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Putting Nitrogen Fixation to Work for Smallholder Farmers in Africa

N2Africa

Farmers' handbook for agricultural marketing

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This manual has been compiled by Byron Zamasiya for the N2Africa project in Zimbabwe based on the following references:

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CONTENT

An earlier version of this manual was drafted and tested by Byron Zamasiya under the "Increasing smallholder farm productivity, income, and health through widespread of adoption integrated soil fertility management (ISFM) in the great lake regions and Southern Africa" project funded by IFAD.

Disclaimer:
The project entitled "Putting nitrogen fixation to work for smallholder farmers in Africa" – N2Africa is funded by The Bill & Melinda Gates Foundation through a grant to Plant Production Systems, Wageningen, the Netherlands. The content of this booklet does not represent the official position of Bill & Melinda Gates Foundation, Wageningen University or any of the other partner organisations within the project and is entirely the responsibility of the authors.
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Final editing & Lay-out: Judith de Wolf

THE BASICS OF MARKETING: INTRODUCTION

What is marketing?

- Delivery of customer satisfaction at a profit
- Process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

Definition of terms:

- Demand: quantity of goods that consumers are willing to buy at a given price at a particular time.
- Market: is a physical place where buying and selling of good s takes place.
- Marketing: involves finding out what your customers want and supplying it to them at a profit.
- Supply: quantity of products that suppliers are willing to offer for sale at given price and a particular time.

Table 1: The Marketing Mix: the 4 Ps

Marketing variable	Definition	Aspects of the variable
Product	What we sell to satisfy a need or want	Variety, quality, brand, sizes, characteristics
Price	The monetary value that a seller seeks from the buyer	Price list, discounts, price margins, credit conditions
Place	Distribution and marketing channel	Sales points, locations within market, inventory of products
Promotion	Convincing or persuading the audience of the quality or features of the product or services offered by the group.	Advertising, personal sales, trade and consumer promotions and public relations.

Market research:

- It is the process of investigating a market about a product which farmers want to sell so that the farmers can get the sales prospects of a product and how to achieve success with it.
- It is the set of activities necessary to obtain information on price trends, the buyers, quality wanted, quantity wanted and when product is required

Basics of Market research – issues to find out:

- Where to sell?
- Who requires the product? (do we have contacts of the buyers)
- What is the price (minimum and maximum)
- What is the level of quantity demanded by a particular trader?
- What is the quantity supplied in the market?
- Who to sell to? (what kind of buyers are in the market)
- What transport is available?
- Condition of the roads
- Expected crop yields in the rest of the country
- Government plans on importation

Benefits of market research:

- Reduces risk of producing what is not wanted by consumers
- Helps to identify the right packaging size
- Informs on the right quality
- Helps to inform on the quantities required
- Informs on when the product is needed and who needs it

Question: Why is it that smallholder farmers are not successful?

In the interim, smallholder farmers are producing what they want and not what the market wants (They are doing farming and not agriculture). The ideal scenario: Can we make money by producing this crop and if so how much can we produce?

The blind leading the blind

What happens without market research? What are the risks?

1. Consumers may not like the product or do not like the way it is packaged.
2. The price which the producer wants maybe way too high than what consumers may afford.
3. The price offered by buyers may be too low to cover production and marketing costs.
4. The quality may be unacceptable
5. The quantity required may be lower than what is produced or quantity produced may be higher than what is what is required.
6. The farming enterprise will run losses.

The market chain

Actors and organizations that enable the transfer of goods and services from the producer to the final consumer. Who are the players in the marketing chain?

- Suppliers (farmers)
- Processors
- Retailers
- Rural traders
- Urban wholesalers
- Consumers

What do we consider when analyzing a market?

- The product: what do we have for sale?
- Quality of product: how good is the quality we have?
- Volume of produce: how much quantity do we have
- Price: value that we attach to our product
- Promotion: convincing and persuading buyers that your product is the best

Questions for discussion:

1. What constraints do we face when marketing our produce?
2. How do we negotiate with buyers at different levels of the market chain?

<u>MARKET INFORMATION</u>

Market information is information on the following items:

- Prices of produce by different buyers
- Quantities wanted by buyers
- Quality of produce
- Volumes of commodities coming in and coming out
- New crop varieties in market
- Weather conditions in areas where produce is coming from.
- Seasonal tendencies like harvest or planting time.
- Prices of produce by different buyers

There are different types of price information:

- Farm gate prices
- Off lorry prices
- Wholesale/Processor prices
- Retail prices

Why is market information important? (Group discussion)

- Helps farmers in making a wise decision on where and when to sell.
- Alerts farmers about the price to pay.
- Helps farmers negotiate prices (Minimize cheating by buyers and margin available to other market chain actors).
- Helps farmers to decide what to do with their produce (sell or store).
- Give farmers an opportunity to choose on what crops to grow for next season.
- Helps farmers to decide whether to grow crops out of season.
- Helps farmers to decide what form they want to sell their commodity (i.e. shelled, unshelled, processed).
- Enables farmers to know which crops have a higher demand than others.

How can farmers access market information? (Group discussion)

- Radios
- Extension officers
- Markets (asking traders & buyers)
- Neighbours, friends, people who visit the market
- Lorry drivers
- Farmer information centres (e.g. Lower Guruve Development Association has established one in Guruve district)
- Relatives in distant towns
- Newspapers
- Village notice boards
- Government agents for schools, hospitals
- Traders (get to know what they are selling at)
- Mobile telephones
- Farmer representative groups (for instance Zimbabwe Commercial Farmers Union)

Market intelligence: Information relevant to a business' markets (farming enterprise); collected and analysed specifically for the purpose of accurate and informed decision making in choosing market opportunities, market penetration strategy and market development issues.

Questions for discussion:

1. How do you know if a price offered by a trader for your commodity is the best price a trader can pay?
2. How do you bargain with a trader?
3. Among the various traders (vendors, middlemen, wholesalers and processors) in the market, which ones would you target as collective marketing groups and why?
4. Why do prices go up or down?
5. What do you do as collective marketing groups to maintain high prices?

MARKETS AND PRICES

Price refers to the monetary value of a commodity that the seller receives when exchange takes place. There are different types of prices in markets: ***farm gate price and off-farm prices***

Why are prices important?

- Provide the incentive to produce for market or own consumption.
- Provide incentive to sell excess produce.
- Help farmers to check if they are making profits or losses in their farming enterprises.
- Inform producers to time their sales.
- Inform farmers on how to cost their produce.

Pricing strategies

- *Pricing for profit:* selling product above cost of production and delivery and marketing costs.
- *Pricing for value:* selling more quantity by giving price breaks when volume of the product purchased increases. For instance $4 each or 3 for $10. This strategy 'pricing for value' can be used when selling to processors and it can also be used at day end when farmer does not want to take the produce back home.
- Pricing against competition: this is done through selling a differentiated product above market price by establishing good reputation for quality packaging, presentation and high quality products.
- Loss leading: selling products at purposively low prices that are below cost of production, delivery and marketing costs (real value) to attract customers to buy other products at higher prices.

Points to note

Sellers' markets: very few buyers but plenty of sellers. There will be high supply and low demand. Prices will eventually fall as sellers outbid each other to attract buyers.

Buyers' market: there will be many buyers but very few sellers. Supply will be very low but demand will be very high. Prices will rise as buyers bid each other.

Questions for discussion

What determines a price? (Group 1)

- Interaction between demand and supply.
- Quality of the products (size, grade/quality, shape, colour, taste).
- Cost of production, the higher the input cost, the higher the asking price.
- Marketing costs
- Cost of family labour involved in production and marketing.
- Price of product in other markets
- Price of similar products.
- Location of produce (long distance to market increases transport and marketing costs).
- Personal preferences.
- Government regulations for instance price controls.
- Pricing strategy

Why do prices fluctuate? (Group 2)

- Importation or exportation of produce
- Location of market (cities versus rural areas)
- Crop diseases
- Effect of rainfall patterns on yields
- Changes in global supply and demand
- Food aid deliveries

- Availability of credit
- Poor quality of commodities
- Patterns of supply and demand
- Value addition
- Economic conditions
- When transport costs rise
- Seasonality

What can farmers do to benefit from price fluctuations? (Group 3)

- Storage of product after bumper harvest
- Value addition i.e. shelling groundnuts
- Diversify crops (do not produce too much of a crop)
- Spread risk between food and cash crops
- Avoid selling too much after harvest if you will have to buy the same crop at a higher price.
- Organize transport to produce markets that offer higher prices.
- Use different prices when calculating gross margins (do not use average prices).
- Spread production throughout the year

THE BASICS OF COLLECTIVE MARKETING

By the end of this chapter farmers should be knowledgeable of:

- What collective marketing is.
- The purpose of forming collective marketing groups.
- The merits and demerits of collective marketing.
- The right size of a collective marketing group.
- Gender relations in collective marketing groups.
- Management of group finances.

Benefits of marketing as a group

- Helps farmers to discuss the problems or challenges of marketing their produce together.
- Helps farmers to share post-harvest handling and delivery costs.
- Farmers benefit from better quality products to take to the market.
- Farmers get higher prices through negotiation.
- Farmers can eliminate the middlemen and sell directly to processors.
- Personal contact with processors saves cost and time.
- Farmers can increase production and improved their livelihoods.

Advantages of operating as a collective marketing group

- Lowering costs by sharing risks
- Ease of training
- Improving access to credit
- Obtaining communal equipment and services
- Improved negotiation with buyers
- Improved access to market information
- Improved access to remunerative markets
- Better decision making on timing sales
- Higher prices to produce

- Better returns to farming enterprise
- Social reasons (helping other farmers with problems)

Challenges of group marketing

- Can be time consuming through regular meetings
- Expensive to construct storage facilities
- Difficult to reach consensus in a group especially large groups.
- Trustworthiness among members may be lacking
- Bad record keeping may lead to losses of money or produce
- Delayed selling

Questions for discussion

1. What is the purpose of your collective marketing group?
2. What are the benefits of marketing together?
3. What are the costs involved in being in a group?
4. How do we resolve conflicts in our farmers groups?
5. How do we elect our group representatives (chairperson, treasurer, marketing committee, auditors)?
6. What other markets might your group investigate as potential recipients of your products?
7. How can you get better at acquiring market information?
8. What would be the advantage of having accurate market information?
9. How do we manage group finances?

BUYERS IN THE MARKET

Who are the Buyers?

- People who buy our commodities in exchange for cash or in kind
- They are our customers
- They are the link between us as producers and the consumers
- In most cases they set the price for farmers or give them an indication of what the price is.

Points to note:

- When there are many buyers in search of a product, in most cases you are likely to get a higher price as buyers will bid each other and push the price up.
- When there are fewer buyers in search of a product, in most cases you will get a low price as the sellers/producers will bid each other and in so doing push the price down.

Farmers should know the type of buyer they are dealing with to establish the trend of the purchases or the form of the products which a particular buyer prefers. For example, some buyers prefer unshelled nuts, other shelled nuts, while others prefer Alphatoxin free nuts. Knowing the buyer helps to make a decision on how much to sell to that buyer and the payment terms involved.

There are different types of buyers:

A. Farm gate buyers

- Agents or traders who move around the village buying produce at farmers' homes
- Usually buy small quantities

- Offer low prices but bulk and resale at high prices.
- They have no fixed location.

B. Wholesale buyers/Processors

- Buy from farmer groups or other traders
- Usually offer higher prices
- Buy bigger quantities
- Normally process our product

C. Retail buyers

- Normally consumers who buy for personal consumption for example other villagers or urban dwellers

Characteristics of all buyers:

- They all want continuity of supply
- They demand certain product specifications i.e. quantity, grade, quality, packaging
- They offer different payment terms
- They also buy varying quantities with their position on the market chain.

What can the group do to target more buyers?

- Organize good grading
- Organize factory visits
- Conduct market research before making the selling decision
- Supply consistently to establish rapport with buyers.
- Bulk their produce and practice good post harvest handling.
- Sell produce in breaks

Questions for discussion

1. What kind of buyers have you been selling your products to?
2. What is the difference between the different buyers you have been selling to?
3. If we want to do farming as a business, what kind of buyers should we sell our products to and why?
4. How can we improve our relations with the buyers?

Negotiating with Buyers

Negotiating with buyers is a tactic that farmers need to learn. The farmer is faced with the dilemma of asking for a higher price while trying to convince the buyer to buy his/her produce but is worried that the buyer may refuse to buy. On the other hand the buyer the lowest possible price for the price. Informed negotiation by farmers/producers should be based on market information as to who are the buyers, what prices are they accepting, what quantities are needed, what are the weather conditions in the producing areas, what is the price trend and how is the availability of transport and its cost.

What buyers do during the price negotiation process?

- May not tell the farmers the correct market price of the product.
- Most of them claim that the quality is not up to standard.
- May threaten not to do business with the farmers unless if farmers agree to a lower price.
- May collude with other buyers in the area to offer a lower price to the farmers.
- Always pretend that they know many other farmers selling the product at a much cheaper price.

What weakens farmers' position in the price negotiation process?

- Lack of market information on:

    - prices offered by other traders
    - quantities on demand
    - market supply (quantities available for sale)
    - price trends
    - weather conditions in other producing areas
- Desperation for money
- Fear of failing to sell and ending up dumping the product.
- Condition of product for instance if quality is deteriorating

Questions for discussion

1. What can we do as farmers groups to get better prices in the negotiation process?
2. It is believed that farming does not pay yet we see buyers making more profits than those who do the actual farming. What then can be done to make farming profitable to the producers?
3. If you were given a choice to become a buyer or a farmer, what would you become and why?

CALCULATING MARKETING MARGINS

Marketing margins inform us the extent to which the production costs are covered by the price which the producer gets and the share of profit which is shared by non-producing market chain actors. There are two key margins which a farmer should consider before agreeing to sell his/her products to the buyer. The use of these two margins allows the farmer/producer to set a price that adequately covers production and marketing costs and to also get a bigger share of the price realised from producing and selling produce. The two fundamental margins that are used are the Gross Marketing Margin to Producer (GMMP) and the Total Gross Marketing Margin (TGMM).

Gross Marketing Margin to Producer = GMMP

The Gross Marketing Margin to Producer measures that part of the total cost paid by the final consumer that belongs to the producer. Therefore, the GMMP is that portion (measured as a percent) of the price the consumer pays that will go to the producer.

$$\text{GMMP} = \frac{\text{Price paid to Producer}}{\text{Price paid by customer}} \times 100\%$$

Producers should try to achieve an on-farm price that is at least 35% of the price paid by the final consumer, therefore the GMMP > 35%.

The rule of thump for the GMMP

If the GMMP calculated using the farm gate price is less than 35%, it means that the producer can attempt to take the product further up the market chain to capture a greater margin. This means that the product must be sold off farm.

Example: Sugar beans sell as follows along a supply chain in Zimbabwe:

Product Name	Producer Price (USD)	Transporter Price (USD)	Wholesaler Price (Processor) (USD)	Retail Price (USD)
Sugar beans	0.60 / kg	0.85 / kg*	1.10 / kg*	1.50 / kg

* = Prices are for illustrative purposes only

What is the GMMP for sugar beans as per table above? Remember:

$$\text{GMMP} = \frac{\text{Price paid to Producer}}{\text{Price paid by customer}} \text{ X } 100\%$$

$$\text{GMMP} = \frac{\$0.60}{\$1.50} \text{ x } 100\% = 40\%$$

Total Gross Marketing Margin = TGMM

The Total Gross Marketing Margin is the profit margin available to the players or intermediaries other than the producer who participate in a supply chain. It is calculated by subtracting the Price to Producer from the Price by Final Consumer and then dividing by the9 Price Paid by Final Consumer (expressed as a percent). The three “middle men” can be considered to be: Transporter, Wholesaler and Retailer. If the product is transformed (processed), then there will also be a processor in the supply chain. Total Gross Marketing Margin:

$$\text{TGMM} = \frac{\text{(Price paid by Consumer – Price paid to Producer)}}{\text{Price paid by Customer}} \text{ X } 100\%$$

Question: What is the TGMM for sugar beans? (use the table above)

$$TGMM = \frac{(\text{Price paid by Consumer} - \text{Price paid to Producer})}{\text{Price paid by Consumer}} \times 100\%$$

$$TGMM = \frac{(\$1.50 - \$0.60)}{(\$\ 1.50)} \times 100\% = \frac{\$0.90}{\$\ 1.50} \times 100\% = 60\%$$

NOTE: The sum of Total Gross Marketing Margin + Gross Marketing Margin to Producer = 100%. The formula is: TGMM + GMMP = 100%

Points to note

1. As a general rule, producers should try to achieve an on-farm price that is at least 35% of the price paid by the final consumer meaning that the GMMP should at least be above 35%.
2. Although the 35% is an arbitrary percentage, it is considerably acceptable to players on the market chain.
3. When the GMMP is below 35%, farmers should evaluate the changes in GMMP if sales are done to another actor on the market chain. An alternative is to wait until prices pick. In some cases, the farmers can also add value to their produce for instance by shelling in the case of groundnuts or processing in the case of soy beans.
4. The sum of Total Gross Marketing Margin and Gross Marketing Margin to Producer = 100%.

Net Marketing Margin = NMMP

The Net Marketing Margin indicates the price or margin received by the producer after subtraction of her cost for transport and transactional costs associated with taking the product further up the supply chain (not taking payment at the farm-gate and delivering the product to market, processor, wholesaler or even retailer). The NMMP is determined by subtracting all the marketing costs from the point (and price) in the supply chain where product is to be delivered. This formula is applied only when we have precisely calculated the marketing costs.

Net Marketing Margin Producer (NMMP)

$$\text{NMMP} = \frac{\text{(Price of Delivery in Chain – Total costs marketing for producer)}}{\text{Price paid by consumer}} \times 100$$

Example: Maize sells as follows along a supply chain in Zimbabwe:

Product Name	Producer Price (USD)	Transporter Price (USD)	Wholesaler Price (Processor) (USD)	Retail Price (USD)
Maize	0.15 / kg	0.23 / kg*	0.38 / kg*	0.50 / kg

* = Prices are for illustrative purposes only

Suppose the cost per ton of delivering maize to Harare is \$60/ton, then the price of delivery in chain is \$0.06/kg. The calculations for NMMP are using prices per tonne.

$$\text{NMMP} = \frac{\text{(Price of Delivery in Chain – Total costs marketing for producer)}}{\text{Price paid by consumer}} \times 100$$

$$\text{NMMP} = \frac{(\$230 - \$60)}{\$\ 500} \times 100\% = \frac{\$170}{\$\ 500} \times 100\% = 34\%$$

Comment on the GMMP from the two calculations of GMMP.

Examples of some market chains in Zimbabwe all in USD

Product Name	Producer Price (Farm-gate price)	Transporter Price	Wholesaler Price (Processor)	Retailer Price (Consumer Price)
Maize	0.18 / kg	0.23 / kg*	0.38 / kg*	0.50 / kg
Sugar Beans	0.70 / kg	0.95 / kg*	1.50 / kg*	2.0 / kg
Soybeans	0.45/kg	0.55/kg	0.60/kg	0.65/kg*
Groundnuts	0.50/kg	0.75/kg	1.10/kg	1.50/kg
Cowpeas	0.40/kg	0.60/kg	0.65/kg	0.70/kg*

*Prices noted with asterisk are illustrative and may not reflect actual.

Questions for discussion

1. How does an off-farm sale differ from a farm-gate sale?
2. What are the possible transaction costs involved in off-farm sales?
3. Using the prices above, which crop would you consider to provide good business using GMMP and TGMM?
4. What would you recommend a group to do when the GMMP is less than 35% and the TGMM is above 50%?

COLLECTION POINTS

Once a farmers form a collective marketing group, it will be a good idea to establish a collection point. The collection point will serve as the place where members of the collective marketing group will grade, bag, weigh and store their produce before they sale to buyers.

What are the benefits to a group of having collection point?

- It promote group sales
- Easy of access by buyers
- Better control of produce quality
- Reducing transaction costs involved in individually selling the produce.
- Facilitating timing of produce sales
- Facilitating linkage with remunerative buyers
- Allows collective marketing group to attract established buyers offering higher prices.

What are the characteristics of a good collection point?

- Should be sited at a secured building with proper ventilation and leak proof roof to maintain quality.
- The collection point should be accessible by main road or close to the high way
- There should be a digital weighing scale for weighing individual farmers produce as it comes and for weighing final produce before selling.
- It could be an unused shop or storeroom.

What are the activities which farmers can do at a collection point?

- Quality control of produce by selecting, winnowing and cleaning.

- Centralised inspection of produce delivered by individual producers.
- Bagging of product before sales
- Weighing of product
- Proper storage of product before sales.
- Receiving of payments from buyers and paying out individual farmers for their produce.
- Maintaining of group sales records

Sustainable relationship with buyers

- Sustainable market linkages are built best on trust and reputation. Reputation is the opinion held by others about someone.
- Most groups are known for one off transactions.

How to built sustainable reputation and trust by buyers

- Consistently supply high quality products.
- Set fair prices
- Supply the same traders consistently
- Be honest in your negotiations.

How buyer- supplier relations are severed

- Mixing old produce with new produce
- Mixing good quality produce with poor quality produce
- Mixing dry produce with wet produce
- Adding sand in bags to gain weight
- Adding stones to bulk produce
- Back tracking on agreements
- Side marketing after receiving inputs from buyers
- Refusing to pay loans