FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

Manual

FEED THE FUTURE KENYA

Accelerated value chain development (AVCD) program

Root crops component

Business skills and entrepreneurship development training and planning manual

for Potato producer cooperatives and youth groups

Submitted to:

International Potato Center (CIP)

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Business skills and entrepreneurship development training and planning manual for potato producer cooperatives and youth groups

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INTRODUCTION

Business Skills & Entrepreneurship Development

The Approach

The holistic capacity development of farmer organisations (FOs) in many cases and aspect involves the identification and analysis of capacity gaps and the creation of 'gap filling' measures that entail more than simple training. The farmers' organisations may lack skills, knowledge, information, or it could be simple lack of motivation. The materials for the Business Skill & Entrepreneurship Development training & planning are specially designed to work with available resources and attempt to provide learning inputs targeting behavioural gaps (lack of motivation, business culture etc), informational gaps (awareness), skill gaps (know how) that limit their business growth and development.

Participants do not need to have had any significant formal education but need to have basic literacy and numeracy skills. The entire business skills and entrepreneurship development training follow principles of adult learning approaches;

- Adults are autonomous and self directed
- Adults are goal oriented
- Adults are relevancy oriented
- Adults have accumulated experiences and knowledge
- Adults are practical
- Adults need to be shown respect

Approaches used to facilitate learning in this Manual include:

- Group discovery learning
- Learning, rather than giving of messages/ technologies/ information
- Experience sharing
- Facilitation (Facilitate participants to learn rather than teaching them)
- Empowerment of farmers (Facilitate access to decision making information)
- Structured /Systematic Approach (begin from the known to the unknown)
- Self-learning (build on individuals experiences)
- Coaching (Assist participants to bring out the best within them)
- Participatory learning (Some practical activities – action points)

The Methodology

The business development approach and methodology involves several meetings with the farmers/ farmer organisation representatives.

The first part ('Module 1') of the business development involves Entrepreneurship & Business Management Skills training. This training involves building the capacity of the cooperatives' management team in relation to planning, leading, organising, supervising, implementing, monitoring and evaluating their agribusiness activities as a business entity. This part is the most intensive and takes 3 days of seminar-like learning.

The second part ('module 2') is the beginning of workshop-like skill building activity as participants are actively involved in the planning phase of the business. Emphasis is placed on the process than the plan. This is an interactive process where participants learn to analyse and understand their current position (internal analysis) in relation to where they want to be. The participants are guided on usage of the SWOT analysis among other tools. Participants are guided in setting SMART objectives and goals that will propel them towards their vision. This information is part of what will be used to develop strategies. This information forms a basis for industry and market analysis which is conducted by the business planning consultant.

The third part ('module 3') involves planning and projecting sales in relation to the market demand and their production capacity. The Participants will be guided as they plan for their market led production. Farmers are provided with basic planning templates that will ease the sales projections which will impact their projected income statement.

The forth ('Module 4') will involve the participation of the entire planning team and selected lead farmers that will be guided through the 'fused plan' so as to confirm or amend the parts of the business plan that does not represent or capture their aspirations. The changes are noted and the implementation structure and plan (action plan)/ is then agreed upon at this stage as a preparation for implementation. This will then be amended and shared for a possible launch. The launch is expected to be attended by the relevant stakeholders and partners including those in the financial sector, department of agriculture, cooperative departments, relevant county government officials, marketers, partners in the potato value chain, relevant national govt institutions, input suppliers (agro chemical companies) potato traders, among others who will add value to the cooperatives/ youth groups.

Training & coaching methodology used/ applied include the following:

- Presentations/ Introductory lecture - activities conducted by the facilitator or a resource specialist to convey information, theories, or principles;
- Brainstorming - a spontaneous group discussion to produce ideas and ways of solving problems
- Case Study Scenarios - Descriptions of real-life situations used for analysis and discussion; Oral or written
- Role-Plays - two or more individuals enacting parts in scenarios as related to a training topic;
- Simulations - enactments of real-life situations; and

- Small Group Discussions – participants sharing experiences and ideas or solving a problem together
- Assignments (In-Between modules)
- Ice Breakers

OVERVIEW OF THE BUSINESS SKILLS & ENTREPRENEURSHIP DEVELOPMENT TRAINING MODULES

MODULE 1: Entrepreneurship & Business Management Skills Training

Unit 1: Introduction to Business & Enterprise Development

Unit 2: Sustainable Business Model - Organisation, Leadership & Operation Management

Unit 3: Enterprise Management Skills 1: Marketing Management

Unit 4: Enterprise Management Skills 2: Production Management

Unit 6: Enterprise Management Skills 3: Financial Management

The Business Planning Process (Activities)

MODULE 2: Business Planning Data Collection (for Internal Analysis and Strategy Development)

Casting of shared vision (Picture of where we want to be)

Appropriate data collection for the existing business model (where we are)

Internal analysis using the SWOT framework: Understanding our Strength, Weaknesses, Opportunity & Threats

Follow up activity:

Activity 2.1 FOs Industry Analysis, Market Analysis, Competitor Analysis and Strategy Development

The industry and market analyses are activities undertaken by the consultant and culminate in the development of appropriate strategies for the farmer organisation.

- Industry analysis (Evaluation of the industry in relation to the farmer organisation)
- The PESTEL analysis - The operating industry conditions within the environment
- Competitor analysis (Analysis of real and potential competition)
- Identify the Key Success Factors (KSF) in the seed potato and ware potato business
- Strategy development for competitiveness and sustainability within the potato value chain and food industry

The development of business & growth strategy results from the internal analysis (SWOT), the industry analysis, the environment (PESTEL) analysis and the competitor/ market analysis in relation to the industry's key success factors.

MODULE 3: Estimating Sales based on Production capacity & aggregation projections

Assist farmers to make sales projections based on their production capacity and the prevailing market conditions. This practical activity is a build up from the previous training and is based on the strategies and objectives of the farmer organisations, resulting from the internal analysis (SWOT), the industry and market/ competitor analysis.

Activity 3.1: Business plan Financial Analysis & Financial Statement Preparation

The development of financial statements based on the chosen strategy, sales and production estimation and the projected expenditure: The preparation and compilation of financial documents/ statements and their analysis to ensure financial soundness. The financial statements include projected income statements, projected cash flow statements/ cash flow budgets and balance sheets.

MODULE 4: Business Plan Validation Workshop

This is stage gives the farmers, especially the business planning team, an opportunity to review their business plan and interrogate it so as to ensure that it has correctly captured their aspirations, ideas and vision. The team has a final opportunity to give feedback and propose amendments before the final draft if presented to the CIP for printing and binding.

Activity 4.1: Business plan final drafting

This process involve finalisation of the business plan (final draft) inculcating the views emanating from the validation workshop. The implementation work plan is also included in the final draft. The final draft is shared with CIP for printing and in preparation for the launch.

Activity 4.2: Business plan launch

Support the farmer organisation interacts with the various stakeholders (financial institutions, government agencies among other partners and stakeholders) through the presentation of the business plan during the launch. Take the farmers (members) and the relevant stakeholders through the business plan, providing opportunities for partnership and potential business.

MODULE 1: ENTREPRENEURSHIP & BUSNIESS MANAGEMENT SKILLS TRAINING

Unit 1: Introduction to Business & Enterprise Development

1.1 Course Purpose

- To stimulate farmers to think entrepreneurially and view farming as a business
- To help farmers understand business ideas and identify the entrepreneurial capabilities needed to implement them successfully
- Create awareness of the general business environment, market systems and the simplified potato value chain

1.2 Course Outcomes

- Entrepreneurial farmers with a good understanding of the potato value chain.
- Clear common mission, vision and objectives for the farmer organisation

1.3 Course Description/ Focus

- Introduction to basic agribusiness concepts
- Understanding the market system & business dynamics (external environment)
- Entrepreneurial capabilities (Characteristics, competencies & skills)
- Defining a business idea
- Understanding a simplified Potato value chain

1.4 Mode of Delivery

- Use of plenary for reflection, sharing of ideas and experience
- Short lecturing sessions
- Demonstration

Notes & Hand Out 1

A **business**, also known as an enterprise or a firm, is an organization involved in the trade of goods, services, or both, to consumers with the objective of making a profit. Businesses are prevalent in capitalist economies, where most of them are privately owned and provide goods and services to customers in exchange of other goods, services, or money.

A business owned by multiple individuals may be referred to as a company.

Basic forms of business ownership

Forms of business ownership vary by jurisdiction, but several common forms exist:

a. **Sole proprietorship:** owned by one person and operates for their benefit. The owner may operate the business alone or work with other people.
b. **Partnership:** A partnership is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business.
c. **Corporation:** The owners of a corporation have limited liability and the business has a separate legal personality from its owners. Corporations can be either government owned or owned by individuals. They can organize either for profit or as not-for-profit organizations.
d. **Cooperative:** Often referred to as a "co-op", a cooperative is a limited liability business that can organize for-profit or not-for-profit.

Management

The efficient and effective operation of a business, and study of this subject, is called management. Owners may administer their businesses themselves, or employ managers to do this for them. Whether owners or employees, there are five primary functional areas of management including: Planning, coordinating (directing), organising, staffing and controlling.

Besides being aware of the advantages of quality produce, farmers need to know how they can achieve the important quality attributes. The following collective activities by farmers are important contributors to quality.

• Agreeing to grow the same variety of crop is essential to ensure uniform quality.

• Group work to improve quality to meet the needs of a specified market will add value.

• Weighing the goods and packing them in a standard way will attract a higher price.

• Group negotiations with traders for the sale of larger quantities of goods can improve the sale price significantly.

• If the collective activity includes the pooling of funds to purchase storage facilities, drying floors, transport vehicles, farm inputs, testing equipment, etc. then the income of the group may be enhanced still further.

Characteristics of an Effective Entrepreneur

There is a difference between farm business management and entrepreneurship. Farm business management is about better planning, implementation, control and managing risk.

Entrepreneurship is about looking forward – identifying opportunities, creating a vision of how the business will grow, innovating and taking risks.

Entrepreneurs have some special qualities or characteristics that set them apart from the average farm manager.

Some 'typical' characteristics of a farmer entrepreneur are shown in the figure below. They can be grouped into six categories: core values, problem-solving, flexibility, drive, competition and confidence.

Integrating Competencies

It is easy to talk about the individual competencies of a successful market-oriented, entrepreneurial farmer. But success as a farmer-entrepreneur comes through the ability of the farmer to combine these competencies in practice. It is the interaction between these competencies and the farmer's other resources that enable him to take advantage of changes in the market and production methods to improve the performance of his farm businesses. It is in combining and integrating these qualities and competencies that the farmer-entrepreneur finds and chooses responses to change, leading to greater chances of success and profitability.

An entrepreneurial farmer responds to the changes affecting the farming environment by combining farming competences and entrepreneurial competencies with the resources available to them. He combines them to develop and implement a new business opportunity whether it is an improvement to his current practices or entering into a new venture or market.

Some of the General Characteristic of Entrepreneurs

1. Passion

With respect to the entrepreneur, we need to see a significant level of passion on their part for the problem that they intend to solve, as well as for the solution that they propose to deliver to their target customers. Without this passion and a deep internal drive, it is unlikely that they will show the necessary perseverance, resilience and punishingly high work rate that is required, often over many years, in the highly demanding process of successfully developing and growing their business.

2. Coach-ability

Passion can have a dark side, however, manifesting in obstinacy and an inability to take feedback and advice, often to the detriment of the business. Consequently, we are also on the lookout for a productive balance between passion, drive and open-mindedness. We need to have a sense that the entrepreneur will be truly open to market feedback and be coachable, as and when the need arises.

3. Commitment

"Skin in the game" commitment is also critical for us to assess as investors. A founder who merely has optionality on the upside of a business, rather than a deep level of commitment and perhaps something to lose, isn't sufficiently aligned with investors and may find it easier to drop out of the

race when the going gets really tough. And it invariably gets a lot tougher than anyone expected when they first set out. It's not uncommon to hear from entrepreneurs that if they knew at the start what they know now, they likely wouldn't have begun in the first place.
4. Mastery

Passion, commitment, open-mindedness and coachability are not enough. It is critical that the entrepreneur has developed a very high degree of mastery over the problem domain, which can be complex in the areas of insurance, health and wellness that interests us. Importantly, this mastery should not be restricted to thorough desk-top research, which is taken as a given. We need to see evidence of extensive learning through observation and interaction with potential customers and other stakeholders out "in the wild", in an effort to confirm the true existence of the problem, develop a deep understanding of its subtleties and nuances and develop a creative and compelling solution. Without such a deep immersion and the knowledge base that flows from it, the odds of success for the entrepreneur fall off dramatically.

5. Data-driven mind-set

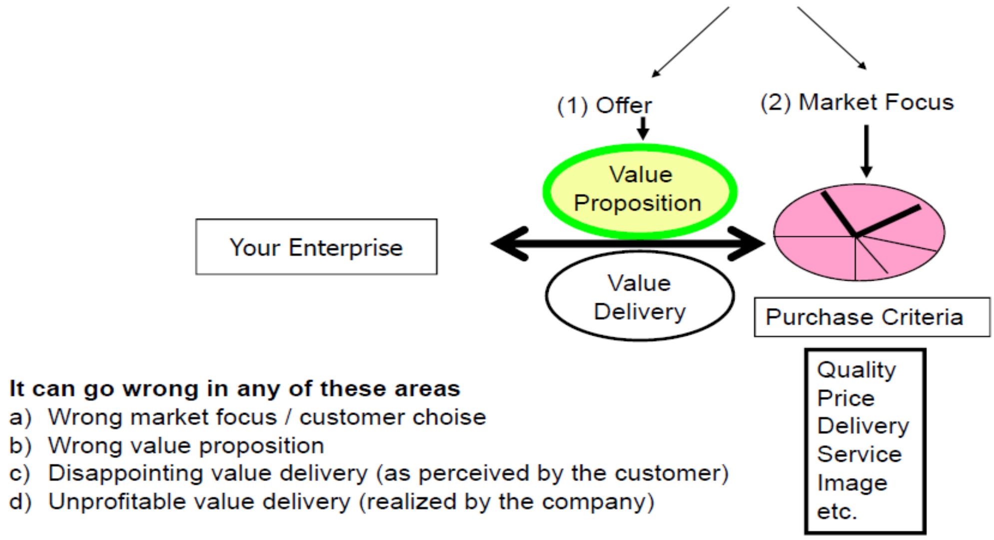
The most successful entrepreneurs have a high respect for their scarce resources and consequently take considerable care to test the relevance of their proposed solutions before approaching the market for funding. Accordingly, we look for a data-driven mind-set that utilises well-designed tests to confirm or refute the entrepreneur's initial hunches and assumptions, rather than an unscientific, disorganised and sporadic approach that reduces learning, squanders scarce resources and ultimately dramatically reduces the chances of success. The entrepreneur must be willing and able to change their mind in the face of disconfirming evidence, pivoting the different aspects of their business model until they find a way to profitably deliver a compelling value proposition to their chosen market on a scalable and sustainable basis.

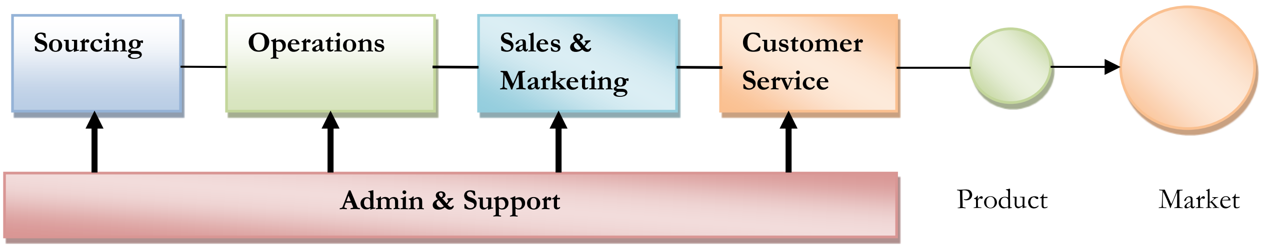
6. Learner

Finally, the entrepreneurial journey can be a long one and the skill-sets that are required evolve as the business moves through its various phases. The successful entrepreneur is a continuous learner that always strives to update their skill sets and to broaden the capabilities of the crack team surrounding them as the company evolves, particularly under hyper-growth conditions.

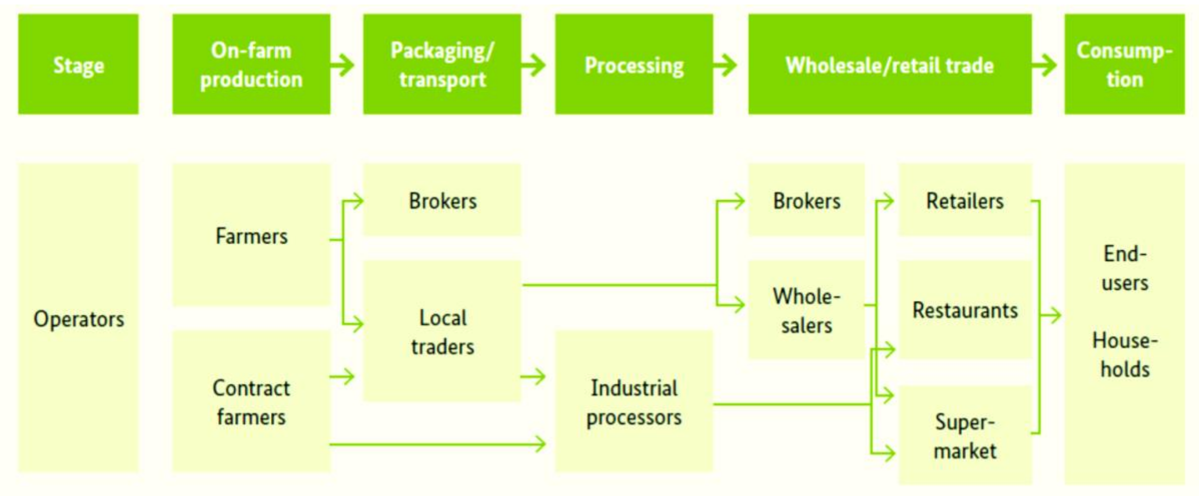
The above is far from an exhaustive list, but if you feel that these points resonate with you, then perhaps you have what it takes to be a successful entrepreneur.

Defining a business idea





The Ware Potato Value chain



Unit 2: Sustainable Business Model - Organisation, Leadership & Operation Management

2.1 Course Purpose

- To help the participants appreciate the difference between the production-led farming approach & market-led farming approach: From subsistence to commercialization.
- The course serves to help the farmer understand and adopt a sustainable operational and organisation structure for fulfilling their mission

2.2 Course Outcome

- Learners will have acquired an understanding of the value chain model, its actors and their roles
- Farmers to appreciate the benefits of collective marketing
- Farmers to clarify their common mission and vision and adopt a sustainable business model to implement the mission
- Farmers to understand and work toward development of effective business systems
- Learners will learn to think and act like an entrepreneurs & view farming as a business
- Farmers to strengthen their organisation by understanding group dynamics, effective leadership styles & conflict management

2.3 Unit Description/ Focus

- Stages of group development
- Benefits of Collective action
- Understanding the role of the farmer organisation (who we are, where we are and where we want to be (Clarify Mission, cast our common Vision, set our goals)
- Introduction to the business model canvas (the concept of double facing business model for farmer organisations)
- The simplistic business system for farmer organisations
- Understanding Group leadership development - Good leadership Attributes
- Conflict Management

2.4 Mode of Delivery

- Introduction/lecture in plenary
- Brainstorming
- Focused discussions
- Experience sharing

Notes & Hand Out 2

Understanding the role of the farmer organisation: (who we are, where we are and where we want to be (Clarify Mission, cast our common Vision, set our goals)

Functions of farmer organisation (FOs)

The incentives for farmers to be united in FOs lie in the potential to:

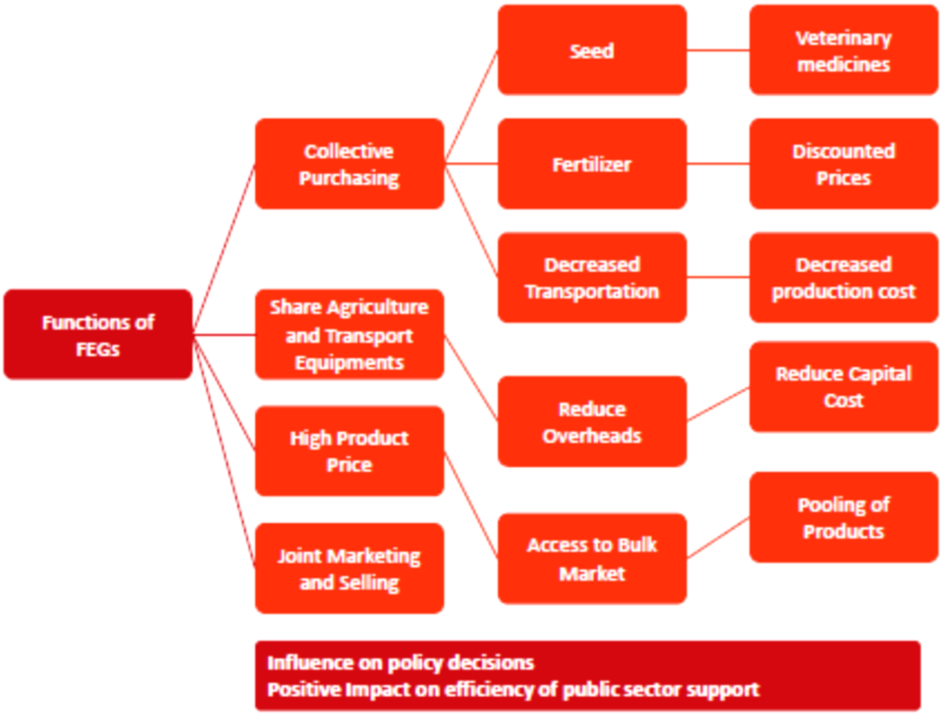
- Purchase agricultural inputs collectively. Purchase of inputs like seeds, fertilizers, veterinary medicines by a group of people and in bigger quantities results in discounted prices and decreased transportation costs, leading to reduced production costs
- Share agricultural and transportation equipment. This helps with efficient use of equipment, and reduces overhead and capital costs for the farmers
- Sell agricultural products at a higher price, access bulk markets and reduce transaction costs. Farmers can achieve this by pooling their products and selling them together
- Maintain updated market information at local, regional and national level markets
- Lobby their interests with the local and national government more successfully, ensuring their needs are addressed in policy decisions
- Receive extension and other services from government more efficiently.

1. Understanding where we are – SWOT

2. Understanding our mission: Our reason for existing/ Our purpose as a farmer organisation

3. Aligning our common Vision: A picture of our desired future state.

4. Our set of goals and objectives: Steps towards attaining our vision



Major role and responsibilities of FOs/ FEG are:-

- Assess the market situation and change farming practices according to the market demand
- Establish market links and linkages with other relevant institutions
- Share experiences of different farmers within the group ƒ
- Joint efforts for purchase of inputs at competitive rates, improve quality of inputs, and test new varieties and capacity building of farmers in improved agricultural practices.
- Joint action plan and its implementation for value addition in their farm produce and its marketing
- Linkages with other key stakeholders including service providers, input suppliers, processing agents / units and other market players (buyers).
- These FOs/ FEGs would also establish linkages with Line agencies, departments and organizations to further improve their value chain initiatives, farm produce, and other steps involved in Value Chain

Introduction to the business model canvas (Double facing)

"A business model describes the rational of how an individual firm creates, captures and delivers value." *Alexander Osterwalder.*

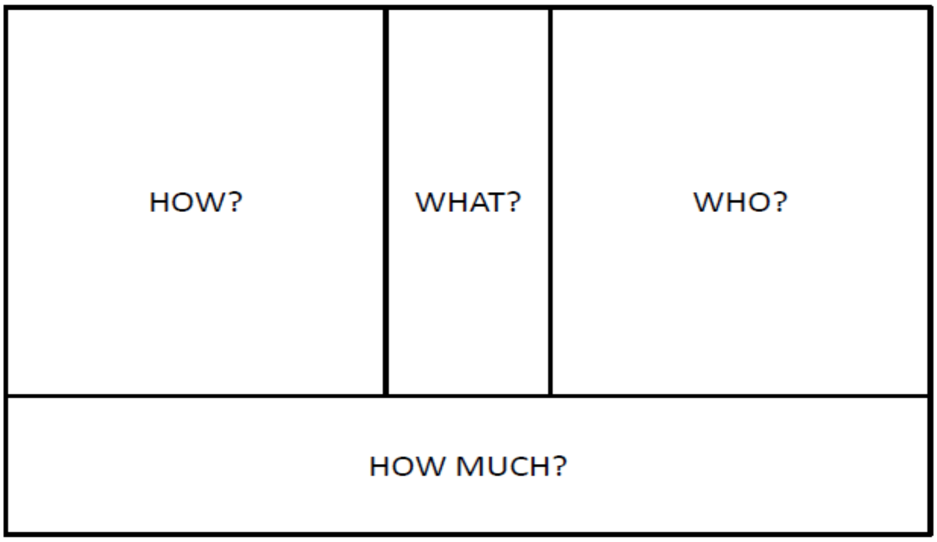
NB: Value = Benefits - Cost (cost includes risk)

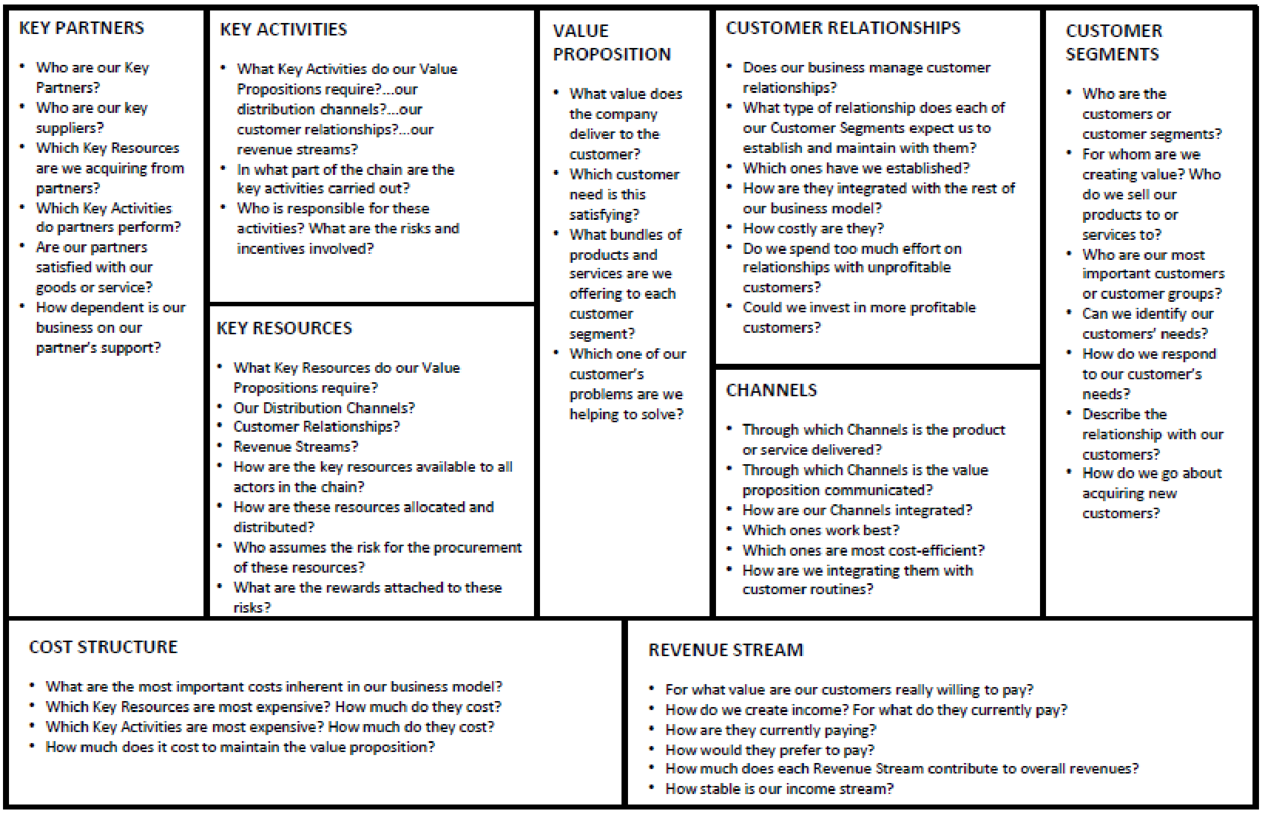
Value Proposition

– A promise of value to be delivered + a customer belief that it will be experienced.

– The sum total of benefits which a vendor *promises a* customer will receive in return for the customer‘s payment (or other value- transfer).

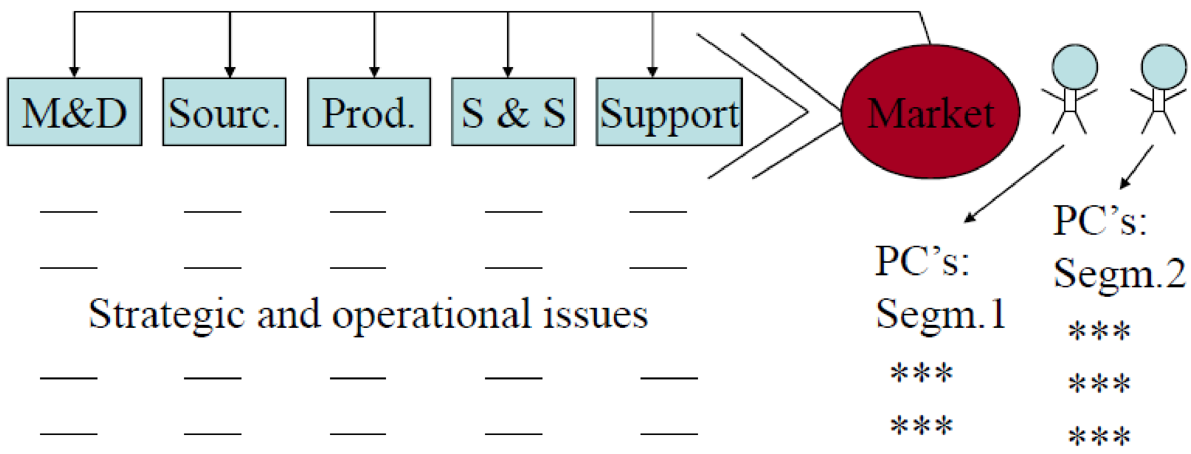
– Why a consumer should buy a product or use a service.





Creating business Systems for Farmer organisation

The general simplistic business system for farmer organisations



Strategic and Operational tasks of the farmer organisation can be performed by committee and sub-committee members

Aspects of good governance

Good governance includes:

- Regular, independent elections/Transparent Selection. Group members periodically choose officers to lead the group.
- Transparency. All information is open and freely available to all. For example, group meetings are open to all members, financial records may be reviewed by any member, and rules and decisions are open to discussion. When activities or decisions are transparent, it is more difficult for individuals to take advantage in their own interest.
- Bylaws. The group may also decide on bylaws (internal rules) to say how it does particular things.
- Record keeping. Good records help the group monitor its progress, review discussions and agreements, keep track of expenses and earnings and prepare financial reports.
- Good communication. Good communication among group members helps them to participate in group activities and decision-making.

Characteristics of organized, successful and sustainable FOs/ FEG

- Members have a common interest, clear goal, objective and action plan
- FOs should have an organizational structure with clear objectives
- Has a constitution or a written record of the purpose and rules which are observed by all members to guide them on how the group is to run and outlines members' responsibilities.
- Has good leaders elected by members with a focus on keeping the group together. A group with good leaders often succeeds.
- Has a name, physical address, office and registered (progressive) as a legal entity
- The group should have no political agenda
- Group should be able to identify new potential markets and ready for collective marketing under FOs umbrella
- Keeps proper records for transparency
- Members make financial contributions and group savings, which helps build a sense of ownership.
- It has honest members who work hard to achieve their objectives
- Holds regular meetings and takes minutes

Characteristics of Strong Business Relationships

Following are the characteristics of strong business relationship.

- Trust
- Decision Making Process
- Interdependence
- Commitment

Trust

Trust is developed as we get to know and understand our FEG members and other business partners. Trust is built through reputation, past experience, behaviour and keeping commitments. It generally develops in five stages: assess, build, confirm, maintain and strengthen.

Decision-Making Processes

FOs/ FEGs will need to work out a decision-making process that's perceived as fair by all and with clear direction on who's responsible for making which decisions. This will help Agribusiness FEGs to avoid mutual conflicts and move forward quickly. Before having discussions on decision making, create several scenarios that represent typical decisions that will need to be made by the respective value chain.

Interdependence

Interdependence can achieved by identifying what each member needs from the value chain to remain committed. A strong interaction among the FEGs members will enable them to understand each other.

Commitment

Each member must make commitments of time, effort and resources. When action plans are being designed and agreed to, make sure that all members are contributing their fair share.

Some members will have resources while others will have expertise, manpower, market contacts, etc. Ensure action plans use "commitment" language such as, "We will complete the packing of seed potato by March 15," rather than "We'll try to complete the packing …"

Furthermore following are the key points which required for strong business relationship.

- Confidence and Cooperation among FO/ FEG members and other stakeholders
- Previous experience with business partners on which to base trust
- Sufficient personal experience with business partners in order to assess trustworthiness
- Viewing business partners as an integral part of the team
- Being able to rely on business partners to deliver products and services on time
- Sharing of valuable market information with business partners
- Sharing of best practices among business partners
- Commitments by business partners met attend meetings, return calls, and complete tasks.

Qualities of a good leader

Good leaders have many personal qualities. Here are some of them:

- Exemplary character. A leader must be honest and impartial and must earn the trust and respect of others. They trust the leader to take responsibility for the group.
- Vision. Vision gives direction and builds cohesion among the group members. People trust a leader who knows where they should go and how to get there.
- Enthusiastic. Leaders must inspire and motivate the group members, and must convince outsiders about what they do.
- Team player. At the same time, leaders must be part of a team working towards the group's goal. Good leaders work well with other people, and lead by example.
- Confident and purposeful. People look to a leader for leadership. That means ability to make decisions, an ability to inspire confidence in others, and the talent to draw out the best efforts of the team and to get things done well.
- Good communicator. Leaders must be able to communicate well with the group members. They listen to what everyone says (not just to a few people), and explain themselves clearly. Calm, focused and analytical. Good leaders manage crises by staying calm, and keeping the main goal in mind.
- Knowledgeable. Good leaders do not need to be experts. Rather, they must have a good understanding of the problems that group members face, and should have ideas

- They can draw on other people for the specific skills needed to solve the problem.
- Participatory. To lead a group of farmers, a leader must make it possible for all the members to voice their ideas and contribute to the group's goals.

Leadership styles

There are many different types of leadership. Some are better in certain situations; others are more suited to other circumstances. Sometimes it is useful to combine styles.

Here are three of the main styles.

- Leaders who command. They make decisions on behalf of the group, and allow little or no discussion with group members.
  This may be necessary in times of trouble, but normally it does not encourage the group to grow in confidence and skills.
- Leaders who consult. These leaders encourage discussion, and then make a decision on behalf of the group.
- Leaders who enable. These leaders set certain limits, but enable members to discuss and make their own decisions within these limits. This is also known as participatory leadership. Participatory leadership is not appropriate for all groups or all occasions, but it is particularly important for working with communities and smallholder farmer groups.

Conflict Management and Resolution

Differences are inevitable in a Farmer Enterprise Group having members with different experiences, attitudes and expectations. However, some conflicts can support organizational goals. Indeed, too little conflict may lead to apathy, lack of creativity, indecision and missed out deadlines. Clashes of ideas about tasks also help in choosing better tasks and business deals. These are 'functional conflicts'. Functional conflicts can emerge from leaving a selected incidence of conflict to persist, which can be overcome by 'programming' a conflict in the process decision making by the group by assigning someone the role of a critic. This also helps to avoid 'group thinking' where group members publicly agree with a course of action, while privately having serious reservations about it. The most difficult conflicts are those arising out of value differences. The most important thing is to understand the real cause of the differences.

Yet every resolution of a conflict can also feed a new conflict in a group. It is, therefore, useful to see conflicts as a series of expressions of existing differences within a group, having some links to each other. How effectively a group deals with conflict management largely affects the efficiency level of its functioning.

Conflict Management Style

- Collaborating - Conflicting parties jointly identify the problem, weigh and choose a solution.
- Accommodating - Playing down differences while emphasizing commonalties.
- Competing - Shows high concern for self interest and less concern for the other's interest. Encourages 'I win, you lose' tactics.
- Avoiding - Either passive withdrawal from the problem or active suppression of the issue.
- Compromising - A give and take approach involving moderate concern for both self and others. Each party has to give up something of value. It may include external or third party intervention.

Managing conflict at FEG

- Allow time for cooling down.
- Analyze the situation.
- State the problem to the other person.
- Leave the person for some time.
- Use a win-win approach.

Factors affecting conflict

- Personality traits affect how people handle conflict.
- Threats from one party in a disagreement tend to produce more threats from the other.
- Conflict decreases as goal difficulty decreases and goal clarity increases.
- Men and women tend to handle conflict similarly. There is no 'gender effect'.

Unit 3: Enterprise Management Skills 1: Marketing Management

1.1 Course Purpose

Objective

The objective of this training manual is to enhance knowledge of the farmers on marketing and to change their mindset towards market-oriented production and increase volume of their produce.

- To enable learners understand, appreciate and experience the procedures for identifying a suitable crop to produce based on the market information
- To enable learners develop the capacity to identify & segment their customers
- To equip the learners with the necessary skills for pricing and selling their produce collectively
- To enable learners evaluate & select the appropriate market types to serve
- To familiarize the learners with the concept of the marketing mix (4Ps)
- To assist learners appreciate the importance of collective marketing

3.2 Course Outcomes.

- The learners will have developed a marketing plan for their agri-businesses/ farmer groups & the commercial village
- The learners will gain the skills of collecting & using market information

3.3 Course Description/focus

- Understanding the basic concept of marketing
- Understanding the potato customer & customer segmentation
- The purchase criteria for various customer segments
- Marketing information needs and sources
- Introduction to contract farming
- The four Ps of marketing (Product, Price, Place, Promotion)
- The marketing mix
- Negotiation Skills
- Demand forecasting & estimating sales
- Creating a marketing strategy & plan

3.4 Mode of delivery

- Introduction/lecture in plenary
- Group/ focus discussions
- Role play
- Experience sharing

Notes and Hand Out 3

Market and Marketing

Market is a physical place where buying and selling of produce or services take place. There is a hand over of produce or services to each other or the market is the place where the exchange of produce and services takes place. The market is made up of buyers, sellers, products and prices. Marketing is a set of activities that direct the flow of produce and services from producers to the end users or customers. Marketing is the process of exchange between the producer (farmer) who sells, and the consumer who buys.

Market Research and Analysis

The marketing of Agribusiness value chain product like banana, chili, grapes, apricot, citrus, vegetables, seed potato and livestock meat likewise involves flow of raw produce from the farm to the final consumers (households) through a channel consisting of produce traders, wholesalers, processors and retailers. Farmers' ready access to the place is crucially important for the farmers to generate income by selling their produce. Profitability of any agribusiness /enterprise is linked to farmers being able to sell their produce at attractive prices.

Therefore in promoting value chain enterprises, specific attention should be geared to relevant market identification and addressing constraints.

Farmers or farmers Enterprise Groups can obtain information from radio, newspapers, newsletter letters, TV Channels, Internet (if possible), vegetable / fruit/meat markets, etc. Market research enables the farmers to decide about consumer, buyer, crop, and variety, quality of product, timing, price and places of consumption. Review and analysis of information related to agribusiness value chain produce is called market research and should include analysis of the following:

Market

- What are the regional scope, size and growth of the overall market? What factors are driving growths?
- Are there any value chain industry trends such as use of newer inputs or production techniques, new standards, entries or exits from the farming business?
- What are the pricing trends in the market? How have prices changed historically and what influenced the price changes?
- Are there any special characteristics such as seasonality, volumes, number of customers, number of input suppliers, etc? If so please explain.
- Describe any special laws or regulations that apply to the value chain and any government policies or actions that specifically affect the sector.
- What are the main distribution channels for the produce or services? How much do middleman or distributors control the market?
- How much value do they capture?

Customers

- Who are the primary customer segments?

- How does the customer pay?
- What are these customers looking for in terms of produce or service?
- What are projected future demands and why? Is there sufficient demand for the product or service?
- Indicate what methods were used to assess the market demand.

Competition

Who are the primary competitors, what are the relative strengths and weaknesses? i.e. location, technology, farming practices, quality, volume, price, cost etc. The tools for market research are listed

Marketing Concepts

The following are some concepts to understand more the essence of marketing. This includes market, market demand, marketing, selling, societal marketing, marketing mix, strategic business units, product life cycle, competitive strategies, market segmentation, and total quality management.

Marketing - is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.

Market - consists of all the potential customers sharing a particular need-or want who might be willing and able to engage in exchange to satisfy need or want.

Selling - if left alone, consumers will ordinarily not buy enough of the organization's products. The organization must therefore undertake an aggressive selling and promotion effort.

Societal marketing - the organizations' task is to determine the demand of target markets and to deliver the desired satisfaction more effectively and efficiently than competitors in a way that preserves or enhances the consumers' and the society's well being.

Total quality management - is an organization-wide approach to continuously improving the quality of all organization's processes, products and services.

Strategic business unit - it is a single business or collection of related businesses that can be planned separately from the rest of the company.

Market segmentation - process of subdividing the market into segments so that companies can create more fine-tuned product/service offer and price it appropriately for the target market.

Product life cycle - stages of product life in the market.

Stage	**Characteristics**

Introduction	A period of slow sales growth as the product is introduced in the market. Profits are non-existent in this stage because of the heavy expenses incurred with product introduction.
Growth	A period of rapid market acceptance and substantial profit improvement.
Maturity	A period of slowdown in sales growth because the product has achieved acceptance of most potential buyers. Profits stabilize or decline because of increased marketing outlays to defend the product position.
Decline	The period when sales show a downward drift and profits erode.

The marketing mix

Marketing involves planning for efficient production, storage, processing and packaging, promotion and moving produce from farms to consumers. The key components of the marketing mix therefore include: product, place, price, promotion, this commonly known as 4 Ps.

Marketing mix - is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market (e.g. price. promotion. product, place of distribution).

4 P's	4 C's
Product	Customer needs and wants
Price	Cost to the customer
Place	Convenience
Promotion	Communication

Product

Product refers to the produce that the individual/ group is producing for sale to earn income. Typically for rural farmers this could be seed potato. It can be measured by different units and can make different characteristics I.e., Kg, ton, etc.

Place

Place refers to the point of exchange between buyers and sellers or the market. It is in the market where transactions take place and produce change hands. It can be described in terms of produce e.g. specific value chain produce market or by its location i.e. urban or local market or even time e.g. the morning and evening markets.

Price

Price refers to the monetary value of the specific value chain produce. It is cost at which the buyers are willing to pay for the specific value chain produce.

Sellers always strive to sell at a price that offsets costs of production with a mark-up that constitutes the profit. However sometimes prices are determined by conditions in the market i.e. changes in supply and demand. When supply exceeds demand the prices fall, as is the case soon after crop harvests. Where the demand exceeds supply prices rise sharply as is the case in off-season or when there is an unexpected drop in supply due to calamities such as drought/flood.

Promotion

Promotion or advertising is a deliberate effort by the seller to make known to potential customer's existence of his/her specific value chain produce. The most common forms of advertising are through banner, signposts, billboards, radio, TV, and in the newspapers. One should therefore strive to promote and advertise the produce in the most appropriate way possible in order to boost sales and incomes.

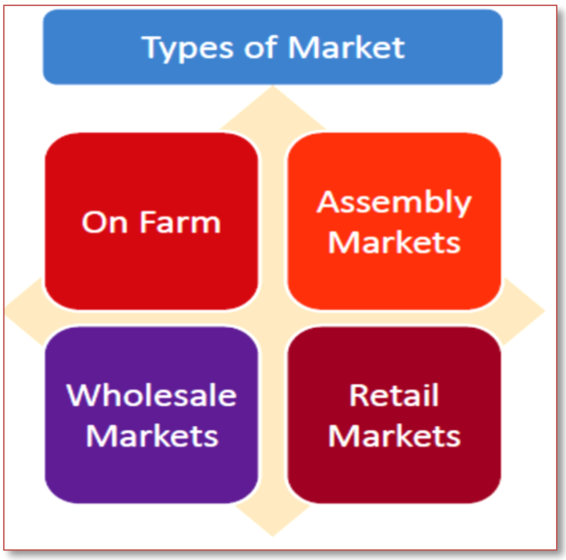
It is important for FEGs to enhance the ability to identify market demand of their respective value chain, to make decisions about production in relation to volume and quality, and to develop business relationships with customers and traders. The ability to organize collectively for product aggregation is key success element, the understanding of the importance of, and knowing how to access timely

***Market* demand**

- Market demand is the amount and quality of the product that customers are willing and able to buy.

How supply and demand affect prices:

- If Supply of the product goes up demand comes down
- If Supply of the product goes down, demand will raise



Basic steps in planning the marketing process

1. **Situation analysis**. Before developing any sort of action plan, decision makers should acquire information on the problems and opportunities imposed by input suppliers, other producers and its consumers. The business environment should be explored, including such areas as: i) technologies

used; ii) cost structures within the industry; iii) regulations and standards affecting the business; as well as, iv) strengths and weaknesses of the enterprise itself.

2. **Setting objectives**. Based on the situation analysis specific targets need to be established with respect to anticipated future performance of the enterprise.

3. **Developing strategies and action plans.** To achieve the stated objectives enterprises should formulate and develop short- and long-term strategies.

4. **Set up coordination and control mechanisms.** These must be designed and implemented to guarantee effective implementation of the strategies and action plans.

Enterprises usually operate in complex and dynamic environments and managers need to anticipate future changes affecting their enterprise. A successful firm can adapt to changes in the environment effectively, and has the ability to foresee any probable changes and to take appropriate action.

Market Information

Producers' associations need market knowledge in order to compete at national and international levels. Regardless of their size or location, enterprises need tools and methods to gather and analyse information.

Market intelligence

Market intelligence is the permanent collection, analysis, monitoring, evaluation, storage and distribution of information on markets. It is a continuous process, which focuses on what happens outside the enterprise and provides on-going information about the market.

Information needs to be wide-ranging and diverse. It may include:

i. Price information concerning raw materials and inputs;

ii. Development of new processes and related inputs;

iii. Investments;

iv. Launch of new products;

v. information on competitors;

vi. Policies affecting enterprise' competitiveness; and

vii. Promotional events.

There are a number of information sources, which are used by market intelligence agents:

Internal company information: sales records, production costs, technical efficiency ratios, customer records, etc.

1. Suppliers, intermediaries and customers. These are excellent sources of information which should not to be left untapped.
2. Secondary information such as the press reviews, radio, television, trade fairs, advertising, official gazettes, newsletters from professional associations and chambers of business and industry.
3. Information on competitors, on prices, product qualities and promotion strategies.
4. National licensing or patent offices and research and development institutions.

Engaging outside consultants specialized in monitoring the behaviour of market sectors and company performance is very expensive and surpasses the budget of many producers' associations.

Negotiation skills

Effective negotiation helps to resolve situations. The aim of win-win negotiation is to find a solution that is acceptable to both parties, and leaves both parties feeling that they've won, in some way, after the event. This required due to following aspects;

- When one feel that someone is continually taking advantage of him/her?
- When one seem to have to fight ones corner aggressively, or ally with others, to win the resources one need?
- Struggle to get what one want from people whose help is needed, but over whom one has little direct authority?

There are different styles of negotiation, depending on circumstances.

Neither of these approaches is usually much good for resolving disputes with people with whom one have an ongoing relationship: If one person plays hardball, then this disadvantages the other person –this may, quite fairly, lead to reprisal later. Similarly, using tricks and manipulation during a negotiation can undermine trust and damage teamwork. While a manipulative person may not get caught out if negotiation is infrequent, this is not the case when people work together routinely. Here, honesty and openness are almost always the best policies.

Preparing for a successful negotiation

FOs are required to take appropriate measures to strengthen team work and reduce internal and external conflicts, in case of any conflict situation, depending on the scale of the disagreement, some preparation may be appropriate for conducting a successful negotiation. For small disagreements, excessive preparation can be counter-productive because it takes time that is better used elsewhere.

It can also be seen as manipulative because, just as it strengthens your position, it can weaken the other person's. However, if one need to resolve a major disagreement, then make sure you prepare thoroughly for which following points need to be considered;

- Goals: what do you want to get out of the negotiation? What do you think the other person wants?
- Trades: What do you and the other person have that you can trade? What do you each have that the other wants? What are you each comfortable giving away?
- Alternatives: if you don't reach agreement with the other person, what alternatives do you have? Are these good or bad?
- How much does it matter if you do not reach agreement? Does failure to reach an agreement cut you out of future opportunities? And what alternatives might the other person have?
- Relationships: what is the history of the relationship? Could or should this history impact the negotiation? Will there be any hidden issues that may influence the negotiation? How will you handle these?
- Expected outcomes: what outcome will people be expecting from this negotiation?
- What has the outcome been in the past, and what precedents have been set?
- The consequences: what are the consequences for you of winning or losing this negotiation? What are the consequences for the other person?
- Power: who has what power in the relationship? Who controls resources?
- Who stands to lose the most if agreement isn't reached? What power does the other person have to deliver what you hope for?
- Possible solutions: based on all of the considerations, what possible compromises might there be?
- Style is critical: for a negotiation to be 'win-win', both parties should feel positive about the negotiation once it's over. This helps people keep good working relationships afterwards. This governs the style of the negotiation displays of emotion are clearly inappropriate because they undermine the rational basis of the negotiation and because they bring a manipulative aspect to them. Despite this, emotion can be an important subject of

discussion because people's emotional needs must fairly be met. If emotion is not discussed where it needs to be, then the agreement reached can be unsatisfactory and temporary. Be as detached as possible when discussing your own emotions perhaps discusses them as if they belong to someone else.

Negotiating successfully at FO/ FEG

- The negotiation itself is a careful exploration of your position and the other person's position, with the goal of finding a mutually acceptable compromise that gives you both as much of what you want as possible.
- People's positions are rarely as fundamentally opposed as they may initially appear the other person may have very different goals from the ones you expect!
- In an ideal situation, you will find that the other person wants what you are prepared to trade, and that you are prepared to give what the other person wants.
- Only consider win-lose negotiation if you don't need to have an ongoing relationship with the other party as, having lost, they are unlikely to want to work with you again.
- Negotiation skills also help the FEG members while working with different stakeholders related to marketing, procurement, selling, transport, storage, packing, packaging and other related activities

Value Addition

Let us now turn to what happens to a crop after it is harvested. The principles apply to any farm product. We will look at how the farmer can earn more money by doing each of these activities. Adding value is one way farmers can earn more from their product. Below are few examples of value additions:

Washing: Some red skinned varieties like Desiree and Dutch Robjin that are destined for leading supermarkets and other high-end retail outlets are normally washed.

Sorting and grading: These activities are performed both by wholesalers and retailers, but they are most commonly carried out by retailers. Wholesalers who supply potatoes to hotels, institutions, and supermarkets undertake sorting and grading before delivering their supplies. Retailers sort and grade their potatoes to charge different prices, because graded potatoes attract better prices.

Packaging and repackaging: At the wholesale markets, potatoes are sold in extended bags weighing from 120-180 kg or more. For the retail market, the extended bags are repackaged into nets and plastic paper bags. The size of pack depends on the target market but mostly the nets/bags are in units of 2, 3, or 5 kg.

Processing: Chips, Crisps, flour, starch

Unit 4: Enterprise Management Skills 2: Production Management

4.1 Course Purpose

To enable the learner acquire relevant skills that will help them plan & co-ordinate their production and aggregation activities efficiently.

4.2 Course Outcome

- The learners should have gained knowledge & skills on production planning
- By the end of the course the learner should be able to identify the value adding activities necessary to increase the value to the customer
- The learners should be able to assess their individual production capacity & that of the group/ Cooperative
- The learners should be able to develop group production and aggregation plan (s)
- The learner should be able to appreciate the benefits associated with mechanised production and use of clean seeds & modern techniques

4.3 Course Description/focus

- Production Planning & Management (Production calendar & capacity – individual & collective)
- Seed multiplication strategy
- Coordinating access to and distribution of agro inputs to members
- Aggregation Planning & Management (Tentative plan for aggregating)
- Planning post harvest management (Diffuse light stores)
- Comparative analysis of mechanized modern v/s traditional potato farming

4.4 Mode of delivery

- Introduction/lecture in plenary
- Case studies
- Focused discussions
- Use of plenary for sharing of ideas and experience

Notes & Hand Out 4

Even the smallest amount of co-operation between a few farmers could raise incomes. For example, farmers could receive a better price for their goods if they brought all surplus production to one location because it becomes worthwhile for a trader to bring a vehicle to that location. This benefit would be even greater if farmers can bulk a 'quality' product. To do this, they need to be aware of the premiums attracted by specific quality criteria and how these premiums will change depending on season and on whether the harvest is a good, normal or bad one.

Besides being aware of the advantages of quality, farmers need to know how they can achieve the important quality attributes. The following collective activities by farmers are important contributors to quality.

• Agreeing to grow the same variety of crop is essential to ensure uniform quality.

• Group work to improve quality to meet the needs of a specified market will add value.

• Weighing the goods and packing them in a standard way will attract a higher price.

• Group negotiations with traders for the sale of larger quantities of goods can improve the sale price significantly.

• If the collective activity includes the pooling of funds to purchase storage facilities, drying floors, transport vehicles, farm inputs, testing equipment, etc. then the income of the group may be enhanced still further.

Sample production calendar

	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Potato		Harvesting	Order seeds	Land prep	Planting	Spraying Weeding	Crop Mgt	Harvesting	
Fodder			planting						

a) Production planning is a tactical level activity to ensure efficient production processes leading to:

- **Timely** production of the right **quantity and quality**

b) *Before production planning can be done you need to have decided (strategic level decision):*

- *What to produce*

- *What quantity and quality to produce*
- *What resources are required (costs, from where and when)*
- *What work shall be done (ploughing, planting, weeding, etc.), how the work shall be done (type of labor, number of laborers, etc.) and when the work shall be done*

Objectives of production planning

- Determine the **labor, inputs and equipment requirements**
- **Arranging production schedules** to meet market demand
- Ensuring inputs are available at the **right time and quantity**
- Making most **economical use** of labor, inputs and equipment
- Remove possible **obstacles** in the way of smooth production
- Ensure **production targets** are achieved in time

Importance of production planning

Organizing labor, inputs and equipment in the most optimal way leads to:

- Better **rationalization** of production activities
- **Reduced costs** of production
- **Increased productivity**
- **Increased profitability**

Steps in production planning

- Determine **crops that will be grown** and the **area** each will take
- List all the **crop production process** that will be undertaken
- **List, quantify and cost the labor, input and equipment** requirements for each crop production stage
- **Identify the source of labor, inputs and equipment**
- Determine procurement time for labor, inputs and equipment. Give sufficient room to ensure everything is in place in time

NB:

The plan should be ready at least a month to the start of the production period

Tools for production planning

- Farm layout/Map
- Input and suppliers inventories
- Input quantity estimation formula
- Production planning matrix

Input inventories

I. This can be:

- Filed with price lists or catalogs from suppliers
- Prepared manually

II. Helps to:

- Compare costs of inputs
- Establish time of delivery

May have details that help you quantify input requirement *e.g. seed rate, volume/area, etc*

Input Inventory table

Input	Supplier	Supplier location	Unit cost	Qty/ha	Delivery Time

Production planning matrix

Production activity	**Inputs required**	**Unit**	**Name**	**Source**	**Quantity**	**Unit cost**	**Total cost**	**When required**	**Remarks**
Land preparation	Seeds	Kgs							
	Herbicide	Lts/Kg							
	Insecticide	Lts/Kg							
	Fungicide	Lts/Kg							
	Labor	Man days							
	Equipment	Machine days							
Planting	Seeds	Kgs							
	Herbicide	Lts/Kg							
	Insecticide	Lts/Kg							
	Fungicide	Lts/Kg							
	Labor	man days							
	Equipment	Machine days							
Weeding	Seeds	Kgs							

	Herbicide	Lts/Kg							
	Insecticide	Lts/Kg							
	Fungicide	Lts/Kg							
	Labor	man days							
	Equipment	Machine days							

Aggregation Planning (Seed Potato)

Name of farmer	Acreage to be planted	Variety	Quantity of seeds to plant	Planting Date	Expected date of harvest	Expected Quantity for aggregation	Place of collection or Aggregation centre	Date for receiving seeds (& other inputs)
Joel Miriti								
Hellen Nkirote								
Amos Kipruto								
Abigael Cheruiyot								
Total expected quantity								

Unit 5: Enterprise Management 3: Financial Management

5.1 Course Purpose

- To equip learners with the necessary knowledge and skills for analyzing profitability, by estimating income & expenditure
- To enable learners to understand & estimate costs
- To assist learners appreciate the importance of cash flow budgeting and the advantages keeping records
- To enable learners acquire knowledge on the sources & costs of financing
- Help farmers appreciate & manage agribusiness risks

5.2 Course Outcomes

At the end of the Course the learner should be able to:

- Analyze profitability by estimating sales and costs
- Develop a simple cash flow budget (personal & group)

5.3 Course Description/focus

- Estimating profitability & income
- Costing in agribusiness (Potato seed)
- Gross margin Analysis of potato seed business
- Calculating profit & Breakeven Analysis
- Record keeping (Types, importance & basic records)
- Basic Financial Statements (Cash flow budget)
- Agribusiness Risks & Risk Management (Financial, production, marketing etc)
- Capital needs & Sources of Business Financing (capitalising an agribusiness)
- Setting financial goals and plans

5.4 Mode of delivery

- Introduction/lecture in plenary
- Group discussions
- Use of plenary for sharing of ideas and experience
- Use of applicable cases

Notes & Hand Out 5

Farm business profitability

Better farm management can reduce the losses and increase the production of small scale farmers and FOs/ FEGs, increase in production, enhanced productivity, better farm management, collective purchase, transportation, and marketing ensured profitability, following points, are most important in farm business?

- Profitability is the primary goal of all business ventures.
- Measuring current and past profitability and projecting future profitability is very important.
- Profitability is measured with income and expenses. Income is money generated from the activities of the business. For example, if vegetables and livestock are produced and sold, income is generated.
- Expenses are the cost of resources used up or consumed by the activities of the business.
- The understanding about the profitability of enterprise is important, this relates to the identification of product, planning, procurement, management, and marketing, selling and developing strong relationship with the market. Cost analysis will enable the farmers to analyze the difference between traditional and business farming practices; these are the major reasons for computing profitability;
- Whether you are recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business.
- A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business oriented farmers.

How Can a Farmer Assess the Viability of a Horticulture Enterprise?

Gross Margin Analysis

- Gross margin budgets are usually expressed on a per hectare basis to allow for comparisons of different crops. Gross income consists of not only the produce sold, but also the produce consumed, given away e.g. as gifts, bartered, and retained produce still in storage, and even by-products (e.g. green manure), if they have value.
- The Gross Income from harvest is estimated from multiplying saleable harvest by area of crop planted and the unit price that the farmers are likely to obtain, (taking into the season, and the local market conditions).
- The unit prices for produce and inputs that are used in the budget estimates usually come from different sources including suppliers of agricultural inputs, prices observed in local produce markets, agencies that provide information, extension personnel, and private companies and contracting companies.
- Variable costs are production costs directly allocated to a particular horticultural enterprise and usually change according to seasons, and size and scale of production. Examples

include seed, fertilizers, agro-chemicals, casual or hired labour, packaging materials, land preparation and transport of inputs and produce.

Gross margin refers to the income generated from a horticulture enterprise and is equal to the difference between the total gross income and the total variable costs (i.e. all variable costs added together).

For horticultural crops, the marketable harvest takes into account losses that may occur since it is unlikely that the entire crop can be marketed. The losses can be due to poor harvesting methods, or they can occur during storage and problems in marketing such as lack of transport. The exact rate of loss will depend on the type of crop and the distance to the market. Horticultural crop is usually perishable, and if grown in remote areas with unreliable transport facilities, then higher losses should be anticipated, unless storage and transport facilities are adequate.

For a farmer to measure profit for the whole farm, the farmer uses a whole farm budget where he/she adds together all the gross margins for the different enterprises, and subtracts the total fixed costs.

1. **Gross Income**

• Gross income can be increased by increasing the expected yield, the marketable yield, or the selling price.

1. The expected yield can be increased by selection of appropriate and high yielding varieties of the crop, as well as proper selection and use of other inputs such as fertilizers and chemicals.
2. Weeding, irrigating and pest and disease control, can result in increased yields which in turn can lead to increased income.
3. Increased yields can also be achieved by reducing field losses. For example, a crop such as tomato, which requires trellising, would suffer reduced losses if not properly trellised because of better coverage of crop protection chemicals, better ventilation, and reduced contact with the ground.
4. The marketable yield can be increased by correct harvesting and timing of harvest, correct post-harvest handling and transportation of produce, all contribute towards reducing post-harvest losses.
5. An increase in the pack-out percentage, for example, would increase the marketed yield. Pack out percentage refers to the proportion of the marketable produce after taking into account yield losses.
6. The selling price can be improved by synchronising production to coincide with periods when the market price is high, or, for products that you can store such as dried onions, to sell when the price is high. High prices are also usually obtainable when the quality of the produce is high, e.g. it may be better to grade product according to market requirements, and get premium prices for the high grades, rather than having a mixture of grades thereby getting an average price.

2. Total Variable Costs

• In assessing the viability of the particular horticultural enterprise, the farmer can increase the gross margin by carefully analysing total variable costs and eliminating those that are not necessary.

For example, if the farmer is not applying the recommended quantity of inputs due to inadequate knowledge, he/she could seek extension advice to address that gap. By applying the correct quantity of inputs, and not over applying, the farmer could reduce the total variable costs.

• Careful planning and management of labour can also help in reducing total variable costs.

Break-even analysis

Break-even analysis determines the level at which total revenue equals total cost. A farmer may also want to know the minimum price per kg that s/he should charge for potatoes in order to cover production costs (break–even price) and the minimum yield/quantity she could expect per ha of potato in order to cover the costs (break–even yield/quantity).

a) Break Even Yield

Break even yield to cover variable costs =	**Variable Costs** / **Output Price**

This is the yield necessary to just cover all costs at a given output price, for example:

Total seed potato variable costs/ acre = Kshs. 92,000.

Price of seed potato per Kg = Kshs. 40 (Kshs 2,000 per 50Kg bag)

Break even yield = 92,000/ acre ÷Kshs. 40

= 2,300 Kg (or 46 bags).

This implies that at 2.3 tonnes per acre the farmer will just cover his/her variable costs if the price remains at Kshs. 40 per Kg. His/her Gross margin will be zero at this point. The farmer has to aim for a yield of more than 2.3 tonnes per acre i.e. to operate above break-even point.

b) Break Even Price

Breakeven price to cover variable costs =	**Total Variable Costs** / **Expected yield**

This is the price to cover variable costs at a given yield level. Below is a worked example;

Total seed potato variable costs/ acre = Kshs. 92,000.

Expected yield is 140 bags (7,000 Kgs)

Break-even price = 92,000/ acre ÷7,000 Kgs

= Kshs. 13.14 or 13.20/= per Kg.

The farmer will just cover his or her variable costs if he or she sells the seed potato at Kshs.13.14/ 13.20 per Kg.

Assessment and managing business risk

Although Business farming is significantly profitable business but every business have risk factors. However, just which risks pose the greatest challenge is highly dependent upon what enterprises you engage in and what stage your business is in. it is important to identify and assess the potential risks at FO level. Risks are also depends upon the nature of value chain and location. The following are the potential risk areas to be considered during decision making process.

1. Production
2. Market and Marketing
3. Financial risk
4. Human Resources

Following formats can be used to assess the potential risk factors and FEG can work on management of the identified risk well in time. Risk is defined as any factor that may cause losses to the farm business. Farmers may control these through better management and optimal usage of their resources. Some risks are external, such as changes in market prices, low rainfall, etc. Some risks are internal, such as decisions about what to produce, the type of inputs to purchase and use, etc. While farmers can control the internal risks more easily, there are ways to also manage external risks, provided these are recognized and addressed in time. However, risk management is not a guarantee for success, and often allows the farmer to effectively minimize the negative effects to his/her business.

Basic Record Keeping (Importance & types of records)

Introduction to Record Keeping

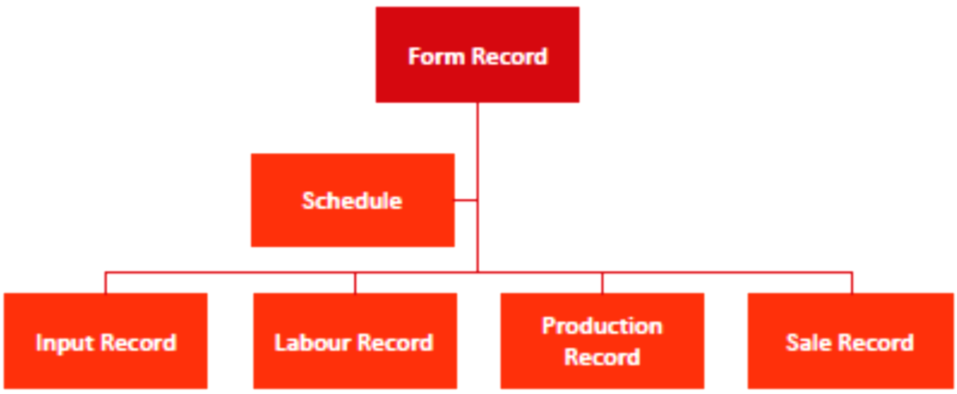
Record keeping is the systematic compilation of certain types of information. Reliable and accurate records are used to make better decisions affecting the farm.

It is important for farmer enterprise group members to know what actions have been taken by the FEG, or what or how much has been bought, sold or repaid, baseline of each farmer, what was the contribution of each farmer in the group, profit of each farmer according to their respective contribution. If these actions are not recorded, misunderstandings may develop between members.

An important building block in group development, therefore, is record-keeping. Like other processes in group formation, the development of record-keeping is a step-by-step process. Discuss with the members what records are important to keep. Start with the names of the group and its members and incoming money. Later, they should begin to record the minutes of meetings. Remember that records need to be understandable to all members, even those who cannot read. If some members cannot read, suggest that records be made using symbols.

It is important for group members to know what actions have been taken by the group, and what or how much has been bought, sold or repaid. The information may be about the group's organization, activities and income.

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



Regarding value chain enterprise Farmers/FEGs should record all incomes and costs as soon as they are incurred. These are then summarized periodically, e.g. by week, month, quarterly or annually. By comparing annual income to annual costs, you can determine whether you have made a profit or a loss over the year. Prices received from buyers every time a sale is made. This will help identify periods during the year when higher prices can be obtained, or buyers who offer a better price.

With this information, farmers can adjust production so that they have more produce available when prices are higher. Yields obtained and total sales (by volume and price) for products in order to enable comparison with previous years, and forecasting for future years.

Types of farm records

Farm Planning Schedule

This details the planned farm activities and the tentative dates for carrying them out. The schedule should be among the first records a farm manager produces. An example of a farm planning schedule for starting banana production.

#	Activity	Timeframe
1.1	Buying tools and equipment	1st month
1.2	Preparing land including clearing and ploughing	1st month
1.3	Marking the field	1st month
1.4	Digging planting holes	1st month
1.5	Procurement and application of manure	1st month
1.6	Buying plantlets (tissue culture/ suckers/corms)	1st month
1.7	Gap filling	2nd–4th month
1.8	Digging trenches	2nd–4th month
1.9	Mulching	2nd–4th month
2	Routine management (weeding, watering if necessary)	2nd–4th month
2.1	Routine management	5th–11th month
2.2	(e.g. weeding, removing trash, pruning, removal of male bud, irrigation)	5th–11th month
2.3	Selling suckers	5th–11th month
2.4	Routine management	From 12th month onwards
2.5	Looking for markets	From 12th month onwards
2.6	Selling banana bunches	From 12th month onwards
2.7	Selling suckers	From 12th month onwards
2.8	Harvesting	From 12th month onwards

Farm Input Record

Input record details the materials purchased and invested in the business. This should include the name of the input, the date of purchase, the price of the input, the amount of input(s) obtained, the total expenditure and where possible the expected useful life of the input. Example of an input record for starting a banana farm.

Input	Date of purchase	Expected useful life	Unit cost	QTY	Total cost
Tissue culture plantlets					
Manure					
Pesticides					
Mulch					
Implements					
Gumboots (pairs)					
Sisal rolls for marking planting holes					
Pegs for marking planting holes					

Farm Labour Record

This type of record details the labour used for the various tasks on the farm. Information in the record includes the activities, the period when the activities took place, the duration of the activities, the amount of labour used and the cost of the labour. Example of a labour record for a banana farm

#	Activity	Timing	Duration of the activity	Amount of labour used	Cost of the labour
1	Land clearing				
2	Ploughing and harrowing				
3	Field marking				
4	Digging holes				
5	Manure application				
6	Planting				
7	Weeding and pruning				
8	Mulching				
9	Watering				
10	Harvesting				
11	Grading/packing				
12	Transport				

Farm Production record

This record details the output from the business in a given period. It is advisable to record information in the production records at regular intervals, e.g. weekly, bi-weekly, monthly or quarterly. Example of a monthly production record for a banana farm.

Month	Quantity produced (bunches)			Quantity consumed	Quantity sold
	Small	Medium	Large		
January					
February					
March					
April					
May					
June					
July					

Sales record

The sales record is used to capture information on the sales made. It should include the volumes of the produce sold, the date of the sale, the average selling price, the type of buyer and the mode of payment. Example of a sales record for a banana farm

#	Date of sale	Quantity of banana bunches sold (by size)			Average price per bunch sold (by size)			Type of buyer,	Mode of payment
1		Small	Medium	Large	Small	Medium	Large	e.g. Local, Trader, wholesaler)	(cash, cheques, credit, etc.)
2									
3									
4									
5									
6									
7									
8									
9									
10									

Cash Book

Receipts					Payments				
Date	Details	Rate	Quantity	Total Amount	Date	Detail	Rate	Quantity	Total Amount

POST MODULE 1 ASSIGNMENT:

1. Create a picture of what they want the farmer organisation to look like in the year 2020 as per the Business Module template provided

Our Business Model will look like this by Dec 2020

<table>
<tr><td rowspan="2">KEY PARTNERS</td><td>KEY ACTIVITIES</td><td rowspan="2">VALUE PROPOSITION</td><td>CUSTOMER RELATIONSHIPS</td><td rowspan="2">CUSTOMER SEGMENTS</td></tr>
<tr><td>KEY RESOURSES</td><td>CHANNELS</td></tr>
<tr><td colspan="3">COST STRUCTURE</td><td colspan="2">REVENUE STREAMS</td></tr>
</table>

2. Develop the purchase criteria for your (targeted) major customers:

BUSINESS PLANNING (ACTIVITY) PHASE

MODULE 2: BUSINESS PLANNING DATA COLLECTION (FOR INTERNAL ANALYSIS AND STRATEGY DEVELOPMENT)

Activity 2.1: Internal Analysis Data Collection & SWOT Analysis

Module Purpose

- To help farmers understand their current business model analysing their strength, weakness, opportunities & threats
- To assist farmers create a shared vision and objectives towards attaining the vision
- To guide farmers in the process of gathering and sharing business data/ information for internal analysis in a structured manner

Casting of shared vision

The Business model of where we are

Internal analysis using the SWOT framework: Understanding our Strength, Weaknesses, Opportunity & Threats: - Current production methods,

Follow up activity:

Activity 2.2: FOs External Analysis – Potato Industry and Market Analysis

The industry and market analyses are activities undertaken by the consultant and culminate in the development of appropriate strategies for the farmer organisation.

The Industry Analysis and the Market Analysis

There are critical questions one should be able to answer that will give him/ her insights to how attractive your prospective industry and market is, beyond his/ her personal "feelings".

1. **How urgently do people need the thing you're selling or offering right now (Seed and ware potato – varieties)?**
2. **What is the market size like?**
3. **How easy is it to acquire a customer and how much will it cost?**
4. **How much money, personnel and time will it cost you to deliver the value you would be offering?**
5. **How long do you have to do background work before you are ready for the market?**

6. **What size of investment do you need to make up-front?** Is there a need for rent? What's the cost of equipment and machines? Marketing cost etc.?
7. **What is technology doing in your industry?** What technological tools are people in your industry adopting? What are the ways in which technology can improve your value proposition? What technology do you need to drive your business? Is there a new trend that could impact your industry?
8. **Will your business continue to be relevant as time passes?** If your business is only relevant for a specific period of time, you will also want to consider your future plans.

The answers to these questions will help you validate your business idea (Viability analysis).

To answer these questions, you use information gotten from research and not just your perception.

The above exercise is useful in:

I. **Reviewing the business Idea, model and Strategy**

Go back to the drawing board and review your idea and model. Is it feasible? If yes, what **strategy** do you need to adopt to optimize your chances of success (TOWS based strategies and objectives)?

If possible, you can even take things a step further and consider the consumer needs currently not being met by the businesses in the industry. This would be a good foundation for differentiating your line of business and creating a competitive advantage.

This leads us to taking a look at ***potential competitors***.

II. **Crafting a Competitive Advantage**

Competition analysis is all well and good but it's a means to an end and not an end in itself. If you want to be successful and not just average, then it is important to offer more to the target customer than your competitor. There must be a differentiating factor in your business and this is what is referred to as **"Competitive Advantage".**

A competitive advantage is what makes you better than the competition in your customers' minds with an overall impact on their perception of your "brand".

The development of strategy and objectives results from the internal analysis (SWOT), the industry analysis, the environment (PESTEL) analysis and the competitor/ market analysis.

- The operating industry conditions within the environment
- Identify the Key Success Factors (KSF) in the seed potato and ware potato business

- Strategy development for competitiveness and sustainability within the potato value chain and food industry

Strategy generally pulls from the best practices of the industry, but uses this only as a foundation on which to add very different activities that create a competitive advantage.

POST MODULE 2 ASSIGNMENT:

Facilitate all the relevant farmers to fill:

(1) Seed potato farmers

	Name of Farmer	Acres to plant potato	Variety to plant	Expected Planting date	Expected harvest date	Expected Marketable yield (Kgs)	
	Total per variety						

(2) Ware potato farmers

	Name of Farmer	Acres to plant potato	Variety to plant	Expected Planting date	Expected harvest date	Expected Marketable yield (Kgs)	
	Total per variety						

Complete the below SWOT table for your organisation:

STRENGTHS	**OPPORTUNITIES**
(Favourable Internal factors)	(Favourable External factors)
WEAKNESSES	**THREATS**
(Unfavourable Internal factors)	(Unfavourable External factors)

Activity 2.3: Drafting of First Strategic Business Plan

With the model and strategy (strategic direction) decided, it is time to draft through the narrative of the plan's many sections. The putting together of the first draft strategic business plan as described by the farmers/ representatives of the farmer organisation, as well as the internal and external analyses. The document highlights the vision, mission, goals and objectives of the farmer organisation put in a professional business framework.

The draft highlights the farmer organisation's business model (how the FO creates and captures value) indicating the organisational strategies, the sales and marketing strategies (describing the customers), growth options and strategies that will be adopted to capitalise on the identified opportunities.

BUSINESS PLAN FORMAT

1. BUSINESS DESCRIPTION
   - 1.1. The Nature of the Business and Business Trends
     - 1.1.1. The Nature of the Business (The Business idea / Model)
     - 1.1.2. The Industry Structure & trends (Industry Analysis)
   - 1.2. The Enterprise (Farmer Organization)
     - 1.2.1. The name of the cooperative
     - 1.2.2. The Business Mission and Vision
     - 1.2.3. The Business Goals (and Objectives)
     - 1.2.4. Type of Business ownership & share capital
     - 1.2.5. Business location
   - 1.3. The product and Services
   - 1.4. Opportunity & Entry Strategies

2. MARKET ANALYSIS, INDUSTRY ANALYSIS, & MARKET PLANS
   - 2.1. Industry & Market Research and Analysis
     - 2.1.1. Major Customers
     - 2.1.2. Market size
     - 2.1.3. Market and Industry trends
     - 2.1.4. Major Competitors
     - 2.1.5. Entry Barriers
   - 2.2. Marketing Plan
     - 2.2.1. Overall marketing strategy (From the 4 Ps)
     - 2.2.2. Pricing Strategy and Policies
     - 2.2.3. Sales tactics
     - 2.2.4. Advertising and promotion
     - 2.2.5. Distribution plan

3. ORGANISATIONAL, MANAGEMENT & OPERATIONAL PLANS
    3.1. Design and Development Plans
        3.1.1. Development Status and Tasks
        3.1.2. Design and development costs
        3.1.3. Major difficulty and risks
    3.2. Production and Operation Plans (Done in a later activity)
        3.2.1. (Production plans & calendars) & Harvest schedules.
        3.2.2. Operations & Aggregation planning
        3.2.3. Facilities and capacities
    3.3. Organizational and management team
        3.3.1. Organizational structure (now & the ideal)
        3.3.2. Key management personnel
        3.3.3. Supporting Advisors and services

4. FINANCIAL ANALYSIS AND PLAN (Done in a later activity)
    4.1. The Economics of Business
        4.1.1. Major Fixed and Variable Costs
        4.1.2. Break even calculations and Analysis
        4.1.3. Gross and Operating margins Analysis
    4.2. Financial Projections and Plans
        4.2.1. Projected Income Statement
        4.2.2. Projected Cash Flow Statement
        4.2.3. Projected balance Sheet
    4.3. Proposed Enterprise Financing
        4.3.1. Desired Financing (Needs)
        4.3.2. Capitalization (Sources)
        4.3.3. Use of Funds (Uses)

MODULE 3: ESTIMATING SALES BASED ON PRODUCTION CAPACITY & AGGREGATION PROJECTIONS

(Activity)

There are 5 levels of concern in sales forecasting:

(a) Market Potential
(b) Sales Potential
(c) Actual Sales Forecasts
(d) Sales Quotas
(e) Sales Budgets

Sales forecast in a business plan show sales by month for the next 12 months--at least--and then by year for the following two to five years. Three years, total, is generally enough for most agribusiness plans.

This activity involves guiding the farmers in projecting sales based on the potential market demand (no of potential buyers, quantity to be purchased by each buyer & price point of the buyers, frequency of purchase, quantity per consignment, purchase period) and drawing productions plans for both the seed and ware potatoes to meet the estimated demand (of specific varieties) sustainably. The anticipated sales will need to be synchronised with the production capacity of the farmers from the module 2 assignment and come up with supplementary strategy for filling in the potential demand- supply gap.

- Planning & Estimating Sales (aggregation & selling): Based on the market, project sales (quantity X price) of all varieties that have the largest demand (from each of the targeted market segment), the periods (months/ weeks/ days) the selling will occur, and create a distribution mechanism for ensuring constant/consistent supply of the produce as and when the market needs it (stagger supply/ production to meet the market needs).
- FOs Production Capacity estimation – From the sales plan/ projection, Estimate how much (of specific varieties) will need to be produced (in each season), re-allocate the farmers who will be responsible for growing the demanded varieties, agree & plan for its supervision to ensure quality control – Plan & schedule monitoring of on farm production activities as per the production calendar – when & Who will be in charge?
- Aggregation Planning (When will the produce be harvested, where will it be stored, how will it be handled – weighing, sorting/ grading, who will supervise and how will the buyer collect it?)

POST MODULE 3 ASSIGNMENT:

Set up the Marketing & production sub-committee (Monitoring & follow up structure) for the purposes of overseeing/ supervising production, aggregation and marketing functions/ activities.

Please provide the names of the formulated sub-committee members:

A	**Marketing Sub-Committee**		
	Name	Position	Contact

B	**Production Sub-Committee**		
	Name	Position	Contact

C	**Finance Sub-Committee**		
	Name	Position	Contact

Activity 3.1: Business plan Financial Analysis & Financial Statement Preparation

The development of financial statements based on the chosen strategy, sales and production estimation and the projected expenditure:

FINANCIAL ANALYSIS AND PLAN

- The Economics of Business
    - Major Fixed and Variable Costs
    - Break even calculations and Analysis
    - Gross and operating margins Analysis
- Financial Projections and Plans
    - Projected Income Statement
    - Projected Cash Flow Statement
    - Projected balance Sheet
- Proposed Enterprise Financing
    - Desired Financing (Needs)
    - Capitalization (Sources)
    - Use/s of Funds

MODULE 4: BUSINESS PLAN VALIDATION WORKSHOP

Module Purpose

- To give the farmers, and their leadership, the opportunity to go through their work (business planning) which has been put in a professional framework.
- To provide an opportunity for receiving feedback so as to incorporate any ideas, suggestions etc. which were left out as well as remove any inclusions that do not reflect or represent the aspirations of the farmers (who are the consumers of the document).
- To assist the farmers jointly create an implementation plan (Implementation taskforce for monitoring & evaluating implementation)

Activity 4.1: Business plan final drafting

This process involve finalisation of the business plan (final draft) inculcating the views emanating from the validation workshop. The implementation work plan is also included in the final draft. The final draft is shared with CIP for printing and in preparation for the launch.

Activity 4.2: Business plan launch

Support the farmer organisation interacts with the various stakeholders (financial institutions, government agencies among other partners and stakeholders) through the presentation of the business plan during the launch. Take the farmers (members) and the relevant stakeholders through the business plan, providing opportunities for partnership and potential business.

Contact

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Funded by United States Agency for International Development, the three-year Feed the Future Kenya Accelerated Value Chain Development (AVCD) project program seeks to widely apply technologies and innovations for selected value chains in order to competitively and sustainably increase productivity, contributing to inclusive agricultural growth, nutrition and food security in the country. Focusing on the livestock, dairy, and staple and root crops value chains in 21 counties in Kenya, AVCD aims to lift 326,000 households out of poverty. The potato value chain component, managed by CIP, seeks to expand the seed system, increase production and productivity of smallholder farmers, and support coordination in the value chain by developing farmer institutions to support marketing for member farmers.