advanced bookkeeping; and
- Developing a training programme.

Introduction

Successful agripreneurs are technologically competent and **innovative** and they plan ahead, so they can steer their agricultural and food businesses through the stages of enterprise development. In this session, you will learn about the different skills that an entrepreneur should have in order to make a success of an agricultural enterprise.

Innovative: Capable of thinking about and introducing new and original ideas.

Business planning

A business plan is a document that outlines the financial and operational goals of a business for the near future and shows how these goals will be achieved. A business plan also describes:

- The value proposition;
- Means of delivery to key customers;
- The resources and partners needed to deliver the product; and
- Basic income and costs.

Business planning is the process of establishing goals and objectives for future performance and identifying the tasks and the resources needed to achieve the goals. In order to do business planning, the agripreneur should develop the following skills:

- Setting goals that align with the value proposition of the business;
- Identifying a value proposition that fits with customer needs;
- Collecting, organising, analysing and interpreting information and situations;
- Diagnosing problems and identifying relevant causes of the problems;
- Evaluating and comparing courses of action to address problems;
- Predicting and forecasting;
- Estimating the time and effort required to complete tasks; and
- Implementing and monitoring actions and tasks.

Market analysis

The agripreneur needs to be confident about conducting market analysis in order to determine market opportunities, market trends, growth potential in the market, major challenges and opportunities and realistic business opportunities in the market. In order to conduct market analysis, the entrepreneur needs the following skills:

- Critical thinking skills to identify challenges and **market opportunities** and to analyse needs and product requirements;
- Decision-making skills to make decisions about opportunities in the market;
- Problem-solving skills to identify complex problems and design solutions;
- Coordinating skills to enable value chain actors to succeed together in the market; and
- Communication skills to present market analysis results to partners and customers.

Market opportunity: A favourable condition in the market that a business can use to its advantage, e.g. a changing trend or an increased demand for a product that competitors have not yet recognised.

Making decisions on market opportunities

Decision-making is the ability to make sensible choices on market opportunities, which involves the skills of:

- Seeing the most important information quickly;
- Considering the positive and negative sides of each option;
- Selecting options and forecasting the outcome of each option or alternative; and
- Rapidly deciding on the best option for the business.

Calculation skills

Basic maths skills are essential to all areas of agripreneurship and, therefore, the agripreneur needs to be comfortable with:

- Adding;
- Subtracting;
- Multiplying;
- Dividing;
- Calculating percentages;
- Calculating **fractions** and decimals;
- Calculating averages; and
- Calculating area and volume.

Fraction: A quantity that is not a whole number, e.g. ¾.

Production operation

Production operation refers to all the activities involved in producing a product, which requires the following skills:

- Managing and updating the production system;
- Short- and long-term planning in terms of what and how to produce;
- Making decisions in terms of the timing of production operations, e.g. sowing according to soil conditions and seasons, sowing methods and fertiliser levels;
- Selecting the right resource mix including varieties, agro-chemicals and use of labour to produce at optimal efficiency;
- Scheduling production processes;
- Operating farm machinery and equipment in some cases;
- Workflow management from selecting the input (e.g. seeds, fertilisers and agro-chemicals) to the point of packaging and selling the product;
- Monitoring and evaluating the production operation; and
- Innovation to explore new ways of solving complex problems.

Managing equipment and labour

Agricultural businesses use equipment to produce crops or raise animals. The agripreneur needs the following equipment management skills:

- Deciding on the right equipment use for the situation, e.g. ownership, hiring services, renting, sharing or a combination of the options;
- Considering the costs involved in equipment options, including equipment housing, operating and repairing costs, fuel consumption, interest on investments, taxes and insurance; and
- Assessing the performance of equipment.

Agripreneurship also requires labour—i.e. employees—and they need to be managed. Therefore, the agripreneur needs the following labour management skills:

- **Human resource planning** and **recruitment;**
- Employee training and development;

- Employee motivation;
- Payroll management;
- Performance management;
- **Conflict resolution**.

Human resource planning: The process where the agri-entrepreneur makes sure that they have the right workers capable of completing specific tasks.
Recruitment: The process of finding workers to fill vacant positions in the agri-business.
Conflict: A strong disagreement between individuals or groups regarding ideas or interests that may result in an argument.
Conflict resolution: The method of finding a solution to a disagreement between two or more parties.

Negotiating skills

In order to negotiate with their partners and buyers, agripreneurs must be able to:

- Use their **active listening** skills;
- Clarify issues by asking relevant questions;
- Identify the key issues involved in the negotiation;
- Identify areas of common ground between negotiating parties;
- Develop a line of logical, reasoned argument;
- Put their points across clearly and understandably using verbal communication skills;
- Identify and structure the problem, identify possible solutions or courses of action and decide on the most suitable option using problem-solving skills;
- Plan alternative outcomes if a satisfactory decision cannot be reached;
- Use decision-making skills;
- Use presented facts to make decisions with reasoning skills; and
- Use **persuasion** skills.

These are known as basic **negotiation** skills.

Active listening: A structured form of listening and responding in which the listener focuses attention on the speaker, thereby improving mutual understanding.
Persuasion: The process of changing an individual or a group's attitude or behaviour towards an idea, event or issue by means of written and verbal communication.
Negotiation: A discussion method where differences between individuals and groups are settled.

Customer relations

Customer relations refers to links between business actors in the market chain, referring to sales support, technical assistance and **customer service**.

Good customer relations include:

- Rapid and effective response to customer needs and questions;
- Active listening skills;
- Verbal and written communication skills to interact with the customer; and
- Time management.

Customer service: The process of ensuring customer satisfaction with a product or service by taking care of customer needs and providing professional and helpful assistance to the customer.

Marketing and sales

Marketing is central to any successful business, as it links the product to the customer. The most important marketing skills for agripreneurs are:

- Interpersonal communication skills like active listening and verbal communication skills;
- Strong written communication skills and the ability to present content creatively;

- Influence, persuasion and negotiating skills; and
- Advertising and promotion skills;

Sales drive business success. The sales process has six basic steps:
- **Prospecting** for new **leads**;
- Initial contact with the prospect;
- **Presentation** of **sales** materials;
- Objection handling;
- Closing the sale; and
- Follow up/after sales service.

Closing a sale is the most important sales skill to perfect. It is also the most difficult area to overcome for people without a sales background.

The skills required to perform the sales function include:
- Prospecting skills;
- Written and verbal communication skills;
- Active listening skills;
- Influencing and persuasion skills;
- Presentation skills in order to make effective sales presentation; and
- Reporting writing skills in order to compile regular sales reports.

Prospecting: The sales process of recruiting or searching for new customers for a business.
Lead: An individual who has provided contact information that may point to a potential sales opportunity.
Sales presentation: The detailed presentation of information (which may include a demonstration) on a particular product.

Developing a training programme

The following skills are required to design a training programme:
- Conducting a **training needs analysis**;
- Conducting a **task analysis**;
- Conducting a **person analysis**;
- Identifying the **training objectives** and **standards**; and
- Designing the content of the training programme, based on the different analyses.

Training: The process involved in teaching employees a particular skill or behaviour in order to perform their jobs.
Training needs analysis: The systematic process where the training needs of a business are identified.
Task analysis: The systematic collection of information on a particular job, in order to determine exactly what employees should be taught so that they achieve satisfactory job performance.
Person analysis: Identifying employees who do not meet performance standards and requirements and, therefore, require training.
Training objectives: The desired results of the training programme.
Standards: Success criteria.

Basic and advanced bookkeeping

The main objective of bookkeeping is to record and summarise financial transactions into a form that provides financial information about a business. The agripreneur should have the following bookkeeping skills:

- Purchase supplies and equipment;
- Pay supplier invoices on time;
- Issue invoices to customers;
- Record cash receipts and make bank deposits;
- Conduct a monthly **reconciliation** of every bank account;
- Maintain the petty cash fund;
- Check the bank statements of the business;
- Issue financial statements;
- Calculate and issue a financial analysis of the financial statements;
- Maintain an orderly accounting filing system;
- Maintain the annual budget;
- Calculate variances from the budget and report significant issues to management; and
- Process payroll in a timely manner.

Reconciliation: The process that explains the difference between the bank balance shown in the bank statements of the agri-enterprise (as supplied by the bank) and the balance in the financial records of the enterprise.

Basic financial skills

It is important for agripreneurs to manage their money according to sound financial principles and they require the following skills to do so:

- Compiling financial goals;
- Understanding and applying the concepts of income and expenses;
- Creating a budget, which can be used as a plan for business and household expenses (spending money) and income (earning money);
- Compiling a seasonal calendar; and
- Identifying wants and needs in order to set priorities and reduce expenses.

Because the income of farmers and agripreneurs varies from month-to-month, they should be able to compile a seasonal calendar which gives an overview of their financial situation for a year, thereby making it possible to identify the times of high/low income and high/low expenses.

Financial management is discussed in detail in Study Unit 4, where you will also learn how to develop a seasonal calendar.

SMART skills

The CRS created the SMART curriculum. SMART skills aim to provide farmers and their organisations with a set of core skills to link to markets successfully. The following manuals are used in the SMART curriculum:

- SMART skills for rural development;
- Organising and managing farmers' groups;
- Facilitating savings and internal lending communities;
- Understanding natural resources;
- Managing natural resources;
- Marketing basics;
- The seven steps of marketing;
- Promoting innovation; and
- Financial education.

Each module in the curriculum has the following four parts:
- Lessons that provide the necessary technical information and guidance on delivery methods that field agents should use to teach the SMART approach to farmers;
- Quizzes for field agents to test their own knowledge;
- Staff exercises that give field agents the opportunity to practise their skills; and
- Field exercises to use when training farmers.

CRS has also published the content as e-learning modules, which can be accessed via the following link: http://www.crs.org/smart-skills-smallholder-farmers.

Using rating scales to assess skills

Once you have identified the skills that your clients need to run a particular business operation, you need to determine their skill level and you may consider using a rating scale to determine the skill levels. A rating scale is a tool that is used for assessing the performance level of tasks or the skill level involved in performing a particular task. A rating scale is similar to a basic checklist, except that you indicate the degree or level of the skills involved.

You may consider using a simple number scale in your rating, for example:

Skills	1	2	3	Comments
Business planning skills				Insert comments regarding training and skill development that should be introduced.
Market analysis skills				
Decision making skills				
Production operation skills				
1 = Not competent: Needs training and skill development 2 = Average: Needs improvement 3 = Competent				

Once you have designed a basic rating scale, you can customise it to assess the skill level of different extension clients and you can break the broad skills categories down into more detail, e.g. in the category of business planning skills, you can assess the following individual skills:

- Goal setting;
- Information handling;
- Identifying problems and causes;
- Predicting and forecasting; and
- Monitoring and implementing actions.

Complete Activity 2.1 in your workbook.

Complete Activity 2.2 in your workbook.

Concluding remarks

In this study unit, you learned about the basic competencies and skills that are required to run a business. These skills include business planning, decision-making, market analysis, production and operation, marketing and sales, customer relations, negotiation, equipment and labour management and basic bookkeeping. You also learned how to use rating scales to assess the skill levels of agripreneurs.

Complete the summative assessment in your workbook.

Study unit 3: Identifying markets, mapping resources and conducting business planning

Study unit outcomes

After completing this study unit, you should be able to:

- Identify market opportunities;
- Manage key activities and partners in a business; and
- Conduct planning from business canvas to business plan.

Study unit overview

Based on the content of the previous two study units, you should be familiar with the following elements of agripreneurship at this point:

- The characteristics of an entrepreneur, the motivation and readiness of the extension agent's clients in becoming agripreneurs;
- The basic skills that the entrepreneur needs to run a business;
- How to define a business idea and a value proposition; and
- How to test the viability of a business idea.

In this study unit, the concept of agripreneurship is taken a step further by focusing on the following three elements: the identification of market opportunities, the management of key activities and partners and the business planning process.

Study unit introduction

Completing this study unit should allow you to identify a variety of roles that you, as an extensionist, can play in analysing market opportunities, defining business and production operations, linking with partners and designing business plans for farmers and farmer groups.

Session 3.1: Identifying market opportunities

Session outcomes

After completing this session, you should be able to:

- Spot the market gap;
- Conduct a market visit;
- Interview buyers; and
- Identify the key buying conditions.

Introduction

In this session, you will learn about the process of market opportunity identification (**MOI**), which is one of the key elements in agripreneurship. You will learn about MOI by addressing the identification of a market gap, the assessment of the effects of seasonal supply and demand on pricing, interviewing buyers and the key buying conditions.

Spotting the market gap

A gap in the market refers to a part of that market where the competitors of an enterprise are not meeting the customer's needs and, thereby, opening up an opportunity for new business. It is usually a matter of identifying a need that is not being satisfied in a market and then providing a product that can accommodate the need. There are several sources for new business opportunities. When an agripreneur sees a gap in their market and they have the idea and the resources to correct it, the gap becomes a business opportunity.

An agripreneur may also identify a product that is being consumed in one market that is not available in another market. For example, if a smallholder farmer identifies a need for a particular vegetable in their market and they are able to pool the resources of several smallholder farmers to meet that need, they have identified a business opportunity.

Agripreneurs and farmers can also analyse their competitors in order to identify key business opportunities, expand their market reach and develop their products and services. For instance, a farmer group may look at what neighbouring farmer groups are producing to see where they may sell into the same market or introduce a new product.

Studying food sector trends are also a good way to identify business opportunities. A farmer or a cooperative leader may meet with business colleagues and traders to learn more about the latest production techniques, new varieties and trends in the market. For example, a cooperative leader sees that there is a growing demand for organically grown fresh produce in a supermarket chain that has a new outlet in a nearby town. Using this knowledge the cooperative's members can explore whether they could supply the store with organic produce.

An MOI is a rapid but structured way of identifying opportunities in the market. The aim of MOI is to provide farmers and agripreneurs with a simple and systematic method for collecting market information to identify and select products for investment and agripreneur development. The MOI helps farmers review many products in the market, then select two or three products for a more detailed study before selecting which product to invest in. The ability to identify market opportunities is a core skill that farmers need to acquire if they are to engage with markets successfully, particularly when a value chain or market linkage project ends.

The market opportunity identification process helps extension agents and farmers evaluate:

- Market demand and buying conditions for existing products with reference to collective marketing within a group;

- Market options for new products to encourage **diversification**, with an emphasis on higher value goods; and
- Market options for **value-added products**, so that service providers can assist farmers in capturing more value from their raw goods.

There are four main situations that offer market opportunities. These are supplying:
- A product that is in high demand or in short supply;
- An existing product in a new or improved way;
- A new product into an existing market; and
- A new product into a new market.

The market opportunity identification is conducted using the steps outlined in the following sections.

MOI Step 1: Organise a market survey team

In order to identify market opportunities, a market survey has to be conducted, which requires a survey team. Therefore, the first MOI step is to organise a survey team to support rural producers and agripreneurs conduct a market survey. This team will be responsible for collecting data, conducting the analysis and writing the final report. Typically the team will include the extension agent and two to three farmers, who represent the group.

Diversification: In business, the strategy of entering a new market or a new industry, in order to increase sales and profitability.
Value-added products: A product that has been produced or processed in a way that increases its value, e.g. processing wheat into flour.
Market survey: The systematic collection of market-related data (e.g. data on target markets and customers) from a population or part of a population to determine the present status of a situation, event or process.

MOI Step 2: Design an MOI survey questionnaire or checklist

The extension agent has to support rural farmers or producers in developing a survey **questionnaire** or checklist that they can use to collect market information, such as potential market and product options. The information is collected from a range of **primary and secondary data sources**, but as market information is highly dependent on the current situation, much of the information has to be collected. This information is used to compile a list of product options, based on market demand and the selected **marketing strategy**.

Questionnaire: A list of questions that are asked to respondents (e.g. consumers of a particular product) to obtain specific information.
Primary data source: Written or oral information obtained from a direct witness of, or a participant in, an event or a process, e.g. direct accounts, correspondence and speeches.
Secondary data source: Primary data that has been analysed and or processed, thereby providing second-hand information about an event or a process, e.g. books, journal articles, newspapers and collected consumer information made available by consumer research organisations.
Marketing strategy: A model that directs the way in which a producer will focus limited resources on the best opportunities, in order to increase sales.

The following types of questions may be included in the initial rapid survey questionnaire:

- Where can the buyers be reached (i.e. buyers' contact information)?
- What are the trends in demand for the (selected) products?
- Which products in this market are in highest demand and why are they in high demand?

- Which products are in low supply and why?
- What are the prices of the main products of interest?
- What is the seasonality of the main products of interest, and does this affect price?
- What are the buying conditions in terms of:
    - Volume;
    - Quality;
    - Minimum purchase lots; and
    - Buying frequency?
- What are the terms of payment?
- Would you (i.e. selected buyer) be interested in working with our farmers?

This first survey typically generates a long list of potential options that may be of interest to the farmers. The next step reduces the long list of options down to a few products that the farmers want to explore in more detail.

MOI Step 3: Assess and select market options

Assessing and selecting market options requires the team to create a series of evaluation criteria so that the first long list of market options from the previous survey can be filtered down to a short list. Figure 15 outlines these filters.

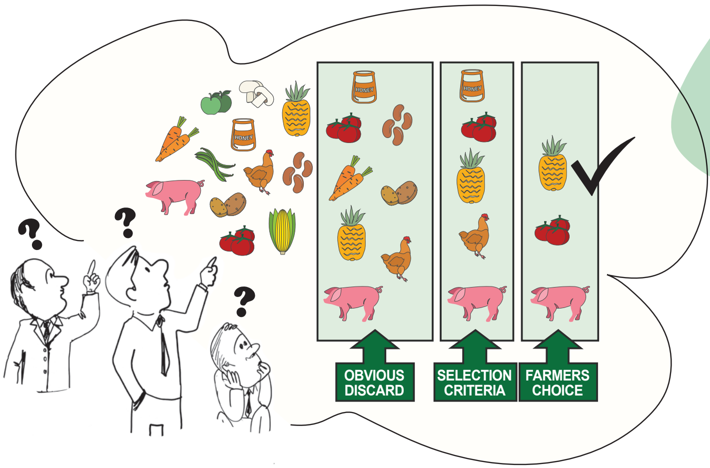


Figure 15: Identifying filters to create a short listThis short list

This short list will be reviewed by the agripreneur or farmer group. The filtering process involves discarding unsuitable market options. When the farmers have selected or prioritised their short list of two to three products, a more detailed analysis is conducted.

MOI Step 4: Detailed analysis

Having selected two or three products, the extension agent needs to work with farmers to analyse these options in more detail. This may require further market visits and interviews with experts or other farmers who are growing the selected products, to learn more about how to grow the crop and gain a better understanding about risks and costs. Key areas to gather information are listed below.

Production requirements

Production analysis focuses on elements such as:

- Planting date and production time (days, months, years);
- Technical difficulties (low, medium, high);
- Soil and water requirements;
- Labour needs;
- Major pests and diseases; and
- Expected yield.

Marketing requirements

Marketing analysis focuses on elements such as:

- Defining buyers;
- Type of market (local, regional, national);
- Level of risk;
- Demand (high, medium, low);
- Quality criteria required;
- Delivery requirements (volumes and frequency); and
- Business relationship (agreement or alliance contract).

Profitability

Profitability analysis focuses on elements such as:

- Price stability;
- Pre-production investments;
- Cost of production;
- Expected **revenue** based on past experience/unit area; and
- **Gross margin.**

Revenue: The total income that is generated from selling goods, before any costs or expenses have been deducted.
Gross margin: The total sales revenue minus the cost of goods sold, divided by the total sales income and expressed as a percentage.

The information can be collected using the matrices shown in Figure 16, Figure 17 and Figure 18.

Production alternative	Complete cycle	Pre-production cycle	Technical demand	Soil requirements	pH	Water requirements
	(years)	(months or years)	(low, average, high)			(mm/year)

Planting period	Labor require-ments	Need for irrigation	Altitude requirements	Major pests and diseases	Planting density	Annual yield
		(si, no)	(m.a.s.l)		(no/ha)	(t/ha)

Figure 16: Production feasibility matrix

Production alternative	Sold currently	Degree of perishability	Type of client	Services to the client or supplier	Type of market
	(yes, no)	(high, medium, low)	SM = Supermarket FI = Food industry I = Industry Rest = Restaurant	TA = Tech. Assist. CR = Credit	L= Local R = Regional N = National EXP = Export

Production alternative	Growth of demand	Quality requirements	Packaging requirements	Delivery requirements	Commercial relationship
	(high, medium, low)	(high, medium, low)		PZ = delivered at zone PW = delivered at warehouse	AG= agreement AL= alliance CO= contract

Figure 7: Marketing characterisation matrix

Production alternative	Level of technology	Price stability	Pre-production investment	Average number of workdays/year	Sales per workday ($)
	(high, medium, low	(high, medium, low)	($ / ha)		($)

Production alternative	Cash flow/ workday	IRR without financing	IRR with financing	NPV without financing	NPV with financing
	($)	(%)	(%)	($ thousands)	($ thousands)

Figure 18: Financial characterisation matrix

MOI Step 5: Share results with farmers and select products

The MOI survey provides the agripreneur with information on the:

- Production requirements;
- Market demand; and
- Financial costs and revenues for a specific product.

The survey team writes up, systematises and analyses this information, so that they can present it to the entrepreneurs or farmers, who use the information to make an informed decision about which product(s) they should invest in for their production.

As part of the analysis there are some key areas that need to be considered

- Seasonality;
- Supply and demand; and
- Buying conditions.

Assessing seasonal supply and demand

Market supply and demand are important concepts, because they influence the prices that farmers and agripreneurs can get for their produce. If farmers understand seasonal supply and demand, they can:

- Plan what crops to grow, when to plant and harvest, and where to sell;
- Plan to harvest their crops at the beginning or at the end of the season, when prices are higher;
- Grow a crop variety that is more expensive than the standard one, for example, red potatoes may be sold for more money than white potatoes;
- Decide to grow a more nutritious crop, such as vegetables or fruits instead of maize;
- Decide what the best time would be to sell their crop, for example, by storing it until the price goes up; and
- Try to increase the quality of the crop by protecting it from pests and diseases, so it can be sold for a higher price.

Information on and knowledge of market supply and demand help the agripreneur to understand the importance of specific products and to make use of opportunities that occur because of changes in demand and supply.

Market supply

Market supply is the quantity or amount of a product (maize, potatoes, tomatoes, eggs, etc.) that producers can offer to the market for sale. The supply of a product depends partly on its price and on local conditions. If farmers see that the price of a product is high, they will try to sell it immediately and they are also likely to grow more of the product next season. If the farmers see that the price is falling, they may keep their products in storage, until the price recovers. Low prices will also discourage them from planting the same crop the following season.

The supply of a product also depends on local conditions. For example, if there is a lot of rain in an area, farmers can harvest a great deal of grain, but if there is drought, the harvest is poor. Other local conditions that may also affect the supply of a product are:

- Pests and diseases;
- Availability of, and access to fertiliser, water and quality seeds;
- Poor roads and transport vehicles;
- Poor farmer health and nutrition; and
- Pregnancy and child rearing (in the case of women farmers).

Market demand

Market demand refers to the amount of the product that customers are willing and able to buy, which partly depends on the price. If the price is low, more people will want to buy and each person may want to buy more of the product. If the price goes up, fewer people want to buy and each person will probably buy a smaller amount.

The demand for a product is also affected by other factors and customers generally want to buy more:

- Staple foods (such as maize or wheat) or major vegetables (such as onions and tomatoes) and less unfamiliar types of food or items they use only in small quantities;
- High-quality products rather than items that are low-quality or damaged;

- Fresh products, such as vegetables harvested yesterday, rather than produce that was harvested weeks ago; and
- Scarce items, such as the first fruits of the season.

Longer-term changes in demand are caused by changes in consumer tastes and attitudes. For example, families are buying more maize and wheat than sorghum and millet, because they perceive these more recent crops as more modern and aspirational. In the same way there has been a fall in the purchase of traditional drinks in favour of processed drinks that people consider to be more healthy and attractive.

Seasonal supply and demand

In countries with highly identifiable seasons, supplies are low at the start of the harvest season and, therefore, prices are high. Prices are at their lowest level just after the crop is harvested in the main production areas. At the end of the season, prices normally increase again, as supply declines. Prices are generally highest during the off-season, when only a small percentage of farmers are able to grow or sell the crop.

Short-term changes in supply and demand may be caused by the weather. For example, during the colder times of the year, a hot period increases the demand for crops like tomatoes, cucumbers, etc., whereas vegetables for cooking are in higher demand during colder weather. In this way, seasonal changes lead to short-term fluctuations in the prices of these products.

Identifying key buying conditions

In order for an agripreneur to identify and decide upon a potential buyer, they have to identify the key buying conditions. The key buying conditions are outlined in the following sections.

Crop type and variety in demand from buyers

Certain types and varieties of crops will be more in demand at certain points in the seasonal production cycle. The agripreneur will have to determine which crops buyers are looking for and particularly which varieties are achieving the best prices in order to meet the current demand. The criteria in Table 4 can be used to determine which crop types and varieties are in demand.

Table 4: Criteria for product/crop type selection

Criteria	Rationale	Examples
Agri-climatic conditions	A region or country can only produce a low cost and good quality agricultural commodity to compete in the marketplace if the natural conditions in the area are suited to the production of the commodity. These natural conditions include rainfall patterns, underground water, soil quality and the temperature level.	River deltas areas have suitable conditions for rice and fish production. Many upland areas are appropriate for producing tree crops and non-timber forest products. In many of these areas, the availability of grass may enable the development of livestock.

Criteria	Rationale	Examples
Market size	Large markets have a greater capacity to absorb additional supplies than small markets. It is important to avoid a situation where farmers are supported to produce and sell a certain commodity, but end up facing low and declining prices because the market is too small and therefore unable to absorb new supplies. However, market size alone is not enough to ensure absorption capacity. Some markets may be large in size but already oversupplied.	Urban markets and export markets have much greater absorption capacity. The market for most traditional export commodities is saturated, e.g. there is excessive supply and very intense competition in the world market for coffee, tea, and cotton.

Criteria	Rationale	Examples
Market growth	Growing markets are better at absorbing additional supplies and creating opportunities for profit than markets that have grown stale. Products sold in medium to high growth markets, therefore, merit special consideration. A product that has a demand that grows at an annual rate of 5% or more can be listed in the high growth category. Products that have a growth rate of 3–5% per annum belong to an intermediate category, while those that have less than 3% growth are in the low growth category.	Global demand for staples (e.g. rice) and traditional export commodities (e.g. cotton, coffee and tea) is relatively stagnant. Export markets for organic and 'ethical' products, fresh vegetables and fruits, flowers, cashew nuts, spices, essential oils, and aromatic and medicinal plants are expanding rapidly. Domestic markets for milk, fish, meat, fruit and vegetables also enjoy high growth rates.

Criteria	Rationale	Examples
Potential for targeting high value market opportunities	Products that can be sold in high value markets should be considered. Even if the overall demand for the product has stagnated, there may be profitable and growing opportunities in certain market segments, like the organic and ethical trade niches. However, some high-value markets may be small and have very high entry barriers. This would include the need to grow the right varieties that meet stringent quality specifications and standards. The product might have to be certified and buyers and consumers would have to be able to trace its origin and source down the market chain.	Examples of high value markets include organic and ethical trade products, medicinal herbs, spices, and exotic fruits and vegetables.

Criteria	Rationale	Examples
Potential for import-substitution of off-season marketing	Some products may enjoy good market prospects, even when overall demand is stagnant. For example, there may be opportunities for substituting imports with locally grown produce. Likewise, there may be opportunities for off-season production and marketing.	Off-season opportunities are more obvious in the case of seasonal and perishable produce, provided the required production technologies (e.g. seed) are available.
Potential for diversification	Agri-climatic conditions, the availability of labour and skills, access to inputs, and links to potential markets could enable farmers to adopt new products that have the potential to generate employment and income and contribute to poverty reduction. However, diversification into new commodities is generally riskier and more challenging than developing existing production, especially as far as the poor are concerned.	

Criteria	Rationale	Examples
Potential for value addition	In some cases, an agricultural commodity is produced locally but processed in other regions. There could be potential for income generation through the development of local processing.	Milk production, cassava starch or coffee processing, and the development of local honey brands are all examples of local processing activities that add value.
Potential contribution to the conservation of natural resources	Sustainability and environmental conservation issues should also be considered. Products directly or indirectly related to conservation may have good market potential and economic feasibility.	Live barriers of forage grasses may be economically feasible due to strong demand for livestock and animal products.

Prices being offered by buyers

The price of product has a big influence on how well a farmer's business performs in the market. Buyers will almost always go for a cheaper product or one they believe brings them value for their money. A well-priced product can give your client's business an advantage over other farming enterprises in the market. If your client can offer a good quality product at a lower price than their competitors, then buyers are more likely to choose their products over the other businesses.

The price should never be so high that buyers cannot afford them; otherwise your client will not generate sales. At the same time, the price should not be too low so that the business can meet the cost of producing its products. In other words, products should be priced so that the business can make a **profit** by selling them.

The **market price** of a product refers to the unique price that buyers and sellers agree on to trade in a particular market. Prices may be controlled by rules and government regulations. These regulations often set maximum prices for certain products, in order to protect customers from being overcharged when buying these products.

When entering the market with a new product, there are two main pricing strategies that you can apply, namely **market skimming** and **market penetration**.

Profit: A financial gain that is expressed as the difference between the money earned (by sales) and the money spent in buying, producing or manufacturing a product.
Market price: The unique price on which buyers and sellers agree to trade in a particular market.
Market skimming pricing: Setting a high price on a new product for a start, in order to 'skim' the market, and lowering the price as product demand increases.
Market penetration pricing: Setting a low price on a new product, in order to penetrate the market quickly and attract large numbers of buyers from the start.

Quality criteria

The quality of products in the agricultural market is regulated by production and food safety standards and **product grading** and, therefore, quality would be one of the buying conditions. One of the internationally recognised standards that govern food production and safety is the **Codex Alimentarius**. The buyer may insist on the product meeting these food production and safety standards.

Buyers who are aware of the risks of unregulated agricultural markets tend to seek out markets that offer them standardised goods. The most important driver in improving production and food safety enforcement is based on **trade agreements**. If your client wants to sell their products to buyers operating in regulated markets, they must meet international conditions and trade agreements.

Product grading: The process of sorting units of a product into defined classes or grades of quality according to specified standards.
Codex Alimentarius: A collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to food, food production, and food safety.
Trade agreement: An agreement between two or more countries that stipulate the terms according to which goods and services can be exchanged.

Volume of sales by buyers

The agripreneur/farmer has to identify how much of a particular product the buyer is prepared to buy for a particular period. The volume of sales is influenced by factors such:

- The quality and grading of the product;
- Product price (e.g. the buyer may choose to buy more products from a competitor whose products are selling at a lower price);
- Distribution channels and market access: if a product is not easily accessible, it will not be sold; and
- Conditions and purchasing power in the economic environment.

Frequency of purchase

Frequency of purchase refers to the number of times that a buyer makes a purchase from a supplier. Apart from the nature and quality of the product, frequency of purchase is influenced by factors such as consumer needs and requirements, market supply and demand.

Interviewing buyers

Once the agripreneur has spotted the gaps in the market, conducted a market visit, assessed seasonal supply and demand and identified the buying conditions, they have to approach potential buyers for their products. One way of interacting with buyers is by conducting interviews.

An interview involves an interaction between the agripreneur (the interviewer) and the buyer (the interviewee). The agripreneur asks questions about the market, products and customer needs and preferences and the buyer replies.

Based on the type of questions that are asked, interviews may be conducted in the following three ways:

- Structured interview with set questions;
- Casual and open interview with unstructured questions asked in an informal setup; and
- Semi-structured interview, which is a combination of structured and unstructured questions.

Due to the fact that most agri-businesses are informal in nature, your extension client will most likely use a casual and open interview in an informal setup.

As an extension agent, you can teach your agripreneur clients that the following steps are usually followed when conducting an interview:

- Always start with a greeting;
- Explain to the respondent what the information will be used for and point out the value of the interview;
- Keep the atmosphere relaxed, even if you are conducting a structured interview;
- Try to adopt the language of the interviewees;
- Make your questions clear, so that the respondent understands exactly what is being asked; and
- It is important to keep the interview short.

If the respondent asks you not to reveal their identity then you need to be able to assure them that their identity will not be revealed. Conduct the interview and keep to matters that are relevant to the research topic. Once the interview is done, you can close it off by thanking the respondent for their time and information. In Table 5 you will find guidelines on what to do and what to avoid during interviews.

Table 5: Interview guidelines

Do	Do not
Be courteous; Listen carefully; Maintain control; Probe; Observe signals of nonverbal communication, such as body language; Be patient; Keep the interviewee at ease; and Maintain self-control.	Continue an interview unnecessarily; Assume that an answer is finished or is leading nowhere; Use jargon; Reveal your personal biases; Talk instead of listening; Assume anything about the topic and the interviewee; Influence the respondent; and Use a tape recorder: it is an indication of poor listening skills.

Creating the sales agreement

Once the buyer has been identified and interviewed, the farmer and the buyer will have to enter into some type of sales agreement. The sales agreement with the farmer or agripreneur and the buyer—which can be a formal contract or a simple handshake—serves as the basis of the transaction between the seller and the buyer. It provides a framework for the way in which the transaction is to proceed and what is to be included in and/or excluded from the sale.

The sales agreement has to include terms for the following elements:

- Scope and duration of the agreement;
- The obligations of each party to the agreement;
- Consequences of failing to fulfil obligations;
- Quality and grading of the product;
- Prices and taxes;
- Invoicing and terms of payment;
- Delivery, risk of loss, handling and packaging terms; and
- Terms of product return, if necessary.

Study the following example of a sales agreement between a sample farmer and an enterprise for the cultivation of green beans.

Sample farmer to enterprise contract for the cultivation of green beans

1. General:

(1) Farmers of Village --------- (the Farmers) wish to grow green beans and enterprise -------------- (the enterprise) wishes to promote and buy their production and market it overseas.

(2) This contract specifies the terms and conditions under which the Farmers will grow green beans and the enterprise will promote, purchase, process and market the product.

2. The enterprise agrees to:

(1) Measure and assess the suitability of the plot proposed by the Farmer for planting green beans.

(2) Provide high quality seed to the Farmer in good time for planting, in the quantity required for planting the accepted area of land.

(3) Supply on cash payment (or on credit once the Farmer has qualified as an established and reliable contract grower) the type and quantity of fertilisers and agri-chemicals required for the area of green beans planted by the Farmer.

(4) Advise the Farmer on all technical aspects of growing green beans.

(5) Buy all green beans of acceptable quality grown by the Farmer, for a price announced at the start of each growing season. The quality requirements will be as described in Schedule 1.

(6) Pay the Farmer his/her dues as described in Paragraph 4 below.

3. The Farmer agrees to:

(1) Use the part of his/her farm that has been surveyed and approved by the enterprise, for the purpose of growing green beans for the duration of this agreement.

(2) Plant the bean seeds supplied by the enterprise on this land, on the dates and following the procedures advised by the enterprise.

(3) Follow all technical recommendations made by the enterprise with regard to planting, irrigating, weeding, fertilising, controlling pests and diseases, picking, sorting and packing green beans.

(4) Sell all green beans of acceptable quality grown on the farm to the enterprise, for the price and following the procedure outlined in paragraph 4 below.

(5) Become a member of ------------------ Farmers' Group, and to contribute to the maintenance of common facilities for irrigation, input distribution, sorting, packing, etc., as agreed by the group.

4. Payment for green beans and production inputs shall be determined as follows:

(1) The base price at which each grade of green beans will be bought will be announced by the enterprise at least one month before the start of each planting season.

(2) The prices at which fertilisers and agro-chemicals will be sold will be announced at the same time, but may fluctuate during the year in line with exchange rate fluctuations.

(3) Payment for green beans delivered each month, less the cost of fertilisers and agri-chemicals taken on credit, will be made before the 15th of the following month.

5. Penalties and bonuses:

(1) If the Farmer delivers green beans which do not meet the agreed quality standards, the enterprise will reject them. The Farmer may re-submit them after sorting, but the enterprise is under no obligation to accept beans which do not meet the agreed quality standards.

(2) If the Farmer fails to follow the procedures detailed in this agreement, he/she will be warned verbally and in writing. After three written warnings the enterprise has the right to terminate the agreement.

(3) If the enterprise fails to fulfil its commitments as detailed in paragraph 2 above, the Farmer has the right to claim compensation to the value of the services foregone or to the value of the crop lost, at rates agreed between the enterprise and the Farmers' Group.

(4) If the Farmer delivers green beans which exceed the required quality standards or the expected level of production, he/she shall be eligible for a bonus payment at a level agreed between the enterprise and the Farmers' Group.

6. Duration of the agreement:

(1) This agreement will last for one growing season from the date of signing to the end of the economic harvest of the green bean crop.

(2) If both parties are satisfied with the outcome of the agreement it may be renewed for a further season, but there is no obligation on either party to renew the agreement.

7. Dispute settlement:

(1) Any dispute arising as result of this agreement will be settled wherever possible by discussion between the enterprise, the Farmers' Group and the Farmer.

(2) Any dispute which cannot be settled by this process will be referred to an independent arbiter acceptable to all the parties involved.

8. Signature:

I have read and understood the contents of this agreement and I sign it of my own free will.

-- (Farmer)

-- (Enterprise)

-- (Witness)

-- (Date)

Schedule 1: Grades and quality requirements of green beans

1. Grade specifications:

(1) Grade 1 beans (extra fine) are from 6,5 - 9,5 cm in length.

(2) Grade 2 beans (fine) are from 9,5 - 11,0 cm in length.

(3) No other sizes will be accepted.

2. Quality requirements: Acceptable beans must be:

(1) Free from pests, wounds, scars, bruises;

(2) Free from mud, dust or other debris;

(3) Not broken or damaged in any manner;

(4) Not bent;

(5) Picked with the remains of the calyx intact;

(6) Fresh and not pre-wilted by sunburn or other sources of heat;

(7) Naturally green, not tainted by disease, smoke, etc.

Complete Activity 3.1 in your workbook.

Session 3.2: Managing key activities and partners in a business

Session outcomes

After completing this session, you should be able to:
- Map out the key activities in the production or development of a product;
- Identify key partners;
- Design an implementation plan; and
- Monitor progress.

Introduction

Once the agripreneur/farmer is familiar with the process of identifying market opportunities and interviewing buyers and understands the key buying conditions, they should map out the key production activities and key partners involved in their business. In this session, you will learn how to manage key partners and key activities involved in the agripreneur and design and implement a strategy to monitor the progress of the enterprise.

Mapping key activities in the production cycle

The key activities involved in production or development includes all the activities or tasks that are performed from the point of selecting a product to the point of selling it to a suitable buyer. These key activities may include:
- Land preparation;
- Planting;
- Crop production and management;
- Pest and disease management;
- Soil and water management;

- Harvesting and drying; and
- Sales management.

Once you and your client have identified the key activities involved in their business, you can map them onto a calendar, to know who does what, where and when. This information can then be placed into an implementation plan.

Identifying key partners

Key partners in an agripreneur include:

- Local agricultural research stations which can give ideas and help with new technologies;
- Farmers, lead farmers, farmer groups and cooperatives;
- Input suppliers who provide the products necessary for agricultural input, such as seeds, fertiliser, pesticides, etc.;
- Collectors, who are small, local traders, who buy directly from individual farmers;
- Processors, who transform the product, e.g. feed manufacturers and companies that package frozen food, etc.;
- Companies and retailers that buy the product, e.g. wholesalers (such as supermarket chains), which sell products to consumers;
- Financial institutions, e.g. commercial banks, **microfinance institutions** (MFIs), **agricultural banks** and **savings and credit cooperatives** (SACCOs);
- Extension and business development services;
- Regulatory agencies who are responsible for the application of policies, regulations and standards in the market; and
- Customers who buy the final products.

Microfinance institution: A financial institution that is designed to work with households with smaller borrowing capacity than clients of commercial banks.
Agricultural bank: A bank that started as a government-owned institution that provides credit for investments in agriculture and other production activities.
Savings and credit cooperative: A member-owned and member-governed savings and credit institution that was developed to empower poor communities to manage their own financial resources.

Designing an implementation plan

The implementation plan can be designed according to the template in Table 6.

Table 6: Implementation plan template

Area	Activities	People responsible	Timeframe	Costs
Production				
Post-harvest processing				
Marketing				
Sales				

Monitoring progress

It is important to measure the progress of the agripreneur to establish whether production, financial and sales objectives and targets have been met and to plan for the next season. Monitoring and recording progress provides the following information:

- Whether production targets were met;
- If cost and price targets were met;
- Whether the enterprise made the expected income and profits; and
- If anything should be done differently.

Table 7 shows a template that you can use to monitor progress.

Table 7: Progress monitoring template

	What went well?	**What needs improvement?**
Business plan		
Pre-production		
Production		
Post-harvest		
Marketing		
Profit analysis		
Recommended changes		

Complete Activity 3.2 in your workbook.

Session 3.3: Business planning: From canvas to business plan

Session outcomes

After completing this session, you should be able to:

- Use the business canvas to help design your client's business;
- Define the value proposition;
- Define your client's customers;
- Use calculators and digital applications in cost and revenue calculations; and
- Identify your client's investment needs.

Introduction

The focus area in this session is the business plan. You will learn how to use the business canvas to help your agripreneur clients design a business plan, after which the definition of the value proposition and how to identify customers will be discussed. The session is concluded with a discussion on how to identify investment needs and how to use calculators and digital applications to help with costs and revenue calculations.

Using the business canvas to design your business plan

A typical business plan consists of three parts, each with several subsections:

Part 1: An outline of the business:

1. Introduction;
2. Business organisation;
3. Product;

4. Marketing strategy;
5. Risks; and
6. Business operation plan;

Part 2: Financial data and analysis:

1. Marketing costs;
2. Income streams; and
3. Profit and loss analysis; and

Part 3: A loan analysis (if the group wants to borrow money):

1. Financial requirements.

Purpose of the business plan

The main purpose of a business plan is to:

Guide the enterprise over the long-term

A business plan brings ideas and decisions together and puts them in concrete form in one document to guide the direction of the agripreneur or farmer group.

Facilitate understanding and agreement

Despite intensive discussions, members of the farmers group may have different understandings of what the group aims to do. A business model canvas session helps farmers to identify how their ideas fit together and this first organization of information helps them to prepare a business plan which will clarify the strategy and remove any misunderstandings.

Improve organisation and decision making

Because a business plan follows a certain structure, it helps the group to make sure it has collected and organised all the information that it needs in a suitable way, which makes decision-making easier.

Test and strengthen financial feasibility

The business plan requires the farmer group to compare its resources and income to its costs and expenditures and it shows whether the enterprise can make a profit.

Measure performance

The business plan gives the group clear targets and group members can use these targets to monitor their performance and make changes in the production season, if the original plan needs to be amended.

Ensure continuity

Farmer groups elect their officials every year or two. A business plan ensures that a new group of managers can take over operations smoothly, reducing the risk of disruptions and abrupt changes in direction.

Sell the enterprise

Business partners, such as major suppliers, contract partners, big customers and business services, may want evidence that the group has thought its business plan through and that the business will be a viable concern. A business plan gives them the information and assurance they need.

Convince lenders and donors

Banks and microfinance institutions want evidence that the group's enterprise will be profitable before they will agree to lend it money. They usually require a business plan as a condition for a loan. Donors also want to be confident that the group is viable, and a business plan can be evidence of this.

Guide implementation

The business plan shows what the group needs to do to achieve its goals. It keeps the members and the management focused on what has been agreed upon and it acts as a framework for the group's implementation plan (i.e. the list of tasks and activities the group members have to do each year or production cycle).

Visualising a business plan

Before asking farmers to design and compile a formal business plan, it is helpful to give them some tools to visualise their business plan and to define the different parts of a business plan. This will help them to understand how a business plan is built from basic parts and to understand how the components/parts of a business plan fit together. This visual method to help design a business plan is the model canvas, shown in Figure 19.

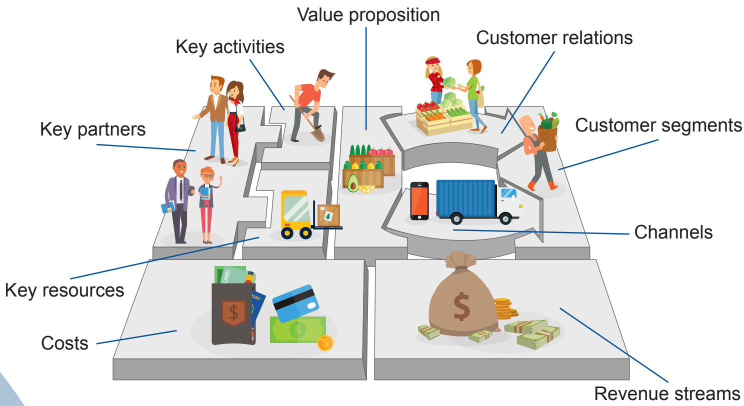
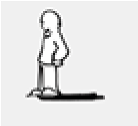
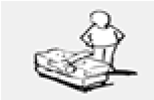


Figure 19: The business canvas

This method has been adapted to fit the situation of small-scale farmers in developing countries and is shown in Table 8.

Table 8: The nine areas of the model canvas

	1. Customers – These are the buyers of the product, such as traders or consumers. For most products, there is more than one type of customer. For example, a supermarket may buy the highest grade output, but the lower grades will have to be sold in a local wholesale market and lowest quality used to feed animals.
	2. Value proposition (product) – This is a statement that clearly and concisely describes the unique value of a firm or group's products. It states the firm/group's core objectives, which set it apart from the competition. In most cases, the value proposition focuses on a specific product that the farmers plan to produce. Products may include things like maize or milk.
	3. Channels – These are indications of the way in which the group plans to deliver the product to the buyer, e.g. by having members deliver to a village collection center ready for pick-up.
	4. Customer relationships – These indicate how the group plans to identify buyers and create and maintain relationships with them, through basic agreements, alliances and or contracts.
	5. Income – This is the money the group earns from selling the product.

	6. Key resources – These are the inputs and resources that the group uses to produce the product and they include land, equipment, seed, fertiliser and labour, as well as the group's internal organisation.
	7. Key activities – These are the activities that the group plans to do to produce the product, e.g. planting, crop management, harvesting and drying.
	8. Business services and partners – These are the services and partners that the group uses to produce and market its product, such as input suppliers, the agricultural extension service and a microfinance institution.
	9. Costs – These are the costs that the group incurs in order to produce and market the product.

How to use the business model canvas

The canvas consists of a large sheet of paper divided into nine areas, shown in Figure 20. Each section represents one aspect of the enterprise, as defined in Table 8. Using the canvas with their business advisor is a helpful way for farmers to think about and plan their enterprise. The farmers can debate ideas and then using sticky notes farmers can write down their ideas and fill this information into the corresponding section on the canvas. For example, the first area to fill is the customer section. Who are the customers and where are they located? Then the team will fill in their definition of their value proposition, this information goes into the centre of the canvas. Following this process, the farmers can fill in the canvas and then make decisions about how to improve the parts of the business plan, to make their best strategy.

<table>
<tr>
<td rowspan="2">8
Business services and partners</td>
<td>7
Key activities</td>
<td rowspan="2">2 Value proposition describes the unique value of products/services being offered</td>
<td>4
Customer relationships (promotion)</td>
<td rowspan="2">1
Customers (buyers)</td>
</tr>
<tr>
<td>6
Key resources</td>
<td>3
Channels (place)</td>
</tr>
<tr>
<td colspan="3">9
Costs</td>
<td colspan="2">5
Income (price)</td>
</tr>
</table>

Figure 20: A model canvas

A partially completed example is shown in Figure 21 below from an example in the LINKS methodology book. For many farmer groups, this level of information along with a strong implementation plan is sufficient to launch their agripreneur.

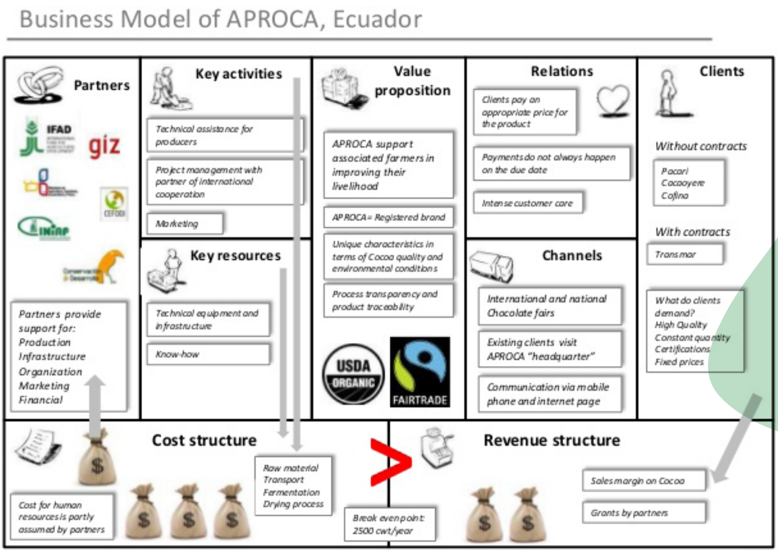


Figure 21: Example of a partially completed business model canvas

If, in preparing the business canvas, the team finds that there are gaps in their knowledge, they may have to find a way to fill in the gaps, by collecting missing information from additional interviews or seeking advice from other people with knowledge and experience in this market.

There are also situations in which the group finds that they need additional financial resources to start the business. In this case, a more formal business plan is required, as this will be used to make an application for a loan from a financial organization. See next section on writing a business plan.

Writing a business plan

Once your clients have collected all the information they need, for example, using the information gathered in the market survey and the information from the business canvas, the next step is to write a business plan. Having prepared the business canvas, all the teams needs to do is to put the right pieces of information in the right place. The business plan is more detailed than the canvas and if in the process of writing a business plan, the team identifies questions that the group has not yet thought through, they may have to stop writing in order to discuss these issues and either collect missing information and/or make the necessary decisions.

Table 9 provides the basic sections of a business plan with the basic information and explanatory questions that are associated with each section. If your clients have used the business canvas to organise the information, they can now write down the information into the standard format, as outlined in Table 9.

Table 9: Content of the business plan

	Subsections	Key questions
Introduction	Project Name	Name of the agri-enterprise team and goal of the business
	Address	What is your contact address?
	Phone number	What is your phone number?
Business	Vision and sales goal	What is the vision of the enterprise? Goal = Sales targets
	Describe the business	How long has this group been in existence? Is the group registered?
	Name the key positions in the business	Chair person; Treasurer; Secretary; Lead farmer; and Market agent, etc.
	Number of members by gender	What is the number of men and number of women in the group?
	Current savings/ bank statement	Latest financial statement and savings levels (if any).

	Subsections	Key questions
Value proposition (Product)	Product name	What product will you sell?
	Existing/new	Is this an existing product or a new product being offered by your group?
	Benefits to buyer	Why is the buyer(s) interested in product? What is unique: Is it cheaper, better quality, local, or are there other benefits, or advantages?
Marketing strategy introduction	Define target market	Who is your target market (local, district, national or supermarket)?
	Location	How far is this market from the production site (km)?
	Market type	Is this an existing market or a new market for your group?
	Describe customers	Who is your buyer—type of trader, or processor?
Product	Describe the key product attributes	Explain attributes of the product (variety, quality, packaging, etc.)
Price	Describe price setting	How will the price be established? What is the offer price, contract price?

	Subsections	Key questions
Place	How will you get product to market?	Sales team; Street vending; Carry; Pick up; Cycle; and Lorry, etc.
Promotion	How will you promote your product?	Voice; Phone; Through a trader; and Person-to-person contacts, etc.
Market risks	Identify key risks to plan	What are the key risks to the action plan? How can the risks be overcome?
	Risk mitigation plans	Are there ways of minimising the risks?

	Subsections	Key questions
Business operation plan	Describe your business flow	Describe the step-by-step activities from production to sale.
	Pre-production activities	Input procurement and nursery.
	Production activities	Ploughing, sowing, and weeding.
	Post-harvest activities	Drying; Sorting; and Storage, etc.
	Marketing activities	Buyer linkage; Negotiation; and Transport, etc.
	Key partners	Partners may include extension agents, input supplier, transporter, etc.
	Key resources	Land; Labour and staff; Crops; and Processing methods, etc.
Production costs	Total material costs	Calculate costs per season/ year
	Total labour costs	Calculate costs per season/ year

	Subsections	Key questions
Income streams	Projected sales volumes	Planned sales volumes: Give clear units of sale, e.g. 100 kg bag.
	Projected sales price	Selling price of product. Give dollar conversion: 250 shillings/bag = $1/bag.
	Estimate season income	Estimate seasonal sales.
Profitability	Gross margin	Calculate gross margin and net income.
Fine tuning	Strategies to increase profit	What changes can be made to increase gross margin?
Financial requirements	Startup capital requirements	How much capital do you need to start the business?
	Capital funds available	How much capital do you and your members/partners have?
	Capital funds required	How much capital are you lacking?
	Method to raise funds	How can you raise the funds that you are lacking?

Using calculators and digital applications in cost and revenue calculations

Financial calculations such as costs of production and sales revenues can all be calculated by hand using basic mathematics. However, to speed up the calculations and help the farmers, in terms of accuracy, an extension worker should show farmers how to do basic calculations using a calculator. Most mobile phones have a basic calculator that will perform functions such as adding, subtracting, multiplication, division and percentages. These functions are normally all that is needed to add up all the costs and subtract the total from the total revenue figures to arrive at a gross margin.

There are also some financial applications that will allow farmers or field agents to make calculations using mobile financial applications. If farmers use this type of application, they can share the information with others and their extension agents by saving their calculations and sharing them, using their phone.

Identifying investment needs

When starting a business, one of the key decisions that an entrepreneur has to make is deciding whether they would need external financial assistance of some sort, such as investments. In terms of investment needs, an agripreneur needs to determine:

- How much money is required to start the enterprise?
- How much money does the enterprise team have?
- How much does it need?
- When will it see its first revenue?
- When will it break even?
- When does it see profit?

The key concepts in determining investment needs are income and expenses. Your clients need to determine how much money they earn in a typical season from a specific product (i.e. income) and how much they need to spend on a product during the season (i.e. expenses).

See Session 4.1 for more information on investors.

Complete Activity 3.3 in your workbook.

Complete Activity 3.4 in your workbook.

Complete the summative assessment in your workbook.

Study unit 4: Financial management, sales and risk management

Study unit outcomes

After completing this study unit, you should be able to:

- Identify sources of finance, including:
  - Savings;
  - Self-help groups;
  - SACCOs;
  - Family lending;
  - Local money lenders;
  - Micro-finance institutes;
  - Banks; and
  - E-money/e-credit;
- Manage financial resources and insurance;
- Perform sales operations; and
- Conduct a risk assessment.

Study unit overview

This study unit is designed to provide extensionists with knowledge about sources of finance and how to match specific types of finance with required levels of investment, explore sales strategies and help farmers to assess risks in managing their financial resources.

Study unit introduction

Completing this module will allow you to identify and match farmers with specific types of financial services, manage financial resources and link these ideas to sales. The module will also provide you with a basic guide to risk assessment. These skills will enable you, as an extensionist, to identify the most appropriate types of financial services and service providers to support investments for farmers and farmer groups.

Session 4.1: Identifying sources of finance

Session outcomes
After completing this session, you should be able to identify the main sources of finance, including:
- Savings;
- Self-help groups;
- SACCOs;
- Family lending;
- Local money lenders;
- Micro-finance institutes;
- Banks; and
- E-money/e-credit.

Introduction

The agripreneur has access to a number of finance sources, which will be discussed in this session.

Savings

Saving involves putting money aside or spending less money today, so that you can use it in the future. There are different saving services available from which your client can choose, depending on their financial goals.

Criteria for evaluating savings options

Your client should keep the following criteria in mind when evaluating and selecting savings options:
- **Liquidity** is how easy it is to turn an **asset** into cash, e.g. liquid assets (such as cash kept by the individual), can be used immediately, whereas less liquid assets (e.g. animals) first have to be sold, before they can be turned into cash and used to make a purchase;

- The risks associated with savings indicate potential of savings losing their value, based on varying market prices;
- The cost associated with savings is the price of the savings service, e.g. banking fees charged on savings accounts;
- The profit associated with savings is how much a person earns from their savings in the form of interest; and
- Accumulating assets is how easy it is to increase a person's savings, e.g. by making deposits to add to an existing savings account.

Liquidity: A measure of how easy it is to convert assets into cash.

Asset: An economic resource with economic value.

You can distinguish between informal and formal savings services, with formal services (such as commercial banks) being regulated by government.

Savings options and services

The informal saving options that the agripreneur can use involve money being saved and kept at home (although this savings method has risks), or savings being kept as goods (assets), such as animals, grain or a house, which is a safer option than saving in cash.

Self-help savings groups

The best-known examples of self-help savings groups (which are also informal savings options) include Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) or Savings and Internal Lending Communities (SILC). Note:

- ROSCAs are groups in which the members contribute a particular amount of money at regular intervals (e.g. monthly) and every member gets a turn to take the contributions of all the members;
- ASCAs, also known as savings groups, consist of 15–30 self-selected members who make savings contributions at regular

meetings (e.g. weekly) and members may request loans from these contributions; and

- SILC groups save on a weekly basis and can also take loans from the group savings, which they repay at an agreed interest rate, for example 10%. The SILC has an annual share out, where each member receives the amount they saved, plus a share of the interest that group has received based on the internal lending rate. Farmers who are in a SILC group can time their annual share out to coincide with the planting season so that they can pay for part of their inputs, such as seeds and fertiliser, from their savings and thus avoid borrowing to buy these essential resources.

Savings and credit cooperatives (SACCOs)

SACCOs provide financial services and savings options to millions of people in many countries; particularly to people in low-income groups. SACCOs are user-owned financial institutions in which members, who have equal voting rights, are from the same geographic area, community, or the same employer. The main services of SACCOs are savings and credit.

Choosing a SACCO as a savings option has the following benefits:

- SACCOs reach clients and areas that are of little interest to commercial banks, e.g. low income clients in rural areas;
- SACCOs often start locally, without any external support;
- The small savings accounts provide a stable and low cost funding source; and
- They have lower administrative costs than other financial services providers.

The main disadvantage of SACCOs is inadequate regulation and supervision, which may result in instability.

Family lending

Family lending is a private loan option in which family members (e.g. parents and children) make loans to one another—often without a formal agreement or **interest** being paid on the loan. It is important that the family members agree on a repayment plan for these loans. Many farmers take advantage of this to support part of the farming business.

Interest: Money paid regularly (at a particular rate that is expressed as an annual percentage) for loans or paying debts.

Local money lenders and traders

A local money lender is a non-institutional individual (i.e. non-bank) or a small enterprise that loans money to individuals. Local money lenders are known for granting loans to any individual or small enterprise, if the risk is reasonable, but their loans involve extremely high interest rates.

Many input suppliers and traders double up as money lenders. Farmers often develop long-term relationships with their trader/input supplier to lend them inputs on credit. This credit is generally given on the condition that the farmers sell their produce back to the same trader at the time of harvest and part of the revenue will be withheld to cover the input costs.

On the one hand, this system is a vital source of credit for millions of farmers, but it is also a cause of chronic and persistent poverty as farmers do not receive good prices when they sell back through their lending agents.

Micro-finance institutes

Micro-finance institutes provide financial services and loan options to households and small enterprises with smaller borrowing capacity than clients of commercial banks. Micro-finance systems have made a significant difference to many small business owners in urban situations; probably more so for women than for men. Many organisations working with farmers have elected to work with savings schemes as micro-finance institutes have not invested in the agricultural sector.

Using micro-credit has the following disadvantages:

- At present very few micro-finance institutions lend in rural areas, and it is rare that they lend to farmers;
- The costs involved in microcredit is high, partly because one is dealing with a large number of small loans;
- The lending conditions are limited, in that the loans are short-term and for small amounts only, which makes micro-credit a less suitable option for agri-business management; farmers need multi-disbursement loans, which few MFIs offer;
- Some micro-credit systems offer loans only and the importance of local savings is sometimes underestimated; and
- Some people (particularly the poorest people) are excluded from micro-financing.

Commercial banks

Commercial banks are profit-based, financial institutions that are legally authorised to offer various financial services, to receive money from, and to lend money to individuals and businesses. Commercial banks are authorised to provide the following financial services:

- Accept deposits from customers into savings and cheque accounts (current accounts), as well as fixed deposits in which an amount of money is deposited with the bank for a fixed period;
- Grant different types of loans to customers, e.g. short-term loans and demand loans, which the bank can recall on demand at any time;
- Grant **overdrafts** on current accounts; and
- Provide bonds, which help clients buy property.

Overdraft: A short-term loan that allows a client to draw more money than what is available in his/her current account up to a certain limit.

There are some banks that lend to farmers, but these are mostly specialised banks who lend to more commercial farmers and often need collateral to cover the loan payment. Few smallholder farmers access credit through commercial banks. Their loans are too small to be viable for most banks and the risks are too high.

E-money/e-credit

E-money—also referred to as electronic money, electronic cash and digital cash—is electronic money that is exchanged electronically using a mobile phone. M-Pesa (e-cash) and m-Kopa (e-credit) are examples of e-money systems.

Remittance: Transfer of money across national borders by **migrant workers**.

Migrant worker: A person who moves from place to place to find work, e.g. farm labourers who harvest crops seasonally.

The M-Pesa financial service (M for mobile, pesa is the Swahili word for money) was first introduced in Kenya in 2007, where the service has become the main way of sending millions of small cash transfers from urban centres to rural communities. The service allows users to deposit money into an account stored on their cell phones and send balances by using SMS technology to other users, who could redeem these deposits for regular money at payment kiosks across the country. In its first two years of operation, M-Pesa reached nearly 40% of the adult Kenyan population. The M-Pesa service currently operates in several countries and supports more than 9 million users. By facilitating the safe storage and transfer of money, it supports mass **remittance** flows and helps local trade, by making it easier to pay people with security, and to receive secure and rapid payment for goods and services.

Digital wallets: several companies are now offering farmers an opportunity to save electronic money in e-wallets. In some cases these savings schemes are linked to the procurement and delivery of goods and services. For example agencies such as MyAGro, One Acre and Esoko now offer input supply based on savings in electronic wallets.

Established in 2011, m-Kopa provides loans to buy products such as solar lights and solar mobile phone charging stations. This service allows customers to build a credit history and, over time, take out larger loans to buy a high efficiency cooking stove or a solar home system, for example. The new solar home systems also contain machine-to-machine technology with an e-money payment solution. The system includes embedded Global System for Mobile Communication (GSM) technology for monitoring and metering usage, while its pay-as-you-go service carries the advantage of no large initial cash outlay. After an initial deposit, customers pay daily instalments via M-Pesa, until they have paid off the balance. The m-Kopa system is currently available in 750 outlets nationwide in Kenya.

Investors

An investor is an individual or an institution who places money into a particular business in return for an ownership, partner stake or share of the profits in the business.

Investors in the agricultural sector

The agricultural sector plays an important role in economic growth and development and investment in this sector has been proven to be an effective way of addressing poverty and improving food security. The following factors contribute to the increase in the demand for agricultural products and, therefore, investment opportunities in the sector:

- The increasing demand for food produce, which can partly be seen as the result of population growth and longer life expectancies; and
- Increases in the purchasing power of populations in emerging economies as countries urbanise.

These combined factors have caused increases in food demand and changes in food consumption towards higher value products. Agriculture and rural development investments come from a variety of sources, including governments, financing institutions, donors, foundations and the farmers themselves. Extension agents may be able to find investors in your local community, business and trade organisations and increasingly from richer urban people who want to invest in farming operations and enterprises. The local Chamber of Commerce and regional and state economic development agencies can provide resources. If you have a Small Business Development Centre in your area, they may be able to help you find investors

You can find more information on agricultural investment on the United Nations Food and Agriculture Organisation (FAO) Investment Centre website via this link: http://www.fao.org/investment/investmentcentrestaff/en

KIVA: is a company which offers agripreneurs the opportunity to offer their business plans onto an online investment platform. If people like the plan, they will offer parts of the required amount needed to the company. Once the desired figure is met, through multiple online investors, then the agripreneur will receive the funds. These funds may be offered in tranches and the agripreneur will receive these through a local financial service provider such as an MFI. https://www.kiva.org/

Impact investors

In addition to the traditional types of investors, there is now a new class of investors, who want to focus on impact in their investments. The new type of 'social investor' is looking to invest funds in social businesses or socially minded enterprises that show clear social benefits in terms of environmental gains, helping under-privileged people, but also gaining an economic profit. Due to the nature of these types of investments, the investors typically seek a social rate of return, rather than a market rate of return. This distinction is sometimes difficult to determine, but it could be that a social rate of return is set at 1–3% as compared to an expected market rate of return of 5–15%.

For the agricultural sector, **impact investing** is of interest, as it may offer a new source of investment in both short-term trade finance and longer-term infrastructure investment. The aim of the investment is to find new ways of capitalising a sector to accelerate and scale growth, in comparison with the failure of traditional investment and banking support in smallholder/ development agriculture.

Impact investing: Investments made into companies, organisations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

Complete Activity 4.1 in your workbook.

Session 4.2: Managing financial resources

Session outcomes

After completing this session, you should be able to:

- Separate household and business finances;
- Identify a seasonal calendar for financing needs;
- Calculate the production costs of a product/service;
- Price a product;
- Work on mark-up levels;
- Forecast money needs;
- Explain the concepts of revenue and profit; and
- Manage cash flow.

Introduction

This session focuses on financial management and the tools that the farmer or agripreneur can use to improve their financial management skills. Methods include the seasonal calendar, the budget and money needs forecasting. The concept of pricing products and mark-up levels are also addressed, as well as how to calculate production costs and manage cash flow.

Separating household and business finances

Expenses are money that is spent. It is important that you show your clients how to plan their expenses for a particular period, in order to cover all major expenses and achieve financial goals. The agripreneur also has to separate their household expenses from their business expenses.

The money that is spent on running and managing a household is called household expenses, e.g. housing, food, transportation, school fees, medical needs, telephone accounts, electricity services, etc. All the costs associated with your client's livelihood are business expenses.

For smallholder farmers, the difference between business and household expenses is not always clear, because they pay all their expenses from the same pool of money. For example, a farmer may have transportation expenses both for his business (to bring the goods to the market) and for personal needs (to visit a relative).

You can show your extension clients how to keep household and business expenses separate in the following ways:

- For individuals, ask them to keep separate records for business and household needs, or, in the rare cases where they have a bank account, keep separate bank accounts for the household and the business, so that the client has two sets of financial statements;
- Keep financial documents for the business and the household in separate filing systems or folders;
- Give themselves a salary from the income that they earn and do not exceed that when incurring household expenses; and
- Set a budget for the business using the following steps:
    - Step 1: Keep track of their daily income and all their expenses;
    - Step 2: Determine sources of income and estimate their total income; and
    - Step 3: Select expenses and estimate their costs.

Where possible, a farmer group or cooperative should set up a bank account so that all the financial records are kept in a secure location. The farmer organisation should also elect one of its members to be the financial secretary. This is an important role within the organisation and this person should keep all financial documentation and statements and share this information on a regular basis with the members.

Create a seasonal calendar for financing needs

Farmers and agripreneurs do not usually have a steady income, because they make most of their money after the harvest, which means that they have a **seasonal income**. Farmers should try to save as much as possible after receiving their harvest income and plan their income and expenses ahead of time.

Seasonal income: Cyclical income patterns involving earning money only during some parts of the year.

A seasonal calendar makes it possible for farmers to identify when they will have little work, scarce resources and low income levels. As you learned in Study Unit 2, a seasonal calendar is a record of the expenses and income of a business over a year. The seasonal calendar provides the farmer with a helpful (and visual) overview of their financial situation for an entire year.

A seasonal calendar helps farmers link the specific seasonal trends in their income and expenses throughout the year. Recording and comparing expenses to income will give the farmer a good idea of their personal financial patterns throughout the year. Making a financial seasonal calendar will help them plan their finances throughout the entire year, which, in turn, helps them to save more during months when they have extra income to cover expenses for months when they expect to have a shortage.

Categories in the seasonal calendar

The seasonal calendar can be seen as a rough budget for a year that covers the six key categories discussed below.

Season

A season is a specific period in the year that is characterised by particular weather conditions and temperatures, such as summer, winter, or hot and dry and rainy seasons. The annual weather is also linked to specific agricultural activities such as planting season, harvest season and growing season, as shown in Figure 22. Farmers who grow many different types of crops and raise animals on their farms need to plan for the production of different products throughout the year.

To improve their financial management, farmers need to plan both their farming activities and record the finances for each of their individual enterprises on the farm. This may include costs for production of coffee in some fields, costs for maize and beans produced in another field and the costs of vegetable production in other parts of the farm. Animal production will also be a part of the overall costs. There will be revenue streams and profit for each of these separate products.

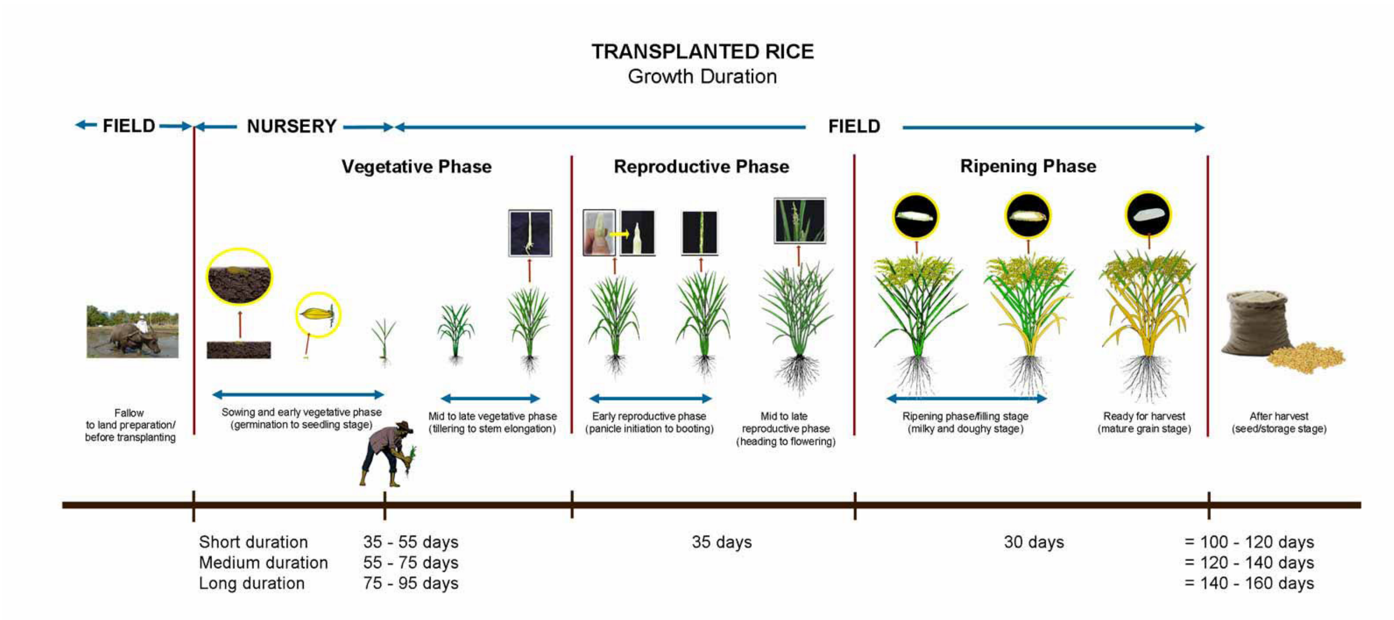
When starting a financial calendar, it may be more practical for a farmer to start with gathering records for the most important cash crop, such as maize, coffee, or cotton. This will enable the farmer and extension agent to gather information carefully on one product before thinking about multiple cost and revenue streams.

For farmer groups, the financial calendar may be less complicated, as farmer organisations tend to specialise in a limited number of products. The farmer organisation, however, has to plan their seasonal calendar several months in advance of the activities, as they may need to pre-order inputs such as seeds, fertiliser and agro-chemicals several weeks ahead of the time that farmers need them.

Loans

There are times when it is not possible to earn and save enough money to cover all expenses during low income periods or periods of high expenses. During these times, the farmer may need to take a loan to cover all their expenses. By recording these borrowing patterns, the farmer can foresee their needs in advance and find the most suitable loan for their particular situation.

Figure 22: Example of a crop calendar for rice production



Income

Income refers to the money that flows into an enterprise as the result of selling goods and products or providing services. By writing down how much money comes in during each season, farmers and farmer groups can see when they receive the most money and identify the times when there is little or no money coming in.

Household expenses

Household expenses are the money that the farmer spends on running and managing their households. Similar to income, household expenses also fluctuate throughout the year. For example, during the dry season, food costs go up.

Business expenses

Business expenses refer to all the costs involved in the farmer's livelihood. During harvest time there are more costs, but there also is more work and, therefore, higher income. Planting season also has additional costs.

Savings

In periods when income is high, farming families should try to save money that can be used during low income periods. If farmers are in a savings and loans group or SACCO, they may commit to a more regular savings approach.

Arranging finances when working as a group

As with households, groups also need to undertake the same types of analysis for their costs, revenue and profits for a specific product. The key difference between recording financial data for a group versus an individual household is the structure. The group is an aggregation of information across the group members.

Farmer group costs and revenue

For a farmer group, there are group costs as well as individual costs. When an extension agent works with a farmer group, the financial records will be based on an aggregate set of figures. For example, if there are 20 farmers in a group, the costs for the farmer group will be based on the sum of the 20 farmers.

Revenue for the group will be based on the sale of all the produce that the 20 farmers in the group sell. This aggregate figure may not include all the sales of an individual farmer, as most farmers sell part of their production through a group and part as individuals.

The income for the group will be the aggregate value of all the produce sold through the farmer organisation. Generally, the group will get higher unit prices for its sales per unit of product, because it is selling a bulked, cleaned and sorted product, whereas farmers tend to sell small amounts as individuals and small lots generally attract low prices.

One of the other key differences for groups and individuals is the timing of payments. Although individual farmers sell small lots at lower prices, they usually get paid on delivery by small traders. That timely payment has considerable value to farmers who owe debt after a long production season.

When selling through a group, farmers get paid at the end of the season, when the main sales have taken place. It may take several weeks between farmers delivering their goods to a group store and the time they receive payment.

The role of the extension agent is to help farmers fully understand the value of collective marketing and how this approach can help them to increase their revenue. However, this gain in price comes at the opportunity cost of being paid later in the season.

Inventory credit

To overcome the frustration that farmers have with collective marketing and the delay in time between delivery and payment, many organisations with access to external credit, set up systems such as an inventory credit scheme. This system is similar to, although less complex than, a **warehouse receipt** scheme. For inventory credit, the farmer agrees to a part payment for their goods on delivery to the store, e.g. 60% of the market value. This sum is paid to the farmers, so that they can make good on their debts and prepare for other farm enterprises. The farmer organisation provides the farmer with a document that indicates the amount delivered and the partial price paid.

Warehouse receipt: A document that provides proof of ownership of goods or products stored in a warehouse.

When the group sells their inventory at the end of the season, the difference between the sales price and the part payment is made up to the farmers. In this way, farmers are able to continue with their multiple agripreneurs and the farmer organisation avoids loss of product through side selling.

Side selling is a common practice when farmers, who agree to sell their produce through an organisation that then forms an agreement or contract with a buyer, feel they can get a better price as an individual. Rather than selling through the farmer organisation, they side sell to a second buyer. This can mean that the farmer organisation does not have sufficient produce to meet their agreements and so they must default.

Farmer group profit

The profit from a group is more complicated than household calculations and it typically means that one of the members of the group is responsible for maintaining financial records.

The profitability of the farmer group is calculated from revenue received from sales of the farmer production, minus the group costs incurred. These may include:

- Costs of any inputs that are procured and offered to members;
- Partial payments made to farmers prior to the main group sales;
- Costs of conditioning the produce, such as drying, cleaning, destoning, bagging, fumigation;
- Storage costs;
- Marketing costs; and
- Organisation costs.

Group profit statements

The profit statements for the group can be calculated on a monthly basis, with the end of season/year profit statement being of most interest to the members. The profit will be calculated at the group level, with revenue and stock statements for members.

There are times when it is not possible to earn and save enough money to cover all expenses during low income periods or periods of high expenses. During these times, the farmer may need to take a loan to cover all their expenses. By recording these borrowing patterns, the farmer can foresee their needs in advance and find the most suitable loan for their particular situation.

Calculating the production costs of a product/service

Production costs are all the costs involved in producing or manufacturing a product or delivering a service. Knowing the production costs of your client's products or crops is important, in order to:

- Determine how well their business is doing;
- Evaluate how efficiently resources are being used in their farm operations;
- Predict how their business will respond to specific changes; and
- Make decisions for attaining their goals.

It is important to note that production costs refer to direct costs only. Direct costs relate to the production process. An indirect cost may be necessary to make or produce a product, but it cannot be traced directly to the specific product, e.g. property taxes, rent, electricity services, insurance, etc.

Examples of direct costs are:
- Costs of the materials needed to produce the product (e.g. crop), which may include seed, fertiliser, irrigation water, etc.; and
- Labour costs are the total costs involved in paying workers, who are directly responsible for the production process, e.g. salaries or wages, payroll taxes and pension fund contributions.

You calculate the total production costs of a product by adding all the direct costs involved in the production process.

Pricing a product

There are several factors to consider when pricing a product:
- Market prices: find out what customers are paying for a product in the market, (traders, consumers, etc), some countries have regular market price information services;
- When making decisions on the price, it must cover the production costs and the marketing costs of the product;
- The product has to be priced at a price that the buyer is willing to pay;
- Pricing is influenced by government regulations, as well as the price offered by competitors; and
- Market perceptions play a role in agricultural pricing, e.g. crop failure because of drought may result in traders buying as much as they can store, anticipating scarcity and an increase in price, thereby making the shortage worse and cause further price increases.

There are three main pricing strategies that are used in the agricultural sector: cost-based pricing, value-based pricing and competition-based pricing.

Cost-based pricing

In cost-based pricing, the product price includes the operating, manufacturing or production costs of the business. Once the production costs have been calculated, add the profit level that needs to be achieved to the production sub-total to determine the price. The amount of profit added to the production sub-total is set according to the following three methods:

- Include a profit percentage with product cost (mark-up pricing);
- Add a percentage to an unknown product cost (cost-plus pricing); and
- Price is a blend of total profit and product cost (planned-profit pricing).

Value-based pricing

Value-based pricing is based on the customers' perception of the value of the product. This involves customer preferences, convenience, product quality and benefits, as well as alternative products offered by competitors. The agripreneur has to try to establish the maximum price that the customer or buyer is prepared to pay for the perceived quality and benefits of the product. In order to determine the attitude of the target customers, the agripreneur may ask the following questions:

- Does my customer assume that price indicates product quality?
- Will customers think that they are getting their money's worth from my product?
- What are my target customers prepared to pay for my product?

Customer-based pricing methods include:

- Using price to support product image;
- Setting price to increase product sales;
- Designing a price range to attract many buyer groups;
- Setting price to increase the number of sales; and
- Pricing a bundle of products to reduce stock or to excite customers.

Competition-based pricing

In competition-based pricing, the farmer or agripreneur focuses on their product and, therefore, on their existing and emerging competition. Once they know what their competitors are doing, they can decide how to price their products.

Understanding the competition to an agripreneur involves knowing:

- What your clients are buying and selling;
- The types of sellers or companies that your clients compete with (i.e. their direct competition);
- The number and types of substitutes (i.e. their indirect competition); and
- How companies operate in the agricultural industry.

Your client can use the following three strategies in competition-based pricing:

- Pricing their product the same as that of their competition, if they want to make it comparable to the products of the competition;
- Set their price to increase their customer base (i.e. penetration pricing); and
- Set their price to obtain a larger market share by attracting and holding as many customers as possible.

Working on mark-up levels

The selling price has to cover the cost of the product as well as the profit and, therefore, mark-up is calculated when the price is determined. Mark-up is the amount added to the cost price of a product to determine the selling price.

The mark-up value, which is expressed as a percentage, is calculated as follows:

Mark-up = (Total profit ÷ Total cost) x 100

It costs a farmer $245.00 to produce a product and he sells the product at $286.00.

Total profit	=	Selling price – Total costs
	=	$41.00
Markup	=	Total profit ÷ Total cost
	=	41÷ 245
	=	0,167
Percentage	=	0,167 x 100
	=	16,7%

The mark-up has to be enough to cover all business expenses and keep the business profitable and realistic enough for increased sales and profit. Mark-up range differs from enterprise to enterprise, but it is generally influenced by the following factors:

- The price that customers are willing to pay for a product;
- Expected sales volume: high sales volume with a lower mark-up can still generate the required profit; and
- Brand strength: a strong brand requires a higher price and, therefore, a higher mark-up.

A brand is a distinguishing name, symbol or logo that identifies a product and distinguishes it from other products on the market, e.g. Ceres Fruit Growers and Huletts Sugar.

Managing cash flow

Cash flow is the movement of funds or cash in and out of a business. Cash is the lifeline of any business. There are two types of cash flow, namely, positive and negative cash flow.

- Positive cash flow occurs when the cash moving into a business from sales is more than the amount of the cash leaving a business through accounts, monthly expenses, salaries, etc.; and
- Negative cash flow occurs when the outflow of cash is greater than the incoming cash.

Cash flow should not be confused with profit. A business cannot simply look at profit and losses to identify cash flow. Cash flow involves several other financial figures, such as:

- Accounts receivable (i.e. what customers owe the agripreneur); and
- Accounts payable (i.e. what the agripreneur owes its suppliers), stock, expenses and debts.

These figures have to be studied in order to determine the cash flow.

Managing cash flow properly, ensures that an agripreneur:

- Does not run out of cash;
- Improves its relationships with suppliers as invoices are paid immediately; and
- Spots cash flow problems before they happen.

Use the following strategies to enable your clients to manage their cash flow properly:

- Keep in mind that cash is what keeps a business alive: no cash = no business. Your clients must manage their cash carefully and make sure that they never run out of cash. They must make sure that they know what their cash balance is at all times;
- Determine the breakeven point (i.e. the income needed to cover the total amount of the expenses during a particular period), so that your clients know when their business becomes profitable—not because it affects their cash flow, but because it give them a goal to work towards;
- Your clients should try to negotiate payment terms with their suppliers: if they can settle their accounts in 60 days or even 90 days, rather than 30 days, they get to keep their cash for longer, which makes it easier to regulate their cash flow; and
- Your clients should encourage their customers to pay as soon as possible.

Figure 23 is an example of a template that your agripreneur clients can use to record their cash flow transactions.

Month	month 1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12
Cash position at the start	40'000	35'700	31'900	26'100	22'100	78'300	13'500	15'200	17'900	11'600	57'600	78'800
Operational cash flow												
incoming payments from buyer A										300'000	150'000	
incoming payments from buyer B												20'000
other income												500
total in	0	0	0	0	0	0	0	0	0	300'000	150'000	20'500
Purchase of raw material						60'000	160'000	80'000				
Bulking and transport						1'000	3'000	1'000				
Cleaning, processing, packaging							20'000	10'000	2'500			
Office cost	800	300	300	500	300	300	800	300	300	500	300	300
Personnel cost	3'500	3'500	3'500	3'500	3'500	3'500	3'500	3'500	3'500	3'500	3'500	6'500
Certification cost								7'500				
External services			2'000				1'000					2'000
total out	4'300	3'800	5'800	4'000	3'800	64'800	188'300	102'300	6'300	4'000	3'800	8'800
CP before external finance	35'700	31'900	26'100	22'100	18'300	13'500	-174'800	-87'100	11'600	307'600	203'800	90'500
Financial cash flow												
loans from bank					60'000		190'000	105'000				
total in	0	0	0	0	60'000	0	190'000	105'000	0	0	0	0
repayment of loans and interest										250'000	125'000	
total out	0	0	0	0	0	0	0	0	0	250'000	125'000	0
Total cash flow												
total monthly cash flow	-4'300	-3'800	-5'800	-4'000	56'200	-64'800	1'700	2'700	-6'300	46'000	21'200	11'700
Cash position at the end	35'700	31'900	26'100	22'100	78'300	13'500	15'200	17'900	11'600	57'600	78'800	90'500

Figure 23: Example of a template for cash flow management

Working with revenue and profit

Revenue is the total income that is generated by an agripreneur, before any costs or expenses have been deducted. It is important to note that revenue can be generated by all operating activities (e.g. the sales of products), as well as non-operating activities (e.g. the sales of assets or money received for interest).

Profit is a financial gain that is expressed as the difference between the money earned (by sales) and the money spent in buying, producing or manufacturing a product. In other words, profit represents the earning of agripreneurship or farming enterprise during a particular period. It is important to distinguish between gross profit, operating profit and net profit.

Gross profit

Gross profit simply refers to revenue minus **inventory expenses**:

GP = Revenue – Inventory expenses.

Gross profit can be a useful tool to examine the finances of a farming operation to see how profitable it would be if all other expenses were excluded.

Inventory expenses: The cost of holding goods or products in stock.

Operating profit

Operating profit is similar to gross profit, but it takes other costs into account. In order to determine operating profit, the gross profit is calculated first and then operating costs—like rent, labour, transport, storage, utilities such as lighting and phones and other fixed costs—are subtracted. This leaves the total operating profit.

Net profit

Net profit is the amount of money that is left in the account at the end of the year or season, after subtracting all business-related costs from the revenue. In order to work out net profit, calculate the operating profit and then subtract any one-time expenses (e.g. advertising costs, legal fees and other irregular expenses).

Forecasting money needs

Financial forecasts are used to predict future business finances. Regular forecasts allow an entrepreneur to monitor their finances and develop strategies to fix problems before they become major issues. Financial forecasts are particularly useful when starting an agripreneurship or when an existing farming operation is experiencing a period of rapid growth or financial difficulty.

There are different types of financial forecasts, including sales forecasts (which will be discussed in the next session), expenses forecasts and cost of goods sold. For the purposes of agripreneur you will learn about cash flow forecasting, because it reflects the future money needs of a business.

A cash flow forecast is basically an estimate of the amounts and the timing of receipts (cash inflows) and payments (cash outflows) that a farmer expects over a particular period (usually a season or year), broken down by month. It is an important business tool that enables an entrepreneur or a farmer to estimate income and expenses of their business.

Cash flow forecasts can help identify when an agripreneurship has extra cash available or when there may be shortages, so that the farmer can make the right decisions for their operation. It is important that the cash flow forecast is reviewed regularly against the actual results.

How useful cash flow forecasts are depend on how accurate and up-to-date they are. It is important to update them against actual performance on a weekly or monthly basis. This will ensure that the information is accurate and that the farmer can adjust future forecast figures as soon as soon as they can see that the figures are likely to differ from their initial expectations.

The following steps are involved to create a cash flow forecast.

Step 1: Estimate potential sales

The first step is to estimate the expected sales for each week or month in the marketing season:

- Use the sales history from the last few years (if any) to get an idea of the level of weekly or monthly sales that can be expected;
- Remember to consider current conditions and trends in the market;
- If a new market opportunity is planned or a new product is launched, include the expected increased sales in the forecast; and
- Remember to plan for seasonality, which is particularly important in the agricultural business, because most sales occur at a particular time of year.

Step 2: Estimate payment timing

Estimate when payment for sales is expected. If a product is sold on credit, include the likely delay in payment into cash flow forecasts, e.g. if the payment terms are 30 days, payment will be received within one or two months after the sale has been made.

Step 3: Estimate costs and loss

Once the expected sales and payment information is in place, the costs involved in running the business must be estimated. These costs may include agricultural input costs (soil testing, seed, fertiliser, pesticides), vehicle and equipment costs, worker costs, loan repayments, bank costs and interest on loans, and marketing and promotion costs.

Step 4: Apply the forecasts

Once the entrepreneur knows their weekly or monthly income and expenses, they are ready to record them in a cash flow forecast template.

Figure 24 is an example of a cash flow forecast.

Cash Flow Forecast - 12 Months

Month:	Pre-Start	1	2	3	4	5	6	7	8	9	10	11	12	Totals
Receipts														
Cash sales	0	0	10,020	10,865	12,525	14,195	15,865	18,370	21,710	24,215	26,406	28,808	33,066	**216,035**
Collections from credit sales	0	0	0	251	418	501	501	585	752	752	1,002	1,002	1,166	**6,930**
New equity inflow	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Loans received	0	16,700	0	0	8,350	0	0	8,350	0	0	8,350	0	0	**41,750**
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Total Receipts	**0**	**16,700**	**10,020**	**11,106**	**21,293**	**14,696**	**16,366**	**27,305**	**22,462**	**24,967**	**35,758**	**29,810**	**34,232**	**264,715**
Payments														
Cash purchases	0	401	326	166	131	237	166	149	149	166	113	113	167	**2,284**
Payments to creditors	0	1,203	978	499	392	713	499	446	446	499	339	339	503	**6,856**
Salaries and wages	0	6,304	5,120	2,620	2,058	3,728	2,620	2,336	2,336	2,620	1,780	1,780	2,631	**35,933**
Employee benefits	0	3,152	2,560	1,310	1,029	1,864	1,310	1,168	1,168	1,310	890	890	1,315	**17,966**
Payroll taxes	0	1,051	853	437	343	621	437	389	389	437	297	297	438	**5,989**
Rent	0	5,253	4,267	2,183	1,715	3,107	2,183	1,947	1,947	2,183	1,483	1,483	2,192	**29,943**
Utilities	0	1,021	830	425	333	604	425	379	379	425	288	288	426	**5,823**
Repairs and maintenance	0	584	474	243	191	345	243	216	216	243	165	165	244	**3,329**
Insurance	0	1,021	830	425	333	604	425	379	379	425	288	288	426	**5,823**
Travel	0	1,240	1,007	515	405	734	515	460	460	515	350	350	518	**7,069**
Telephone	0	1,043	847	434	341	617	434	387	387	434	295	295	435	**5,949**
Postage	0	438	358	182	143	259	182	162	162	182	124	124	183	**2,499**
Office supplies	0	949	770	394	310	561	394	352	352	394	268	268	396	**5,408**
Advertising	0	6,938	5,635	2,883	2,265	4,103	2,883	2,571	2,571	2,883	1,959	1,959	2,895	**39,545**
Marketing/promotion	0	5,439	4,418	2,261	1,776	3,217	2,261	2,016	2,016	2,261	1,536	1,536	2,270	**31,007**
Professional fees	0	1,751	1,422	728	572	1,036	728	649	649	728	494	494	731	**9,982**
Training and development	0	26	21	11	9	16	11	10	10	11	7	7	11	**150**
Bank charges	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Miscellaneous	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Owner's drawings	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Loan repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Tax payments	0	25,050	0	4,175	0	0	0	0	0	0	0	0	0	**29,225**
Capital purchases	0	0	0	0	10,000	0	0	10,000	0	0	21,325	0	0	**41,325**
Other	0	0	0	0	0	0	0	0	0	0	0			**0**
Total Payments	**0**	**62,864**	**30,716**	**19,891**	**22,346**	**22,366**	**15,716**	**24,016**	**14,016**	**15,716**	**32,001**	**10,676**	**15,781**	**286,105**
Cashflow Surplus/Deficit (-)	**0**	**(46,164)**	**(20,696)**	**(8,785)**	**(1,053)**	**(7,670)**	**650**	**3,289**	**8,446**	**9,251**	**3,757**	**19,134**	**18,451**	**(21,390)**
Opening Cash Balance	**0**	**0**	**(46,164)**	**(66,860)**	**(75,645)**	**(76,698)**	**(84,368)**	**(83,718)**	**(80,429)**	**(71,983)**	**(62,732)**	**(58,975)**	**(39,841)**	**(747,413)**
Closing Cash Balance	**0**	**(46,164)**	**(66,860)**	**(75,645)**	**(76,698)**	**(84,368)**	**(83,718)**	**(80,429)**	**(71,983)**	**(62,732)**	**(58,975)**	**(39,841)**	**(21,390)**	**(768,803)**

Figure 24: Example of a cash flow forecast

You can find templates for cash flow forecasts at the following links:
https://www.startuploans.co.uk/cash-flow-forecast/
http://www.accaglobal.com/za/en/business-finance/business-plans/example-cashflow.html
https://bizconnect.standardbank.co.za/manage/financial-management-solutions/tools/cash-flow-forecast-spreadsheets.aspx

Complete Activity 4.2 in your workbook.

Session 4.3: The basics of sales

Session outcomes

After completing this session, you should be able to:

- Identify different types of agreements for sales;
- Describe the contract for sales;
- Apply sales forecasting methods;
- Monitor actual sales versus forecasting;
- Review the quality and volume of sales; and
- Identify opportunities for growing sales.

Introduction

In this session, you will learn about different aspects involved in sales. The legal aspects involved in sales will be discussed first. Then different types of sales agreements are identified and the nature and content of sales contracts are looked at. Sales forecasting and assessing actual sales are also explored. The session is concluded with a discussion of sales growth opportunities.

Identifying different types of agreements for sales

A buyer and a seller enter into a sales agreement. In most cases, farmers and farmer groups meet with buyers and make a verbal agreement to sell. Generally, farmers know their buyers, since they have a sales history with them and so they work on a handshake agreement and trust. In most cases, farmers do not clearly identify the terms of sale when it comes to the number of bags or tonnes, quality criteria and, especially, price.

However, as farmers make the transition from selling as individuals to selling in larger groups, the volume of sale does go up significantly and the farmer organisation will be working with a larger type of buyer. In this case, the agreement may stipulate the size of the transaction and the buyer may require that certain standards are met.

As trading becomes more standardised and larger transactions take place, there is a movement towards sales being recorded in a sales agreement. This is rarely a binding contractual arrangement with penalties, but it is a step towards a more formal agreement. In this case, the sales agreement may indicate target volumes, basic quality criteria, such as the size of produce, cleanliness, type of bagging by weight, and, in some cases, a moisture content level.

Floor price: The lowest price at which a product can be sold.

There are different types of sales agreements, including:

- Cash forward agreement, which is based on an exchange of produce at a specified time in the future. The agreement specifies the price, quantity and quality of produce to be delivered at an agreed upon post-harvest date;
- Deferred pricing agreement where the product price is determined at a later, specified date;
    - Deferred payment agreement where the current price and delivery of the produce are set, but there is a delay in the receipt of payment: it transfers ownership to the buyer at delivery, while allowing the seller to set the price later; and
    - Minimum price agreement, which provides the farmer with a **floor price** for the duration of the agreement, as well as protection against a drop in price below a minimum level, while leaving the final pricing until a later date.

As you can see, the terms in all these sales agreements are based on price. In the case of smallholder farmers and farmer groups, most traders make agreements based on volume and product quality and set prices at the time of the actual sale.

Profiling clients and sales obligations

Table 10 outlines the different types of clients and their sales obligations.

Table 10: Client profiles and sales obligations

Type of client	Scale of operation	Market type	Financial lending	Weights, measures, grades and standards	Legal situation	Type of sales agreement
Small-scale individual farmer: Rural world 1	2 acres: rarely mechanised	Highly informal local market	No access or local access	None	None: no legally binding conditions	Hand-shake promise to deliver, not binding
Individual famer medium scale: Rural world 2	2–10 acres: either partially mechanised or able to hire power equipment	Transitioning from informal to formal	Possibly some bank loan, mostly informal	Some level of premium on graded goods	Limited: not generally enforced	Hand-shake promise to deliver, not binding
Large individual farmer: Rural world 3	10 acres plus: mechanised	Formal and commercial	Line of credit from formal bank	Critical and will be enforced with clear price premiums related to grades and measures	Contracts with banks, insurance and buyer: legally binding with sales bonds	Contract with legally binding agreements

Type of client	Scale of operation	Market type	Financial lending	Weights, measures, grades and standards	Legal situation	Type of sales agreement
Farmer group	20–50 farmers starting a collective marketing business	Highly informal	None	None	None	Promise to deliver, not binding
Farmer cooperative local	50–200 farmers	Transitional with level of formality dependent on buyer	Line of credit from mix of formal and informal sources	Use of grades and standards on part of the sales	Limited: not generally enforced	Basic written agreement but mainly based on trust
Farmer association	500–10,000 farmers	Highly formalised	Credit from bank	Will use grades and standards set by buyers, goods will be packaged and weighed	Formal and in some cases legally binding, particularly with lending agencies	Sales agreement with local buyers, contract with international or formal buyers

Understanding the contract for sales

A contract is an oral or a written agreement where two (or more) parties bind themselves to certain obligations that they agree to fulfil, in some cases these contracts are legally binding.

Given that most smallholder farmers work in a highly informal world, the idea of a legally binding contract with a buyer is somewhat alien. For the most part sales agreements are more of a promise to sell and a willingness to buy.

As transactions become more formalised, such as selling produce into an international market, the legal nature of sales agreements and contracts becomes clearer and there are more legal obligations. Legal sales contracts only work if there are legal systems in place that are able to quickly make decisions on liabilities in a trade case and can enforce a legal decision. If these legal structures are not in place, then any written contract has little weight.

Farmers often fail to meet the terms of their sales agreements. This may be because they were not organised enough to follow their implantation plan, because they were unable to buy the right combination of seed and fertiliser, or crops failed due to drought or pests and disease problems. Hence, they were willing but not able to meet their targets. For the most part, buyers are also at pains not to take legal action against the farmers, as these people are typically poor and if they don't sell their goods, it is often because they don't have them. Taking legal action against them would not help.

A contract usually contains the rights and obligations of the parties involved, as well as the rules that the parties must follow. There are different types of agricultural contracts, such as:

- Production contracts;
- Marketing contracts;
- Financing contracts; and
- Personal services contracts.

In this section, you will learn about the sales contract. A sales contract is a legal agreement to accept or deliver a specified quantity of a product (e.g. grain) with a specified minimum physical or chemical content and that is produced according to a specified method.

A term is a provision in the contract that states an obligation or set of obligations imposed on one or more of the parties. Failure to fulfil a term of a contract results in a breach of the contract. A condition is a contractual term. If a condition or contract is breached, it gives the injured party the right to cancel the contract and claim damages.

Interpreting the elements in a sales contract

When your client is considering or negotiating a sales contract, you should be able to help them interpret the content of the contract. Therefore, you should be familiar with the elements involved the contract. These essential elements are outlined in the following sections.

Purpose

The purpose of the contract generally involves securing income for the agripreneur and delivering the product to the customer. You should take note of the following, more specific considerations.

- Economic considerations and advantages: You and the agripreneur need to consider the following economic elements:
    - Is there a set quantity requirement?
    - Is there a penalty if the set requirement is not met?
    - Is the producer (farmer) responsible for unforeseen events?
    - Can the location and quantity be adjusted to accommodate bad planting weather?
    - Could the requirements of the contract have an effect on the cost of production?
    - Is there an input restriction, does the contract require that inputs are bought from a certain source? and
    - Are the production inputs or techniques required by the contract more expensive than those that are currently being used?
- Financial considerations in contracts: Use the farmer's cash flow budgets to determine the financial feasibility of the contract arrangement. A contract is feasible if it produces enough cash inflow to meet all input costs;

- Payment terms need to clarify the following:
  - How will payments be made?
  - Is there a schedule of payments?
  - When should a party be paid?
  - Are there penalties for late payments?
  - Will payments be made before delivery? and
  - Are there provisions for minimum or maximum payments?
- Crop conditions: Consider the following in terms of crop conditions:
  - What are the condition requirements?
  - Are the crop conditions reasonable?
  - Who conducts quality tests and when are tests conducted?
  - How are quality disagreements resolved?
  - If a portion of the crop does not achieve quality rating, is the entire crop penalised? and
  - If the specialty grain is rejected, can it be sold on the open market?

Delivery site and date

You and your client will have to look at the contract and see if it specifies:

- Where the delivery must be made;
- Any special handling procedures;
- Who will pay for delivery to the site;
- When the delivery must happen;
- A date for delivery in the contract and, if not, who sets the date; and
- Any penalties for early or late delivery.

Facilities and equipment

You will also need to consider if the contract:

- Requires an investment in equipment or facilities;
- Requires specialised equipment, additional labour or additional management;
- Will last long enough to recover the cost of the investment in new facilities;

- Can be terminated before the investment is fully recovered;
- Requires facilities or equipment that need approval or certification; and
- Needs buildings and facilities to be standardised.

Production requirements

When you look at the production requirements, must the farmer follow any special health care practices and procedures and standards of husbandry practices? You will also need to look at whether there are any limitations on the producer's management control. The contract needs to state who will provide the labour for the production process, if production records are needed and who will be responsible for keeping these records. The contract must outline who determines the feed requirements and rationing, sourcing, pricing, processing and handling of the feed. Lastly, the contract must state who bears the risk of loss in the production and who pays for liability and other types of insurance.

Interpreting the legal elements in a contract

A contract must include a number of key legal elements in order for it to be enforceable by law. These elements are addressed in the following sections.

Acceptance

Once they have accepted the terms, conditions and obligations set out in a contract, the farmer organisation should aim to fulfill its obligations. If it becomes a binding contract, it ends any negotiation over the terms of the contract. Important legal considerations in terms of acceptance are:

- Acceptance must be communicated to the party making the offer; and
- Acceptance of the offer in the contract must correspond to the contract.

Consideration

The promises exchanged in the contract must have some value in the eyes of the law. Therefore, in order to be binding, a contract must show consideration, meaning that each party exchanges something of value. Given the informal nature of most trading environments in smallholder agriculture, there are few ways to enforce agreements or contracts. However, when trading coffee into an international market, for example, the situation changes, as the farmer organisation then shifts from the informal into the formal world. In this case, contracts may require that sellers place a 10% sales stake into an account that is forfeit if the contract is not honoured. The same is done by the buyer.

Some issues relating to consideration include:
- A promise to perform an existing obligation is not adequate consideration for entering into a contract; and
- Past consideration is not considered for a promise and so a promise that relates to past consideration is not legally binding.

Terms of the contract

The terms of a contract define the rights and obligations of each party. In order for a contract to be binding, certain fundamental terms must be identifiable. If terms that are significant to the deal are missing, then there is no valid contract. You and your extension client need to ensure that a sales contract covers all the items that it is supposed to and that the terms in the contract are clearly understood. Parties to a sales contract must be satisfied with the specific terms relating to:
- Contract length;
- Conditions for contract renewal;
- Pricing arrangements;
- Quality agreements and grades or premiums for quality;
- Payment schedules;
- Delivery and marketing terms;
- Production requirements;

- Facility requirements;
- Management requirements;
- Default provisions; and
- Conflict resolution.

The following link will give you an example of a sales contract: http://www.sagis.org.za/SAGOS_CONTRACT_1_VERSION_9.pdf

Conduct sales forecasting

The sales forecast is a month by month forecast of the expected level of sales. Accurately forecasting sales gives a business direction and helps to avoid unforeseen cash flow problems. A sales forecast can also help manage production, staff and money needs.

Advantages of sales forecasting

Apart from enhancing cash flow, sales forecasting can give the agripreneur in-depth knowledge of their customers and the products that the customers buy. It also enables the agripreneur or the farmer to plan for production and gives them accurate information to identify sales patterns and trends. Most importantly, sales forecasts enable the farmer to work out their expected **return on investment.**

Return on investment: A measure of the profit of an investment, expressed as a percentage of the original cost.

Factors influencing the sales forecast

Although it is possible to forecast sales to a certain degree of precision, there are internal and external elements that affect sales. These should be considered when doing a forecast.

The following internal factors related to sales may impact the sales forecast:

- Seasonality: most crops and animals are only sold at a particularly time of the year;
- Labour problems;
- Stock or product shortages;
- Working capital shortage;
- Changes in the product price;
- Production capability shortage; and
- Introduction of new products.

The following external market and economic factors, which are beyond your clients' control, may also affect sales:

- Relative state of the economy;
- Political events and changes in legislation and regulations governing the industry;
- Weather conditions, patterns and changes;
- Pests and disease; and
- Changes in productivity.

Sales forecasting technique

In order to get started on sales forecasting, the extension agent and their client may consider asking the following questions:

- How much can you realistically sell next year?
- How much will it cost to produce your product?
- What are your operating expenses?
- Do you need to hire workers and, if so, how many and how much will you pay them?
- How much will you pay yourself?
- Do you need to pay tax?
- How much money do you need to borrow and how much will your monthly loan payments be?

The following steps are involved in making a sales forecast:

- Divide the products into categories or groups of similar products;
- Determine the major internal and external factors affecting the sales of each product group and their relative importance;

- Collect and analyse all necessary data;
- Make assumptions regarding any effects of the various factors that cannot be measured or forecast;
- Convert assumptions into specific product forecasts and portions;
- Apply the forecasts to business operations; and
- Periodically review performance and revise forecasts.

For example, if your client does an annual sales forecast for their business, they can base their calculations on the following financial data:

Financial data	Amount
Last year's sales	
Total value of additional contracts expected during the next year	
Total value of sales contracts that may not be renewed during the next year	
Projected sales subtotal	
Percentage of increase in industry growth as projected by industry experts	
Percentage of decrease in industry growth as projected by industry experts	
Sales forecast for current year	

Monitoring actual sales versus forecasting

At its most basic level, farmers and farmer groups should set a target for their sales, e.g. 10 metric tonnes (mt), and then, at the end of the season, assess whether they achieved their targets in terms of volume and price. The group needs to carefully think about issues such as links between their production plan and the sales or marketing plan and whether the profit was acceptable.

Having good records on production areas, production yields and sales through the group are important to measure their performance.

For the more formal agripreneurs, having reliable data for the sales forecast reduces the amount of guesswork and the accuracy of the sales forecast will increase. However, any sales forecast holds an element of uncertainty and, therefore, it is not possible to predict sales with 100% accuracy.

Variance is the key factor in monitoring actual sales versus the sales forecast. This is determined by comparing the value of the actual sales quantity to the value of the forecast quantity. A non-compliant variance means that the actual sales quantity is lower than the planned sales quantity. A compliant variance means that the actual sales are higher than the planned sales value.

Problems may occur if the variance is too high or too low. If the variance is too high, cash is often tied up in slow-moving stock and profit is reduced due to wasted overhead costs. On the other hand, if the variance is too low, the agripreneur or farmer runs the risk of poor delivery performance, dissatisfied customers and shortfalls in income because of limited product availability. In order to correct future forecasting, the agripreneur must look at the trends in past forecasts and actual sales performance.

There are a number of reasons why there would be slight differences between the projections and the actual sales performance. These include:

- Viewing the forecasting process as separate from the rest of the business; or
- Not taking external factors into consideration.

If there are significant differences between the forecast and the actual sales, the agripreneur must do a more detailed analysis.

Reviewing the quality and volume of sales

In order to understand the links between production, marketing, sales and income, your clients will need to establish clear targets for each part of their business process and then collect information around targets and actual performance. Unless they understand their current position, it is difficult to develop plans to improve and optimise their approach. This means that they will have to review their sales statistics, like the quality and volume of sales.

Methods to analyse and review sales data involve the following steps:
- Calculate the values (sales or profit) of each product of a particular period (e.g. a year) and add the values to get a total;
- Calculate the value of each product as a percentage of the total sales value for the period;
- Arrange the calculated values and percentage of the products from high to low; and
- Analyse the results and try to determine the **variables** that distinguish the products with high sales volume from those with low sales volume.

Variable: A characteristic or a number that increases or decreases and, therefore, takes different values in different situations and times.

The analysis can be repeated with the sales information for customers, instead of the products. In this way, the agripreneur should be able to tell which customers are involved in their highest sales volumes, so that they can decide what to do to find more customers in that category.

Identifying opportunities for growing sales

As outlined earlier, there are four main strategies to identify opportunities for growing sales:
- Producing more of the same product in the same market;
- Producing the same product in a different market;
- Producing a new product in an existing market; and
- Producing a new product in a new market.

Pipeline analysis and customer-spend analysis can help the agripreneur find opportunities to grow their sales. With the help of the extensionist, the agripreneur or farmer can also use the pipeline analysis to determine which sales resources hold the potential for the largest revenue. The farmer needs to determine which geographical area, market and product represent their short-term wins and opportunities.

In order to find new opportunities, the agripreneur needs to know if there is someone with a need for their product. This means finding the right customer for their product. This involves finding out:

- If the target is other businesses or individual buyers;
- What the customer is trying to achieve by buying the product;
- Where the new customer is located; and
- What concerns they have about price, quality and after-sales service before they buy the product.

Complete Activity 4.3 in your workbook.

Session 4.4: Assessing risk

Session outcomes

After completing this session, you should be able to:

- Identify the key risks a particular business will face;
- Mitigate the identified risks; and
- Conduct risk planning/risk management.

Introduction

Every business owner faces risks, such as financial risks, production risks and market-related risks. It is important to conduct risk assessment in order to identify the key risks in a business, decide how to **mitigate** the risk and know how to conduct risk management.

Mitigate: Minimise.

Identifying key risks in agriculture

The agricultural sector and particularly smallholder rain-fed agriculture is known as a high-risk business environment, mainly because agripreneurs are faced with uncontrolled elements, such as irregular weather conditions and pests and diseases and also major economic constraints. These economic constraints often mean that activities such as planting and weeding are not done on time which has a major effect on yield and also farmers buy low quality inputs with further reduces productivity. Table 11 outlines a number of the risks that may occur in the agricultural industry.

Table 11: Risks in agriculture

Type of risk	Risk affecting individuals or households	Risk affecting groups or communities	Risks affecting regions or nations
Market/ prices	Access to quality inputs and labour at the right time; and Volatile market conditions such as under- and oversupply.	Changes in availability and price of inputs. Rapid changes in market prices; Access to labour and credit.	Changes in input/output price, due to trade policy or new markets.
Production	Poor quality seed, low quality inputs, drought, flooding, pests and diseases; Personal hazards; and assets risks.	Low quality inputs. Lack of access to labour affecting date of planting and weeding on time; Drought, erratic rainfall; and Pests and diseases.	Floods; droughts; and pests and diseases.

Type of risk	**Risk affecting individuals or households**	**Risk affecting groups or communities**	**Risks affecting regions or nations**
Financial	In debt to trader which reduces negotiating power. Lack of cash to pay for inputs and labour on time. Changes in income from other sources.	Access to credit on time; Lack of insurance; and Accepting low prices at time of sale due to need for cash.	Changes in interest rates and access to credit.
Institutional/ legal	Access to water and land depending on market formality; and Liability risk.	Changes in local policies and regulations; and Changes in good agricultural practices to meet market needs such as pesticide use.	Changes in regional or national policies and regulations; Environmental law; and Agricultural payments.

Categories of risk

Agricultural risks are often classified into the following four categories: production risks, market-related risks, financial risks and institutional risks.

Production risks

Climatic and environmental risks that are not predictable— such as delays in rain, droughts, floods and diseases— have a major influence on the amount and the quality of agricultural production. Farmers often use low quality seeds and inputs and they have limited access to labour at the critical periods in the farming calendar, which further reduces production. Therefore, agricultural production is often characterised by low and varying production outcomes. Climatic factors may lead to a total or partial loss of crops or herds, which may have long-term implications for the farmer.

Farm equipment may also hold a production risk. For example, if a farmer's tractor breaks down during the production season, they may not be able to harvest in time, which may affect their output, profit and income.

Financial risks

Many farmers are poor and, therefore, they cannot afford to access high quality inputs or labour at the right times. Farmers who sell to traders who have provided them with credit for their inputs are unable to negotiate good prices for their produce and this traps them in a cycle of financial debt and low income. Production risks often result in financial risks. Possible cash flow problems may come from the fact that agricultural production cycles are characterised by long periods of low sales income. In addition, problems may arise from limited access to financial sources.

Market-related risks

Smallholder farmers often face difficult choices, particularly about which markets to serve. When advising farmers on market opportunities, it is important that they are matched with appropriate types of markets and risk is a key factor in making decisions on the suitable market. Extension agents should not try to link the most vulnerable farmers with the highest risk, highest return markets.

The use of the Ansoff matrix in risk analysis

The use of the Ansoff matrix is a helpful guide to matching risk with farmer skills, aspirations and capacity to take on risk.

> The Ansoff matrix is a tool that is used to help a business determine its product and market growth strategy. The matrix is based on the assumption that growth possibilities depend on whether it is an existing or a new product in new or existing markets.

In extension services, the Ansoff matrix is used to help the farmer think about and identify the risks involved in each growth opportunity. By placing products into the Ansoff matrix, farmers and field agents can gain an idea of the type of marketing strategy they need to develop to be successful with the target product, as well as the level of risk involved in each strategy. The risk increases from 1 to 4, with 1 being the least risky market option and four being the highest risk option. Table 12 outlines the Ansoff matrix with risk levels.

Table 12: The Ansoff matrix with risk levels

	Existing product	**New product**
Existing market	1. Market penetration	3. Product development
New market	2. Market development	4. Diversification

Markets—whether they are local markets, national markets or international export markets— represent a range of risks. All markets suffer from high levels of volatility in prices, particularly during peak periods of harvest, when prices for goods fall rapidly. Many farmers face problems in international markets when world market prices suddenly fall, perhaps due to overproduction in another country. However, this problem also exists in local markets, which can often be over supplied, which results in low prices and, therefore, low profits.

Institutional risks

The agricultural sector is characterised by strong government interventions and regulations, e.g. subsidies and price control. Changes in government regulation may affect agricultural producers unexpectedly and may, for example, lead to changes in import/export conditions. Export bans are a commonly used government policy when production falls within their own borders, or in a neighbouring country. This type of decision can have drastic effects in the marketplace and may lead to considerable loss of income for farmers. Cooperatives that do not manage their resources carefully can also have dire consequences on farmers who have invested in the cooperative for either inputs or market access. There are many cases where farmers have lost their investments because of poor management in cooperatives.

Conducting risk mitigation and risk management

Understanding the basic costs and potential for loss with any market needs to be very clear to farmers. A general rule is that higher profits means higher risk, for example selling a known product into a known market is less rewarding but also has less risk than selling a new product into a new market. Risk management involves the following two aspects:

- Anticipating when an unfavourable event may occur and, if possible, acting to reduce the chances of it happening; and
- Taking actions that will reduce the unfavourable consequences should the event occur.

Steps in the risk management process

The agricultural risk management process has five steps, which are discussed below:

- Step 1: Identify possible sources of risk, such as environmental factors, unstable market conditions and price changes;
- Step 2: Identify possible outcomes resulting from the sources of risk, including low production and low income periods in the production cycle;
- Step 3: Decide on alternative strategies;
- Step 4: Assess the consequences of each possible outcome of each strategy; and
- Step 5: Evaluate the results between the cost of risk and the gains that can be made.

As you can see, decision making is at the core of the risk management process.

Example of decision making in agricultural risk management

A farmer needs to decide how to cope with a possible infestation of pests. Should he spray early as an 'insurance' against the infestation occurring, or should he wait for indications of infestation before deciding when to spray? When market prices are low and the cost of pesticides is high, the benefit of using pesticides during years of high pest infestation will be lower. In this case, the farmer will be hesitant to buy expensive inputs, such as pesticides.

Risk management approaches and strategies

There are a number of strategies that farmers and agri-enterprises may consider to minimise risk. It is important to note that whatever strategy you choose, it is not possible to avoid the risk entirely and there are always direct or indirect costs involved in implementing a risk management strategy. The risk management strategies are outlined in the following sections.

See Table 10, where the use of the Ansoff matrix in risk analysis is outlined, as well.

Production risks

Production risk may be managed by implementing:

- Risk reducing inputs: Farmers can improve the chances of better yields if they buy higher quality inputs such as quality seed, fertilisers, pesticides, compost and make investments in water management such as irrigation;
- Risk-reducing technologies; such as drought-resistant varieties and disease and pest-resistant varieties for crops, irrigation technology for high value crops and breeding livestock specifically for the market;
- Low risk operations, e.g. smallholder farmers planting a drought-resistant sorghum, rather than other varieties that may fail in a drought;
- System flexibility: Makes it possible to make quick and short-term decisions and changes to production and sales; and
- Production diversification techniques such as:
    - Managing multiple farm enterprises together at the same time or in the same season;
    - Engaging in the same farm enterprise in different locations;
    - Engaging in the same farm enterprise over successive periods or seasons; and
    - Generating income from off-farm activities.

Marketing risk

Marketing risk is a result of the variability of product prices and the uncertainty of future market prices. It can be addressed by using the following risk management strategies:

- Spreading sales by storing a crop after harvest until it can be sold at different times and for better prices;
- Enhancing profitability by selling directly to the final consumers;
- Making contractual agreements with buyers in advance, thereby ensuring a fixed product price;

- Developing trust with the buyers in order to obtain the best deal and maximise profits; and
- Keeping track of market prices relevant to their products.

Financial risk

Financial risk is caused by uncertainty and borrowing money to finance farming operations. It can be addressed by using the following strategies:

- Farmers who save for future investments are able to buy inputs with less need to borrow capital, this reduces their exposure to debt.
- Increasing the capital available to farmers through loans, which enables them to expand their operations, bearing in mind that they have to meet the financial obligations of paying back the loan;
- Improve liquidity by selling assets that are most easily converted into cash;
- Generate additional income by leasing assets (e.g. land, machinery and equipment), which allows the farmer to use equipment that might not have been profitable to buy;
- Managing the timing of investments, e.g. by spreading purchases over several months, rather than buying all equipment at the same time; and
- Where possible, farmers should insure operations against major risks, such as death, accidents and sickness, as well as fire and loss of crops by storms or floods.

Institutional risk

Institutional risk can be minimised and managed by:

- Forming farmer producer groups that work together in terms of saving, **credit mobilisation**, service delivery and bulk buying and marketing; and
- Establishing cooperatives, which provide the benefits of:

> **Credit mobilisation:** Pooling the capital or savings of a group together in one common fund.

- Buying inputs and supplies in bulk;
- Sharing transport to reduce costs;
- Negotiating collecting with buyers; and
- Mobilising savings and credit with members.

Managing insurance

Another means of reducing risk is through insurance. At present very few farmers in the developing world, and especially those who work in rain-fed farming, have access to insurance. This means that farmers are reluctant to invest too much in any one business due to the risks of failure and loss. The financial sector is making an effort to invest in **weather indexed insurance** systems, but to date, the premiums are typically high and the payout systems have limitations based on the resolution of the data available. Despite these challenges, the use of insurance will be an important part of the risk reduction approach for farmers in future.

Weather indexed insurance: An insurance system in which the payout is linked to measured environmental conditions by using indices (closely related to agricultural production losses), such as rainfall, wind speed, temperature and vegetation levels.

You may find additional resources and the latest information on agricultural risk management on the Forum for Agricultural Risk Management in Development's (FARM) website, which is available via the following link: http://www.agriskmanagementforum.org/

Complete Activity 4.4 in your workbook.

Concluding remarks

In this study unit, you learned the main sources of finance that are available to the farmer or agripreneur include savings, self-help groups, SACCOs, family lending, local money lenders, micro-finance institutes, commercial banks and e-money. You also learned the essential practices that the farmer can use to manage their financial resources. In extension services, the most important practices of managing financial resources are separating household (personal) finances and business finances, creating a seasonal calendar to plan for financial needs, arranging finances when working as a farmer group, calculating production costs of a product, pricing a product (including working with mark-up levels), managing cash flow and forecasting money needs.

You also learned the basic principles and practices of sales operations and different types of sales agreements. You were familiarised with the basic sales forecasting methods, as well as the way in which to monitor actual sales versus forecasting and to review the quality and volume of sales.

Finally, you learned about the main risks involved in smallholder farming, which are rain-fed and, therefore, high-risk operations, including production risks, financial risks and market-related risks. You also learned how to apply the Ansoff matrix in risk analysis and the steps involved in the risk management process.

Complete the summative assessment in your workbook.

Study unit 5: Record keeping

Study unit outcomes

After completing this study unit, you should be able to perform the following record keeping:

- Operations record keeping; and
- Financial record keeping.

Study unit overview

This unit is designed to introduce extensionists to basic methods of record keeping for both production operations and finances, which can be used to facilitate the smooth running of a business. Completing this module should allow you to strengthen your extension tool kit by becoming familiar with methods of record keeping and helping your clients to maintain reliable records as their businesses develop.

Study unit introduction

An agripreneur will need a complete and accurate records system in order to make informed decisions that will support the maintenance, growth and expansion of their business. An agripreneur can also use reliable records to determine the efficiencies and the inefficiencies in their business, measure the progress of the business and plan for the future.

Session 5.1: Operations record keeping

Session outcomes

After completing this session, you should be able to keep different types of production records, including a:

- Soil conditioning record;
- Seed-starting record;
- Planting record; and
- Harvesting schedule record.

Introduction

A record is basically a document that systematically records all activities and aspects of daily farm operations. In extension services, these operations include the following four areas:

- Pre-production (soil, tillage seed);
- Production (activities to produce);
- Post-harvest (harvest, store, clean); and
- Marketing (transport, sales).

Keeping operations records makes it possible for an agripreneur or a farmer to evaluate the performance of their operation during a particular period and to check that their operation is running according to plans and schedules. There are different types of operations records, which are outlined in the following sections.

Production records

Production records are records of quantities of inputs used in the farm and outputs obtained from it. The different types of production records are outlined in the following sections.

Soil conditioning record

Whether your clients are working with a new piece of land or reviving a spent plot, it is always advised to do regular soil tests to understand the condition of the soil. If they record the results of these soil tests, they can use this information to track the changes made, which should assist them in future decisions and purchases.

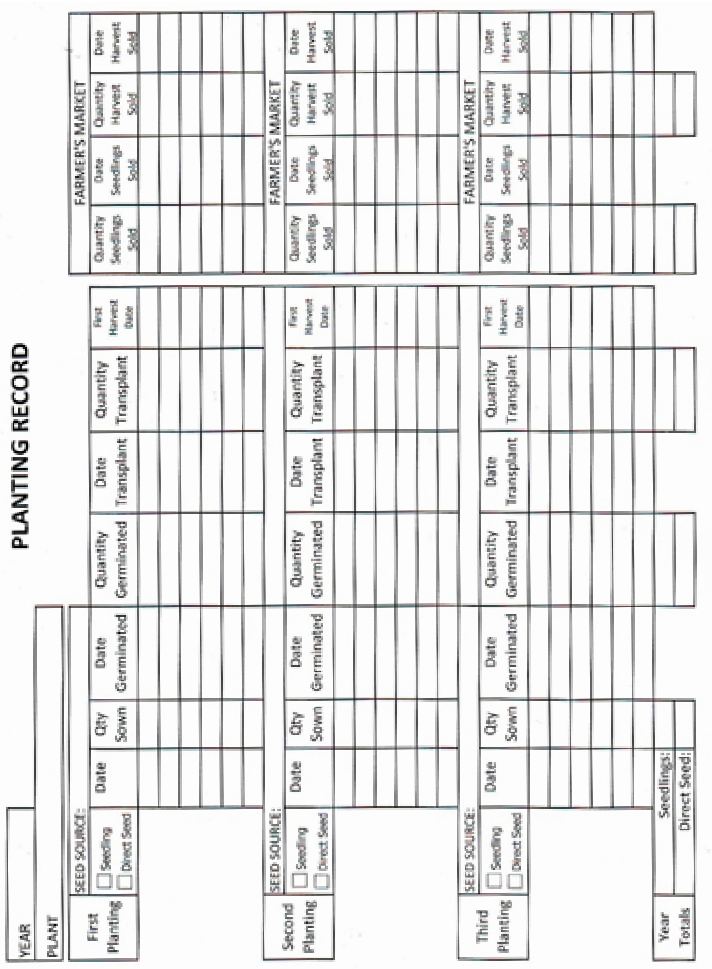
Seed-starting record

Not all seeds are started at the same time and, therefore, keeping seed-starting records is helpful, particularly if your extension clients are experimenting with new crop varieties or if they are managing a large amount of seeds. It is also a good idea to record seed sources.

Planting record

Use the planting record to record plot location and planting date. This information will help make future plot-rotation plans and to plan for coming harvests. Make sure that your clients also take note of plant traits, so you can determine what land-management actions to take, such as weeding and implementing pest control.

Figure 25 is an example of a planting record, which includes information on seeds and seed sources.



PLANTING RECORD

YEAR

PLANT

	SEED SOURCE:	Date	Qty Sown	Date Germinated	Quantity Germinated	Date Transplant	Quantity Transplant	First Harvest Date	FARMER'S MARKET: Quantity Seedlings Sold	Date Seedlings Sold	Quantity Harvest Sold	Date Harvest Sold
First Planting	☐ Seedling ☐ Direct Seed											
Second Planting	☐ Seedling ☐ Direct Seed											
Third Planting	☐ Seedling ☐ Direct Seed											
Year Totals	Seedlings: Direct Seed:											

Figure 25: Example of a planting record

Harvesting scheduling record

The harvesting scheduling record gives you and your client the following information:

- The crops and varieties harvested, and the amounts harvested;
- The harvesting techniques used;

- The crop that is ready for harvest during every month of the year, which is particularly helpful if they are running a larger scale operation;
- Post-harvesting handling methods (e.g. washing, packaging, etc.); and

The harvesting record also helps your client to determine if and when they should hire extra labour in the fields for a particular harvesting period.

Figure 26 is an example of a harvest schedule. You will notice that the scheduling record also includes information on planting.

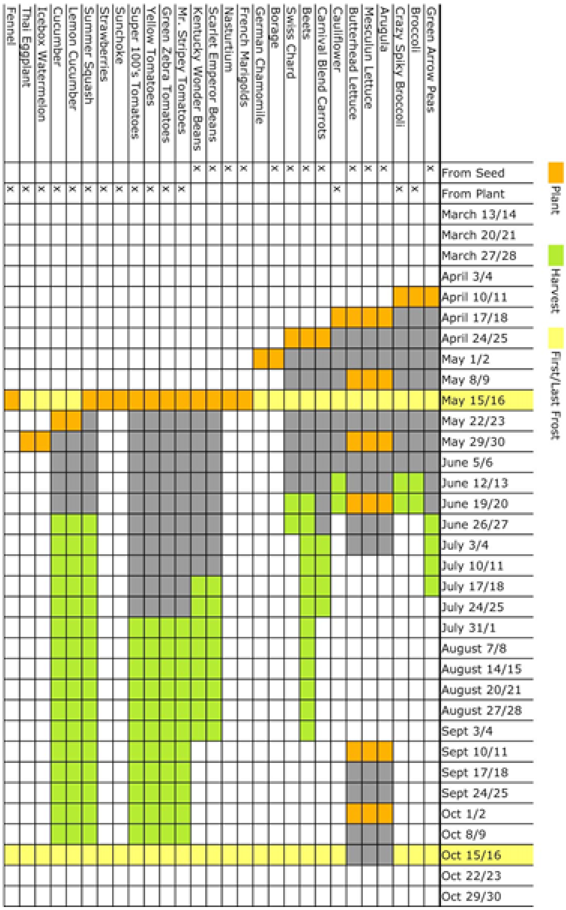


Figure 26: Example of a harvesting schedule

In the same way, you can create production records for:

- Weeding;
- Pest management;
- Irrigation scheduling;
- Delivery scheduling; and
- Equipment cleaning scheduling.

Session 5.2: Financial record keeping

Session outcomes

After completing this session, you should be able to keep different types of financial records, including:

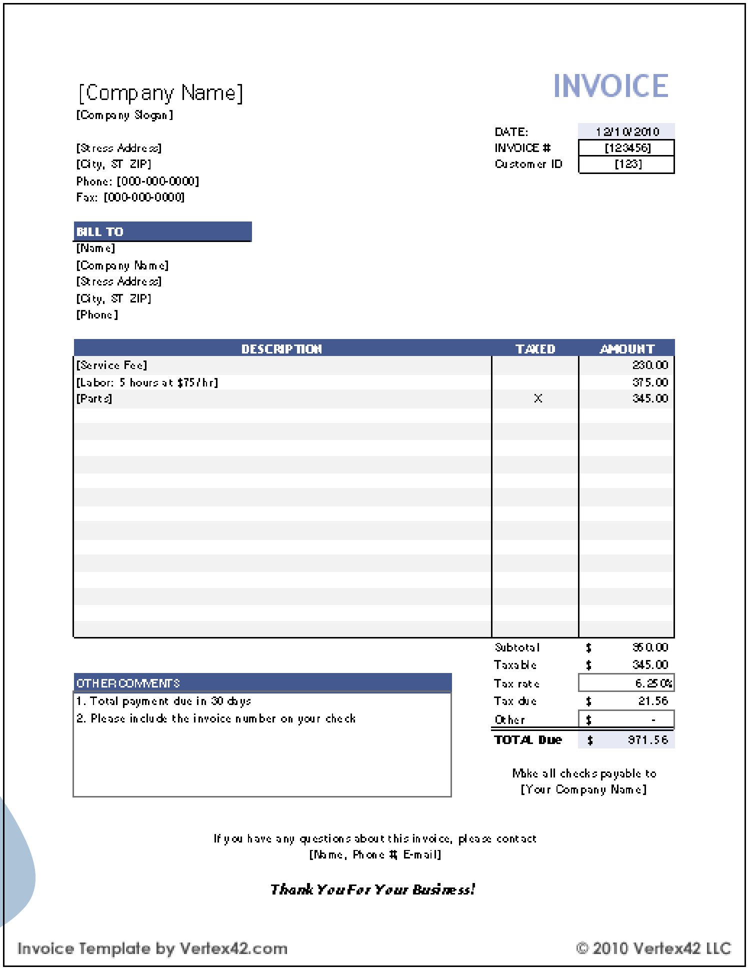
- Invoices;
- Receipts;
- Cash book;
- Sales book;
- Payments;
- Costs;
- Employment records; and
- Accounts and investments.

Introduction

Financial record keeping is a key element in efficient farm and agripreneurship management. Without reliable financial records, it is impossible to determine the financial condition or profitability of a business. Using financial records helps your client understand how and where their business is going, identify the weak links in their business and enable them to take corrective actions to address the weak links. In the following sections, the different types of financial records are discussed.

Invoices

An invoice is evidence of a particular business transaction. The invoice helps in recording expenses and the payment of expenses. Figure 27 is an example of the information that should be recorded in an invoice.



[Company Name]
[Company Slogan]

INVOICE

[Street Address]
[City, ST ZIP]
Phone: [000-000-0000]
Fax: [000-000-0000]

DATE:	12/10/2010
INVOICE #	[123456]
Customer ID	[123]

BILL TO
[Name]
[Company Name]
[Street Address]
[City, ST ZIP]
[Phone]

DESCRIPTION	TAXED	AMOUNT
[Service Fee]		230.00
[Labor: 5 hours at $75/hr]		375.00
[Parts]	X	345.00

Subtotal	$	950.00
Taxable	$	345.00
Tax rate		6.250%
Tax due	$	21.56
Other	$	-
TOTAL Due	$	971.56

OTHER COMMENTS
1. Total payment due in 30 days
2. Please include the invoice number on your check

Make all checks payable to
[Your Company Name]

If you have any questions about this invoice, please contact
[Name, Phone #, E-mail]

Thank You For Your Business!

Invoice Template by Vertex42.com
© 2010 Vertex42 LLC

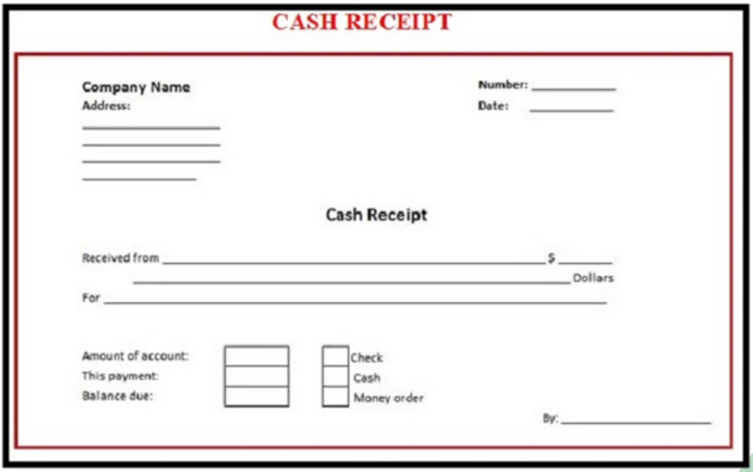
Figure 27: Example of the information that appears on an invoice

Receipts

A receipt is a document that records the following information:

- The date and time of a particular purchase;
- Item(s) purchased and the number of items purchased;
- Purchase price and totals;
- Method of payment; and
- The name of location of the store or supplier where the purchase was made.

Figure 28 is an example of a receipt.



CASH RECEIPT

Company Name
Address:

Number:
Date:

Cash Receipt

Received from $
Dollars
For

Amount of account:
This payment:
Balance due:

Check
Cash
Money order

By:

Figure 28: Example of a receipt

Cash book

The cash book, which is one of the main financial records in any business, reports on the cash that comes into the business (e.g. by means of product sales) and the cash that is used to pay for daily items during a particular period. The cash flow statement organises and reports the cash generated and used in the following four categories. Table 13 shows an example.

Table 13: Example of the entries in a cash book

Date	Item	Cash in	Cash out	Balance
	[Description or invoice number]			

Sales book

The sales book records all credit sales made by a business, while the cash sales are recorded in a cash book. Table 14 shows an example of a page in a sales book.

Table 14: Example of a page in a sales book

Product name					
Date	Customer	Amount sold	Value	Invoice date	Payment date

Employment records

Employment records usually contain the following information on staff members in your employment:

- Name, address and identification number;
- Dates of employment;
- Amounts of salaries or wages and benefits;
- Pension payments; and
- Income tax information or records.

Accounts and investment records

Farmers need to keep all their monthly **bank account statements**—at least until the next monthly statement has come in. The account statements are records of all the **debits** and **credits**. Investment records that should be kept include bank investment account records, and any other investment records that show how much your client has paid for an investment and how much they have earned selling it (if they have sold it).

Bank account statement: A record or list of all the items that have been processed through a bank account during a particular period (usually a month).
Debit: Any transaction that lowers the balance on the bank account, e.g. cash withdrawals, account payments and any other expenses.
Credit: Any transaction that increases the balance on the bank account, e.g. cash deposits, account payments to you, etc.

Complete Activity 5.1 in your workbook.

Selecting a record keeping system

There are numerous kinds of farm record keeping systems available on the market. Before your client chooses a record keeping system, they should research the different options. As an extension agent, you can help your clients look for record keeping systems that fit their specific farm operations. Keep in mind that an effective record keeping system is one that will provide the necessary information when it is needed. You clients can use paper-based records, Excel spreadsheets or other computer software and systems.

Paper-based records

Small farms and agripreneurships just starting out often find that paper-based records meet their needs. The paper-based records are kept in different folders in a filing system, with categories of related records being kept in separate folders. The advantage of this system is that it is simple and easy to use. The disadvantage is that the information is not always easy to find especially if it not well organised and it may be difficult to access the relevant records when your client needs them.

Excel spreadsheets

Using a basic Excel spreadsheet is essentially a compromise between paper systems and more sophisticated record keeping software. If your clients are running a small and relatively simple operation, Excel spreadsheets may serve their needs well for many years.

Computer programs and systems

Computer programs and software that are being used at scale in developing country value chains are Farmforce and SourceTrace, but there are many other companies and start-ups offering new farming services. The following are examples of computer programs and systems that can be used for record keeping in agricultural businesses:

AgSquared

AgSquared is an online program that includes a set of planning, management, record keeping, and analysis tools that work together to help farmers run their farms more smoothly. It allows farmers to turn their seasonal crop plan into a daily task list, which serves as the starting point for their records. These records become the foundation for the next year's crop plan. AgSquared is available at the following link: http://www.agsquared.com/en/about

Agroptima

Agroptima is a simple farm management program that allows farmers to record their tasks and have an overview of their business. Agroptima is available at the following link: https://www.agroptima.com/en/

Farmforce

Farmforce has been created to help smallholders gain access to formal markets and improve the effectiveness of outgrower schemes. Formal markets can increase the number of potential buyers for smallholder produce but these markets require traceability and compliance to food safety standards; something which has traditionally been challenging and time consuming. Farmforce is helping to change the game by using mobile technology to make traceability and compliance an integral part of smallholder production and to redefine the relationship between growers, manufacturers and markets. Farmforce is available via http://www.farmforce.com/

MapShots AgStudio

AgStudio is agricultural software that farmers can use for:

- Crop record keeping
- Creating field planting maps;
- Tracking and analysing income and harvest inventories;
- Performing in-depth data analysis
- Generating customised reports; and
- Tracking and logging harvest data anywhere.

AgStudio is available at:
https://www.mapshots.com/products/

LandMagic

LandMagic offers different web-based agriculture software products that enable farmers to perform crop production management, land management and harvest management.

LandMagic is available at the following link:
http://www.landmagic.com/

Quicken

Quicken is an online personal finance management tool that is widely used to keep financial records. You can access Quicken products and services at the following link:
https://www.quicken.com/

SourceTrace

SourceTrace systems specialises in agricultural software mobile applications for developing countries with a primary focus on sustainable agriculture and empowerment for smallholder farmers. SourceTrace farmer-centric mobile applications help manage the agricultural value chain all the way along the chain to enable smallholder farmers to participate in local and global markets. SourceTrace mobile applications are scalable from small co-operatives, farmer producer companies to large agribusiness corporations and government agencies in the sustainable development sector. SourceTrade is available here: http://www.sourcetrace.com/. You may find valuable information on the different computer packages at the following website, which reviews the top farm management software products: http://www.capterra.com/farm-management-software/

Concluding remarks

In this study unit, you have learned about the record keeping involved in a farming operation or agripreneur. You learned that your clients should be able to maintain the following two types of record keeping: operations record keeping, which includes soil conditioning records, seed-starting records, planting records and harvesting schedule records, and financial record keeping, which involves the following records: invoices, receipts, the cash book and the sales book, costs, accounts and investments and employment records.

Complete the summative assessment in your workbook.

Study unit 6: Building a business and managing relationships

Study unit outcomes

After completing this study unit, you should be able to:
- Put plans into action and monitor progress; and
- Manage relationships.

Study unit overview

This study unit is designed to help extensionists support farmers and farmer groups when they have started their business ventures, using a set of tools to help assess the performance of the business and for planning the next steps. Completing this module should allow you to:
- Help farmers plan their business strategies;
- Monitor performance; and
- Manage relationships with their team, service providers, value chain partners and customers.

Study unit introduction

Once you and your extension clients have identified their market opportunities, compiled a business plan, put measures for financial management, sales and risk management in place and designed a record keeping system, you can move forward. Next, you need to put plans into action to launch, run and grow the business, monitor progress, manage change and manage relationships with all the **stakeholders** involved in the business.

Stakeholder: Any individual, enterprise or organisation that is directly or indirectly involved in a business, e.g. customers, suppliers and distributors, government organisations and departments, etc.

Session 6.1: Putting plans into action and monitoring progress

Session outcomes

After completing this session, you should be able to:
- Put plans into action to launch, run and grow a business;
- Put plans into action to monitor progress; and
- Introduce innovations to manage change.

Introduction

Launching a business involves presenting it to the public for the first time. In this session, the business launch, as well as the plans for running and growing the business will be addressed.

Launching and growing business

The following steps are involved in launching a new agripreneurship:

Step 1: Conduct proper planning

Although the business plan is a valuable tool in any business, planning the launch of a business is not limited to the business plan. It is important to include the following four levels in enterprise planning: marketing, business planning, production and post-harvest planning.

On the production and implementation level of planning, you and your client have to consider the following:
- All the requirements that may be needed, e.g. land preparation, seeds, production schedule, labour and capital;
- Potential problems, such as the effects of rain being earlier or later than normal;

- Post-harvest handling, which includes sorting, grading, packing, storing and transporting the crop to the market;
- Getting the product to market, at the right time, place and price; and
- Cost and quality.

Step 2: Test your business idea

It has been established that approximately 60% of all new businesses face major problems or fail during the first three years—this mainly happens because the business owners rush into action without properly checking that there actually is a demand for the idea in the market and they can be competitive. Therefore, it is essential to do proper research about the feasibility of the business idea and to consult with experts and advisors, if necessary.

To help with the final preparation, your clients should present their plan to you and, if possible, consider asking others to listen to the presentation. You may also ask the farmers to seek additional advice from other experts in the sector, who may have an in-depth knowledge and experience about their product, target markets and buyers, in order to refine the business plan and model.

The three most important aspects to present for feedback will be the:

- Business canvas;
- Implementation plan; and
- Financial plan.

The farmers need to present their business ideas, after which you, as the extension advisor, and other experts, can ask questions about:

- How logical the business is;
- The credibility of the ideas and figures;
- Any major gaps in the business idea;
- Whether the farmers can afford to enter into this business; and
- The appropriateness and acceptability of the risk.

This type of session may help to identify where improvements can be made and also clarify who is leading the process, who is responsible for the various parts of the plan and the level of motivation and energy to put this plan into action.

Step 3: Make sure that you know the market

In order to gain enough information on the market that your clients are about to enter, both you and your client may consider whether they have:

- Completed all the research about the market; and
- Consulted the key suppliers, distributors, competitors and customers to obtain different perspectives about the market.

Your clients should also respond to feedback from these stakeholders in order to refine their business idea and business model.

Step 4: Make sure that you know the customer

It is essential to understand the characteristics and buying behaviour of your clients' potential customers: they are one of the key determinants of a business' success. You and the agripreneur need to determine:

- The level of commitment to their supplier;
- Level of reliability;
- What drives their buying decisions;
- How they can differentiate their products from that of their competitors; and
- How the farmer can convince the supplier of the value of their product.

Step 5: Establish cash and other financial resources

During the first few months, and perhaps years of a business, your clients will experience great uncertainty. They have to take steps to ensure they have enough capital for their business and to secure sources of cash for growth. They should determine how much they can do with existing resources of funding and how much funding they will be able to obtain from savings, partners and external sources.

Step 6: Select an appropriate business structure

It is important that your clients select the appropriate **business structure** from the start. It is advisable to focus on a simple business structure during the early years of the business.

Business structure: The arrangement of authority lines, communication lines, roles and responsibilities within a business.

Step 7: Build the right team

One of the most critical steps in launching a business is to build a team that has clear roles, works well together and that can deliver the goods. Your clients' team members should share their ideas about how the business should be run and they should agree on common values that will be applied in conducting business and making decisions. It is important to clarify who is in charge of the key positions in the business or group. The most common positions are outlined in Table 15.

Table 15: Common positions in a business or group

Position	Role
Chairperson/Manager	• Sets strategy and puts plans into action; and • Makes final decisions.
Secretary	• Keeps all records of meetings; and • Reports to the manager.
Finance/Accountant	• Keeps records of all financial transactions; and • Manages relations with payments from suppliers, income from buyers and credit lines from lenders.

Position	Role
Production Manager	• Keeps records of all planting, production and harvesting plans; and • Links production schedule to sales targets.
Marketing Manager	• Maintains links with buyers and suppliers; and • Manages links between production and markets, records inventory and sales.
Member/Employee	• Supports the production of product; and • Manages key aspects of the business operations.

This team will need to meet on a regular basis to monitor progress and deal with any challenges or problems that arise.

Step 8: Be prepared for problems and change

In all business ventures, there are issues that arise and problems to face. One of the most important skills any business team can have is the ability to deal with problems as they arise and to make changes to their plan accordingly. Identifying and managing problems will require the team to meet and discuss issues regularly and these meetings need to be planned.

As many businesses go through periods of problems or even failure, a key trait of a strong entrepreneur is the ability to learn from mistakes quickly and to find ways to overcome them. It is common to find that a first business attempt will fail, but the learning that occurs during this work is invaluable to the success of future business ventures and plans.

The business team needs to go into their investment with a clear understanding that they will inevitably face problems and must be ready to make changes constantly, in order to launch and maintain their business successfully. As the extension agent, you may want to consider the following key aspects, which are involved in the evaluation of change:

- How can the agripreneurship approach be expanded?
- How can decision-making support tools be integrated to develop improved market linkage for farmers?
- What information and technical support do agripreneurs need to make well-informed decisions?
- What enabling institutional and policy arrangements are needed for a more productive and market-orientated agriculture?

Running and growing a business

Once the enterprise plan is place, your clients can use a business checklist in order to ensure the proper running and growing of the enterprise. Table 11 gives an example of the business checklist.

Table 16: The business checklist

Marketing	
Who is the buyer?	
Sales targets	
Define the product: • What is the quality class: A, B or C? • What are the alternative markets? • Packaging requirements; and • Labelling of farm produce.	

Price: • How will farmers be paid? • Promotion (What will be attractive to the buyer?); and • Distribution needs.	
Production target	

Production target to match sales target:
• Schedule of delivery (weekly, monthly, etc.);
• Production inputs needed; and
• Technology requirements:
    ◦ Upgrading of production; and
    ◦ Needs in post-harvest.	

Financial targets	
Capital requirements for production target	
What needs to be available for start-up?	
Operational requirements	
Sources of capital: • Local sources; • External sources (Grants, loans, etc.)	
Management	
Who is responsible for what?	
How are they paid?	
What are their incentives?	

Review process	
Review the system every 3–6 months.	
Compare targets and determine if they are well linked.	
Identify changes that may be needed.	
Conduct more regular reviews as the product increases in value.	

Growing the business is determined by the following four key elements:

- Past performance;
- Partners;
- Resources; and
- The numbers involved from the outset.

Business processes should only be scaled up when there is something tangible and positive to scale up. Additional training may be more profitable once the agripreneur or farmer group understands their strengths and weaknesses.

Monitoring progress against targets

The final step for the extension agent is to evaluate the business process. This can be done with the agripreneur or group at the end of the first season or year. The purpose of this overall monitoring is to draw lessons from the experience and compare the level of progress with other approaches being undertaken in the project area and other areas.

Progress monitoring or evaluation should be conducted on the following levels:

- Business performance;
- Process performance;

- Equity and wealth; and
- Institutional change.

Business performance

The following elements are relevant to the evaluation of process performance:
- Did the target business formulate a strong business case?
- How well organised was the agripreneur/business team?
- How many people were involved in the business?
- Did the production team meet their targets?
- Define and explain any positive or negative variance.
- Did the financial plan meet the needs of the agripreneur?
- Define and explain any positive or negative variance
- Did the marketing/sales team meet their targets?
- Did the business make a profit and, if so, how much?
- Will the agripreneur continue in the next season?
- Are there any major changes that need to be made to improve performance?
- Does the agripreneur need any additional capacity building?

Process performance

For the extension agent/the agency supporting the extension agent, the following elements are relevant to the evaluation of process performance:
- Is the agripreneurship development an effective mechanism for empowering resource-poor rural communities to link with markets?
- What was the level of community participation and empowerment in the process of evaluating the market, designing the entrepreneurship and monitoring the outcomes?
- What type of product value or market type combinations work best with the selected communities?
- Does agripreneurship development create new market or business entrances?
- What are the minimum resources and capacities required to participate in agripreneurship projects?

- How do capacity, organisational levels and competence affect process performance?
- Does agripreneurship development facilitate better working relationships across development agencies and between public and private-sector agents?
- How does agripreneurship development contribute to changes in rural livelihood strategies on community and administrative levels?

Equity and wealth

Monitoring equity and wealth involves the following criteria and considerations:

- Does agripreneurship improve the livelihoods of vulnerable groups such as women and the poorer social segment?
- Does agripreneurship stimulate innovation cycles and streams?
- Does agripreneurship stimulate greater investment in sustainable natural resource management?

Complete Activity 6.1 in your workbook.

Session 6.2: Managing relationships

Session outcomes

After studying this session, you should be able to explain how you will work with:

- Customers;
- Labourers;
- Service providers;
- Key partners; and
- Financial partners.

Introduction

One way to help the agripreneur support business in the challenging and changing market environment of smallholder agriculture is to ensure that all stakeholders are engaged in ways that enhances their cooperation with the agripreneur.

There is a difference between internal and external stakeholders. Internal stakeholders include employees, customers, suppliers and service providers and financial partners, whereas external stakeholders include the general public, communities and groups and the media. Working with stakeholders refers to your ability to build long-term or ongoing relationships with stakeholders.

In this session, the difference between internal and external stakeholders will be highlighted and the focus will be on two concepts regarding relationships in the agripreneur field, namely business relationship management and customer relationship management.

Managing business relationships

The term business relationship management refers to the strategies, processes and behaviours involved in creating and maintaining value-producing relationships between an agripreneur and all its stakeholders, including: employees (labour), service providers, key partners and financial partners.

Principles of business relationship management

Business relationship management is based on the following, underlying principles:

- Acknowledge and actively monitor the concerns of all your stakeholders and take their interests into account when making business decisions;
- Listen to, and communicate openly with your stakeholders about their concerns and contributions;
- Implement processes and modes of behaviour that are sensitive to the concerns, opinions and contributions of each stakeholder;
- Recognise the interdependence of the stakeholders' efforts and try to achieve a fair distribution of the benefits among them;
- Cooperate with all stakeholders to ensure that your business risks are minimised; and
- Acknowledge the potential of conflicts between stakeholders and address such conflict (if it does occur) through open communication.

Steps involved in business relationship management

The agripreneur should manage their business relationships by taking the following steps:

Step 1: Identify all stakeholders

Be specific and make sure that all stakeholders are identified, including suppliers, employees, distributors, financial partners (e.g. commercial banks) and government agencies and non-government organisations

Step 2: Define the impact of each relationship

As the agripreneur you need to determine how a relationship affects your ability to achieve your goals. By collaborating with role players and stakeholders, you can make significant improvements in operations, production, product quality and financial results.

Step 3: Identify common ground

As you begin the relationship management process, try to identify what the common interests and shared goals are between you and the other stakeholder(s).

Step 4: Develop action plans

Once you have identified all your stakeholders and you are aware of the impact of each of these relationships, you need to prioritise the stakeholders and develop a specific game plan for the most important relationships to start the process. Identify three or four specific steps that you can take to implement strategies for managing the relationship. Communication strategies are particularly important and you should consider communication methods such as regular face-to-face meetings, e-mail updates, or other ways of sharing information with stakeholders.

Step 5: Identify measurable results

Identify indicators that you can use to measure the results and success of your business relationship management effort.

Managing customer relationships

At this point, the agripreneur should be fully aware of the importance of the customer in the agripreneur and they would understand that the management of customer relationships is a key element in the growth and business success of their enterprise or operation. The main purpose of managing customer relationships is to analyse customer-related information in order to:

- Understand customer needs (buyer needs) and buying patterns, based on reliable information;
- Identify buying patterns and the high-value customers who produce the greatest profit for a business;
- Retain existing customers or buyers by improving their overall experience with the agripreneur;
- Improve the customer's experience with the agripreneur and ensure customer satisfaction and customer loyalty;
- Attract new customers and buyers and enter into new sales contracts;
- Drive the sales effort; and
- Increase sales growth and profitability.

Customer relationship management in agriculture

Customer relationship management (CRM) involves the application of practices, strategies and technologies to analyse and manage the interactions and relationships between a business and its customers. One of the main issues that new agripreneurs face is how to increase their sales in a risky and highly competitive market environment, which leads to the focus on customers, retaining existing customers and obtaining new customers. CRM as a way of improving the performance of agricultural organisations and businesses has been receiving a great deal attention.

Successfully implementing CRM in agricultural enterprises has the following benefits:

- Increase in sales and profitability;
- Improved placement of products;
- Increased customer satisfaction;
- Increased retention of the existing customer base, particularly during the times of economic uncertainty; and
- Increased chance for attracting new customers.

A CRM system should include a series of activities that will offer agricultural businesses the opportunity to obtain or maintain the advantage over their competitors. Agri-businesses have to create a knowledge base about their customers, so that their products can meet the current needs and requirements of their customers. Agri-businesses should also consider the potential and unidentified customer needs, in order to obtain information about them and use the information to adapt its product offerings, so as improve customer satisfaction.

The following six key elements and activities should be included in CRM programmes for agricultural business and entrepreneurships.

CRM goals

It is important to align CRM goals to the essential goals of the agricultural enterprise, which directly affect their performance. These goals include:

- Increasing customer satisfaction with products or services;
- Providing value to customers and increasing customer loyalty;
- Maintaining long-term relationships with customers/buyers and retaining existing customers;
- Gaining a reputation of fairness among customers; and
- Achieving mutual trust with customers.

Customer information

One of the key elements in the success of both the agripreneur and the CRM programme is to collect, analyse and use reliable customer-related information and customer behaviour during the **customer lifecycle**. It is important to use this information in different business areas, from production to marketing.

Customer lifecycle: Customer life cycle: The different stages through which a customer goes, from considering a product to the point of actually buying it.

Market approach

When approaching the market, agricultural business should use strategies such as:

- Superior product quality;
- Superior customer service;
- Lower prices;
- **Product differentiation**; and
- Customised offering of products as well as lower prices.

Product differentiation: The process of distinguishing a particular product from that of competitors, making it more attractive to a particular target market.

Maintaining and developing customer relationships

One advantage that agricultural businesses have over other business models is that they can gain complete trust of their targeted group.

Assessment of technological infrastructure

CRM solutions are designed to provide the information that is needed to develop and implement a strategy to maximise customer profit, and, thereby, provide the business with a competitive advantage. Analysis of CRM technology can help businesses to understand the customer and find hidden opportunities for meeting the increasing customer demands.

Complete Activity 6.2 in your workbook.

Concluding remarks

In this study unit, you learned how agripreneurs should launch and grow their enterprises or operations by conducting proper planning, testing their business idea, making sure that they know the market and their customers, establishing financial resources, selecting a proper business structure and building the right team.

You also learned how you, as the extension agent, can assist the farmer run and grow their business and how to use the business checklist to do so. Once an agripreneur is running and growing, the progress should be monitored. In this study unit, you learned how to support the farmer in monitoring progress on the levels of process performance, equity and wealth and institutional change.

Finally, you learned the principles and practices involved in managing business and customer relationships in an agripreneur.

Complete the summative assessment in your workbook.

Complete the post-assessment in your workbook.

Glossary

Definitions

Word	Definition
Active listening	A structured form of listening and responding in which the listener focuses attention on the speaker, thereby improving mutual understanding.
Agripreneurship	Entrepreneurship that relates to the marketing and production of various agricultural products, as well as agricultural inputs.
Agricultural bank	A bank that started as a government-owned institution that provides credit for investments in agriculture and other production activities.
Agricultural entrepreneurship	See: Agripreneurship.
Agricultural inputs	Products or resources that farmers use in farm production, e.g. seed, fertilisers and agri-chemicals.
Agronomic thinking	Thinking related to agronomy, which is a branch of agriculture that deals with crop production and soil management.
Asset	An economic resource with economic value.
Balance sheet	A financial statement that presents the financial position of a business at the end of a particular period.

Word	Definition
Bank account statement	A record or list of all the items that have been processed through a bank account during a particular period (usually a month).
Barriers to entry	Factors that may prevent a new business owner from entering a particular market.
Board of Directors	A group of individuals, who are elected (chosen) as representatives of the shareholders and who oversee the activities and operations of an enterprise.
Bookkeeping	The process of recording, classifying and maintaining the financial transactions and activities of a business.
Brainstorm	A group discussion that is conducted in order to produce solutions to problems or develop new ideas.
Brand	A distinguishing name, symbol or logo that identifies a product and distinguishes it from other products on the market.
Breakeven point	The income that is needed to cover the total amount of the expenses of a business during a particular period.
Budget	A financial document that gives the estimated future income, costs, expenses and resources of a business for a particular period, e.g. year.
Bulking	Storage of a large quantity or volume of a product.
Business enterprise	See: Enterprise.

Word	Definition
Business plan	A document that outlines the financial and operational goals of a business enterprise or unit for the near future.
Business process map	A visual representation of the activities involved in the operations and processes in a particular business.
Business relationship management	The strategies, processes and behaviours involved in creating and maintaining value-producing relationships between an agripreneur and all its stakeholders.
Business structure	The arrangement of authority lines, communication lines, roles and responsibilities within a business.
Capital	Money or other assets that farmers have available and that they can use to contribute to a particular cause or invest in a business effort.
Cash flow	The movement of funds in and out of a business.
Cash flow forecast	An estimate of the amounts and the timing of cash inflows and outflows that you expect over a particular period (usually a year), broken down by month.
Cash flow statement	A financial report that gives information on the cash generated and used in the following categories: operations, investments, financing and supplementary activities, such as income tax and interest.
Chief executive officer	The highest-ranking executive manager (general manager) in an enterprise.

Word	Definition
Codex Alimentarius	A collection of internationally recognised standards, codes of practice, guidelines and other recommendations relating to foods, food production, and food safety.
Collective marketing	A marketing approach in which a number of farmers, producers or growers work together to sell their combined crops.
Commercial activity	Activity that involves trade and trading.
Commercial bank	A profit-based, financial institution that is legally authorised to offer various financial services.
Commodity	A raw material (e.g. copper) or an agricultural product (e.g. coffee) that can be bought and sold.
Competitive advantage	The factors that allow a business to differentiate its product(s) or service(s) from those of its competitors, in order to increase its market share.
Competitor analysis	A tool that is used to evaluate the strengths and weaknesses of the competitors of a business in a particular market.
Condition	A contractual term and if breached, it gives the injured party the right to cancel the contract and claim damages.
Conflict	A strong disagreement between individuals or groups regarding ideas or interests that may result in an argument.
Conflict resolution	The method of finding a solution to a disagreement between two or more parties.

Word	Definition
Contract	An oral or a written agreement according to which two (or more) parties bind themselves to certain obligations of which the fulfilment is legally binding.
Contractual marketing	A marketing approach in which companies at different levels of the value chain (e.g. production and distribution) work together to achieve greater financial advantages than they would have on their own.
Credit	Any transaction that increases the balance on the bank account, e.g. cash deposits, account payments to you, etc.
Customer life cyle	The different stages through which a customer goes, from considering a product to the point of actually buying it.
Credit mobilisation	Pooling the capital or savings of a group together in one common fund.
Customer relationship management	The application of practices, strategies and technologies to analyse and manage the interactions and relationships between a business and its customers.
Customer relations	The process by means of which a business interacts with and develops, establishes and maintains relations with its customers.
Customer satisfaction	A term that is often used in marketing and that points to the extent to which the products or services of a business meet or exceed customers' expectations.

Word	Definition
Customer service	The process of ensuring customer satisfaction with a product or service by taking care of customer needs and providing professional and helpful assistance to the customer.
Debit	Any transaction that lowers the balance on the bank account, e.g. cash withdrawals, account payments and any other expenses.
Decision making	The thought process of making a sensible choice from available options.
Demonstration plot	A field or a small area of land that is used to teach farmers, teach, experiment and share ideas about agricultural practices, so that farmer groups can learn, practice and track the cost of new crops and improved techniques.
Discount customers	Customers who seek products from the business when it is offering price reductions.
Diversification	The strategy of entering a new market or a new industry, in order to increase sales and profitability.
E-money	Electronic money that is exchanged electronically by means of a computer or a mobile phone.
Economies of scale	The cost advantage resulting from an increased output of a product.
Electronic money	See: E-money.

Word	Definition
Employee satisfaction	The extent to which employees are happy and content in their jobs or in their positions in a particular business.
Endemic	A condition that is regularly found in a particular area or among particular people.
Enterprise	Any business operation or organisation that provides goods or services with the primary motive of making a profit, rather than employment.
Entrepreneur	An individual who starts, organises and manages a business venture, taking financial risks to do so.
Executive	Someone that has the power to put plans into action.
Expense	Money that is spent.
Firmographics	A method that is used to identify customers, based on the qualities that apply to profitable businesses.
Floor price	The lowest legal price at which a product can be sold.
Fraction	A quantity that is not a whole number, e.g. ¾.
Gross margin	The total sales revenue (income) minus the cost of goods sold, divided by the total sales income and expressed as a percentage.
Human resource planning	The process by means of which the agripreneur ensures that he has the right workers, who are capable of completing specific tasks.

Word	Definition
Impact investing	Investments made into companies, organisations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.
Income statement	A financial statement that shows the profitability of a business during a particular period.
Industrial market	Market that involves the sales of goods and products between businesses.
Information and communications technology	The integration of communication devices, applications and services, including computers and computer networks, mobile phones and television to enable users to access, store, transfer and manipulate information.
Innovative	Capable of creating thinking and introducing new and original ideas.
Innovator	An individual who is known for creative thinking and for introducing new methods to original processes.
Interest	Money paid regularly (at a particular rate that is expressed as an annual percentage) for loans or paying debts.
Interview	A purposeful conversation between an interviewer (the agripreneur) and an interviewee (the buyer) that requires the interviewer to ask concise, market-related questions to which the interviewee responds.

Word	Definition
Investor	An individual or an institution who places money into a particular business in return for an ownership or partner stake in the business.
Knowledge broker	An intermediary (an organisation or a person) develops relationships and networks between or among the creators (producers) and users of knowledge by providing linkages, information or knowledge sources, e.g. technical knowledge, market insights and research results and findings.
Lead	An individual who has provided contact information that may point to a potential sales opportunity.
Lead farmers	Farmers who lead farmer-to-farmer extension services, based on their agricultural expertise.
Liquidity	A measure of how easy it is to convert assets into cash.
Loyal customers	Customers who regularly seek services or products from a specific business and remain loyal to that business.
Market analysis	The study of a market, in order to determine the attractiveness of the market in a particular industry and to understand the opportunities and threats in the market, as they relate to the strengths and weaknesses of an enterprise.

Word	Definition
Market opportunity	A favourable condition in the market that a business can use to its advantage, e.g. a changing trend, or an increased demand for a product that competitors have not yet recognised.
Market opportunity identification	A systematic, participatory method for collecting market information to identify and select products and services for investment and agripreneur development.
Market penetration pricing	Setting a low price on a new product, in order to penetrate the market quickly and attract large numbers of buyers from the start.
Market price	The unique price on which buyers and sellers agree to trade in a particular market.
Market research	The process of collecting and analysing information about the market into which an enterprise or a new business is entering, in order to evaluate (assess) the viability of the new product or service.
Market share	The portion of the market that is controlled by a particular business or enterprise.
Market skimming pricing	Setting a high price on a new product for a start, in order to "skim" the market, and lowering the price as product demand increases.
Market survey	The systematic collection of market-related data (e.g. data on target markets and customers) from a population or part of a population to determine the present status of a situation, event or process.

Word	Definition
Marketing	The process responsible for identifying, anticipating and satisfying customer requirements profitably.
Marketing communication mix	The specific blend of advertising, sales promotions, public relations (PR), personal selling and direct marketing tools that an enterprise uses to communicate product value it its customers.
Marketing mix	A set of tactics and strategies that an enterprise uses to promote its product in a particular market and that is made up of the so-called four Ps of marketing: product, price, place and promotion.
Marketing strategy	A model that directs the way in which a producer will focus limited resources on the best opportunities, in order to increase sales.
Memorandum of Incorporation	The founding document of an enterprise that sets out the structure and the governing rules of an enterprise.
Microfinance institute	A financial institution that is designed to work with households and enterprises with smaller borrowing capacity than clients of commercial banks.
Migrant worker	A person who moves from place-to-place to find work, e.g. farm labourers who harvest crops seasonally.
Mitigate	Minimise.
Need-based customers	Customers who only buy a product when a particular need for it arises.

Word	Definition
Negotiation	A discussion method by means of which differences between individuals and groups are settled.
Niche market	A profitable portion of a particular market on which business efforts are focused.
Opportunistic sales	Sales that are based on responding to whatever sales opportunity becomes available.
Organisational structure	See: Business structure.
Overdraft	A short-term loan that allows a client to draw more money than what is available on his/her current account up to a certain limit.
Para-vet extension agent	A local service provider that provides basic frontline medical services for farm animals, in most cases diagnosis for common pests and diseases and sales of medical/veterinary products.
Payroll	The record of the salaries, wages, bonuses and taxes or the workers employed in a company.
Persuasion	The process of changing an individual or a group's attitude or behaviour towards an idea, event or issue by means of written and verbal communication.
Pluralistic extension	Extension that is characterised by the inclusion, interaction and coordination of multiple providers and services, funding options and multiple information sources.

Word	Definition
Positioning strategy	A marketing strategy that aims at placing a product or brand in a particular position—relative to competing brands and products—in the mind of the customer.
Primary data source	Written or oral information obtained from a direct witness of, or a participant in, an event or a process, e.g. direct accounts, correspondence and speeches.
Private enterprise	An association of one or more persons, governed by the Companies Act and the Memorandum of Incorporation, that is not allowed to offer its shares to the public.
Product differentiation	The process of distinguishing a particular product from that of competitors, making it more attractive to a particular target market.
Product grading	The process of sorting units of a product into defined classes or grades of quality according to specified standards.
Profit	A financial gain that is expressed as the difference between the money earned (by sales) and the money spent in buying, producing or manufacturing a product.
Profit and loss statement	A financial statement that summarises the income, costs and expenses of a business during a particular period, in order to provide information on the ability of the business to generate profit by increasing income or by reducing costs.

Word	Definition
Promotion	The process of creating customer awareness of a particular product, in order to generate sales and increase customer loyalty.
Promotion mix	See: Marketing communication mix.
Prospect	Potential customer.
Prospecting	The sales process of recruiting or searching for new customers for a business.
Public enterprise	An association of one or more persons who is/are allowed to trade its shares on the open market.
Questionnaire	A list of questions that are asked to respondents (e.g. consumers of a particular product) to obtain specific information.
Rating scale	A tool that is used for assessing the performance level of tasks or the skill level involved in performing a particular task.
Reconciliation	The process that explains the difference between the bank balance shown in the bank statements of the agripreneur (as supplied by the bank) and the balance shown in the financial records of the enterprise.
Recruitment	The process of finding workers to fill vacant positions in the agri-business.
Remittance	Transfer of money across national borders by **migrant workers**.
Reputation	The beliefs or opinions that customers generally hold about a business, its products and services.

Word	Definition
Resources	Any physical entity that is required to carry out a particular task, activity or project, e.g. materials, money, people, equipment or facilities.
Retailer	A business that sells goods directly to individual consumers.
Return on investment	A measure of the profit of an investment, expressed as a percentage of the original cost.
Revenue	The total income that is generated before any costs or expenses have been deducted.
Risk	A situation that may lead to loss, damage, danger or injury.
Sales contract	A legal agreement to accept or deliver a specified quantity of a product (e.g. grain) with a specified minimum physical or chemical content and produced according to a specified method.
Sales forecast	A month-to-month forecast of the expected level of sales of a business.
Sales presentation	The detailed presentation of information (which may include a demonstration) on a particular product, for the purpose of closing a sale.
Savings and credit cooperative	A member-owned and member-governed savings and credit institution that was developed to empower poor communities to manage their own financial resources.
Seasonal calendar	A record of the expenses and income of a business over a year.

Word	Definition
Seasonal income	Cyclical income patterns involving earning money only during some parts of the year.
Secondary data source	Primary data that has been analysed and or processed, thereby providing second-hand information about an event or a process, e.g. books, journal articles, newspapers and collected consumer information made available by consumer research organisations.
Share	A unit of investment in an individual enterprise.
Shareholder	An individual who legally owns at least one share in a enterprise.
Smallholder	A farmer who owns a small plot of land, on which he/she grows self-sustaining crops, and relies mainly on family labour.
SMART skills	Skills for Marketing and Rural Transformation.
Single ownership	A business that is owned and controlled by one person (producer or trader).
Staff turnover	The number of permanent employees who leaves a business within a reported period, versus the number of actual active permanent employees on the last day of the previous reported period.
Stakeholder	Any individual, enterprise or organisation that is directly or indirectly involved in a business, e.g. customers, suppliers and distributors, government organisations and departments, etc.

Word	Definition
Stock exchange	A financial market in which the shares of public companies are traded (bought and sold).
Supplier	A company or a business that supplies goods or services to another business, in this case a farming operation or an agri-entrepreneurship.
Term	A provision in the contract that states an obligation or set of obligations imposed (forced) on one or more of the parties.
Tillage	The preparation of soil or land for growing crops.
Trade agreement	An agreement between two or more countries that stipulate the terms according to which goods and services can be exchanged.
Trade association	An organisation that operates in a particular industry or sector and focuses on the collaboration between businesses in the industry.
Urbanise	Become more industrial or city-like.
Value-added product	A product that has been produced or processed in a way that increases its value, e.g. processing wheat into flour.
Value capture	The process of maintaining a percentage of the value provided in every transaction.

Word	Definition
Value proposition	A (marketing) statement that identifies and briefly describes the unique value or benefits that a product would offer your customers that the products of your competitors do not offer.
Variable	A characteristic or a number that increases or decreases and, therefore, takes different values in different situations and times.
Warehouse receipt	A document that provides proof of ownership of goods or products stored in a warehouse.
Weather indexed insurance	An insurance system in which the payout is linked to measured environmental conditions by using indices (closely related to agricultural production losses), such as rainfall, wind speed, temperature and vegetation levels.
Wet market	A market that sells fresh meat and produce.
Wholesaler	A company that buys large quantities of products or goods from different producers or farmers, stores them and sells them to retailers.

Abbreviations

Abbreviation	Description
ASCA	Accumulating Savings and Credit Associations
CEO	Chief Executive Officer
CIAT	International Center for Tropical Agriculture
CRM	Customer Relationship Management
CRS	Catholic Relief Services
FAO	Food and Agriculture Organization of the United Nations
GSM	Global System for Mobile Communication
ICT	Information and Communications Technology
MEAS	Modernizing Extension and Advisory Services
MFI	Microfinance Institution
MOI	Market Opportunity Identification
mt	Metric tonne
ROCSA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
TOPS	Technical and Operational Performance Support
USAID	United States Agency for International Development

Resources

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Other modules of the New Extensionist modules are:

1. Introduction to the New Extensionist
2. Extension Methods and Tools
3. Extension Programme Management
4. Professional Ethics
5. Adult Education for Behavioural Change
6. Knowledge Management for RAS
7. Introduction to Facilitation for Development
8. Community Mobilisation
9. Farmer Organisational Development
10. Value Chain Extension
11. **Agricultural Entrepreneurship**
12. Gender in Extension and Advisory Services
13. Risk Mitigation and Adaptation

Other related modules developed by GFRAS are on:

- Evaluation of Extension Programmes
- Policy Advocacy for RAS