

STEP 2

Market Opportunity Identification and Market Chain Analysis

The marketing study is generally conducted in two stages. The first stage is a market opportunity evaluation leading to the selection of a product(s). The second stage involves a more in-depth market chain analysis on selected product(s). Participatory selection of a product is an important part of the decision-making process, especially for communities who are evaluating their marketing prospects for the first time. Using participatory methods avoids top-down decisions and allows communities to learn and make choices based on their experiences and risk assessment.

However, it is recognized that in many agricultural intervention projects, the selection of product(s) can be done as part of a pre-feasibility study, based on macro-economic data and expert opinion. If a product pre-selection process is used, the first stage in this process can be skipped.

Matching Product Selection with Experience

Product selection in this method is done in one of two ways and the decision on which option to select is based on the marketing experience of the working group members and the level of risk or innovation that is being sought by the farmer groups or investor (see Figure 1). For less experienced marketing groups we recommend that the team opt for strategy 1 and focus on “market penetration” approaches with existing products. For more experienced groups and particularly those with an experienced market facilitator, the group can undertake the more complicated market opportunities identification process, which focuses on “market diversification”.

Strategy 1. Selection of an existing product (lower risk)

This strategy focuses on evaluating demand, market opportunities and prospects for business development services that are related to **existing products**. These are products that are already

being grown by farmers within the project site and being sold in the local market. This approach can also be considered as a pilot project, so that service providers and farmer groups can learn how to evaluate markets for products that are already well known to the farmer groups. The minimum timeframe for the enterprise process based on this strategy is one season.

Strategy 2. Identification of a new product (higher risk)

For more experienced market facilitators or more organized farmer groups, strategy 2 focuses on “market diversification”, i.e., evaluating a more diverse range of products. This strategy places emphasis on evaluating the **market demand** of products and most importantly whether demand is increasing, stagnant or declining. The information gathering in this strategy can be narrowed down to evaluate market information for only one or two products, such as pigs or pineapples, or the survey can be broadened to gather information on a range of products such as fruits, or vegetables, that are of interest to specific clients and/or investors. The timeframe for the enterprise process based on strategy 2 may extend beyond one season.

Planning the Market Opportunity Survey (Product Selection)

As a first step, the working group should select a limited number of members for market survey team. This group will plan, implement and analyze the market survey information. The survey team should comprise 4 to 3 members maximum and where possible should include farmer participation. This survey team begins the analysis by calling a meeting with farmer group(s) to find out which product(s) farmers are interested to learn more about, in terms of the product’s market opportunities.

If the farmers decide to opt for **strategy 1**, working with existing products, a decision on products can be made quickly. Product(s) can be selected, based on what crops farmers grow

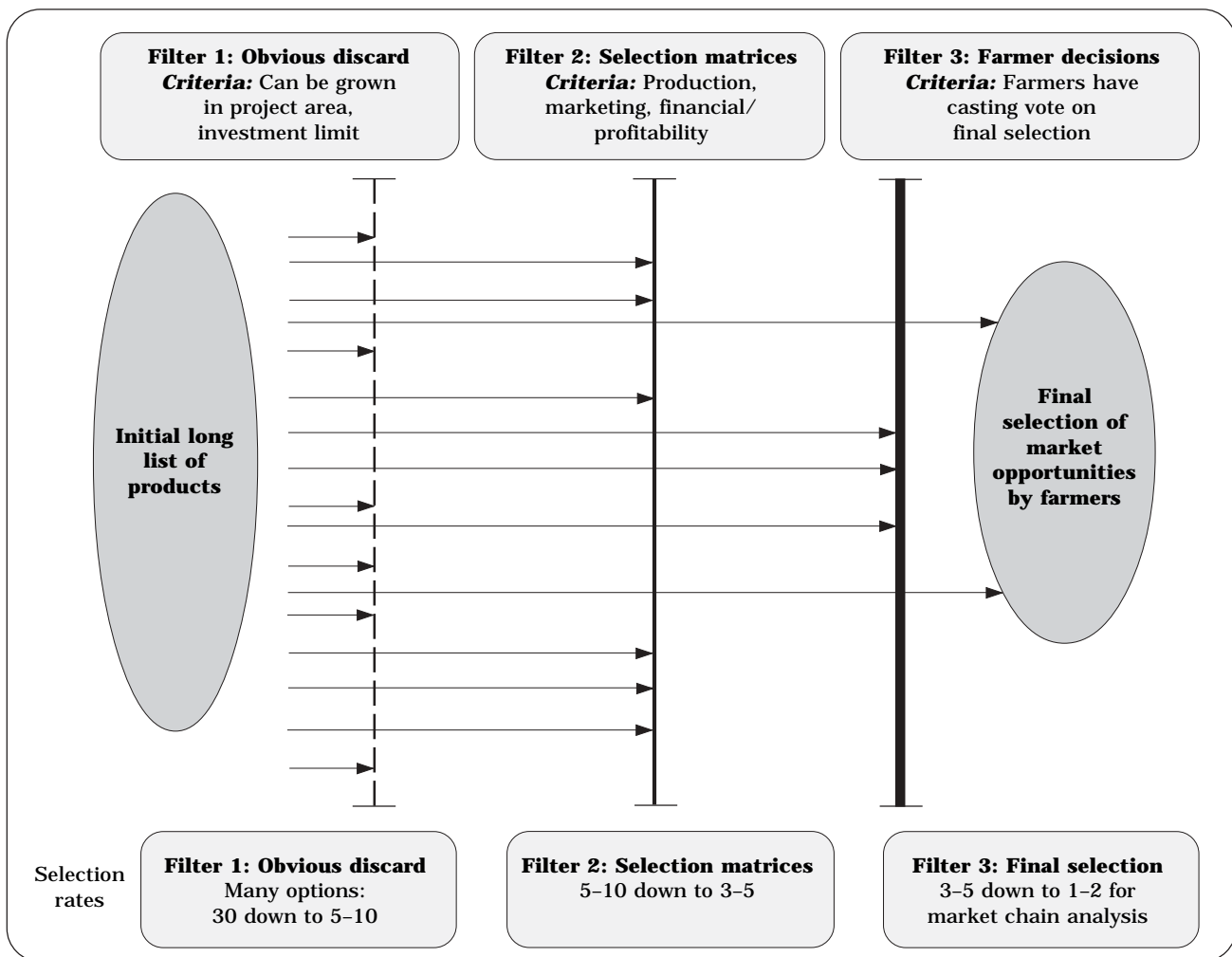


Figure 4. Selection of market options based on three levels of selection/discard.

SOURCE: Author's diagram based on MOI process; see Ostertag (2006) and Abele et al. (2004).

discards, such as products that cannot be grown in the target area, products that take too long before harvest, products that require a high level of investment. This initial set of discard criteria should reduce the options down from 30 to 5-10 possibilities.

The second level of product screening uses three enterprise filters based on (i) production, (ii) marketing conditions, and (iii) profitability. Data for these three criteria is collected for each product and compared. From this analysis, the survey team can prioritize 3 to 5 products to be presented to the farmer groups for a final selection, these being the most profitable options that can be grown and have marketing conditions that are suitable for the client group. A meeting is held with the farmers, where the analyzed product assessment data is presented and the farmers have the casting vote on which product should be analyzed via market chain analysis.

Risk Assessment

One of the more difficult tasks, when selecting products and new business options, is to assess an appropriate level of risk that a client group should take on when developing a new enterprise. Tools such as the Ansoff matrix (Illustration 2) are used to categorize risk options, by comparing types of products and markets. In this matrix, risk increases from 1 (low risk) to 4 (highest risk). Market opportunity analyses of products based on demand and profitability will tend to bias results towards higher risk options and enterprise groups need to be aware of the risks and benefits from higher profit options.

The market facilitator can use the Ansoff matrix to guide groups towards a sensible level of risk based on their experience and financial options. In this case, facilitators may advise newly formed farmer groups to select options that are

Illustration 2. Using the Ansoff matrix for risk assessment.

	Existing products	New products
Existing markets	1. Market penetration (<i>lowest risk</i>)	3. Product development
New markets	2. Market development	4. Diversification (<i>highest risk</i>)

based on market penetration with the view that farmers can test new markets in a stepwise manner. In some cases, farmers may want to start with test plots and market trials before engaging in larger scale supply. For groups with more experience in marketing, higher risk, higher return strategies are likely to be more attractive. To facilitate the identification of market opportunities and evaluate prospects for diversification, CIAT developed a guide: *Identifying and assessing market opportunities for small rural producers* (Ostertag, 2006).

Market Chain Survey

Having narrowed the products down to one or two options the market survey team moves onto the next task of analyzing the market chain(s). The market chain study provides a structured way of assessing the roles and performance of market chain actors, their level of business organization and the use or potential for business development services (BDS). The results from this type of analysis are mainly descriptive and therefore do not require sophisticated econometric skills. However, the study can be complicated and for market facilitators who have not undertaken this type of work before, it is recommended that they work with an experienced economist to assist in survey implementation, analysis and report writing.

Scope of the market chain survey

Market chains can be complex, as products can have various market destinations and channels, can target different consumer segments (e.g., rich, poor, young, old, industrial buyers) and can involve few or many market chain actors. The first task of the survey team is therefore to decide which part of the market chain to study and the markets to investigate. The information in Figure 5 provides a schematic diagram of the many “interconnected market channels” that can exist for a product, from the primary producer’s perspective. Each point in the chain

represents a market actor. These actors perform a number of value adding tasks, such as assembling, grading and value addition through processing, packaging. Between each point other service providers transport goods between value adding stages before the product is finally retailed to consumers.

A market chain analysis provides information on changes in price, quality and quantity in addition to product and financial flow. The survey team should clarify at the outset, which part of a market chain will be surveyed and where farmers should be involved in data collection. In Figure 5, the dotted line indicates where a farmer or farmer’s representative can play their most effective role in studying the market chain, but this all depends upon the skills and experience of the farmer’s involved.

Having selected a chain, or part there of, the survey will gather information from market contacts on buying conditions, opportunities, constraints, value addition, finance options and prospects for growth. The survey will interview key informants at specific points in the market chain and complement this information by interviewing other relevant actors that provide marketing and business services (Figure 6).

Rapid methods of market chain appraisal, such as that developed by Holtzman (1999), rely on a semi-structured informal interviews with key observers² and key informants. This type of approach enables the team to survey a minimum but representative number of participants at different stages of the market chain/subsector.

2. Key observers in this case are defined as persons who are not involved in the market chain directly but have considerable knowledge about the product/chain in question and valuable insight into the context.

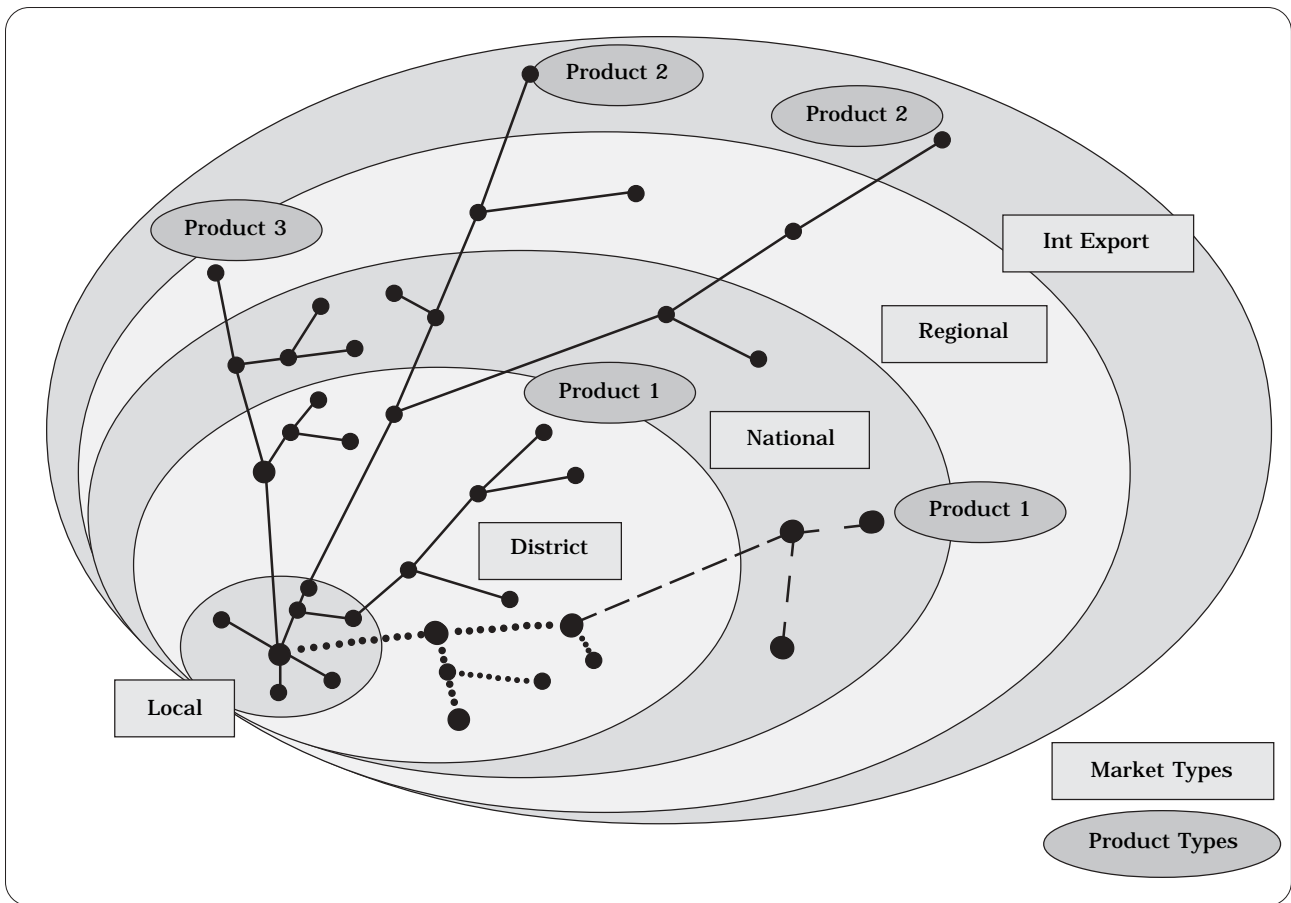


Figure 5. Schematic of a subsector and its many market chains.

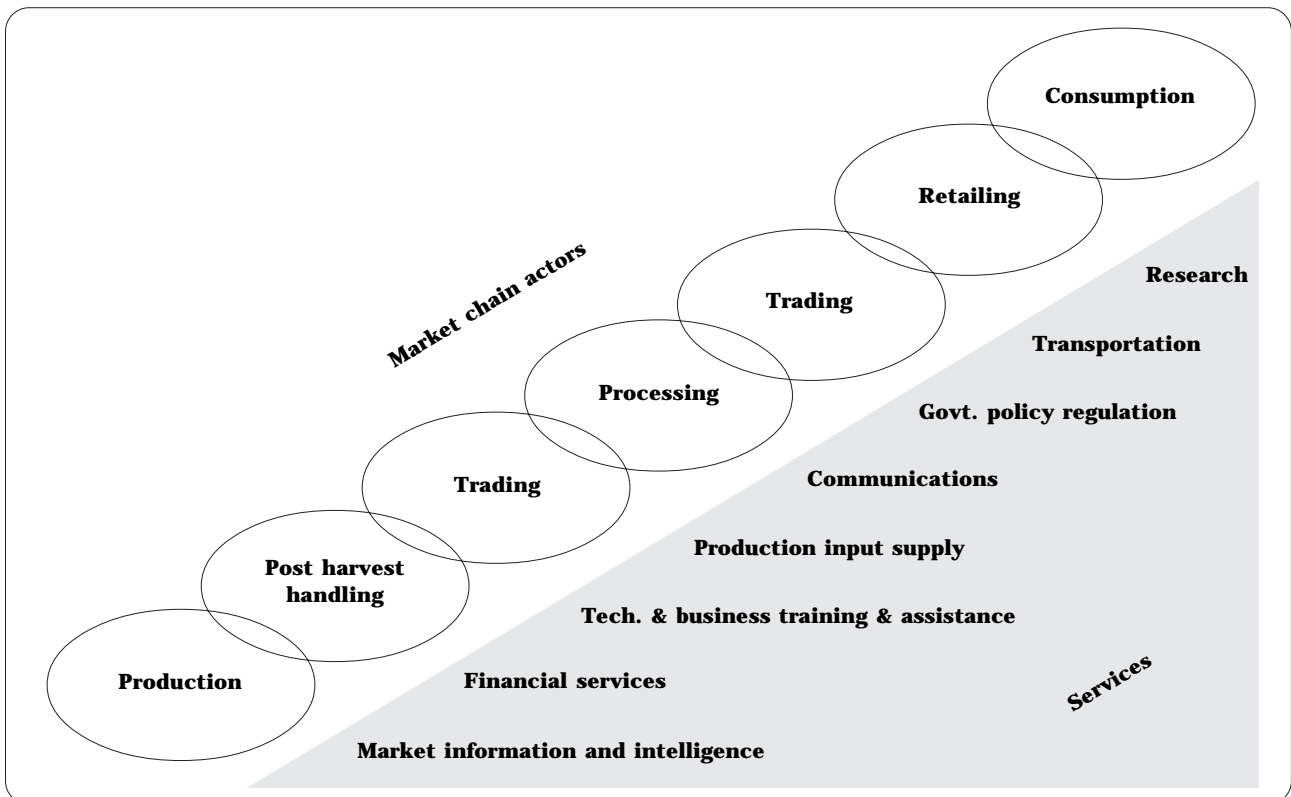


Figure 6. Actors and services that support a market chain.

Outline of the Rapid Market Appraisal methodology

The basic steps in a Rapid Market Appraisal (RMA) of a product or commodity are as follows:

1. Define the subsector or stages of a subsector with perceived problems and the need for investigation. Draw a subsector map.
2. Conduct a focused review of relevant literature and collect and tabulate readily available secondary data.
3. Identify key areas of investigation, and make strategic decisions about where to allocate time and resources. Identify key observers who can assist in defining important issues, priorities, and questions for the study.
4. Identify, select, and conduct semi-structured informal interviews with key sub-sector informants. (interview at least 3 informants at each level in the chain, where possible take product sample, cross-check answers with other key informants at that point in the market chain).
5. Visit physical facilities (e.g., markets, warehouses, transport and cold storage facilities) and observe performance of marketing functions. This activity may include going to a millers factory and observing the milling operation in action. From this observation the team will be able to assess information given in the interview against the size, throughput and activeness of the factory.
6. Share and discuss findings, draft a report, and present it to clients and interested stakeholders.
7. Revise the report, based on feedback, and propose next steps.
 - Development of enterprise plan.
 - Innovations in technology, institutional arrangements, and organization or coordination of marketing functions (and a monitoring plan).
 - Further, research that is required to implement an enterprise option.

Results from the market chain survey will enable the team to (i) gain a view of how a commodity sub-sector is organized, operates and performs, (ii) identify constraints and opportunities, (iii) identify specific market chains/channels that are most appropriate for a client group or investor, and (iv) prescribe interventions in organization, technology, services and management for a specific part of the chain. Based on this information the analysis should identify opportunities and constraints and suggest how the client can compete in this chain. In some cases, the survey will identify several potential market options which should be prioritized according to market type, e.g., local, national and export.

Level of Participation in Market Chain Analysis

The level of participation in these activities should be a rational decision, based on time, resources and scale of the study. We recommend that where possible clients/farmers are involved as much as possible in the process in order to facilitate skills transfer and local empowerment. However, we appreciate that this is not practical in all cases. As a rule of thumb, the level of participation of farmers will decline as the scale and scope of the study increases. In the past the market opportunity identification studies were only undertaken by economists or consultants. Whilst the consultant-led process remains valid, especially in large surveys, we recommend that the survey be undertaken with "farmer representation" to avoid top-down processes and increase ownership of the results.

For more details of methods for rapid market appraisal and participatory approaches to market analysis, refer to (i) Lundy et al. (2006b), *Design of strategies to increase the competitiveness of production chains with smallholder producers* and (ii) Wandschneider et al. (2006), *A guide to methods for rapid market appraisal*.