Marketing (& sales)

Agrobrief

Sierk Plaat **July 2006** **Number 10**

Farmers find that their environment is changing (with it their needs and even their lifestyles are also changing). Increasingly they find themselves needing extra income for daily activities/needs besides subsistence. This has (also) serious consequences for the way farmers have to look at the outside world from their farm (point of view).

1. Market orientation

Most small farmers produce for their subsistence, many still produce the crops which were always produced as a matter of habit or tradition. No real thought is given to prices and volumes on the market. Production costs are the main consideration. These farmers are **production oriented**.

However, there is a growing need for farmers to **become market oriented**. In other words: find out first what the market most likely wants and try to produce according to market specifications/demands. Reasons are that consumers have specific demands on quality, food safety and the social conditions under which the products are grown.

Becoming market oriented is not an easy process because market orientation requires knowledge of the farmers about what the market needs in terms of products, product specification, timing and volumes. Therefore the farmer needs an independent source of market information. A farmer who is market oriented will first consider the market demands and than decide what to grow and how. After he/she has acquired this knowledge he/she will decide to whom and how to sell his product. If he/she does so, there is a better chance that he/she will get a better price for the product.

2. Variables

In principle the gross income from crop (enterprise) production is variable and fluctuates from year to year and within the season. Demand for volume of agricultural products rarely fluctuates but prices in the market can vary from year to year and even from day to day.

These fluctuations are a result of many factors; e.g.

- The weather in a particular area and country can affect your crop but bad weather in other countries can have a positive influence on the price of your product.
- Production level in the country and production levels in other countries.
- Seasonal influences.
- The development of the market.
- Market logistics availability.
- Market outlets.
- Storage facilities.
- Possibilities to produce an early crop or a late crop.
- Access to local, regional and foreign markets.
- Access and availability of crop inputs.
- Ability to produce quality and quantity.
- Ability to timely delivery

- Ability to tracking and tracing.
- Proximity to markets.
- Transport.

It is the task of the entrepreneur/ farmer to combine and consider all these influences and to try to get the best price. However, the factors influencing the price can be divided in factors which can be influenced and factors which cannot be influenced.

Factors which can be directly influenced are in the area of quality, quantity and timely production. They include packaging, grading etc. Look at the market demands!

Therefore it is important that:

Farmers should identify the possible markets before they start a crop and find out what the requirements are in terms of quality, quantity, timing and presentation. They have to be sure to **grow the right variety** for the particular clients. For example, tomatoes can be for direct consumption, for processing or for different markets with different demands on color, size, ripeness, etc.

Farmers should be careful not to be over-ambitious in their surge for improvement. The step to sophisticated markets as export markets requires often skills, market knowledge and above all connections. It might be better to improve and supply the local market first before embarking on export. There are many examples of disappointments when farmers try too much too fast.

Consider cooperation with other farmers when it comes to marketing logistics and storage as well as packing and grading. *(Agrodok 38: "Starting a cooperative")*

Don't put all eggs in one basket, but consider spreading your risk by product diversification (different varieties or other crops). Try to produce earlier or later than most people. There are several examples of seasonal crops and when you produce them earlier or later than usual you may get a better price (tomatoes!).

When deliveries are made make sure to follow the clients specifications and stick to what has been agreed as clients can easily go to other producers.

A farmer has to create a good name for him/herself by delivering the right variety, quality, quantity and at the time the client wants it (reputation). This means that the move from production orientation to market orientation is not done overnight (but can even take generations). Changing your production needs investments as well.

3. Sales strategies

Factors which can be partly influenced are in the area of investments in storage and the production of early crops or late crops. With an early or late crop you have a good chance, but not a guarantee, for a better price.

Choosing the variety the client wants, does not always mean that the price will be good, but on average over the years a better income can be expected when listening to market demands. Also the fact that a farmer thinks that his product is superior does not automatically mean that the market agrees to that. Other factors might decide that buying elsewhere is more practical to the buyer or client.

Many factors can simply not be influenced by an individual farmer and need to be accepted as facts. These are market prices, but also the distance to markets is important. Here you have to adopt either a risk adverse approach (contracting) or a risk taking approach (open market)

It is important that a farmer develops a sales strategy!

Some definitions regarding sales strategy:

A contract price is generally a fixed price which is usually related to (average) previous market prices. It means that the farmer makes an agreement with a client (that can be a trader or whole sale organization) on the price, volume and specifications for the next season. It will therefore not be the highest possible price but also not the lowest. It is a safe price as long as it covers your costs. (direct + fixed). If you have a good reputation you are likely to negotiate a better contract price than when you have a poor reputation. It is important therefore that both parties stick to the agreement even if the market price is higher than what the farmer has agreed in the contract. The buyer also has to stick to the agreement when the market price is lower than the agreed price. Only if both parties stick to the agreement, a contract can work in the long run. Often small producers find this very difficult!

The market price can fluctuate. It is based on supply and demand and can be high, medium or low. This way of selling can be risky, especially for starting farmers. There are times that the market price is below the cost price. On the other hand if they are lucky, they can make a lot of money. It is speculation however.

Many farmers adopt therefore a mixed approach. For example, they will use the contract approach for part of the crop in order to have at least a bottom income and they speculate with the rest.

4. Market channels

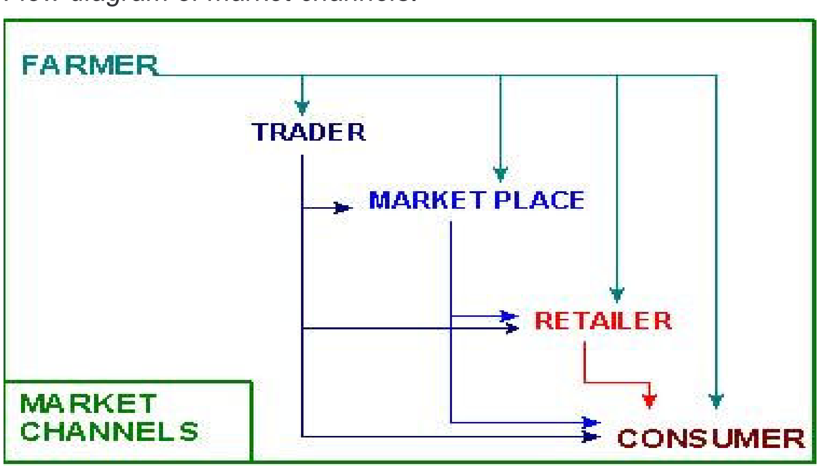
The following market channels exist, ranging from traditional to more modern channels:

- 1. Direct selling from the producer to the consumer
- 2. Direct selling to retailers
- 3. Selling at market places
- 4. Selling the product through traders/ middlemen
- 5. Selling through a co-operative
- 6. Selling through collection organizations

The first three market channels are mostly for small volumes. When the farmer wants to sell larger volumes, the last three are possibly more efficient.

The last three channels can also be contractors. Modern collection organizations can do sorting, storage, washing, processing etc. They can either be co-operative or private. So when a farmer can only produce small volumes, he should consider working together with other farmers to increase the output. Then they become more interesting as a contract party for a contractor.

Flow diagram of market channels.



Besides market channels, a choice has to be made whether you want to be a contract grower, or opt for the open market, or for a mix of both options.

5. Contract growing

Most collection organizations, but also processors, have a direct contract with the farmers or farmer groups to deliver their products.

The contract prices may be:

a. fixed prices
b. pool prices
c. market related prices

The quantity, time of delivery and the quality of the products are all laid down in the contracts. In cases where the producer stores his products, he receives a compensation for the storage costs. At the time of delivery, a representative sample is taken and its quality is determined.

a. Fixed prices
Collecting organizations and processors often only make contracts with fixed prices for a limited part of their total turn-over. The fixed price is based on history with a (small) deduction to gather for risks. More often they make contracts with their clients for resell of the produce or the processed product.

b. Pool prices
A pool price is based on the actual market prices at 3-4 different periods (e.g. at harvest, at 2-3 months after harvest, at 5-6 months storage and at 8-9 months storage. The farmer's price is then based on the market price level in the period he delivers. The overhead costs of the collecting organization (investment, depreciation, interests, maintenance, labour, etc.) are then deducted from these market prices.

d. Market related prices
Collecting organizations at times buy produce at actual market prices. The market price fluctuates and is a function of supply and demand. There is in this case simply an agreement that the buyer takes a certain volume but the price is depending on the market price.

AGROMISA, KNOWLEDGE CENTRE FOR SMALL SCALE SUSTAINABLE AGRICULTURE

Postal address: Agromisa Foundation, P.O. Box 41, 6700 AA Wageningen, The Netherlands
Visiting address: Duivendaal 8, 6701 AR Wageningen, The Netherlands
Telephone/Fax: ++ 31 317 412217 / 419178
E-mail: agromisa@agromisa.org
Banking: Bank account: 1172793 BIC or SWIFT code: pstbnl21 IBAN: NL52PSTB0001172793