IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Republic of Zambia
**Ministry of Agriculture and Cooperatives**


# Agricultural Marketing
## What is it?

November 2004

# Steps required to successfully market new products

### Introduction

This is an introductory guide to the set of ten modules that have been produced to explain the production, post-harvest and marketing requirements for some products that Zambia's farmers could consider producing. These products are:

- Sweet potato
- Cassava
- Groundnuts
- Banana
- Fresh and dried beans
- Vegetables
- Cattle
- Goats
- Village chickens and eggs

This booklet provides a general description of what farmer groups need to know and do in order to supply those potential markets.

### What is marketing?

There are almost as many definitions of "marketing" as there are books written about the subject. We could fill up this guide just by repeating all the definitions.

*One simple definition is:*

The series of activities involved in moving a product from the point of production to the point of consumption.

However, this definition misses out two important points. Firstly, before farmers grow a crop, they need to know what consumers want to buy. Secondly, all activities in the marketing chain must be done profitably. Thus a better definition of marketing is:

*The series of activities involved in finding out what customers want and moving those products profitably from the point of production to the point of consumption.*

### The series of agricultural marketing planning activities

In order to successfully and profitably market new products that consumers want, groups of farmers need to do the following:

1. Identify buyers and their needs.
2. Decide on marketing channels to be used
3. Plan production to meet their needs
4. Plan to harvest, process, grade, package or store
5. Identify arrangements for transport and delivery of the products
6. Calculate costs
7. Calculate profit!

## Step 1 Identifying buyers and their needs

The ten modules provide detailed information on how various crops and other products are marketed and who buys them. However, much remains for farmer groups to do. Questions that need to be addressed include:

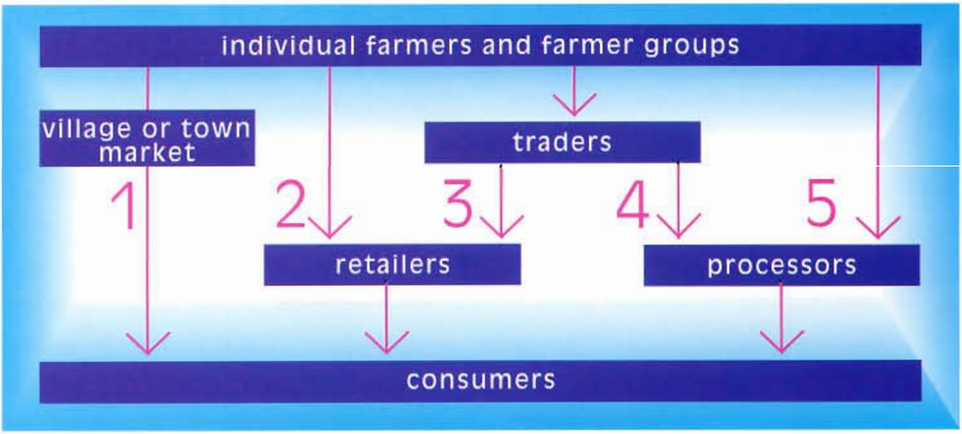
- Who are the buyers for this product and are any presently operating in your area? If not, would you be able to deliver to more distant buyers? Where do they want to buy the product? What is the reputation of existing buyers?
- Would those buyers be interested in visiting your area if you could guarantee them supply?
- In what form do they want to buy it? Is the demand for the fresh product or for processed or semi-processed products? What do buyers want in terms of quantity, quality, packaging, etc?
- Is the quantity the buyers want already being supplied? If that is the case you would be competing against farmers in other areas and the price may go down. On the other hand, if traders, processors, etc. would like to buy more than they can presently get you will have a good chance of marketing your product profitably.
- When do buyers want the product? For various reasons, processors, traders andretailers do not always want to buy a product at the time it is usually harvested.

This may mean that farmers have to invest in storage or even change their production techniques to produce the product at a different time of the year;

- How much will the buyers pay for the product? On some occasions a buyer may be prepared to agree a price in advance as long as the group agrees to supply all its production to that particular buyer. In most cases, however, the buyer will only agree to buy at the prevailing market price. What is that price likely to be? What was it this year at harvest time? Last year? Are there significant seasonal or annual price variations? Are price fluctuations a risk for farmers, and are they prepared to take that risk?
- What sources of information are available about markets and market prices to help farmers negotiate with buyers? Very little market price information is presently available in Zambia for the products discussed in these modules. Sources of retail price information can be obtained by visiting markets or by contacting relatives in urban areas.

*You must know where and how you will sell produce before commencing production!*

## Step 2 Decide on marketing channels to be used



The channels open to farmers, working either individually or as groups, will vary according to the product, location of farmers and likely end-use of the product. Five possible channels are identified in the graph on page 4.

Farmers can sell small quantities in local village markets, or even from their homes. However, where a new crop is being introduced by a group of farmers, the quantities produced are likely to be far too great for all to be sold locally. One possibility is then for farmers, probably working as a group, to organise transport to take produce to a market in a local administrative centre or small town. If they have time the farmers could consider selling the produce themselves in the market. Alternatively they could sell to retailers.

Retailers are often based permanently in markets. Although farmers who sell to retailers get a lower price than if they sell directly to consumers, they do not have to spend all day sitting in the market and don't run the risk of having unsold produce at the end of the day. Selling to retailers may be the better option for farmers, particularly if they have hired a vehicle by the hour and would have to pay for it while they were sitting in the market. In some larger markets, such as Soweto in Lusaka (and Chisokone in Kitwe) some people function as wholesalers, buying from farmers and traders and reselling to retailers, either those in the market or those from outside who want to buy produce to sell elsewhere.

Agroprocessors normally take delivery directly from farmers, often organising the transport of farmers' produce themselves. However, sometimes they may also buy from traders (e.g. in the case of cotton). Where farmers have the option, they need to decide whether to sell to traders or whether to deliver directly to the factory.

For some processed products (e.g. processed fruits and vegetables or animal products), and for the export of fresh vegetables, agribusiness companies have to guarantee that the produce they handle is safe. Moreover, they need to ensure that the quality of raw materials meets the necessary standards. For this reason agroprocessors often try to deal directly with farmers, rather than purchase their supplies from traders. Some organise transport of produce from the farmer to the factory while others may employ agents, cooperatives or farmer groups to act as their representatives.

## Step 3 Plan production to meet buyers needs

- Can you supply what buyers want? Are you sure that the quantities or qualities you can produce will be sufficient to interest the buyers? Are members of thegroup interested in growing/rearing these products, and confident that they can do so? Will sufficient family or hired labour be available for all production activities?
- What yields can you expect? Should you carry out a limited trial to make sure that the crop is suitable for your location and to assess likely yields, before going into large-scale production?
- Can you obtain the seeds, fertilizer, planting material, day-old-chicks, etc. on time? If you are producing to supply a processor (or exporter), does that processor organize your input supply, and advance the inputs on credit?
- Can you adjust production to take advantage of seasonal price fluctuations? For example, could you grow different varieties that reach maturity earlier or later than the varieties being grown by other farmers? Could you invest in new technologies? What would be the additional costs of such production? Have other farmers tried to introduce new technologies for crops or livestock?Have they been successful? How would farmers finance the additional inputs new technologies might require?
- Will sufficient family or hired labour be available at harvest time?

## Step 4 Planning to harvest, process, grade, package or store

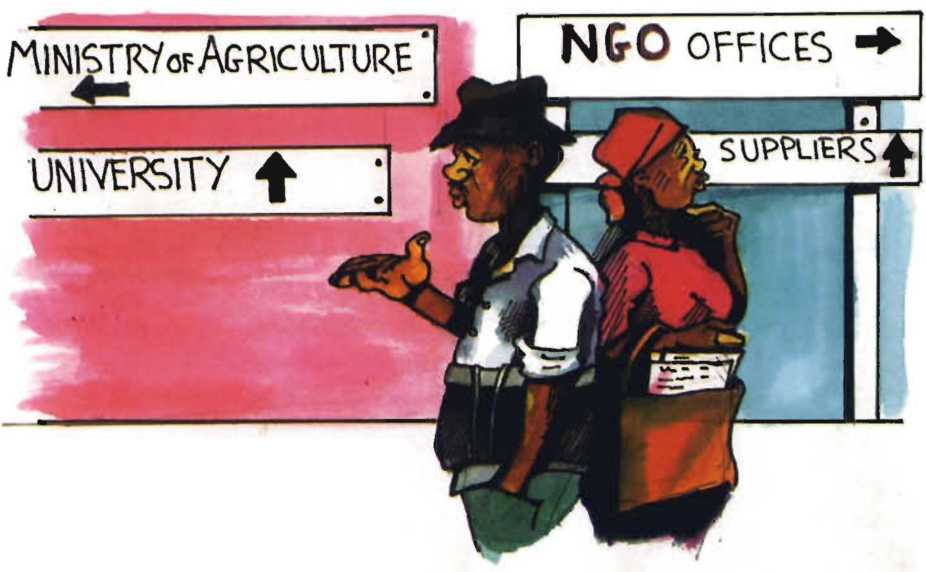
- Is processing required (milling, shelling, husking, etc.) and if so, what equipment needs to be purchased? where can it be obtained? how much does it cost and how will members of the group finance it? If the product can be sold unprocessed, does the difference in price between the processed and unprocessed product justify carrying out processing?
- Have the buyers specified grades or minimum qualities? Do farmers in the group fully understand those grades and are they able to explain them to everyone working on the farm?
- What packaging do the buyers require? Will they supply that packaging? If not, where will the group's farmers obtain it, and at what cost?
- Is storage needed? If so, will this be provided by individual farmers, by the group

or village or will commercial stores be used? If a group store, who will manage it and what procedures are in place to protect produce from theft? If such a store already exists, is its condition suitable for the new crop? Can farmers consider getting loans with the stored crop serving as collateral?

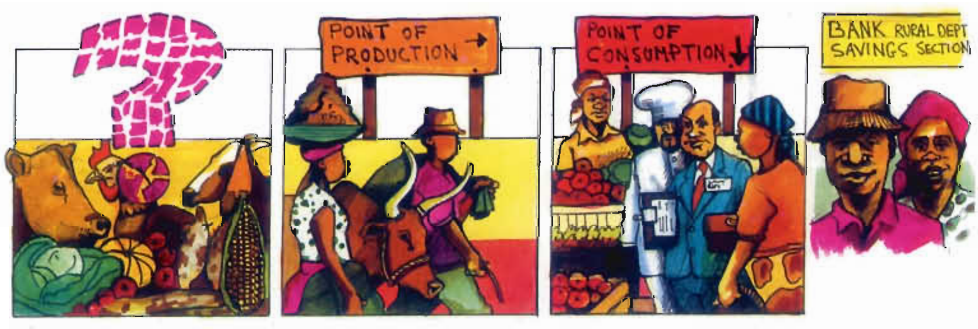
Stores need to be in good condition.

## Step 5 Planning transport and delivery

- Do buyers visit the farms or will they if sufficient quantities are produced?
- Are the farms accessible by the buyers' trucks? If not, how will members of the group get produce to the roads?
- If the group wants to sell direct to retailers or processors or if there are no buyers in the villages, what transport arrangements need to be made? Can trucks be hired? At what cost? Can produce be transported on a "per container" basis or will the farmers have to hire a truck? If the latter, will the group have enough product to fill up the truck?
- When does the buyer want to take delivery? Some buyers will accept delivery at all times; others may only receive supplies on certain days or at certain times of the day.



- Will farmers be paid at the time of sale or delivery or will they have to wait for payment? Sometimes traders will want to postpone payment until their next visit to the village. Supermarkets or agroprocessors often pay once a month. If payment will not be in cash at the time of sale, what arrangements are there for farmers to be paid?
- All transactions along the marketing chain involve costs. At the simplest level, the cost involved may just be the time taken by the farmers to walk to a nearby market and stay there until all of their products have been sold. At the most complex level, a product may be stored for long periods, transported long distances and processed several times before reaching the form in which it is finally sold. An awareness of marketing costs is essential because farmers need to calculate whether they can sell their products profitably or not. Farmers need to have an idea not only of the costs they will face when selling to a trader but also the costs that the trader faces. With such information farmer groups can make informed decisions about whether they can do their own marketing. The individual modules provide marketing cost calculations from the farmer to the consumer for the various products.



*The main types of marketing costs faced by Zambian farmers are:*

- **Product preparation and packaging costs:** Produce often needs to be cleaned, trimmed, sorted, cured or graded before sale. Once prepared for sale it needs to be put into suitable packaging for delivery to the market, trader, processor or retailer. Packaging costs can be considerable; while maize sacks may be inexpensive the packaging often required for fruits and vegetable, such as plastic crates, can be a major expense.
- **Transport and handling costs:** Transport costs can be incurred by farmers when they move produce from the farm to the village and from the village to the eventual buyer. Before being sold, a product may have to be loaded onto and off transport several times and people may have to be paid to do this, which is also a cost.

*Calculating transport costs for individual containers can often be difficult!*

- **Produce losses:** There can be quantity losses and quality losses. Most products lose weight during transport and storage as a result of moisture loss. Damage to produce means that much often has to be thrown away, and losses for perishable produce in particular can be very high. Such losses can represent a significant cost. Don't forget that produce that is transported and not sold for whatever reason still incurs transport and other costs, so such marketing costs have to be calculated on the basis of the weight of produce leaving the farm, not the weight actually sold.
- **Storage costs:** For some products storage can often be carried out by farmers. However, this is only viable when the produce can be sold after storage at a higher price, with the difference fully covering the costs of storage as well as offering the farmer an incentive for taking the risks associated with storage.

There are four types of storage costs.

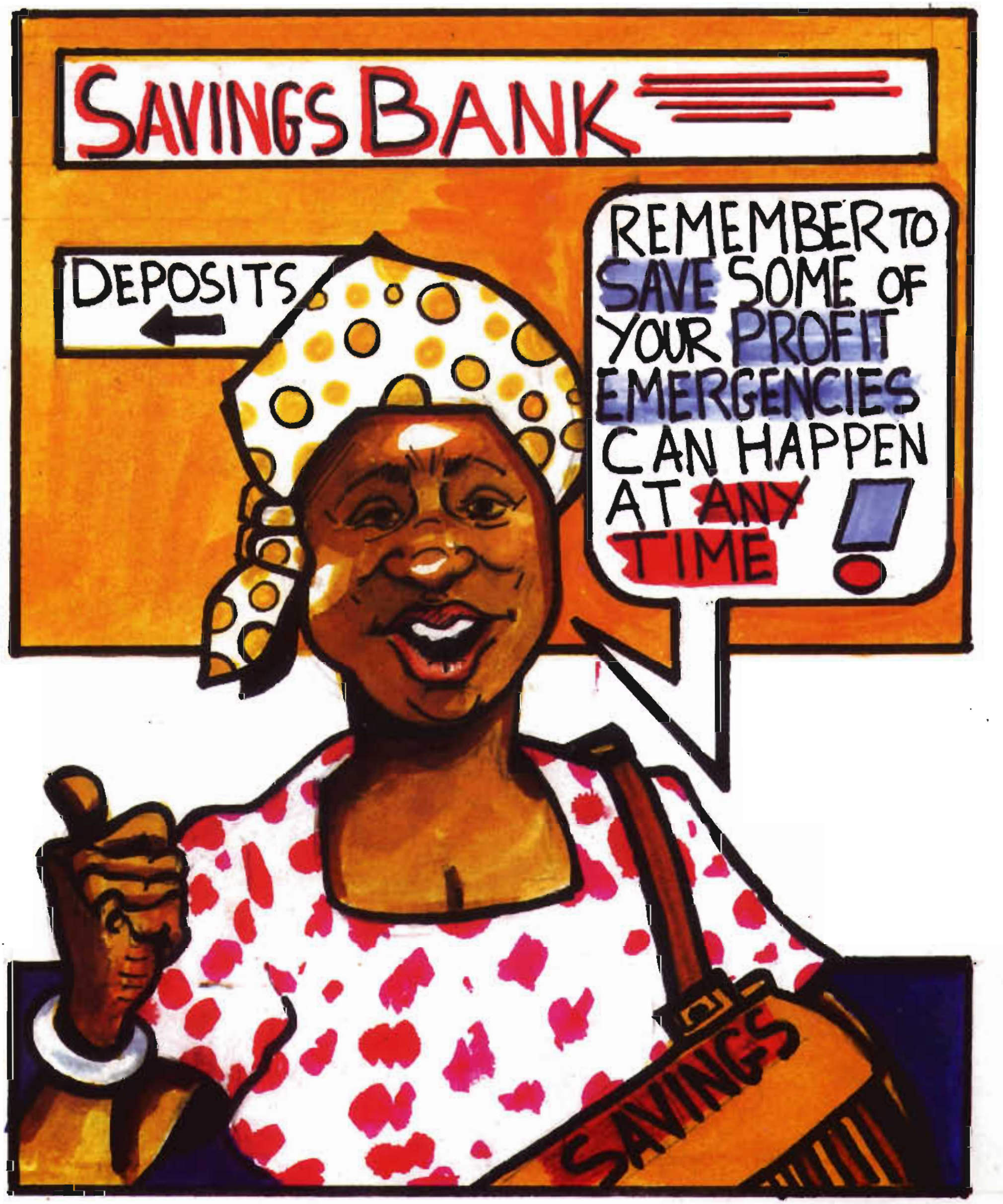
- The first concerns the operation of the store, such as depreciation of the building cost, maintenance and, perhaps, electricity charges and, for larger stores, security costs.
- Second is the cost ofmaintaining the product quality while in store, such as chemicals that may be needed.

- Third, produce in store will, however well stored, inevitably lose some quality and quantity. This is also a cost that has to be taken into account.
- Finally, when farmers put produce into store there is a financial cost. They could sell that produce immediately after harvest and use the money or put it in the bank to earn interest.
- **Processing costs:** Farmers need to be sure that there are financial benefits from carrying out primary processing. Advantages of carrying out processing on the farm include the fact that it can reduce the perishability of the product (eg fresh cassava is very perishable) and can reduce its bulkiness, so reducing transport costs. One possible disadvantage in doing farm-level processing is that farmers may not have the markets for by-products that are available to larger processors. The value of the by-product is an important consideration in working out processing costs. In calculating the cost of processing, you need to take into account the cost of depreciation on the equipment (eg if you expect a mill to last for ten years, then divide its total cost by ten to get an annual cost), and the cost of running that equipment. You must also have a clear idea of the conversion rate, ie how much processed product you get for every one kilogram of raw material.

## Step 7 Calculate profit

When farmers have a reasonable idea of the prices they should be able to sell their produce for and a realistic appreciation of the marketing costs they will face, they should then be able to estimate the likely farmgate price. Such calculations can be made by following the information on marketing costs in the individual modules, and the methodologies outlined in the "On Agricultural Marketing" and the FAO publication on marketing costs mentioned earlier. Of course, a further calculation is then required. Farmers need to answer the question: "at the farmgate price we have calculated, is producing this new product more profitable for us than the products we are alreadyproducing on our farms? This requires that a Gross Margin Analysis be done. Information on this is also provided in the training manual.

In making all calculations it is important that farmers take into account all costs. Sometimes NGOs or projects provide assistance with, for example, marketing transport or input supplies. Cost calculations need to recognize that such support is likely to onlylast for a short time and that after it ends farmers' production will have to be profitable enough to meet all costs. It is sensible not to start producing something if that production is only profitable because farmers are receiving subsidies.




BOTH GROWING AND MARKETING MUST HAVE
GOOD ADVANCED PLANNING O.K!