

GUIDE TO AGRICULTURAL MARKETING EXTENSION

with special reference to Vietnam

Module 2

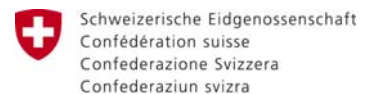


Supporting Collective Action for Market Access

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CHAPTER 1: INTRODUCTION

1.1 Collective action in The Vietnamese context

Vietnam is undergoing a transition to a market economy. As part of the country's integration into increasingly globalised regional and world economies, Vietnamese farmers not only have to be competitive in export markets, but also face growing competition in the domestic market, both from imports and from other local producers. At the same time, international and domestic markets are undergoing significant change with increasing dominance of supermarket chains, the development of the organic and fair trade market segments, and the increasing importance of food safety and product quality for market access.

These trends and changes pose significant threats to smallholder Vietnamese farmers, but also generate opportunities. Collective action can help small rural producers cope with emerging threats, take advantage of opportunities, and compete in the market place.

Vietnam has a long tradition in cooperative development. After independence, in 1954, labour exchange and credit groups were widely promoted in the rural areas of northern Vietnam. From the late 1950s onwards, priority was given to the development of agricultural cooperatives, under which the land belonging to individual families and its proceeds were collectively managed and shared. The collectivisation of agriculture was expanded to the south after its liberation and unification with the rest of the country, in 1974.

Under the cooperative system, production and marketing decisions were no longer in the hands of individual farming households. Cooperatives became an instrument for state planning of and control over agricultural production, with farmers having no option but to join the local cooperative and no control over their land, their labour, and the proceeds from their work.

It is now widely acknowledged that cooperatives failed to act as vehicles for agricultural modernisation and rural development, as initially intended. In 1989, after some attempts to reform the cooperative system and in a move to restore proper incentives and stimulate the rural economy, the state finally handed over control over agricultural production to farmers. The 1993 Land Law further consolidated these changes, granting land use and land transfer rights to individual farming households.

In 1997, as part of an effort to revitalise the cooperative movement under a market economy, the National Assembly approved a Cooperative Law. This law provides the framework for the development of cooperatives under principles of

voluntarism, internal democracy, and mutual benefit.

These changes in the legal framework were accompanied by the emergence of new and increasingly diversified forms of collective action. According to some estimates, there are now more than 100,000 voluntary farmer groups in Vietnam. Such groups reflect the interests and conditions of their members and therefore vary significantly in their objectives, rules, and size. Approximately two-thirds of these groups have no formal legal status and no joint capital. Few operate in the product marketing sphere. Most groups are located in the Mekong delta, the northeast, and the southeast. In upland areas, where farmers face greater market access problems, the number of informal and formal producer groups remains insignificant.

In addition, there are over 15,000 cooperatives in Vietnam. Approximately one-third were formed after and under the guiding principles of the 1997 Cooperative Law. The majority of these new cooperatives specialises in the production of specific commodities, such as cattle, pigs, poultry, fish, fruit, and safe vegetables. Many face difficulties arising from their small scale of operation, poor management and business skills, and lack of access to credit. Old cooperatives, in turn, tend to specialise in the provision of irrigation services, but suffer from under-capitalisation and lack of participation from members. Many exist just in name.

1.2 Purpose and users of this guide

This guide was developed in the context of the on-going reform of the agricultural extension system in Vietnam, where emphasis is being given to the development of more client-driven and market-oriented advisory services geared to helping farmers adapt to and compete in rapidly changing markets. However, at the moment very few extension officers in Vietnam have the skills and knowledge required to provide effective, market-oriented farmer advisory services.

Module 1 of this guide dealt with the collection, processing, and exchange of market information. This second module focuses on collective action for market access and the role that agricultural field officers can play in supporting such processes. In Vietnam the agricultural extension system and local government agencies have played a very marginal role in the development of marketing groups. Rural development organisations and projects in Vietnam are starting to pay greater attention to the links between market access and rural livelihoods, and despite the emphasis on group approaches, their experience in enabling the development of effective and sustainable market-oriented farmer organisations is still very incipient.

Given this context, this manual targets managers and field staff from the agricultural extension services, agricultural and rural development departments, mass organisations, non-government organisations, and development projects. These staff are referred to in this guide as extension officers.

This module should also prove useful to consultants and trainers working with the above-mentioned organisations, and to training and education establishments offering courses in the fields of extension, agriculture, forestry, fisheries, agribusiness, and rural development. These individuals and organisations are encouraged to adapt the materials in line with the specific requirements of clients, students, and trainees.

While developed for the specific context of Vietnam, this module is relevant to practitioners in other parts of the developing world. The issues and approaches discussed can be applied in a wide range of socio-economic contexts.

1.3 Content and structure of module 2

This module is structured as follows. Chapter 2 provides a definition of collective action for market access and discusses different institutional arrangements associated with such processes. Chapter 3 examines the potential benefits as well as the costs and risks of collective action, while chapter 4 draws lessons from the existing literature about the factors contributing to the success and sustainability of marketing groups and cooperatives.

Situations where cooperation for better market access is likely or unlikely to generate net benefits to farmers are discussed and illustrated with case studies from Vietnam. A good understanding of potential benefits and costs in different contexts and the factors leading to success is essential for the provision of appropriate advisory, mentoring, and linkage services. These are discussed in chapter 5, with a particular emphasis on the role that field officers can potentially play in supporting farmers to act collectively in the marketing sphere for mutual benefit. A list of relevant reference and reading materials is provided in Annex 1.

CHAPTER 2: DEFINITION OF COLLECTIVE ACTION FOR MARKET ACCESS

2.1 What is collective action for market access?

Farmers are involved in collective action when they cooperate for a common purpose and for mutual benefit. Collective action for market access happens when farmers get together with a view to earn a higher income from their farming business through improvements in input and/or product marketing.

Box 2.1 What is collective action for market access?

Collective action for market access involves cooperation between farmers to develop improved access to input and/or output markets.

2.2 Types of institutional arrangements for collective action

Farmers can cooperate for improved access to markets on an occasional or more regular basis, under very informal or more formal structures. Informal cooperation, say for exchange of labour during harvest or for supplying one truck load on particular occasions, is common in Vietnam but not very visible and therefore under-reported.

Box 2.2: Informal collective action for accessing product markets

A Luoi is a mountainous and ethnic minority district of Thua Thien Hue, located along the border with Laos. Cassava is widely grown in the district for food, feed and starch. In Hong Ha commune, farmers grow industrial varieties in an area of about 80 hectares, mainly for sale to the Phong Dien starch factory.

Fresh cassava roots are very perishable and need to be transported and processed **immediately** after harvest. Farmers in Hong Ha often lack the labour required to quickly harvest a full truck load of fresh cassava. For this reason, farmers coordinate the harvest with three or four neighbours at a time, depending on who is interested in selling cassava on that particular moment. The exact time of supply and the collection points along the road are communicated to the buyer over the phone.

This very simple form of collective action brings obvious benefits to the farmers, but does not require any formal group management structure.

Source: Field data (April 2006)

Quite often cooperation emerges in response to a particular opportunity or need, but does not require establishing a group with well defined membership and rules. One example of such type of opportunistic and flexible collective action is presented in box 2.2.

When farmers act collectively on a regular and structured basis, they do so through group organisations, such as informal clubs, associations, and cooperatives. Cooperation through formal groups is complex and costly and therefore less common than simpler, more informal types of collective action.

Groups can take many different shapes and forms. Farmer organisations operating in the marketing sphere vary widely in terms of membership, purpose, size, geographical coverage, and institutional arrangements and status:

- *Membership.* Groups can be composed of small farmers, large farmers, or both. Some groups can be gender specific (e.g. female or male groups) or have mixed gender membership (both male and female members). Members often belong to the same ethnic group, but there are also cases of farmer organisations with mixed ethnicity.
- *Purpose.* Marketing groups can focus on access to inputs, access to product markets, or both. These groups may also be actively involved in the provision of loans and other services, such as technical advice and certification, or in linking members to sources of credit and service providers. Finally, there are marketing groups which provide grants to members in cases of emergency and carry out lobbying and advocacy work on their behalf.
- *Size.* Groups can have small or large membership. Groups with less than 30 members can be considered small.
- *Geographical coverage.* Many groups are village-based, but it is not uncommon for their membership to extend over several neighbouring villages. Some farmer organisations may even have district, provincial, or national coverage.
- *Institutional layers.* While many groups operate at the grassroots level, there are cases where farmers organisations are structured in second-tier umbrella organisations at commune, district, or provincial level. These organisations oversee the operations of several primary groups. Second-tier organisations can then come together under a third-tier (provincial or national) organisation.
- *Status.* Some groups may be very informal while others may have a much more formal status. Farmer clubs fall into the former category, whereas associations and co-operatives belong to the latter.

In sum, farmers act collectively in the input and output marketing spheres under very different institutional arrangements, which vary according to the local socio-economic context, the objectives and interests of members, and their financial, managerial, and organisational capacities.

CHAPTER 3: COSTS AND BENEFITS OF COLLECTIVE ACTION FOR MARKET ACCESS

3.1 Potential benefits of marketing as a group

When farmers decide to cooperate, they do so in the expectation that they will obtain benefits which would not be possible to achieve when working alone. In the case of marketing groups, cooperation is driven by expectations of higher individual net incomes through improved access to inputs, support services, and/or output markets. Cooperation for market access only makes sense if farmers are able to reduce production costs and/or receive a higher price for their products by acting collectively, and if such benefits clearly outweigh the costs of collective action..

3.3.1 Access to inputs

Collective input purchases can offer a number of potential benefits to group members:

- In some contexts, farmers can access planting material and agro-chemicals at a discount by getting together and purchasing bulk volumes, locally or from more distant locations.
- Some types of seed or planting material are not available locally and must be purchased from other areas. Due to distance and high transport cost, this is more economical if farmers develop collective purchasing strategies to achieve economies of scale in transport (see box 3.1).
- In other cases, group purchases of inputs enable farmers to access seed and agro-chemicals on time through better coordination with input suppliers.
- Group purchases may also ensure that inputs are available in the right amounts. Sometimes individual farmers need smaller quantity of seed or agro-chemicals than the standard packages sold in the market. In such situations, farmers can divide the inputs amongst themselves.
- Farmer cooperation may also allow for purchases from selected but distant input dealers who have a reputation for supplying better quality inputs than local retailers.

Finally, certain assets – such as storage facilities, tractors, means of transport, irrigation pumps and canals, or processing equipment – may be too expensive, and therefore beyond the reach of individual farmers. Sometimes it may be in their interest to share the cost of such assets. It should be noted, however, that collective asset management requires significant managerial and organisational

skills as well as a high level of cohesion and trust between farmers.

Box 3.1 Collective action for accessing planting material

Da Bac is a mountainous, ethnic minority district in Hoa Binh. Large areas of red persimmon were planted in Da Bac since 1995, in the context of a resettlement programme. By 2000, the district had about 500 hectares of persimmon, mainly of the Yen Thon variety.

Farmers in Da Bac have been facing serious problems in selling their persimmon due to over-supply and poor product quality. For this reason, some growers in the district town area and four neighbouring communes have started shifting to *fuyu* persimmon, a new non-astringent variety with very good market potential.

Grafting material is only available in Moc Chau district, in neighbouring Son La province, some 80 kilometres and a two hour ride away. Because it would be too expensive for farmers to purchase *fuyu* grafts on their own, in November 2006 49 growers decided to negotiate and carry out the purchase collectively. They have plans to get together for the purchase of additional grafts in the near future.

Source: Field data (December 2006)

3.3.2 Access to output markets

Smallholder farmers typically sell small volumes of varied, often low quality products to local buyers. It is not economical for them to transport their products over long distances because the additional income earned is not high enough to justify the additional time spent and the higher transport cost incurred.

In some cases, farmers can earn a higher income by assembling their production and marketing it as a group. In so doing, they can enjoy economies of scale in transport, deliver bulk volumes of homogeneous and superior quality products, improve coordination of supplies with buyers, strengthen their bargaining power, and invest in advertising as well as product branding and certification.

Traders and processors also save costs when purchasing from farmer groups rather than individual farmers, and may therefore be willing to pay higher prices for bulk purchases. They spend less time searching for and coordinating supplies, inspecting product quality, and negotiating prices and payments. Groups may even undertake some functions previously performed by buyers, such as cleaning, drying, sorting, and grading of produce.

Selling as a group is a particularly attractive option in the following situations:

- *Buyers have strict quality requirements.* In Vietnam, there are value chains where quality is an essential requirement for competitiveness (e.g. fruits, vegetables and flowers) and value chains where farmers can still enjoy reasonably good market access irrespective of quality (e.g. coffee, maize and cassava). Furthermore, there are market segments within specific commodity chains which are much more quality (and volume) conscious. For example, supermarkets are interested in buying directly from farmers, but only if these are sufficiently well organised to supply minimum volumes of high-quality produce, at the right time and on a regular basis. Fair trade, organic, and safe produce markets have similar requirements. Smallholder farmers will not be able to access these potentially lucrative market channels if selling individually.
- *Buyers require formal contracts.* Supermarkets and institutional buyers such as hospitals, schools and factories procure food products through contracts with suppliers, partly for accounting and taxation reasons, partly for security of supply and inventory management. Farmers will not be able to supply these buyers if they do not have legal entity. Associations and cooperatives which are properly registered can sign contracts on behalf of their members.
- *Access to remunerative markets requires expensive services.* Safe, organic or fair trade products can be very profitable, but branding and certification are essential for market access. These can be very expensive and therefore beyond the reach of individual smallholder farmers. Farmers may also need to access technical advisory services if they are to achieve high-quality standards, and such services are much more affordable and accessible if farmers are organised and purchase them in groups.
- *Diversification towards new products.* When farmers decide to invest in a product which is new in their area, say off-season vegetable cultivation or a new fruit, they lack established market channels and intermediaries. Buyers need assurances that they will be able to purchase minimum volumes of the new product in order to provide marketing services. In other words, in order to attract buyers farmers may need to market collectively.

- *Contract farming.* Contract farming arrangements are common for many agricultural commodities. Some contracting firms prefer to work with farmer groups instead of individual farmers in order to save input delivery, extension and procurement costs. In such cases, group action enables farmers to participate in contract farming schemes which may generate significant benefits (see box 3.3).

Box 3.2: Collective action for accessing premium (safe) vegetable markets

Many safe vegetable cooperatives have developed in some districts of Hanoi, in response to strong urban demand for healthy foods. In Van Noi commune, Dong Anh district, there are about ten such cooperatives.

The Hop Tien cooperative was one of the first to be established in Van Noi. The cooperative has strict production monitoring systems to ensure that members and “satellite farmers” follow appropriate cultivation practices. The cooperative has a retail shop in Hanoi and signs contracts with seven shops, two hotels, and several restaurants, schools and factory kitchens for the sale of a wide range of vegetables. By targeting selected buyers and developing a reputation for quality, the cooperative is able to fetch high prices for its products. Members earn an average of 5-6 million dong per month just from the sale of safe vegetables.

Source: Field data (June 2007)

Box 3.3: Collective action for participation in contract farming schemes

Luveco Fruits and Vegetables Joint Stock Company, based in Nam Dinh province, produces a range of canned fruits and vegetables for the export market, such as baby cucumber, baby tomatoes, and sweet corn.

The company signs supply contracts with 20 farmer cooperatives across three provinces: Nam Dinh, Ha Nam, and Ninh Binh. The smaller cooperatives supply about 20 or 30 tons of produce per annum, while the largest supplies 400 to 500 tons.

An increasingly large number of farmers in these provinces is joining cooperatives which supply Luveco due to the benefits of vegetable cultivation for export, which are much greater than those associated with traditional rice cultivation. Individually, these farmers would not have been able to benefit from the company services (seed and fertiliser on credit as well as training and technical advice), nor would they have been able to access the remunerative export markets **targeted by the company**.

Source: M4P (2006)

Despite the potential advantages of collective action for accessing product markets, such strategies may fail to generate net benefits to farmers, and may even result in net losses. Similar to any other commercial venture, group enterprises must be profitable if they are to succeed. However, there are many occasions where group activities prove too costly to manage and coordinate, in which case the farmer organisation is not in a position to pay members higher prices than those offered by traders. The latter are often able to perform post-harvest processing and assembly functions, and to deliver essential services such as short-term and seasonal credit, much more efficiently and reliably than groups.

The failure of bamboo cooperatives in two districts of Thanh Hoa illustrates these problems (see box 3.4 below). Participating farmers had no incentive to market collectively and were better-off selling individually to local collectors than through the cooperatives.

Box 3.4: Bamboo cooperatives in Thanh Hoa

A recent survey of several bamboo cooperatives in Ba Thuoc and Quan Hoa districts of Thanh Hoa province found that these organisations were unable to compete with existing collectors. Cooperatives proved ineffective in attracting supplies from their members, who preferred to continue selling bamboo culms to local collectors.

These collectors have a long-standing relationship with farmers and are not only able to offer a similar or better price than the cooperatives, but unlike the cooperatives, purchase at the farm-gate or close to farmers' plantations and pay immediately upon receiving the culms. Equally important is the fact that collectors have been providing for many years much-needed cash advances and loans to farmers on a regular basis for the purchase of agricultural inputs and for other household expenses (school fees, health, weddings, etc).

Over time farmers and collectors have developed a significant amount of trust. They have been doing business with each other for a long time, with mutual benefits to both parties, and farmers regard collectors as reliable service providers. In many cases, kinship and neighbourhood bonds have also contributed to strengthen the relationship between farmers and traders.

Source: IDE (2006)

3.3.3 Access to services

It is very expensive to provide demonstration, training, advisory, certification, and trademark development services to small, scattered, and often remote farmers. By significantly reducing provision costs and offering an enabling environment for adoption of new technologies and practices, group action can enhance access to such essential services while also improving their effectiveness.

Collective action can also prove very effective in improving access to credit. Because of lower credit screening, delivery, and enforcement costs, banks and other lending institutions may be much more willing to extend loans to well-functioning producer organisations than to individual farmers. For these same reasons, agribusiness firms may also be more willing to provide in-kind (input) credit and loans to farmers who are organised in groups. On the other hand, access to existing credit sources, i.e. local collectors, may be lost when farmers start marketing their production through their own organisation to other buyers.

3.4 The costs and risks of marketing as a group

Collective action for market access can generate tangible benefits to farmers, but at a cost. Hence, collective action is only worth pursuing when the actual benefits clearly exceed its costs and risks.

Below are some of the major costs incurred by participants in marketing groups:

- *Reduced scope for individual decision-making.* Members of marketing groups must abide by the decisions of the majority. For certain commodities, they can no longer decide when and how to produce, when and how to sell, and whom to sell to. They must adopt specific production and harvesting calendars, follow agreed production and post-harvest practices, and sell through the group to selected buyers.
- *Attendance of meetings and co-ordination.* Farmers must spend considerable time co-ordinating strategies and activities with other group members and evaluating the results of joint activities.
- *Payment of fees and other financial contributions.* Group members often have to pay registration and annual fees for funding collective investments and the costs of group management and operation. Commission payments for every transaction are also common.

In addition, participation in group ventures is not free of risks. Farmers are well aware of the possibility that activities and funds may be mismanaged by group leaders and other members. The possibility that some members reap the benefits of collective action without contributing sufficiently to group activities is another, very real risk.

CHAPTER 4: WHAT DRIVES SUCCESS?

4.1 Introduction

While there are many successful group marketing experiences, in Vietnam and elsewhere, failure is still more common than success. Despite the potential advantages of co-operation, the establishment and operation of groups have often proven more difficult and the net benefits lower than expected. Groups which fail to meet member expectations end-up disintegrating.

This section discusses some of the critical factors driving success (and failure). Extension officers must be well aware of these lessons if they are to provide effective support to the formation and development of successful marketing groups

4.2 Financial gains

Successful marketing groups generate obvious income benefits to their members through improved access to good quality and cheaper inputs, to credit and other critical services, and/or to remunerative markets.

Social benefits are often an important outcome of group activity, and one that strengthens group cohesion, but on their own these benefits do not offer sufficient incentive for collective marketing.

As a result, marketing groups should be regarded and managed mainly as commercial or business enterprises, the objective being to enhance farmers' ability to compete and benefit from participation in markets. Marketing groups are not the best means to achieve community development goals.

4.3 Financing

Farmers must see co-operation as a solution to their common problems as well as an avenue for taking advantage of opportunities. Ownership of the process is therefore essential, and this must include a strong element of self-financing:

- Internal resource mobilisation is very important because it enhances ownership of the process by group members, signals their degree of commitment to group activities, and contributes to the development of a saving and investment culture.
- Equally important, the mobilisation of internal resources restrains group members from taking excessive risks. The likelihood that farmers will decide to embark upon excessively risky ventures, and face financial

difficulties as a result, is reduced when their own resources represent a significant share of the total cost of the activity or investment.

This principle is broken when support agencies provide significant external resources to groups. Staff from these agencies are often tempted to provide free or highly subsidised assets, inputs, and finance as a strategy to stimulate the formation and growth of farmer organisations. However, research has shown that such strategies distort incentives and can easily lead to failure. Groups formed as a means to access cheap resources have invariably failed because this objective has taken precedence over the genuine reasons that should guide collective action: shared economic interests. Once the external support terminates the group tends to disintegrate.

Box 4.1: Sharing the costs of group activities

The Dao Duc cooperative in Dong Anh district of Hanoi has been successfully involved in safe vegetable production and marketing since April 2003. Vegetables are sold to different retail outlets in the capital, including several supermarkets.

Its success would not have been possible without a strong financial contribution from members. Cooperative members have to pay an initial share of 5 million dong and a monthly allowance of ????. In addition, for every transaction, a 2 percent fee is deducted from payments to farmers. Since its establishment, the Dao Duc cooperative has managed to accumulate 600 million dong.

Internal mobilisation of financial resources has enabled the cooperative to:

- pay for the services of four dedicated staff,
- develop strict production monitoring systems,
- adopt professional management and accounting procedures,
- rent land and hire labour,
- set-up input and vegetable retail outlets,
- carry out product promotion campaigns,
- register its production under the Dao Duc safe vegetables trademark, which was registered in 2006, and
- support members and their families in case of sickness and during the Tet new year.

Source: Fieldwork (June 2007)

4.4 Group cohesion

No group will be successful and sustainable unless there is a high degree of trust and cohesion among members. For this reason, the selection of members should always be left to participating farmers, never to outsiders. Farmers know best who they trust, who they want to cooperate with, and who within the group are best positioned to take on leadership and managerial positions.

Cohesive marketing groups tend to have relatively homogeneous membership:

- members typically come from the same village or area, know each other well, and have similar cultural background and socio-economic status;
- some members may have previous experience in cooperating with each other (e.g. exchange of labour, joint management of irrigation infrastructure, provision of credit in times of need, sharing of technical and market information, and bulking produce for sale); and
- they all share a strong interest in working together to address common problems in accessing inputs, services, and markets for particular products.

While initial cohesion between members and shared interests are a requisite for successful group development, over time trust can be further strengthened but also eroded. The practices listed below tend to strengthen trust and the sense of ownership amongst group members:

- members who capture the benefits from collective action but fail to share the associated costs and put in the necessary effort¹ are excluded from the group;
- record keeping systems are transparent and financial and other information is shared amongst members on a regular basis,
- speedy and fair conflict resolution mechanisms adopted; and
- a social fund to help members and their families in emergency situations is established.

It must be noted that cohesive (and therefore relatively small and homogeneous) farmer organisations tend to exclude large numbers of farmers who might have an interest in joining group activities. Many farmers who lack the financial capacity to contribute may be at a particular disadvantage. Some ethnic minority groups and women may also face high entry barriers.

Groups may also be reluctant to accept new members once they become

¹ This phenomenon (known as free-riding) is not uncommon, and if not dealt with promptly can seriously undermine group performance and sustainability.

successful to avoid benefits being diluted amongst too many people or because participating farmers may feel that others have not shared the initial risks and efforts to develop the organisation and therefore have not contributed to its success. Their sudden interest in joining may be seen as opportunistic.

On the other hand, many farmer groups provide production and marketing services to non-members as part of their business development strategy, thereby spreading the benefits of collective action beyond its membership (see box 4.2). Many groups also hire labour to undertake certain activities. Poorer segments within local communities tend to access such employment opportunities.

Box 4.2: Generating benefits to non-group members

The cases of Hop Tien and Dao Duc safe vegetable cooperatives, already discussed, illustrate the potential for collective action to benefit non-group members.

The fact that these two cooperatives have rather small membership (the Hop Tien cooperative has 11 members while the Dao Duc cooperative has 20 members) has been important for group cohesion and effective coordination. However, in order to expand their business and meet clients' needs for regular supply of a wide range of safe vegetables, both cooperatives sign contracts with satellite farmers who do not own shares in the organisation. The Hop Tien cooperative works with 30 satellite growers, while the Dao Duc cooperative has contracts with 200 non-member farmers. These growers receive training and technical services to ensure that strict quality requirements are met, and access high-value markets through the cooperatives.

Source: Field data (June 2007)

4.5 Leadership

Groups with capable, committed, and trusted leaders, who act in the interest of all members, out-perform those characterised by weak leadership. Leaders play a critical role in:

- building a vision for the group,
- identifying profitable opportunities,
- developing business linkages with input suppliers and product buyers,
- mobilising members to take an active role in group activities (especially at times when market conditions are not very favourable),
- finding satisfactory and fair solutions to conflicts,

- ensuring that the group is appropriately managed, and
- making sure the benefits from collective action are equitably shared.

Generally speaking, good leaders are better networked and more entrepreneurial than the average group member; have better than average managerial and planning skills; have a sound understanding of farming; are relatively well informed and always seeking for new and valuable information; and are very proactive in finding pragmatic and consensus-based solutions to problems. Because of their qualities, good leaders command respect from other group members.

Box 4.3: Good leadership drives success

The Nam village safe vegetable cooperative, in Van Noi commune of Dong Anh district, Hanoi, was established in 1999. The cooperative was formed by 12 vegetable growers, under the leadership of Mr. Mai. Membership has since expanded to 16.

Being the Party Secretary of Nam village, Mr. Mai is well positioned to handle administrative matters, such as tax payments and obtaining product certification from the plant protection services.

More importantly, before forming the cooperative, Mr. Mai had been trading for many years at Long Bien night market, the largest wholesale vegetable market in Hanoi. This experience proved very important for the success of the cooperative. Mr. Mai spends much time establishing linkages to different potential clients, such as schools and supermarkets, informing cooperative members about the type of vegetables which enjoy favourable market conditions, and advising them on how to package the produce to meet the needs and preferences of different clients.

Mr. Mai also leads by example. He is an experienced vegetable grower and, when not busy dealing with administrative matters and sales, he is always in the fields growing vegetables.

Source: Fieldwork (June 2007)

4.6 Internal democracy

Strong leadership and good management should be exercised within a democratic environment. Leaders and managers should be periodically elected by members and accountable to the group. In this regard, it is important that members have the opportunity to review the accounts or listen to a verbal presentation of financial records. Members should also have a voice in the group affairs and be able to influence management and business decisions.

Box 4.4: Poor group governance breeds failure

The case of bamboo cooperatives in Ba Thuoc and Quan Hoa districts of Thanh Hoa, described in box 2.6, illustrates how damaging the lack of internal democracy (and poor leadership) can be.

These cooperatives have a highly centralized management structure, with leaders and members of the management board having full control over the cooperative affairs. Members are excluded from decision-making processes and do not even elect the leaders and management board members, who tend to be former government staff with no previous business experience, appointed by district authorities. By their own admission, cooperative leaders and members of the management board feel ill-prepared to deal with a complex market environment.

This situation has alienated cooperative members, who do not feel part of the cooperatives and lack the motivation to work collectively. It is not surprising, therefore, that they prefer to continue selling to traders rather than channelling their production to the cooperative.

Source: IDE (2006)

It is important to note that there are many groups who are very successful, despite having leaders and managers who remain in power for a very long time. Such type of elitist leadership structures works well in certain contexts because the leaders and managers have much greater capacity to run collective affairs than the other members and are truly committed to making the group a successful enterprise. The interests and concerns of members are taken into account in the decision-making process, and there is regular and transparent sharing of information about activities and results. In such circumstances, group members enjoy the fruits of collective endeavours and are happy to continue working under a stable leadership and management

4.7 Group size

While the optimal group size will depend on many different factors, experience has shown that small farmer organisations (say up to 30 members) tend to be more successful than large groups. This is especially true when participating farmers face considerable resource and capacity constraints, which is the case in many rural areas of Vietnam.

Generally, small groups are easier to manage, more homogeneous and cohesive, and more transparent and democratic than large groups. They are less prone to outside interference and characterised by fewer conflicts. Members have more opportunity to inter-face with each other and the leadership. In short,

commonality of interests, participation, communication, co-ordination, trust, accountability, and conflict resolution are much easier (and less costly) to achieve when the group is small.

On the other hand, larger groups offer greater economies of scale in input procurement, service provision, and product marketing. The need for economies of scale must therefore be balanced with the need to ensure favourable group dynamics and cohesion. Group members must decide about the right balance.

As already discussed, procurement from non-members and hiring of labour are two possible strategies for achieving greater economies of scale while maintaining a small and cohesive membership. Another strategy is to develop second-tier umbrella organisations which comprise several small and neighbouring primary groups.

This model will take some time to mature. This model can work well, but only when the different primary organisations are well managed, share the same interests and objectives, and develop similar or complementary activities. Rushing through the process of forming umbrella organisations is not advisable.

4.8 Single versus multi-purpose groups

Often groups fail because they have been formed too quickly and with too many expectations about what can be achieved in the short-term. Farmers often identify real and pressing needs, but addressing these needs may require resources and a level of organisation and management which are not yet available. Collective marketing organisations, whether informal or formal, should therefore develop gradually and organically, step-by-step. Success at each stage is necessary for moving to more complex forms of collective action.

In this context, single-purpose groups have several advantages over multi-purpose organisations, especially during the initial development stages. Focusing on too many different activities disperses energies and makes management and financial control more difficult. It can also lead to conflicts between members with different priorities.

Initially, groups should be involved in very simple activities, such as the collective purchase of inputs or the bulking-up of one or two products for sale within regional markets. This latter type of cooperation involves coordinating production and harvest, estimating the volumes each member has for sale, finding interested buyers, negotiating quality specifications and prices, assembling the product for delivery at the specified date and place, collecting payment, distributing the proceeds among members, and retaining a small margin to cover group expenses.

Success with such early initiatives lays the foundations for more complex and expensive operations, such as the supply of inputs to non-members, procurement of products from non-members, development of links to banks, establishment of processing units, establishment of input and product retail outlets, product promotion campaigns, product certification, and the development of trademarks. Co-operation with other groups to exploit economies of scale is also a possibility for groups which have achieved a fair degree of maturity.

4.9 Formal versus informal groups

Official registration is not necessarily important, and may even constitute a barrier, to the success of small marketing groups. Registration may be important for accessing bank loans and certification services and for developing contractual relations with certain buyers, but many successful groups do not require access to bank loans, do not need product certification, and do not supply supermarkets and institutional buyers.

Legal registration can be a bureaucratic and expensive process. In addition, formal organisations tend to have heavier administrative structures and less flexible rules, which may not be in the interest of members. And these organisations may become more susceptible to political interference and taxation after registration.

Therefore, groups should not rush to obtain legal entity. This step should be carefully assessed and taken only when it is an integral part of the group business development strategy.

4.10 Asset ownership

Joint ownership and management of assets (e.g. storage facilities, vehicles, and processing equipment) can be important for group operations, but can easily lead to conflicts. It requires high levels of trust and entrepreneurial, organisational, and managerial skills.

Groups should make sure that they have the required resources, management and risk-taking capacity, and cohesion before purchasing and managing different types of assets. Any investments should be preceded by careful analysis of the economic feasibility of asset ownership and the implications in terms of organisational and management arrangements. Often it may be preferable to rent storage and transport and pay for processing services rather than own the assets required to perform such activities.

CHAPTER FIVE

SUPPORTING COLLECTIVE ACTION FOR MARKET ACCESS: THE ROLE OF EXTENSION OFFICERS

5.1 Introduction

This part provides specific guidelines for the extensionists to facilitate the establishment of the farmer group, support them to plan and maintain marketing activities collectively. Specifically, the role of the extensionists will be to facilitate the farmer group to organise the initial meeting in which opportunities for group marketing will be discussed and decision on forming the group will be taken. The extensionist will also support the farmer group to collect relevant market information which will be taken as a basis for the development of group vision and identification of business objectives. Supporting farmer group to use financial tools and mobilise fund for successful business is also very important. And finally, the extensionist should play the linkage role between farmers and their potential partners to maintain and develop their business.

5.2 The initial meeting

The idea to act collectively in order to address concrete market access problems and access new and remunerative opportunities normally comes from farmers themselves. In such cases, the extension officer does not need to introduce the idea and should focus instead on supporting an emerging or on-going process.

In many situations, however, farmers are either unaware of opportunities for collective action in the marketing sphere or insufficiently mobilised around this idea. In such cases, extension officers can play an important awareness raising and mobilisation role.

Efforts in encouraging farmers to act collectively will not be successful if no one in the group has motivation to make it become true. All group members should know clearly the potential benefits, costs and risks of collective marketing. Commitment to spend enough time for discussion with others of the group's member should be required. Therefore, collective action should be initiated in a meeting (sometimes several meetings) with all potential members. Topics of this first meeting should focus on opportunities for collective action, its potential benefits, costs and risks. Criteria for selecting group member and nominating group head should be also discussed.

The meeting should be chaired by a commune or village leader, or a dynamic farmer or even by the extensionist. The chair person should:

- know most participants well;
- be widely respected;
- have the ability to create an open and friendly atmosphere and prevent anyone from dominating the proceedings;
- encourage everyone to intervene, irrespective of age, gender, or ethnicity;
- moderate the discussions in an impartial manner;
- be able to sum-up the main issues discussed and agreements reached during the meeting.

Box 5.1: Examples of procedures and agenda for the initial meeting

1. Introduce objectives and program
2. Appoint a person to write the minute
3. Explain what is market collection for market access
 1. Discuss on market opportunities for acting collectively (input access, product development or market access)
 2. Assess the benefits, costs and risks of collective action for market access
 3. Discuss the decisive factors for the success of group marketing and decide whether to act collectively or not.
4. Preliminary discuss the criteria for member selection
5. Discuss the criteria for a good leader
6. Agree on next steps

Source: Adapted from Robbins et al (2004)

An important element which should be discussed in the initial meeting is to define benefits, costs and risks associated with collective marketing and decisive factors for its success. In this exercise, the extensionist can use brainstorming tool to facilitate the contribution of participants and add more ideas if necessary. This exercise is very important to make participant aware that collective action does not always bring in benefits but also involves a lot of costs and risks. If farmers can not afford all decisive factors for the success or no good solutions to overcome their weaknesses, they therefore should not go for it.

Extensionist should remember one important principle which is to avoid opposing ideas but try to create the self-reliant and ownership of the farmers. Therefore, selection of the group members should be done by the group itself. Extensionist should only facilitate the process of identifying the criteria for member selection. This will ensure the trust and cohesion among group members when the business is running. Box 5.2 presents a list of criteria for member selection of the Thanh Ha Litchi Association in Bac Ninh province.

The selection of group members should not be necessary done in the initial meeting but sometimes after that when all members have enough time to think over before joining the group.

Box 5.2: Criteria for member selection of the Thanh Ha Litchi Association in Bac Ninh province

1. Willing to produce and sell high quality litchi
2. Willing to joint the association
3. Should have at least 5 sao of litchi

Criteria for a good leader should also be discussed and agreed in this meeting. The one who can meet most criteria mentioned below should be selected:

- Having vision
- Be initiative
- Be always aware of opportunities and take action
- Having experience and always learn from the experience
- Be patient
- Paying attention to the work quality and benefits of all members
- Respecting rules and regulations of the group and business contracts
- Having systematic planning

The best tool for facilitating the initial meeting is brainstorming. Box 5.3 below

presents some suggestions for using it.

Box 5.3: Procedures for a brainstorming exercise

- The facilitator introduces a topic.
- S/he then encourages all participants to ask questions and provide comments.
- All the questions and comments are written down in a flip-chart large enough for everyone to see.
- The facilitator corrects any obvious misunderstandings some participants may have and encourages a debate around the comments provided and the questions asked.
- S/he may make additional comments and ask further questions (e.g. why should farmers sell their production collectively? what are the benefits? What are the costs? What are the risks? Etc...)
- The facilitator encourages further debate, especially between those with different points of view, and encourages participants who have not yet spoken to express their views.
- Once again, the facilitator summarises the main points in a flip-chart.
- Once the facilitator feels that the topic has been exhausted, s/he summarises the discussions and introduces another topic.
- The process of brainstorming is then repeated.

Source: Adapted from Robbins et al (2004)

5.3. Collection of marketing information

Market information is always an important basis for the decision on whether to act collectively and for the suitable actions when accessing inputs and market. Therefore, before taking any collective action, the farmer group should collect and analyse information which relevant to their future business.

First of all, the extensionist should work together with farmer to define which market information should be collected. Market information to be collected should provide answers to all questions relating to collective marketing of farmer group. They can vary in different situations. Below are examples of questions that farmer groups may ask in specific cases.

Case 1: Applied for the farmers who would like to collectively cultivate off-season crops.

- How do price vary across seasons?
- Are off-season price is sufficient high enough to justify the additional investment and costs associate with off-season cultivation?
- What technologies should be applied? Cost for applying such technologies?
- From where we can search for technical support?

Case 2: Applied for the farmers who would like to purchase inputs collectively.

- Who are input suppliers in our areas and neighbouring districts or provinces?
- What is quality of inputs sold?
- Transportation cost to the production areas?
- Who offer the best prices and purchasing conditions?
- Do the input suppliers provide credit? What are conditions attached to the credit?

Case 3: Applied for the farmers group who would like to go for contract farming scheme with processing factories, supermarket and agro-enterprise, etc.

- Is target buyer reliable? How is their business development?
- What are their product requirements?
- What are production, post-harvest techniques and other marketing activities which need to be applied to meet their requirements?
- Where can we look for support in such areas?
- What is price the target buyers can pay? Is it fair enough in compare with market price and bring in benefit for farmers?
- What are payment conditions of the target buyers?
- What are the associated costs when we supply to them?

Case 4: Applied for farmer group who would like to diversify their production by cultivating a new crop when the market channels and market intermediaries have not been existed. In this case, farmer group should collect comprehensive information to answer those questions:

- What is price trend of the crop which the group is going to cultivate?
- What is potential profit of cultivating one product unit?
- Who are the competitors? What are their strengths and weaknesses?
- Who are input suppliers in our areas and neighbouring districts and provinces?
- What is quality of input sold?
- Transportation cost to the production areas?
- Who offer the best prices and purchasing conditions?
- Do the input suppliers provide credit? What are conditions attached to the credit?
- Who are the potential buyers?
- What are their product requirements?
- What are production, post-harvest techniques and other marketing activities which need to be applied to meet their requirements?
- Where can we look for support in such areas?
- What is price the target buyers can pay? Is it fair enough in compare with market price and bring in benefit for farmers?
- What are payment conditions of the target buyers?
- What are the associated costs when we supply to them?

In additions, information about the programs, projects or policies which may be able to support the group should be collected to help the farmer group to set up the linkage with them in future.

The extensionist should work with some representatives of farmer groups to collect market information from various sources. Details on sources, tools and skills for market information collection can be found in module 1 of this training program.

Organisation of study tour to other production areas, processing units or markets can be other forms of market information collection. It requires the extensionist to have good organisation skill to organise the study tours effectively. In prior to the study tour, extensionist should contact with the in charge person in the visit place, develop program and estimate costs. If there is no fund available from donor projects or governmental programs, fund should be mobilised from group members to cover the costs.

Box 5.4 presents an example on market information collection through organising visit to a processing factory and other production area of the potato producer group in Tan Lac district, Hoa Binh province.

Box 5.4: Collection of market information of potato producer group in Tan Lac district, Hoa Binh province

To obtain information before making decision on producing potatoes and supplying product to An Lac Ltd. Company who is producing snack products made of potatoes, the farmer group in lowland communes of Tan Lac district had organised a visit to the processing unit of the company in Bac Ninh province. They also visited to the production area in Hai Phong province where farmers are supplying potatoes for An Lac Company. The visit was organised by the extensionist from District Economic Section. In prior to the study tour, the farmer group met each other to discuss which information should be collected from the company and potato producers in Hai Phong province.

During the visit, the producer group had obtained essential information which helped them to decide to cultivate and supply potatoes to the company. Such information consists of:

- Business situation and future development of the company
- Quantity of inputs (potatoes) that the company need per year
- Purchase price of the company in different areas
- Cultivation and post-harvest techniques
- See directly the potatoes which meet the requirement of the company
- By discussing with producers in Hai Duong province, prestige of the An Lac Company was confirmed and contact address of several vegetable exporting companies in Hai Duong province were collected. Those companies have potential to become farmers' business partners in future.

5.4. Developing vision and defining development objectives of the group

Obtained information later on should be used for the development of production and marketing strategies. A meeting can be organized with all group members to share collected information, formulate the vision, define development objectives and develop strategies for the group. In this meeting, after sharing market information, the first action should be analysing current situation of farmers. SWOT can be used for such analysis. What are farmer’s strengths and weaknesses? What can be opportunities and constraints coming from external context which will influence their collective marketing activities? This analysis will serve as a basis for farmer group to formulate their short-term (3-5 years) and long-term vision (5-10 years).

Table 5.1 provides an example of the SWOT analysis of the potato group in Tan Lac district, Hoa Binh province.

Table 5.1. SWOT analysis of potato group in Tan Lac district

Strengths	Weaknesses
<ul style="list-style-type: none"> - Labours are available - All members of the group are dynamic and have experience in intensive cultivation. - The cohesion in the group is high. - Production areas of the members are located in the district centre which is convenient for the transportation. - Investment capacity of all members is high - Experience on potato production has been available from neighbouring upland communes. - Farmers can receive advance payment from the company with 20% of total value of the seeds supplied. 	<ul style="list-style-type: none"> - Lack of management knowledge and skills - Some members have to hire land for potatoes cultivation.
Opportunities	Threats

<ul style="list-style-type: none"> - There is policy on promoting collective action and commodity production from district authorities. - Market for potatoes is available (contract with An Lac Company with un-limited quantity). - High possibility for investment into facilities from government. - There will be technical support from Provincial Seed and Seedlings Centre and District Economic Section. - There is potential to sign contract with vegetable exporting companies in Hai Duong province to supply them other types of vegetable. 	<ul style="list-style-type: none"> - Unfavourable climate conditions can have negative impact to the potatoes yield.
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5.4.1. Developing vision

From SWOT analysis, the group should describe the future situation they would like to achieve in short-term (3-5 years) or long-term (5-10 years). This is called development of vision. Box 5.5 presents an example of vision of the potato producer group in Tan Lac district, Hoa Binh province

Box 5.5: Vision of the potato producer group in Tan Lac district, Hoa Binh province

By 2010, a cooperative on production and selling vegetables and root crops will be formed based on the existing potato producer group. Scale of the cooperative will be expanded by contracting with “satellite” members. The cooperative will organize the purchase of good production inputs for its members and buying products from farmers in neighboring communes (including 5 upland communes).

5.4.2. Defining development objectives

In order to achieve set vision, the group should define objectives for each year, Objectives are specific outputs that the group would like to achieve in a certain period of time. Development of vision can be compared with defining the place where you would like to come in a holiday while defining objectives can be compared with the areas/ milestones you need to pass by when traveling to your targeted place. Objectives should be SMART (specific, measurable, realistic, attainable and time

bound). Example on development objectives of the potato producer group in Tan Lac can be found in Box 5.6 below.

Box 5.6. Development objectives of the potato producer group in Tan Lac district, Hoa Binh province

- Establish a cooperative on production and selling vegetable and root crops in 2007 based on the existing potato group.
- Cultivate 6 ha potatoes with yield of 108 tons and expected profit of 72 million VND and collect 150 tons potatoes from neighbouring communes in winter season of 2007.
- Cultivate 10 ha green pumpkin with yield of 150 tons and expected profit of 120 million VND and 6 ha Soya been with expected profit of 27 million VND in spring season of 2008.
- Set up the cooperative office and expand the collection of vegetables and root crops to upland communes.

5.5. Development strategies for the marketing group

In this stage, the extensionist will facilitate the farmers group to develop their strategies based on the agreed vision and objectives. Those strategies compose of i) business strategy (which include product development strategy); ii) purchasing and management of production inputs; and iii) organisational development strategy.

The extensionist should ensure that market information collected in previous stage is taken into account when developing those strategies. Vision and mission should be achieved when those strategies have been implemented.

5.5.1. Business strategy

The purpose of the business strategy is to ensure that farmer group can meet the needs of customers and make profit. Two areas should be considered in the business strategy: one is marketing mix and the other is business linkages.

Marketing mix

Marketing mix or 4Ps composes of product, price, place and promotion. Those 4Ps aim to encourage customers to buy products. Farmer group can use marketing mix to define the objective and elaborate their action plan according to changing context.

➤ **Product**

There are four options for a product which are illustrated in table 5.3. Each option has its own benefits and opportunities and therefore need different strategies/plan to achieve set objectives. The extensionist should discuss those four options with group members, help them to define which option their product should take and decide the most suitable business strategies.

Table 5.3: Four options of a product

	Existing market	New market
Existing product	1. Market penetration strategy (Low investment and risks)	3. Market development strategy
New product	2. Product development strategy	4. Diversification strategy (high investment and risk)

Marketing strategy (marketing mix) should vary across the options.

1. Market penetration strategy

In order to increase the selling volume in existing market for the existing products, farmer groups should:

- Look for new customers.
- Improve quality and appearance of their products by applying new cultivation technologies or apply good packages.
- Strengthen product promotion or provide information about their products to the customers.

- Lower the selling price if farmers still make profit with such price.

2. Product development strategy

When a farmer group would like to shift to cultivation of a new crop and supply their products to the existing traders they had relation with, the selling volume can be increased by:

- Collecting market information in order to find out product requirements of their customers.
- Conducting experiment to assess whether such new crop can be cultivated in the local agro-climate conditions. What technologies should be applied to increase product quality and meet demand of the customers.
- Conduct product promotion with customers whose relation has been established. The most simple way is to provide them with information of the product through transaction of other existing products.

3. Market development strategy

When a farmer group decide to take a new market channel or a new customer (e.g. wholesaler in neighbouring district) to sell their product, they should:

- Collect information about new customer
- Obtain information about the costs and risks when they supply their products to those customers.

4. Diversification strategy

When shifting to cultivate a new crop or produce a new product and supply them to the market while no local market channels have existed, the farmer group should:

- Identify the market potential of the product (price trend? Are there many customers for the product?)
- Identify quantity should be produced
- Look for potential market channels or market places
- Look for cultivation/production technologies by learning from other producers or asking support from local extension services.
- Design well the promotion strategy in order to approach new market
- Establish relation with collectors or agro-enterprise in the targeted market.

Four above options have different risk level. The **less risky** one is the market penetration strategy. In this strategy, marketing means will be improved leading to increase in the selling volume. For example, one option for a group of medicinal plant cultivators is to continue selling dry medicinal plants to local collectors or organise storage in the village house in order to increase quantity and quality of products and to overcome the constraint of seasonality.

The one with **moderate risk** is market development strategy. For example, the group of medicinal plant cultivators does not only sell their products to the local collectors but also organise the selling to the processing company in the provincial town.

The product development strategy also has **moderate risk**. A group of farmers who already set up a good market can select this option and persuade their current customers to try out their new products. For example, instead of supplying 10 types of traditional medicinal plants to the processing company in the provincial town, the farmer group can do a pilot in cultivation of a new product and supply it to the existing processing company.

The diversification strategy has the **highest risk** level but can bring in the most benefits. For example, a farmer group in upland area who are only cultivating cassava

and maize can shift to cultivation of safe vegetable to supply to the town and city market.

➤ **Price**

Before deciding on the price strategy, a farmer group should know who are their customers and the price they are willing to pay. Such information should be collected in the stage of market information collection.

Box 5.7: Role of pricing

Price indicates how much profit will be. If price is too low, farmers will not be able to cover the costs. If price is too high, farmer may not be able to sell their products.

How to do pricing

To do pricing, the extensionist should work with farmers to use market information which has been collected. It should consist of:

- Selling price of the existing product in the market (pricing according to competition)
- Potential price that customers willing to pay (pricing according to customer needs)
- Total costs of production, management and marketing, and expected profit by farmers (pricing according to cost)

In agriculture production, price normally set according to competition (market price) and is out of control of the farmers. However, there are still some ways that farmer can influence their selling price. The most popular one is storage.

Box 5.8: Price control

Price of agriculture products often fluctuate across the seasons and years. Reasons of this situation are out of control of farmers. Therefore, the best way to control price is storage and sell product when there is good opportunity. To do this, farmer group should have regular price information and good storage facilities to avoid storage risks.

In some cases, pricing of agriculture products can be done according to customers' needs. In such cases, farmer should have information about customers, the price they are willing to pay to products with different quality. Customers are always influenced by the price seasonality (due to the change in supply and demand of the product).

Many product strategies make use the customer psychology. Some customers do only care to the trademark and image of the product but the price.

For example, a high quality herbal tea which with nice package can be suitable with high income customers who willing to pay higher price to nicely presented products. Similarly, some traders willing to pay higher price when products are provided in large quantity and they do not have to spend a lot of time to collect products from dispersed households.

➤ *Place/Distribution channel*

In many cases, agriculture products are produced in small and dispersed households. Collection of such products therefore requires a good distribution channel. This is normally done by the local collectors.

The extensionist should guide farmer group assess whether they can take some functions of the local collectors or traders in order to increase profit. To do this, farmers should have good access to market information to control price better and have a sustainable linkage with potential customers.

➤ *Promotion*

There are many ways of promotion depending on the product and available resources of farmer groups. Nowadays, establishing a trademark in a competitive business environment is an important objective of many farmer groups. The most popular and simple strategy is to design attractive package and label. Participating into trade fair is also a popular promotion practices. Some more complex forms such as printing leaflet, advertisement on television and newspapers can be done. In all cases, benefits

from such promotion practices should be compared with the costs.

Establishing linkages or partnerships in marketing

Establishing linkages or partnership in marketing is very important for a farmer group as:

- Shifting to cultivate a new crop or produce new product requires technologies, skills, finance and policy relevant information.
- One farmer group can not have all required capacities or skills or enough resources to hire external consultants.

Therefore, in the collection of market information stage, the extensionist should coach farmer group to define the direct actors (e.g. producers, processors, intermediaries and customers) and indirect actors (e.g. research institutions, governmental agencies or production associations of commodity) who involve in the production, transportation and marketing of the product. The extensionist should also facilitate group members to discuss which relationship/partnership should help the group to overcome difficulties in each working area.

5.5.2. Input management strategy

Input management strategy is very important for a production group. Basing on information collected on the input suppliers such as location and contact of the input suppliers, types and quality of the inputs they provide and price, the extensionist can facilitate farmer to develop the input management strategy. The group can purchase inputs collectively from reliable suppliers or even link with an input company to set up an input agent managed by one or several members of the group.

5.5.3. Organisational development strategy

To help the farmer group to set up the best organizational structure, extensionist should introduce different models of organizational structure, strengths, weaknesses of each model and facilitate farmer to analyse and select the most suitable one for their group.

Following is some popular organisational structures, and strengths and weaknesses of each.

➤ ***Sole proprietorship (private enterprise)***

In this model, the leading person takes the role of the enterprise director and be responsible for all business transactions. The leader is only person who invest and totally controls all business activities. He/she will also receive all benefits from the enterprise. Strength of this model is the simple decision making process. However, risk taken by one person is high and there is no knowledge and experience sharing among members.

➤ ***Partnership***

Interested group, extension clubs or other kinds of informal group of farmers belong to this model. In this model, two or more than two individuals cooperate with each other to conduct production and business. Responsibilities, risks and benefits are shared equally among group members. Strengths of this model is that technical capacity or fund can be supplemented. However, sharing controlling power can cause problems especially when members have different ideas.

➤ ***Cooperative***

In this model, the owners are the ones who use services of the cooperatives. The cooperative allows the owner to share any profits that it has. There are four characteristics of a cooperative:

- Benefits are derived in proportion to the member's use, rather than to the amount of investment
- There is democratic management by the owners and an elected committee, each member has one vote regardless of the amount of shares owned or the volume of business conducted.
- Services are provided to users-owners at cost.
- There are limited returns on equity capital, and limited ownership of shares, in order to discourage investor-oriented decision-making.

The weaknesses of cooperatives lie in their complex management and the fact that they have often been used as conduits for government support. As a result, members are not encouraged to become self-reliant. In addition, cost of the overhead of the cooperative can become too high in relation to the perceived value of the service being offered.

5.6. Action plan

After having different development strategies, the group should be facilitated to develop their action plan.

An action plan should define which specific activities will be done, who will be responsible and what kind of capacity-building or assistance will be needed in order for the individual to be able to carry out the activities in each of the strategies. The timing of beginning and end of each activity also need to be determined.

5.7. Financial tools which support the business of the marketing group

Calculation and developing financial plan is to ensure that the proposed strategies are realistic and cost-effective. It is possible to ensure that strategies are realistic by working out a budget for the activities proposed and assessing if they are cost-effective. This process then becomes another opportunity to increase the capacity of the group to reduce risk and improve the group planning and management skills.

What kind of financial planning is necessary for farmer group ?

In most agriculture products, increase revenue for farmers can be obtained by value-adding. This may be simple activity such as better cleaning or grading. Farmers may continue to sell their existing products to existing buyers, but changing marketing means may be enable them to set higher price. Very little may be needed in the way of capital investments, since mainly labour-intensive method, carried out by individuals, will be used. Simple financial plans will be sufficient, and they will focus mainly on assessing profitability.

However, if a farmer group want to increase the price that they are obtaining for the products through strategies that require more intensive capital investment, then a financial plan becomes more important.

The financial projections for the planned strategies should be done in a meeting to discuss the strategies and their related activities. This will ensure that the group understands the financial implication of the actions that it is proposing. As the result of this planning, the group might decided that it is not possible to carry out certain actions within the scope of the planned enterprise unless it can work out other ways to finance them until the enterprise grows to a point where it can support such activities.

To prepare a financial plan, a range of tools are available to help the group demonstrate the profitability of the enterprise and develop the financial projections, These include:

- Calculating the break even point ;

- Working out the start-up cost and capital need
- Calculating payback period for investment
- Forecasting profit and losses
- Making a cash flow analysis

5.7.1 Calculating the break even point

The break-even point can be used as a guide to determine if the sales price has been set is high enough to generate sufficient profit to meet the objectives of the group. The objective of calculating the break-even point is to use the sale price of a product to assess the level of sales, where revenues from sales equal total expenses (fixed costs and variable costs) of producing those sales.

Fixed costs are part of overhead of the group business, and they remain unchanged with the number of units sold, they include such costs as rent, utilities, insurance and management fee. Fix cost are presented even if nothing is produced.

Variable costs are associated with each unit of production. Variable costs vary directly with the number of units sold. They include materials plus labour plus a percentage of overhead directly allocated to the sale of a given number of units.

Total expenses are the sum of fixed costs plus variable costs.

In other words, at the break-even point, profit is equal to zero. Once revenues above that point are obtained, only the variable costs of production and not the fixed costs of overhead (since they already have been covered by sales leading up to the break-even point) have to be deducted from the sales price in order to calculate the profits. On the other hand, revenues below the break-even point constitute losses.

Once the group has estimated a production and sale objectives, the extensionist should help the group to calculate fixed costs and variable costs. The first step is to use the number of units from the sales target estimated in the objectives to calculate the fixed costs and the variable costs involved in generating those sales. These cost calculation will be used again in the profit and loss and cash flow exercise. Then the group has to estimate the price at which it thinks it can realistically sell the product. It is then ready to calculate the break-even point, as shown in following example.

Once the break-even point is known for a particular price, the extensionist should encourage the group members to analyse these results and assess whether the price set for a product ensures that there is enough margin for profit. If it does not, then a higher price should be estimated and a new break-even point should be worked out. On the other hand, if the price the group is charging for the product is high enough to

leave a comfortable margin, the extensionist can help the group work out a discount strategy and check it with the break-even analysis.

Table 5.4: Variable cost for honey production of bee keeping group in Quang Binh province (Source: FAO)

items	Unit price	Quan	Total cost
sugar=5kg/hive (VND/kg)	7.000	175	1.225.000
Medicine (VND/hive)	12.000	35	420.000
Bottle (650cc =500g honey) (VND/bottle)	1500	1.050	1.575.000
Labour (15 days/hive/year) (VND/day)	10.000	525	5.250.000
Total variable costs			8.470.000

Variable costs of one bottle of honey:

Variable cost=total variable cost/number of bottles = 8.470/1.050= **8.067 VND/bottle**

Table 5.5: Fixed costs for honey production (VND) (Source: FAO)

Indirect labour/mangement fee		120.000
Repare and maintainance		50.000
Stationary, communication		60.000
Depreciation of equipment over 3 years	9.620.000	3.175.000
Interest (18%)	959.499	959.499
Total fixed cost		4.364.099

Source: Isabelle Lecups and Ken Nicholson (2000)

Break-even point of honey production

Break-even point (number of bottle) = total fixed costs/ (selling price/bottle – variable costs/bottle)

$$= 4.364.099/ (28.000-8.067) = \mathbf{171 \text{ bottles}}$$

Break-even point in revenue = 171 * 28.000 = 4.782.000 VND

The example shows that once 171 bottles have been sold, out of total 1050 bottles projected for the first year, the fixed costs have been covered, as well as variable cost of producing 171 bottles. Beyond that volume, i.e. for the remaining 879 bottles, the only cost is variable cost of producing and selling the product. There is therefore a comfortable margin within which to make profit in the first year (17.521.107 VND/first year).

The farmer group can also use the break-even point to determine its promotion strategy. For example, if the group has sold at least 171 bottles at 28,000VND per bottle, and a customer offers to buy a large volume but wants a discount, the group should realize that it needs to get at least 8067 VND per bottle (the variable costs) but that it does not need to worry about the fixed cost any more, therefore, it can afford to offer a discount.

5.7.2 Working out start-up costs and capital needs

The estimates of start-up costs and capital needs will enable the farmer group to answer three questions:

- How much should be spent to get the business opened on the basis of the sales projection made by the group?
- How much should be set aside to cover initial operating expenses? Depending on the situation, the group might need to calculate the need for at least three to four months of operating cash in reserve or even several years. This can be determined by using the cash flow method illustrated below.
- How much of that capital does the interest group have and how much does it need to find from other sources?

To work out the start-up costs, the interest group should begin with the first year's sale production for the business and predict the selling price. Next it should calculate the start-up costs of attaining those sales. Financing can usually come from several different resource. The group should make the list of all possible sources of funding such as district level funds, grant funds and loans from community organization. At this point, it needs to decide whether it can invest some of its money in starting the business or whether it needs to take on partners for financing and perhaps also get loans from a bank.

Table 3.7 provides an example on how to calculate start-up costs for the first four months of the honey production group in Quang Binh province

Table 5.6: Start-up costs for 4 months (350 bottles of honey) of honey production group in Quang Binh province

	Quantity	Unit price	Total amount
Equipment			
Boxes and Frame	35	50	1.750.000
Bee colonies	35	190.000	6.650.00
Frames (6 frames/hive)	210	3.000	630.000
Knives and other small tools	5	18.000	90.000
Mask and nets for extraction operation	5	40.000	200.000
Centrifuge machine	1	300.000	300.000
Total			9.620.000
Indirect labour/management contribution		120.000	120.000
Repair and maintaince		50.000	50.000
Stationary and communication		60.000	60.000
Total			230.000
Materials			
Sugar (175 kg, 3 times/year)	58	7000	406.000
Medicines (420.000 VND, 3 times/year)			140.000
Bottles	350 chai	1.500	525.000
Total			1.071.000
Direct labour (5.250.000/three times)			1.750.000
Total start-up costs for 4 mont			12.671.000
Member's own capital (566.000 VND each x 5)			2.830.000
Remainder to be financed			9.841.000

Source: Isabelle Lecups and Ken Nicholson (2000)

5.7.3 Calculate the payback period for investment

The size of the investment must be in relation to the projected return on investment. The original investment should be returned over a period of time to the farmer group. Because of the relative high cost interest, the small-scale loans required for the working capital of the farmer group should be considered mostly as short-term loans, and the aim should be to pay them back within one or two years. In some cases, loans

for equipment may be stretched out over longer period.

In order to calculate the payback period for the investment, the interest group needs to make profit and loss and cash flow projections for at least two years, and perhaps more. That way it will be able to see at what point it will be possible to pay back the original investment without hurting the cash flow of the enterprise.

5.7.4 Forecast profit and losses

This is a summary of the income and expenses for the farmer group in a specific period, such as one year. It is a summary of sources of income and the ways in which it was spent over the year. It should be done for at least three years of the business.

The profit and loss forecast is a useful budgeting tool that allows the interest group to review the records of the enterprise at the end of the period and compare its projections with the actual income and spending figures. As a result, its next projections will be even more accurate.

Projected income is based mainly on the sales forecast. In order to work this out the farmer group needs to estimate what volume is expected to be sold and at what price it will be sold. The analysis of the business environment will be the main guide to achieving a realistic estimate of sales for a given period.

Anticipated expenses can be divided into the broad categories of fixed and variable costs described above. Interest expenses should be included as operational expenses. However, since the profit and loss statement shows the projected income of the farmer group, the one-time opening expenditure for capital assets are not included as operating expenses. They are considered as investment cost and will be shown on the balance sheet rather than on the profit and loss statement.

Depreciation is a way of saving money for the eventual replacement of equipment bought at the start of the business. Calculate number of years in the expected life-time of the equipment and divide that by the replacement cost then save that amount every year. This can thus be considered an expense (this will appear again in the balance sheet in a later exercise).

Gross profit is the sum of the fixed and variable costs and is deducted from the total sales. It may be used to pay principal on dept or to pay income taxes, or it may be kept as the business as retained earnings.

Net profit is the remainder after tax is deducted from gross profit.

To create profit and losses statement, the extensionist should help farmers to starts with the annual projected sales developed in the objectives and used for determining initial capital needs. The information from the capital needs statement for operating

expenses is used to calculate the total of the first year's operating expenses in the profit and loss statement. In the first year, some or all of the costs can be shown against sales as a percentage of the total projected sales. Then, in order to calculate projections for the subsequent years, the increase volume of sales is estimated, and from that all of the next year's costs can be easily worked out.

Table 5.7: Forecast of profit and loss of the honey production group in Quang Binh

	Unit price	Year 1			Year 2	
		<i>35 hives, 525 kg honey</i>			<i>Increase 30%: 50 hives, 750 kg honey</i>	
Income from sale		Unit	Year 1	% of sale	Unit	Year 2
Honey (bottle)	28.000đ	1050	29.400.000		1.500	42.000.000
Beeswax (kg)	35.000	175	6.125.000		250	8.750.000
Total sale/revenue			35.525.000			50.570.000
Expenses						
Fixed costs						
Indirect labour/management contribution (increase 30% in year 2)			120.000	0,3%		152.250
Repair and maintenance (increase 0.1% in year 2)			50.000	0.1%		50.750
Stationary, communications			60.000	0.2%		101.500
Depreciation of equipment in three years (33%/year)	9.620.000		3.174.600			3.174.600
Interest (18%)	959.499		959.499			
Total fixed cost			4.364.099			3.479.100
Variable costs						
Sugar(5kg/hive)	7000VND/kg	175kg	1.225.000		250	1.750.000
Medicine=12.000VND/hive	12.000VND	35 hive	420.000		50	60.000
Bottle (650cc=500g honey)	1.500VND	1050	1.575.000		1.500	2.250.000
Labour (15 days/hive/year)	10.000 VND/day	525 day	5.250.000		750 day	7.500.000
Total variable costs			8.470.000			11.560.000
Total variable costs and fixed cost			12.834.099			15.039.100
Profit			22.690.901			35.710.900

Source: Isabelle Lecups and Ken Nicholson (2000)

5.7.5 Make a cash flow analysis

Cash flow analysis shows when money moves cyclically in and out of the business on a monthly basis. It is essential for a farmer group, no matter what the size, to make a cash flow analysis in order to get a true picture of how the enterprise will operate financially. The analysis is also used to obtain an accurate estimate of the amount of operating cash reserves that will be required to get the farmer group started. Without this tool, the farmer group may appear to be making profit, while in fact, it could not operate because there could be a shortage of working capital for day-to-day expenses.

The cash flow analysis will show the effects of money owned to the farmer group (account receivable), money that the farmer group owes (account payable) and seasonal fluctuations of the business. It will show the months of excess cash flow and the months when there is a deficit. It is a control and planning tool that can be used to borrow short-term money to run operations smoothly. The farmer group needs to estimate as realistically as possible the amount of capital needed to launch and sustain the business during the first three or six months. In the same way that the profit and loss forecast can be used as a budgeting tool, the cash flow projection will allow the group to look back over its records for a year and assess whether its estimates were accurate or not. Within a given month, the analysis can also help the group assess whether it is spending too much on any particular cost centre, to the detriment of other items that also need to be covered.

Example presented in Table 5.8 illustrates the way to make a cash flow for one year. The farmer group starts by calculating start-up capital needs and the profit and loss projection. Then it has to decide when payments have to be made throughout the year. This is a very good exercise. It helps the group members to be aware of the importance of working capital in the survival of the business. The cash flow analysis helps the group analyse and plan cash needs of the business on a month-to-month basis by taking into account both sales and expenses. If the projection indicates that there will not be enough working capital in any one month, adjustment has to be made in order to remedy the situation.

In the first step, the farmer group should estimate the cash on hand in the first month. This is also the cash that the farmer group opens with. Therefore, the total amount of working capital that was forecasted in the start-up costs should be used here. Once sales begin, the income is also added into the cash on hand in order to give an indication of total cash. Expenses should be added up at the bottom of the table, and the total expenses are deducted from total cash in order to estimate the cash remaining at the end of the month. This amount then is put at the top of the column in the following month as cash on hand. In order to ensure that the cash flow projections

follow the profit and loss, a total of each row can be maintain in the first colume.

Table 5.8: Cash flow analysis for the first year of honey production group in Quang Binh (Source: FAO)

	Total	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cash on hand		12.671.000	6.225.002	1.911.305	3.268.242	7.137.481	5.360.688	3.596.196	7.502.338	11.522.865	9.795.277	8.079.990	12.035.337
Sales	35.525.000		0	5.920.833	5.920.833	0	0	5.920.033	5.920.033	0	0	5.920.833	5.920.833
Total cash													
Expenses													
Fee s and royalty	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of equipment	9.620.000	4.620.000	2.500.000	2.500.000	0	0	0	0	0	0	0	0	0
Depreciation of equipment	3.174.600	264.550	264.550	264.550	264.550	264.550	264.550	264.550	264.550	264.550	264.550	264.550	264.550
Indirect labour/management	120.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000
Repaire and maintaince	50.000	4.167	4.167	4.167	4.167	4.167	4.167	4.167	4.167	4.167	4.167	4.167	4.167
Stationary and transactions	60.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000
Sugar	1.225.000	102.083	102.083	102.083	102.083	102.083	102.083	102.083	0	102.083	102.083	102.083	102.083
Medicine (12.000VND/hive, 35 hives)	420.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000	35.000
Bottle (350bottles, 1500VND)	1.475.000	0	0	262.500	262.500	0	0	262.500	262.500	0	0	262.500	262.500
Labour (15 days/year)	5.250.000	437.500	437.500	437.500	437.500	437.500	437.500	437.500	437.500	437.500	437.500	437.500	437.500
Interest payment(18%)	959.499	147.615	135.314	123.013	110.711	98.410	86.109	73.808	61.506	49.205	36.904	24.603	12.301
Principle payment	9.841.000	820.038	820.038	820.038	820.038	820.038	820.038	820.038	820.038	820.038	820.038	820.038	820.038
Total expenses	0	6.445.998	4.313.697	4.563.896	2.051.594	1.776.793	1.764.492	2.014.691	1.900.306	1.727.588	1.715.287	1.965.486	1.953.184
Total cash		12.671.000	6.225.002	7.832.138	9.189.075	7.137.481	5.360.688	9.517.029	13.423.171	11.522.865	9.795.277	14.000.823.	17.956.170
Cash minus expenses		6.225.002	1.911.305	3.268.242	7.137.481	5.360.688	3.596.196	7.502.338	11.522.865	9.795.277	8.079.990	12.035.337	16.002.986
Principle balance		9.841.000	9.020.917	8.200.834	7.380.751	6.560.668	6.740.585	4.920.502	4.100.419	3.280.336	2.460.25	1.640.17	820.087

											3	0	
Interest payment	959.499	147.615	135.314	123.013	110.711	98.410	86.109	73.808	61.506	49.205	36.904	24.603	12.301

Source: Isabelle Lecups and Ken Nicholson (2000)

5.8. Capital mobilisation

Objective of this part is to help farmer group to define options for mobilizing operational capital and take some steps to obtain capital. Financial project which has been developed will help the group to define how much capital they need. In additions, the decision on whether to get loan also depends partly on the organizational structure of the group.

A farmer group can mobilize working capital by:

- Contribute cash and collateral value to be a member of the group
- Establish a cooperative that each member has to contribute share in order to raise capital.

The group can also get loan from the bank, input suppliers or even some agro-enterprises can advance a sum of money before buying product from farmers.

5.9. Maintain group dynamic and the market linkage role of the extensionist

Maintaining group dynamic after the group formation is a challenging task for most of the farmer groups. In order to do this effectively, the extensionist should support the group to organize regular meetings to solve all problems that the group encounters in the marketing process. By identifying which problems has been encountered and what are their reasons, the group can find out timely and suitable solutions. A decisive factor which contributes to the success of the group is to developing an effective working mechanism or rules with the participation of all group members. This work can only be done in the regular meetings.

In each regular meeting, members of the group have to report the progress of the work each has been assigned and present what are difficulties s/he having. All group members have to respect group rules/regulations. Although a strong leader is very important but this person should not be too opposed and break the democracy will of the group.

By the end of each year, a review meeting should be organized in order to evaluating which objectives have been achieved, which ones have not and what the reasons are. Then the group should find out the solutions and re-set objectives and plan for the next year in accordance to the changing context. In this yearly review meeting, financial should be informed to all member to ensure the transparency. To do this properly, the accountant or in charge person should have transparent and clear recording system.

In order to better play the role of linker, the extensionist should review the partnership of the farmer group which has been suggested in the previous stage and analyse the supporting needs of the group. For example, one group may need a training course on financial calculation while another may need training on technical aspect like production technologies of one specific product. Development of business plan or management skills can be other types of training that farmer groups may need. Extensionist can organize study tours to other production place in case its member would like to learn production technologies of a certain product. Extensionist can also link farmer with the organizations or programs who providing relevant training topics or provides such training topic on her/himself.

The most important linkage to most of farmer groups is the one with the traders and agro-enterprises. Extensionist may not be ready or does not have enough resources to play the role of intermediaries between farmers and those actors. However, traders and agro-enterprise may feel safer when they know that the farmer group is being supported by the extensionists and local governmental agencies.

ANNEX 1: REFERENCE

Following is the list of the references for making this guide.

Bergeron, E. and Nguyen Van Tuong (2006) Basic Business and Marketing skills, A manual for field workers in the mountainous area in the Northern of Vietnam. Son La, Vietnam: SNV Netherlands Development Organization.

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