Part II

The 8-Step Clustering Approach to Agroenterprise Development

INTRODUCTION

Part II presents the eight steps in the clustering approach to agroenterprise development that evolved in the course of the implementation of the USDA-assisted Small Farms Marketing Project (SFMP) that started in December 2004 and implemented in five pilot sites in Mindanao by CRS-
Philippines in partnership with local NGOs and Local Government Units (NGOs).

The sharing of experiences and the refinement of the clustering approach were facilitated by the gatherings of CRS-Philippines with its development partners and farmer leaders for joint learning called the Mindanao Agroenterprise Learning Alliance (MAELA). These interactions captured the rich experiences of CRS-Philippines in developing agroenterprises in the light of emerging and growing markets, and the challenge to assist small farmers to become competitive and significant market players.

CLUSTERING FOR SMALL FARMERS

The highlight of the CRS-Philippine agroenterprise development strategy is the innovative method of organizing farmers into small groups called “clusters” within a defined territory or geographical coverage. This geographical focus facilitates the partnership building work with local development partners, like the LGUs, for sustainability. In a defined territory, the planning and monitoring processes for a particular farm production system are more focused and more efficient.

The territory of a cluster can be a sitio (sub-village) barangay (village), group of barangays, or the whole municipality. In due time, clusters may expand in membership or coverage, or may form a network or federation of clusters and cover more barangays or municipalities, and so on.

Forming clusters signifies a new development in farmer organizing and marketing set-up. The members in a cluster agree to develop an agroenterprise and proactively plan farm production according to a marketing objective. As product supply units catering to specific quality and delivery requirements of the buyers, the clusters offer a focus to attract buyers.
Being small groups, clusters are better able to keep pace with continuously changing market opportunities that require constant innovations from them in production and postharvest practices. Moreover, the chance for each member to actively participate and be heard in meetings is greater than in large groups.

The clustering method provides a concrete mechanism where farmers can exercise ownership and control of their agroenterprise, benefit from it, and thus facilitate the farmers’ empowerment process. The clusters provide the learning ground for self and group management, a maturation process that is necessary for farmers to transition successfully into formal business entities and effectively relate with other market players and partners.

The clustering approach for agroenterprise development is a sequential process involving eight steps that prepares farmers to link with the market, assist them to be effectively organized into small groups or clusters, and guides them to
engage the market with favorable arrangements that improve their incomes and livelihood.

The first five steps comprise the preparatory activities. This emphasizes the need for farmers to learn new skills, access new information, and adopt innovative methods to be able to identify and respond to market demands and opportunities given their capacities. Adequate preparation during this critical business preparation and organizing stage ensures that a higher degree of success is attained when their actual marketing starts to take place in Step 6 (Test Marketing).

As shown in Figure 3, the process does not end with the development and strengthening of the cluster. The cluster may either return to cluster plan formulation (Step 5) and review its agroenterprise plan, or initiate the formation of new and additional cluster (Step 4). Table 1 presents the features and outputs of the different step.

Figure 3. An illustration of the 8-step process of the clustering approach to agroenterprise development, CRS-Philippines experience.
### Table 1. The steps, features, and outputs of the clustering approach to agroenterprise development as developed by CRS-Philippines.

|-----------------------|------|----------|-----------------------------|--------------------------|
| Getting started       | (1)  | 2 to 4 weeks | • Identify project site  
• Develop partnerships with stakeholders (government, other NGOs & development organizations, local business sector, farmers)  
• Organize a working group (WG)  
• Convene orientation sessions and planning meetings | • Identified project site for development support  
• Established partnership with stakeholders with their representatives constituting a working group (WG)  
• WG provided with orientation on the development project, marketing basics, participatory research  
• WG with a plan to conduct research |
| Knowing our product supply capacity | (2)  | 4 to 6 weeks | • Assist the WG to organize a local research team  
• Provide training on PSA  
• Conduct PSA  
• Undertake a participatory analysis of research results, then select product(s) | • WG/local research team trained on PSA and the use of the tools  
• Research results (info on farm assets, skills, products, production & marketing conditions, problems, etc)  
• List of existing dominant products and farmers producing them  
• Selected products for further research (i.e. market chain study) |
| Understanding our market opportunities | (3)  | 4 to 6 weeks | • Provide training to WG on MCS  
• Conduct market visits (in immediate commercial areas) and undertake MCS  
• Undertake a participatory analysis of research results and consolidate findings into a report with analysis of product supply capacity matched with market opportunity | • WG trained on MCS and the use of tools  
• Diagrams of market chains for selected products linking to potential buyers with costs and margins along the chain  
• Initial market negotiation with potential buyers  
• Research report |
### Table 1 continued…

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deciding to work</td>
<td>(4)</td>
<td>2 weeks</td>
<td>- Invite farmers growing the selected products for orientation meeting; present research report</td>
<td></td>
</tr>
<tr>
<td>together and to</td>
<td>Clus-</td>
<td></td>
<td>- Provide orientation on marketing basics and clustering</td>
<td></td>
</tr>
<tr>
<td>organize for</td>
<td>ter</td>
<td></td>
<td>- Initiate the formation of clusters, identification of cluster leaders, conduct organizational planning</td>
<td></td>
</tr>
<tr>
<td>market</td>
<td>formation</td>
<td></td>
<td></td>
<td>• Report presented</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Identified farmers interested to join the cluster</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Cluster formed with cluster leaders</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Basic cluster agreement – to pool products and collectively market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Objectives set relative to agroenterprise</td>
</tr>
<tr>
<td>Preparing to</td>
<td>(5)</td>
<td>2 weeks</td>
<td>- Review commitment of cluster members (product supply, etc)</td>
<td></td>
</tr>
<tr>
<td>engage the market</td>
<td>Cluster Plan Formulation</td>
<td></td>
<td>- Discuss in detail production programming (technologies like NFTS, support services, infra)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Facilitate an interactive process of agroenterprise planning with operational planning</td>
<td>• Cluster planting calendar or product harvest calendar</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Product quality management plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• A cluster agroenterprise plan consolidating market, supply, management and financial plans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• An operational plan for test marketing</td>
</tr>
<tr>
<td>Taking a leap</td>
<td>(6)</td>
<td>4 weeks</td>
<td>- Undertake test marketing activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Test Marketing</td>
<td></td>
<td>- Call cluster meetings to assess performance after every product delivery, implement adjustments in the plan for improvements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• At least 4 trial product deliveries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Performance report to the clusters of every delivery relative to cluster plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Expanded cluster agreements, as needed</td>
</tr>
<tr>
<td>Moving forward to</td>
<td>(7)</td>
<td></td>
<td>- Revisit cluster plan for scaling up</td>
<td></td>
</tr>
<tr>
<td>build up our business</td>
<td>Scaling Up</td>
<td></td>
<td>- Establish business operating systems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Implement regular product deliveries to the established markets; pursue new markets</td>
<td>• Regular product deliveries to buyers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Call monthly cluster meetings to assess performance</td>
<td>• Innovations (product and/or market development)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Written business policies and systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Monthly financial and operational reports in the cluster meetings</td>
</tr>
</tbody>
</table>
Part II. The 8-Step Clustering Approach to Agroenterprise Development

Table 1 continued…

|-----------------------|------|----------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Making it continue and grow. | (8)  | Continuing (from cluster formation to 2 years) | • Ensure that cluster leaders convene regular cluster meetings and undertake cluster assessment  
• Facilitate periodic capability building support: trainings, team building activities, cluster cross-visits, exposure trips, reflection sessions, etc.  
• Promote networking of clusters and business links  
• Organize formal business entity (e.g. cooperative) | • Knowledge and skills in agroenterprise operations (in the fields of leadership and organizational development, market strengthening, product supply and financial management)  
• Clusters progressing in higher level of maturity  
• Networking of clusters; formalization  
• Networks in the business community |

It is worth noting that the market environment of clusters is dynamic and CRS experiences suggest that the best results are attained when the key ideas in the approach and their application is adjusted to the local circumstances, including the resources of the farmers and the development service providers.

The succeeding sections of this Guidebook describe the eight steps in more detail.

Benefits of Clustering:

To the farmers

1. Better access to markets and better bargaining power (as an effect of quality, volume, variety and regularity)
2. Lower cost of doing business
3. Diversified and more predictable markets
4. Better income (as a result of higher price, reduced losses and higher recovery, more stable markets)
Part II. The 8-Step Clustering Approach to Agroenterprise Development

5. Better relations among growers as a result of working together and helping one another
6. Good image in the business community
7. Organized way of relating to resource providers (government, non-government, business groups)

To the buyers

Buyers are always particular about quantity, quality and delivery reliability. This is where transacting with clusters can be beneficial due to these reasons:

1. Better compliance with quality agreements through the cluster’s Product Quality Management Plan it has formulated and must implement
2. Traceability of both cluster and grower through product labeling procedures
3. Easier product consolidation work
4. Immediate rewards & sanctions (discipline)
5. Flexibility to provide product preferences
6. Quick response to market feedback/complaints
7. A cluster can give in advance notice of impending changes in shortages of product to be delivered

To the donors and implementing agencies

1. Efficient use of resources (including services)
2. Wider coverage
3. Equity of participating communities
4. Enhanced production-oriented livelihood, agriculture and NRM projects
5. Sustainability (post-project)
Step 1. Site Selection, Partnership Building and Working Group Formation

Site Selection, Partnership Building and Working Group Formation

1.1 PROCESS OBJECTIVES

Through the help of the Facilitator, Step 1 aims to enable the project to:

1. Determine the specific site for the agroenterprise;
2. Identify and engage institutional partners, such as Local Government Units, Regional and National
Government Agencies, Non-Government Organizations, and Peoples Organizations;
3. Form and orient a Working Group (WG); and
4. Assist the WG in formulating a plan for community-based research.

1.2 INTRODUCTION

Site Selection, Partnership Building and Working Group Formation is a community process where appropriate site or sites and partners for the agroenterprise project are identified, and a Working Group (WG) composed of producers, local government units (LGU), non-governmental organizations (NGO), business sector and other relevant representation is constituted.

This is also the phase where potential farmer leaders are identified through rapid appraisal. These leaders are invited to be part of the Working Group (WG) and to participate in the upcoming initial activities.

1.3 SELECTING THE SITE

Basis for selection

In many cases, sites for the agroenterprise endeavor can be pre-identified from among existing project areas, or on the basis of donor preferences.

Ideally, a potential site for the agroenterprise project should have the following facilitating or enabling factors:

1. Responsive LGU
2. Presence of good extension services
3. Willing producers
4. Surplus farm products
Step 1. Site Selection, Partnership Building and Working Group Formation

5. Favorable social conditions (peace and order, community awareness)
6. Presence of potential partners or related projects such as agriculture, natural resource management, landcare, or community development

The presence of more of these factors would facilitate the development of an agroenterprise.

At the minimum, **willing farmers who have products that can be marketed** can let an agroenterprise endeavor begin. However, this will require so much facilitation for clustering, capacity building, operationalizing and networking.

**Geographical Focus**

The site can be a **sitio** (sub-village), **barangay** (village), municipality, or a group/combination of each.

In a small area, like the **sitio** or **barangay**, the focus can be on understanding the local marketing system and identifying problems and bottlenecks that can be addressed through interventions in the local economy.

**Rapid Area Assessment**

In order to have a good grasp of the current situation of the site, a quick survey of the resources, institutions and their predominant business and production activities will be of help to the Facilitator. Knowing what and who are in the community will help him/her in carrying out the assigned tasks.

The following information can serve as a starting point for the Facilitator in making a rapid assessment of the area prior to a more extensive information gathering and analysis:

1. Physical resources (land and its use, water resources, soil, climate, rainfall patterns, cropping seasons, vegetation)
Step 1. Site Selection, Partnership Building and Working Group Formation

2. Community profile (gender, age distribution, number of farmers, other sectors, household size, social groupings, educational level, history of collective action)

3. Infrastructure (roads/accessibility of farm areas, communications, electricity, water systems)

4. Business activities/services (business establishments, markets, business service providers, credit services both formal and informal)

5. Development assistance (NGOs, political structure, government policies and programs for the agriculture sector).

The above information can be generated by direct observation or by reviewing secondary sources such as the barangay or municipal profiles and development plans, LGU reports such as those in the Municipal Planning & Development Office (MPDO), the Municipal Agriculture Office (MAO), the Municipal Economic Enterprise Development Office (MEEDO), the Municipal Engineering Office (MEO), and other relevant offices.

1.4 BUILDING PARTNERSHIPS

This is the continuing process of linking with and engaging relevant institutions or organizations to support the agroenterprise development undertakings. For example, the Barangay Development Plan (BDPs) of Barangay Local Government Units (BLGUs) can be the entry point for agroenterprise projects especially when these are consistent with, or part of the agricultural development component of the BDP. Moreover, barangay officials, such as the Barangay Chair and the Committee Chair on Agriculture, can provide for the relevant local policy and program support.

At the level of the Municipal LGU, partnership can yield more support and counterparts, such as human resources, infrastructure, logistics (i.e., hand-held radios and transportation services), and policies. These can be provided
Step 1. Site Selection, Partnership Building and Working Group Formation

by the office of the Local Chief Executive, the MAO, the MEEDO, the MEO, the MPDO, and the offices of relevant Sangguniang Bayan (Municipal Council) Committees. Links with other institutions and organizations operating in the barangay, municipal and provincial territories (such as producers, business sector and church) can also be established.

The process of building partnerships can be initiated through courtesy calls and meetings leading towards a consultation among identified partners. The active partnership begins with the establishment of a Working Group (WG).

1.5 FORMING A WORKING GROUP

During the community consultation, the Facilitator draws out the current situation related to farmers’ production and marketing, available resources, and existing programs of NGOs and LGUs. From the discussions, he/she leads the participants to a consensus on issues pertaining to farm productivity and incomes.

Addressing the above issues realistically needs a multi-pronged approach which can be led by the WG.

Role and lifespan of the WG

The WG is an adhoc body organized to provide leadership in the gathering of information that can help in product selection (Step 2), in conducting market chain studies (Step 3), and in forming cluster (or clusters) of farmers for agroenterprise development (Step 4). Immediately after cluster formation, the WG transforms itself into a Cluster Advisory Group (CAG) that will provide assistance in formulating and implementing an agroenterprise plan (Steps 5-7).

Beyond the above tasks, the WG (and eventually the CAG), can take an active role in utilizing the partnership as a mechanism to promote and develop the sharing, coordination
and complementation of local programs and resources towards a common goal.

**Composition of the WG**

A WG may be composed of representatives from the MAO, MEEDO, NGOs, business sectors, farmers and people’s organization (PO). WG membership ranges from 10 to 15 individuals, at least two-thirds of which are farmers.

Members of the WG should meet at least once a month to discuss updates and coordinate activities.

To ensure the representation of farmers in the WG, the Facilitator must take extra effort to identify potential farmer-leaders.

(Refer to Facilitator’s Tool Kit No. 1 for the standards used in identifying farmer-leaders to be involved as members of the WG.)

**Identifying local leaders for the WG**

The *Sociogram method* can be used to identify indigenous leaders (male and female key persons and/ or opinion
leaders) in the community who can facilitate the change process.

(Refer to Facilitator’s Tool Kit No.1 for a guide in using the sociogram.)

**1.6 ORIENTING THE WORKING GROUP ON MARKETING**

Immediately after its formation, the WG undergoes an orientation on the basics of marketing. This includes the definition and importance of marketing to the farmers, the concept of supply and demand, marketing strategies/mix (the 4 Ps), types of market, and the market chain.

(Refer to Facilitator’s Tool Kit No. 1 for the Session Guide for the Orientation on Marketing.)

After the orientation on marketing, the WG agrees on the schedule of the training on product supply assessment that will be undertaken in Step 2.
Step 1. Site Selection, Partnership Building and Working Group Formation

Facilitator’s Tool Kit No. 1

A. IDENTIFYING LOCAL LEADERS

Standards used in selecting farmer-leaders

Selection standard for leaders, men and women, may include, but not limited to the following:

1. Farmer producer
2. With experience in marketing farm products
3. Respected
4. Aware and concerned about the community issues and needs
5. Believes in the stake and power of communities through participation
6. Good communicator: good listener, can express well and open to ideas

Using the Sociogram Method in identifying local leaders

How to Use the Sociogram

The sociogram is especially useful in analyzing social or peer relationships. It gives the Facilitator an idea of how a member of a community or cluster is viewed by her/his peers in terms of leadership, trustworthiness, approachability and in other similar qualities.

Spot potential leaders you can invite later to join the Working Group, following the basic steps below. You may revise these steps depending on specific or bulk of information needed and the number of respondents you can manage. Just make sure you maintain gender inclusiveness.

1. Gather at least 20 respondents, 10 men and 10 women. Give each one two (2) small sheets of paper. Make sure each has a pencil or ballpen.
2. Ask them to write their names on the topmost part of each paper provided to them.
3. Ask them to discreetly write on one piece of paper the names of one (1) man and one (1) woman from the community whom they mostly approached for advice or opinions. Please emphasize that their choices should come only from their community.

4. Collect the answers and proceed to the next question.

5. Ask them to discreetly write on one piece of paper the names of two people (one man and one woman) from their community whom they trusted most. Emphasize that their choices should come only from their community.

6. Collect the answers and thank the respondents for cooperating.

7. Classify the responses corresponding each of the two questions asked.

8. Make a sociogram of the responses to show who among the names were frequently **most approached**, **or most trusted** (and other qualities).

9. Make a sociogram of the results. (Refer to Figure 4 for the example.)

10. Spot the two most approached men and women and list down their names. Similarly, spot the two most trusted men and women and list down their names. This gives you eight potential leaders.

    In case a person is chosen as most approached and most trusted by a respondent, give him/her a point for each quality.

11. Develop a tool to further assess the above potential leaders in terms of leadership behavior (may be a matrix of leadership qualities or standard using a 3- or 5-point-scale from poor to excellent.)
**Step 1. Site Selection, Partnership Building and Working Group Formation**

Most approached: **Man** – Armando; **Woman** – Bilma

Most trusted: **Man** – Ramon; **Woman** - Teresa

Figure 4. Example of a sociogram used to identify leaders among 10 pre-identified community members.
B. SESSION GUIDE FOR THE ORIENTATION ON MARKETING

Session Objectives

At the end of the session, the members of WG will be able to:

1. Define marketing;
2. Articulate the effects of market related factors on farmer’s profit;
3. Explain the relationships of supply and demand and the factors affecting them;
4. Describe the market chain and the participants/actors involved;
5. Discuss value chain and how farmers earn from value addition through participation in the chain;
6. Articulate the 4 P’s of marketing, competition and market positioning; and
7. Demonstrate positive attitude towards marketing

Time Duration

2.0 hours

Resources Needed

Visual aids, marking pens, newsprint/manila paper, cartolina (for meta cards), adhesives, session and activity guide, and energizers

Session Procedure

1. Draw out participants’ understanding of Marketing. Open participation with this statement:

   “One enjoyed a cup of brewed coffee this morning during breakfast because marketing made it..."
Step 1. Site Selection, Partnership Building and Working Group Formation

possible to move coffee beans from the farmers and transform it into brewed coffee for your consumption.”

Ask participants to individually write on the meta cards what comes into their mind on marketing based on the statement. Then synthesize the answers into a definition. (It will help to arrange the meta cards with suppliers and buyers on opposite ends, then product, actors and activities/functions in between).

2. Present a matrix for computation where farmers can appreciate increase in income that is substantial from market related factors such as price increase of product, more volume sold/reduced damage, etc. (Refer to Table 1.) The red figures are the ones the participants are asked to compute. Deepen participants with discussion.

3. Give lecture and facilitate discussion on supply and demand with the factors that affect them or are affected by them.

4. Give lecture and facilitate discussion on Market Chain and Value Chain. Present an example of a value chain. (Refer to the example on page 29.) Draw out from participants the ways in which product value increases as it moves in the chain. Distribute meta cards for their individual answers, and synthesize by putting together the cards with similar ideas.

5. Give lecture and facilitate discussion on Marketing Strategy. Draw out from participants what kinds of questions will be helpful in strategizing using the marketing mix of product, price, placement and promotions. (Helpful questions as guide provided under the topic on Marketing Strategy, pages 31-33.)

6. End the session with an input on competition and product positioning.
Session Content/Topics

1. What is Marketing
2. Farming Profitability by being Market Oriented
3. Supply and Demand
4. Market Chain, Value Chain, Value Addition
5. The Marketing Strategy (Target Market and the Marketing Mix)
6. Competition and Market Positioning

Topic: WHAT IS MARKETING?

Marketing is the set of activities in moving a product from the point of production to the point of consumption at a profit. It is satisfying customers’ wants.

Given this definition, the work of marketing involves:

a. Understanding what the buyer wants in terms of products and the manner of supply to them;
b. Undertaking post-harvest activities such as packaging, transport, storage, and sale that add value to the product as it flows from the producer to the buyer
c. Establishing a production-market linkage and managing communications in between for market information and feedback

Topic: FARMING PROFITABLY BY BEING MARKET-ORIENTED

Improving production and yields has positive effect on income. But increases in price, being able to sell the product and reducing costs have an even higher impact to farmers’ incomes than just increasing production yield. Farmers’ concern is to earn profits from their sales to be able to cover the farm costs and to generate earnings for the household’s
consumption needs. To be able to do this, farmers should have a basic understanding of the market related factors that influence profits: price, volumes sold and costs. Table 2 shows how changes in these factors affect a farmer’s profit.

Table 2. Effect on profit of different levels of production, prices, sales and costs. (Adapted from FAO publication, Horticultural Marketing)

<table>
<thead>
<tr>
<th>Squash</th>
<th>Base Case</th>
<th>Yield (+10%)</th>
<th>Half Sold</th>
<th>Price (-10%)</th>
<th>Price (+10%)</th>
<th>Mktg Cost (-20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (kg)</td>
<td>1000</td>
<td>1100</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>Quantity sold (%)</td>
<td>80%</td>
<td>80%</td>
<td>50%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Quantity sold (kg)</td>
<td>800</td>
<td>880</td>
<td>500</td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Price per kg</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4.50</td>
<td>5.50</td>
<td>5.00</td>
</tr>
<tr>
<td>SALES</td>
<td>4000</td>
<td>4400</td>
<td>2500</td>
<td>3600</td>
<td>4400</td>
<td>4000</td>
</tr>
<tr>
<td>Production costs</td>
<td>1000</td>
<td>1100</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>Marketing costs</td>
<td>1600</td>
<td>1760</td>
<td>1000</td>
<td>1600</td>
<td>1600</td>
<td>1280</td>
</tr>
<tr>
<td>Total costs</td>
<td>2600</td>
<td>2860</td>
<td>2000</td>
<td>2600</td>
<td>2600</td>
<td>2280</td>
</tr>
<tr>
<td>MARGIN</td>
<td>1400</td>
<td>1540</td>
<td>500</td>
<td>1000</td>
<td>1800</td>
<td>1720</td>
</tr>
<tr>
<td>% of base case</td>
<td>+10%</td>
<td>-64%</td>
<td>-29%</td>
<td>+29%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>

Note: marketing cost reduction can also apply for production cost reduction. Base case is farmer produces 1,000 kg of squash; 80% is sold, price is PhP 5/kg, production cost is estimated at PhP 1,000 and marketing cost (packaging, transport, marketing fees) estimated at PhP 1,600.

**Topic: SUPPLY AND DEMAND**

The quantity of produce that consumers want to purchase is affected by these main factors: price, tastes and preferences of the consumers, number of consumers, incomes of consumers, prices of competing produce, range of products available to the consumers.

The quantity of that producers supply is affected primarily by: price of products, cost of production, technology available, climate and post-harvest capacities.

The price of a produce is determined mainly by supply and demand. The lower the price, the tendency is the higher will be the demand. However, as the price goes down eventually
less will be supplied. Conversely, the higher the price, the higher is the supply.

1. **Supply** – is what producers are prepared to sell at a certain price

2. **Demand** – is how much buyers are prepared to buy at the market price

The relationship between what is demanded and what farmers are prepared to produce leads to a balance between supply and demand (referred to as the equilibrium). In practice, this point is difficult to attain because the workings of the market is very dynamic. Many factors influence supply and demand. Example, farmer’s supply is affected by climate, seasonality, road condition, etc. and not just the price.

However challenging is the situation of farmers, it is important for them to understand how the market works. And their objective should be: to be market demand oriented. This means: producing what they can sell instead of trying to sell what they have produced. This implies the importance of farmers understanding demand, supply and price movements/trends.

**Topic: THE MARKET CHAIN AND VALUE CHAIN**

A market chain refers to a set of linkages between actors involved from production to the consumers. Actors are those involved in various functions such as producing, processing, trading or consuming a particular product, and including those who provide various services. Figure 5 shows the functions as the product moves in the market chains with the various business support services.
Step 1. Site Selection, Partnership Building and Working Group Formation

As the product moves from the production point to any point along the chain towards the consumers, there is value addition (i.e. an increase in worth). When various actors work together for value addition, the resulting relationship among the actors is referred to as the value chain.

Farmers as producers are part of the market chain but they are not even aware of this crucial role they have. Helping them to understand market chains and value chains will open their minds that they can benefit by being active players in the chain with other actors.

The Value Chain presents how the value of a product is increased as it passes through different stages or links in the chain by way of the example in Figure 6.
Figure 6. An example of a value chain for calamansi, Siay, Zamboanga Sibugay.

Farmers can gain from active participation in the market chain and in being part of a value chain in two ways.

- First, farmers can perform more value addition functions beyond the farm such as the post-harvest functions of drying, sorting, grading, processing, transporting, packaging with labels. Undertaking these activities is what is called vertical integration.

- Second, farmers can actively be involved in how decisions are made affecting them in the exchange or buy and sell function, such as pricing, terms of payment, definition of quality standards, targeting of preferred buyers and the like. In all these efforts for value addition, farmers have to be organized to have influence in the chain and the capacity to undertake the activities.
The farmers may choose a long or a short chain and how far their participation in it. It depends on the type of product, the capacity of the farmers as well as the risks involved.

**Important Market Chain Actors**

1. **Barangay Traders** – the small traders who visit the barangays to buy either from agents or directly from farmers.

2. **Assembly Traders** – the traders who buy from the barangay traders, agents or directly from the farmers. They are normally operating at the rural markets or towns.

3. **Wholesalers** – the traders who deal with bigger volumes from the barangay and assembly traders. They serve the needs of larger markets (like the processors and institutional buyers) or other bigger wholesalers operating in the towns or cities. They also cater to the retailers.

4. **Retailers** – the ones who take care of the distribution to the products to the consumers. Retailers can be the sellers operating in small shops, roadside market outlet, and the high-end supermarkets.

5. **Processors** – the individuals or firms who transform products into different forms. Examples are the processors for fruit juices or the rice millers. They can either be small household businesses or large firms.

**Topic: MARKETING STRATEGY**

A Marketing Strategy has two interrelated elements: the **Target Market** and the **Marketing Mix**. The target market is a person, group of people or a business organization that the seller wishes to be the buyer of the product. This enables the
seller to focus on a target for both the product and the communication work.

The marketing mix which is commonly referred to as the 4 P’s in marketing, is a set of controllable and interrelated variables comprised of the product, place, price and promotions that the seller puts together to be able to satisfy the target market(s) better than its competitors. The marketing mix is the source of much of the content of the marketing plan.

The marketing mix variables are as follows:

1. Product – refers to the product offered for sale. The type and characteristics of the product will depend on what the target market wants. These questions may help:
   
   • Who buys the product?
   • For what and how will it be used?
   • What does the buyer look for in the product? (quality, size, packaging, and other characteristics)
   • What is unique about the product offered?

The following trends in consumption may serve as additional guide in determining what products to produce and market:

   • Preference for convenience products
   • Preference for natural, organically grown, healthful and nutritious products – fruits, vegetables, low-calorie products
   • Interest in ethnic or regional products (niche / nostalgia)
   • Interest in exotic products
   • Increase in meals outside of home (ready to cook or ready to eat products)
   • Concern for production conditions – social equity, conservation, etc.
2. Price – refers to the amount at which the product is sold, the decision of which is influenced by what the target market can afford and is willing to pay for the kind of product that is being sold. Helpful questions:

- What is the price? What is the payment term and arrangement?
- Is the price competitive?

Main considerations in determining the price offer:

- Production cost
- Marketing cost
- Other costs
- Profit margin
3. Placement or distribution – refers to the channels of distribution or the physical flow of the product from the time it is produced until it is bought. Normal channels include wholesalers, retailers, distributors, etc.

The choice of the channel is influenced by the buying behaviour of the target market because the objective is to make the product conveniently available to the target market consistent with their purchase preference. Helpful questions:

- Where do the buyers normally buy? Why?
- Where do the competitors sell their products?
- Who can help in the transfer in the distribution of the product to the buyer?

Considerations in placement:

- Area covered and supplied
- Transport
- Storage (inventory)
- Channel (players involved)

4. Promotions – refers to the ways and means to build awareness of the product and to improve the demand of the target market. The use of promotion depends on the target markets’ attitudes and behavior. Helpful questions:

- What makes the customers buy the product?
- What makes the customers prefer the product to the competitors?

Some means of promotion:

- Advertisement (informing and persuading)
- PR (good image of product/supplier)
- Sales promotion (discount or sample)
Step 1. Site Selection, Partnership Building and Working Group Formation

- Direct marketing (bringing the product to the potential buyer)

Product and Placement are considered the strategic Ps of the marketing mix because they need long-term planning. Promotions and price which can be changed easily are considered the tactical Ps of the marketing mix.

**Topic: COMPETITION AND MARKET POSITIONING**

Competition is a “given” in marketing, especially when there are good and big markets. It usually happens when many suppliers with the same product have a common market.

Market positioning is making the product offer unique or different in the mind of the target market. This is attained through a good marketing mix, i.e. the best grouping of marketing activities that a seller undertakes to make the market buy the product and at a level where profit is maximized.
2.1 PROCESS OBJECTIVES

Through the help of the Facilitator, Step 2 aims to design and implement Product Supply Assessment that will allow the Working Group (WG) with the community to:

1. Gather information on resources, products, production and marketing practices in the community; and
2. Identify the main products for agroenterprise development and analyze the farmers’ capacity to supply them for the market.

2.2 INTRODUCTION

Engaging in an agroenterprise, or any enterprise for that matter, requires careful analysis, plan and decisions based on realistic, timely, comprehensive and reliable information about the producers, their supply and the market environment. This is where research is most useful.

The research process involves several activities with the participation of farmers and other partners. Working with the participation of the community is critical because the aim is to empower them with the capacity to identify their resources and their market opportunity, and for them to have ownership of the agroenterprise plan which is based on the research findings.

The Facilitator acts as a catalyst, making available the participatory tools as a means for the community’s “learning by doing” process. He/she assists the Working Group (WG) plan the research work which starts at the community level and extends beyond it where marketing-related activities continue.

This Step largely covers two activities, namely: **Product Supply Assessment (PSA)** and **Product Selection** for Agroenterprise Development

2.3 UNDERSTANDING PSA

PSA is a participatory study done at the barangay level on the community’s resources, products, production and marketing practices that have a bearing on agroenterprise planning.
Step 2. Product Supply Assessment and Product Selection

PSA leads to the selection of product or products for agroenterprise development.

As mentioned in the previous step, a WG is organized to handle the PSA. In Step 2, the WG members undergo training on PSA which culminates with planning for its conduct.

Key elements studied in the PSA include:

1. Farm production (farm sizes, land tenure, farm tools/equipment, labor utilization, products, yields, production methods, problems)
2. Marketing practices (farmers’ and buyers’ practices, problems)

The PSA starts with the collection of relevant secondary data, and then proceeds with primary data gathering only as a means to fill up important data gaps.

2.4 COLLECTING PRIMARY DATA

In collecting primary data mainly on production, Focus Group Discussion (FGD) is the method that involves the shortest time and the least cost. (Refer to Facilitator’s Tool Kit No. 2 for tips in conducting FGD.)

FGD is complemented by interviews using a survey questionnaire to collect farmer- or household-specific information. (Refer to Facilitator’s Tool Kit No.2 for a sample of a survey questionnaire.)

Date gathered has to be summarized so they can be easily analyzed by the WG. Collating the information on production and marketing practices can be facilitated by using simple tables. If resources and time allow it, the WG may seek the assistance of a research practitioner in data handling.
FACILITATION GUIDE FOR PRIMARY DATA GATHERING

Collecting Data on Farm Production

The main objective in the PSA is to come up with an analysis on the farmers and their supply capacity. Therefore, it is important to get in-depth knowledge on the farmers so that information for agroenterprise planning will not be too general or vague.

To gain a good understanding on the farmers' current production and marketing practices, including the problems or constraints they perceive or have encountered, the WG conducts a community consultation.

Basic Steps in Arranging and Conducting a Community Consultation by the WG:

1. With the assistance of barangay officials and LGU staff (e.g. the agricultural technicians assigned in the particular barangay), arrange for a community consultation.

2. Prior to the consultation, advise the Agricultural Technologist of the LGU to prepare secondary information on the main products in the barangay and who are producing them. This will facilitate the pre-identification of farmers who will be invited to the consultation.

3. In the community consultation, the WG explains the project’s objectives in terms of agroenterprise development and the purpose of conducting the PSA.

4. Using the FGD method, the Facilitator and the other WG members lead the participants to a discussion on the following topics:
Step 2. Product Supply Assessment and Product Selection

- Farm management practices and crop/livestock production performance
- Production costs and returns (KII with at least 5 farmers before FGD)
- Sources of information/advice related to farming and marketing
- Sources of credit and credit arrangements
- The buyers and the marketing arrangements
- Problems in farm production and in marketing

(See Facilitator’s Tool Kit No. 2 for helpful questions during the FGD.)
For farmer- and household- specific information, a survey is administered among the consultation participants. This is done by the WG or local enumerators (people to conduct the survey) who are enlisted for assistance. Important specific information includes the following:

- crops grown and expected harvest schedules
- areas planted or plant population
- expected yields based on past performance
- previous buyers

These above information are very useful in determining the relevance of the crop during product selection and serve as valuable input to the agroenterprise planning, particularly the formulation of the product supply plan.

(Refer to Facilitator’s Tool Kit No. 2 for survey questionnaire.)

In addition, a Key Informant Interview with five (5) farmers who are knowledgeable about the community and their farming practices can be conducted. The data gathered will provide a benchmark for the cost and returns with information on break-even points (volume and price) that will guide the farmers when they negotiate with the market for their products. On the other hand, the data on cultural management can help the Facilitator in identifying the good practices, gaps and the appropriate interventions.

(Refer to Facilitator’s Tool Kit No. 2 for the sample of questions for the KII and the table on cost & returns summary.)

**Collecting Data on Marketing Practices**

During the consultations, as farmers relate about their present buyers and marketing practices, they will be asked to draw the market chain map showing how their products flow out from their farms to their buyers.
Step 2. Product Supply Assessment and Product Selection

It is mainly a “telling a story” process with this graphic tool that provide details of the buyers involved and their market locations, the distances from the farms to the markets, the packaging and transport means, the prices and the costs, and more importantly, the major problems as they move their products in the market chain.

In this exercise, farmers will expectedly be familiar only with a part of the entire market chain since their products are commonly sold locally. But this exercise is continued to fill in the gaps in the market chain map (i.e. trace the products beyond the community) when the WG can do the market visits in the nearby commercial areas as will be explained in the next step (Market Chain Study).

2.5 SELECTING THE PRODUCT FOR THE MARKET

From the products identified in the PSA through FGD and the survey, the WG proceeds to select one to three among them which are produced mainly for income and those that are produced by the majority of the farmers.

Working with existing products at the start for new or inexperienced groups offer these advantages:

1. The WG can delve on priority options in a relatively shorter timeframe

2. Farmers are already familiar with the production technology, thus, can focus more on marketing aspects

When new products will be chosen, usually when they have more capacity to venture into new enterprises, it is important for the WG to set evaluation criteria. Important considerations in choosing new products are as follows:
### Step 2. Product Supply Assessment and Product Selection

<table>
<thead>
<tr>
<th>Area of consideration</th>
<th>Key Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Is there a favorable market? (i.e., continuing and/or growing market demand)</td>
</tr>
<tr>
<td>Production</td>
<td>Can we produce it? (i.e., agro-climatic conditions relative to the production requirements)</td>
</tr>
<tr>
<td>Financial</td>
<td>Do we have financial resources to produce it? Will it be profitable relative to investment? Is the level of risk appropriate to the farmers?</td>
</tr>
</tbody>
</table>

In selecting new products, it is important that the decision making is participatory because the choice should be based significantly on the participants’ own experiences, capacities and risk assessment.

A tool to guide farmers to assess risk relative to their decision on new products and markets is the Product-Market Growth Matrix also known as the Ansoff Matrix (Figure 7).

In the Matrix, risk is shown to be lowest at Box 1 (Market Penetration) and highest at Box 4 (Diversification). Evaluation done above based on demand and profitability is often associated also with high risk options. It is advisable for farmers to start with existing products based on Market Penetration strategies.

When they have more experiences and more resources, they can proceed to higher risk options that bring the potentials of higher returns.
#### Step 2. Product Supply Assessment and Product Selection

**Figure 7.** The ANSOFF Matrix used in assessing risks when deciding for new products and markets.

<table>
<thead>
<tr>
<th></th>
<th>Existing Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Low Risk</strong></td>
<td>1 (Market Penetration)</td>
<td>3 (Product Development)</td>
</tr>
<tr>
<td><strong>New Markets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>High Risk</strong></td>
<td>2 (Market Development)</td>
<td>4 (Diversification)</td>
</tr>
</tbody>
</table>

**ANSOFF MATRIX**  
*(SOURCE: CIAT, 2006)*
Step 2. Product Supply Assessment and Product Selection

Facilitator’s Tool Kit No. 2

INFORMATION TO BE GATHERED BY FGD

1. What are the three (3) main products in the barangay? (Note: Ranked according to the most number of producers)
2. Where do you avail credit and what are the arrangements in financing?
3. Who are the main buyers of the products mentioned? (Note: From within and outside the barangay)
4. Do you have problems with production?
5. Do you have problems with marketing?

TIPS IN CONDUCTING FGD

1. For effective handling and documentation, the number of participants should not exceed 15, if possible.

2. Group the participants according to dominant products in the community (i.e., the products that give the highest economic values to the farmers). These focus groups are referred to as the crop assemblies. The advantage of a crop assembly is that the discussions are more focused on a particular product and analysis is more easily facilitated.

3. Using a prepared set of guide questions, facilitate discussions and keenly note and record responses.

4. Synthesize the proceedings focusing on their strengths and their constraints (weaknesses) that will need to be addressed for effective product supply in the joint marketing in the future.
## STEP 2. Product Supply Assessment and Product Selection

### INFORMATION TO BE GATHERED BY KII WITH SELECTED FARMERS

Name of Farmer  
Location  
Product  
Area  
Crop Period

1. **Crop Management**
   
1.1. **Nutrient Management**

<table>
<thead>
<tr>
<th>Kind of Fertilizers</th>
<th>Quantity (unit/tree)</th>
<th>Application Frequency Per Year</th>
<th>Schedule of Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical (Inorganic)</td>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic/Natural Method</td>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.2. **Crop Protection Against Pests and Diseases**

<table>
<thead>
<tr>
<th>Kind Used</th>
<th>Quantity (unit/tree)</th>
<th>Application Frequency/Year</th>
<th>Schedule of Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical</td>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organic/Natural Method</td>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.3 **Soil and Water Conservation Practices**

<table>
<thead>
<tr>
<th>Technology/Practice</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
</tr>
</tbody>
</table>

1.4 **Other Farm Technologies and Practices:**

<table>
<thead>
<tr>
<th>Kind of Technology/Practice</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
</tr>
</tbody>
</table>

2. Do you have problems with your product?  
   ___ 1. Yes  ___ 2. None
Step 2. Product Supply Assessment and Product Selection

3. If yes, what are your problems?________________________

4. Summary of Cost and Returns per crop production cycle:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (PhP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>Hired</td>
</tr>
<tr>
<td></td>
<td>Family</td>
</tr>
<tr>
<td>Inputs</td>
<td></td>
</tr>
<tr>
<td>Equipment Rental</td>
<td></td>
</tr>
<tr>
<td>Marketing Costs</td>
<td>Packaging</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
</tr>
<tr>
<td>Loan Interest</td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td></td>
</tr>
<tr>
<td>TOTAL COSTS</td>
<td></td>
</tr>
<tr>
<td>Yield</td>
<td></td>
</tr>
<tr>
<td>Sales (Yield x Price)</td>
<td></td>
</tr>
<tr>
<td>NET INCOME (Sales – Total</td>
<td></td>
</tr>
<tr>
<td>Costs)</td>
<td></td>
</tr>
</tbody>
</table>

SAMPLE OF A SURVEY QUESTIONNAIRE

SURVEY AMONG COFFEE FARMERS
IMPASUGONG, BUKIDNON

1. Personal Information

   1.1. Name of respondent________________________ 1.2. Age_____
   1.3. Name of spouse___________________________ 1.4. Age_____
   1.5. Residence (address)________________________
   1.6. No. of years in residence: ______
   1.7. Number of children_____
   1.8. Total number of household members (including farmer) ______

2. Information on Land, Tools and Farming

   2.0 How many farmlots are you cultivating (owned, rented, leased, others)?   _____
Step 2. Product Supply Assessment and Product Selection

2.1. Information on Land

<table>
<thead>
<tr>
<th>Lot</th>
<th>Location</th>
<th>Area (ha)</th>
<th>Dominant Slope?</th>
<th>Land Status?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.2. Farm Tools Owned:

<table>
<thead>
<tr>
<th>Kind</th>
<th>Quantity</th>
<th>Kind</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Draft Animal</td>
<td></td>
<td>6. Weeder</td>
<td></td>
</tr>
<tr>
<td>3. Harrow</td>
<td></td>
<td>8.</td>
<td></td>
</tr>
<tr>
<td>5. Sprayer</td>
<td></td>
<td>10.</td>
<td></td>
</tr>
</tbody>
</table>

2.3. Number of years in farming? _____ years

2.4. Crops planted? Ranking: 1. _________ 2. _________ 3. _________

3. Coffee Information

3.1. Area planted to coffee? _________ (hectare)

3.2. Total number of coffee trees? ________________

3.2.1. Number of coffee trees bearing?___________

3.2.2. Number of non-bearing coffee trees?___________

4.1.1.1 For bearing trees, what is the average yield (kg) per tree? _____

4.1.1.2 How many times do you harvest in one cropping season? ____

4. Marketing

4.1. Over the past 12 months, what is the quantity of coffee sold?

4.2. Quantity of Coffee Beans Sold the Past Year

<table>
<thead>
<tr>
<th>Month</th>
<th>Quantity Sold (In kg)</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Step 2. Product Supply Assessment and Product Selection

4.3 Source of Capital

<table>
<thead>
<tr>
<th>What is your capital source?</th>
<th>How much?</th>
<th>Purpose of Loan?</th>
<th>Terms of Payment?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Own</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Financier (name:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Trader (name:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Bank (name:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Others (specify:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4. Buyer

<table>
<thead>
<tr>
<th>Who were your buyers?</th>
<th>Address?</th>
<th>Place of delivery?</th>
<th>Type of buyer?</th>
<th>Reason for choosing the buyer? Indicate Code*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Code – reason for choosing the buyer:
1. High price 3. Usual buyer (suki) 5. Others (specify
2. No other buyer 4. Have loan with the buyer (pay to crop)

4.5. Method of Selling

4.6.1 Packaging
4.6.2 Mode of delivery (delivered or picked up)
4.6.3 If delivered, method of transportation
  4.6.3.1 Point of delivery?
  4.6.3.2 How much is the transport cost?
4.6.4 How much is the labor cost (loading/unloading)
4.6.5 Mode of payment (cash, installment, others)

5.0 Problems in Marketing

5.1. Do you have problems in marketing? 1. Yes 2. No

If yes, what are your problems? __________________________

________________________  __________________________
Interviewer               Date
Step 3. Market Chain Study

3.1 PROCESS OBJECTIVES

Using the rapid market appraisal method, the Facilitator together with the WG shall:

1. Conduct a market chain study for the products selected during the PSA;
2. Identify several market chains for each product and analyze the farmers’ position in them;
3. Select the best market chain(s) to work on and the buyer(s) that offer the most benefits;
4. Come up with strategies to assist the farmers participate in specific market chain(s) with the attendant costs and margins in their participation, as well as the development support they will need; and
5. Report the findings back to the farmers for goal setting in agroenterprise development

3.2 INTRODUCTION

Having selected product(s) for agroenterprise development (Step 2), the next activity is market chain analysis which is done to get in-depth market-related information on the chosen product(s). Some definitions will help simplify the understanding on market chain analysis.

Market Chain

Market chain refers to a set of linkages between actors involved from production through processing, distribution and retailing to the consumers. Actors are those involved in producing, processing, trading or consuming a particular agricultural product, and including those who provide various financial and non-financial support services such as the truckers, suppliers (inputs, packaging materials, etc.), market research groups, and others. See Figure 8 for an example of a market chain.

Farmers produce and sell products but are not even aware that in doing so they are a crucial part of the market chain. This lack of understanding constrains them to recognize and carry out their position in the chain (i.e., how they perform, what their advantages and constraints are, and what their opportunities are if they “engage” the market or work together with other actors in the product movement).
Value Chain

As a product moves from the production point to any point along the chain towards the consumer, there is addition of value or worth. Technically, this is known as value addition.

When the actors involved work together for value addition (i.e., to increase efficiency and quality of product supply, satisfy market needs, and as a result, earn more), the resulting relationship is referred to as the value chain.

Helping farmers understand market chains will open their minds to new knowledge that will empower them. It points at the opportunities they can tap or constraints they can address to strengthen their position in the market chain, and gain stable markets and/or higher incomes.

The objective of market chain analysis is to understand the actors, activities, costs and margins, constraints and
opportunities related to the movement of the product starting with the farmers and ending with the buyers and/or consumers. These information help in the identification of the best market chain to work on, and the key buyers for the farmers. Thus, market chain analysis is an activity for strategic thinking in designing agroenterprises.

### 3.3 RAPID MARKET APPRAISAL

Rapid Market Appraisal or RMA is the most practical, popular and preferred approach to market chain studies. Based on its user-friendly qualities, RMA is defined as a quick, flexible and effective market research method.

**Advantages of RMA:**

1. **Quick** (uses rapid appraisal methods: focus groups, key informant interview, semi-structured interview)
2. **Flexible** (RMAs can be designed according to purpose and resources)
3. **Effective** (can generate detailed understanding of marketing systems, including constraints and opportunities, leading to design of interventions)

**Limitations of RMA:**

As a quick process, the findings of RMA may apply only to its defined purpose. Seasonality of relevant factors cannot be captured owing to its very short time frame.

Relying on key informants, the results are largely dependent on the openness and active participation of prospective groups or participants. It will matter if there will be a good and skillful facilitator and a good documenter for the activities.
3.4 FACILITATION GUIDE FOR THE RAPID MARKET APPRAISAL

Facilitate the following activities in the conduct of RMA by the WG:

1. Design of the study
2. Implementation of the study
3. Analysis of data and information
4. Options for farmers and development support needed
5. Report writing

Activity 1. Design of RMA-Market Chain Study

In the PSA, most of the marketing-related information gathered by the WG from the farmers are confined to the immediate vicinity of the community. The Market Chain Study links the market data in PSA with relevant industry and buyer information beyond the community.

1. Create a RMA-Market Chain Study Team with members coming from WG earlier formed in Step 1. A good size is at least 10, two-thirds (6-7) of which are farmers. Subdivide the Team into smaller groups of 3-4 members each to share the market chain study activities.

Depending on the complexity of the market chain being studied or the extent of geographical coverage of the study, the team may invite a marketing practitioner who possesses the following:

- Exposure or experience in market research
- Technical knowledge (including production, post-harvest and processing issues)
- Contacts in the trading community
Then the RMA Team will:

2. List down possible key issues for investigation in RMA/Market Chain, such as but not limited to:

- Product characteristics (variety, grade, moisture, and other quality specifications)
- Demand patterns (growth and seasonality)
- Supply situation (origin, production volume, seasonality of supply)
- Price (trends)
- Actors in the chain (market channels) and their activities
- Marketing infrastructure (roads, market places, facilities, communication)

3. Review available literatures or get secondary data to clearly identify gaps that need to be filled in by primary data.

The following are the possible sources of secondary information for the study:

<table>
<thead>
<tr>
<th>Offices</th>
<th>Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>• LGUs (barangay, municipal &amp; provincial)</td>
<td>• Newspapers</td>
</tr>
<tr>
<td>• DA (including BAS and AMAD)</td>
<td>• Reports</td>
</tr>
<tr>
<td>• DTI</td>
<td>• E-publications (internet)</td>
</tr>
<tr>
<td>• NSO</td>
<td>• Socio-economic profiles</td>
</tr>
<tr>
<td>• NGOs</td>
<td></td>
</tr>
<tr>
<td>• Academe &amp; research institutions</td>
<td></td>
</tr>
<tr>
<td>• Industry associations</td>
<td></td>
</tr>
</tbody>
</table>

4. Select markets and key informants

For primary data gathering, the RMA / Market Chain Study team must start with the five most mentioned community traders in the PSA and trace their
immediate buyers to be included as informants in the individual interviews. Because of their influence in their marketplace, make sure to include the top five buyers in the nearest commercial center.

Augment the activity with interviews with the various points in the chain of the products identified in the PSA to capture information at different points of the market chain. Get at least two informants at each point and cross check answers.

5. Prepare a checklist of questions or process guides

Prepare appropriate set of questions or process guides for key informants/interviewees to elicit respective information outlined below:

<table>
<thead>
<tr>
<th>Respondents/Informants/Actors In Market Chain</th>
<th>Data/Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Wholesalers</td>
<td>• Product requirements with the quality specifications</td>
</tr>
<tr>
<td>• Retailers</td>
<td>• Supply sources</td>
</tr>
<tr>
<td>• Institutional buyers</td>
<td>• Destination of products</td>
</tr>
<tr>
<td>(processors, supermarkets, food service</td>
<td>• Experiences in demand &amp; supply movements</td>
</tr>
<tr>
<td>establishments)</td>
<td>• Prices</td>
</tr>
<tr>
<td></td>
<td>• Marketing practices</td>
</tr>
<tr>
<td></td>
<td>• Marketing costs</td>
</tr>
<tr>
<td></td>
<td>• Support services</td>
</tr>
<tr>
<td></td>
<td>• Support infrastructures</td>
</tr>
<tr>
<td></td>
<td>• Openness to buy directly from farmers</td>
</tr>
</tbody>
</table>

The information outlined above are presented in a more detailed interview guide.

(Refer to Facilitator’s Tool Kit No. 3 for the interview guide in English and in Filipino.)
Step 3. Market Chain Study

Activity 2. Implement the RMA - Market Chain Study

1. Prepare for data gathering

   a) The RMA Team may break up into smaller teams of 3 members each (1 of them is a farmer) for efficiency.

   b) Assign each member a role during the interview process (main interviewer, assistant interviewer who makes sure that all questions are covered, and recorder of responses)

   c) Check all tools: checklists or interview/discussion guides, pen/pencil, notebook, tape recorder, camera, registration or attendance sheet, and other necessities.

   d) Rehearse or familiarize with the interview questions and the manner of recording the responses before the actual market visit and data gathering.

2. Gather the information

   a) Semi-structured interviews with key informants (traders/ retailers/ Institutional Buyers, processors, supermarkets, food service establishments)

   b) Trace the product flow from the farmers to the intended buyers for information needed for the Market Chain diagram.

   The RMA team will get data on costs and margins by direct observation and informal interview of key informants (traders and the service providers like the transporters) during the tracking of activities as the product moves in the market chain.
Step 3. Market Chain Study

In the of product flow, the RMA takes note not only of the market chain that gives the highest returns to the farmers but also the work that the farmers need to undertake with the additional costs involved as well as the risks when they decide later to take a more active participation in the chain.

3. Cross-checking data and information

To ensure the reliability of the data that the team is gathering, the members should ask the same set of questions to informants within and at different stages of the market chain then check the consistency of answers. The RMA team can also observe the behavior or practices (such as post harvest handling, sorting and grading and storage technologies) and analyze the process as the product flows to the various actors in the chain.

Activity 3. Facilitate the analysis of RMA data and information by the RMA Team

Tools and Methods for Analysis

1. Illustration of the Market Chain Map

This gives a picture of the elements of the market chain, such as the producers, post-harvest handlers, consolidators, traders, buyers, processors, retailers and consumers. See Figures 9 and 10 for examples.
Step 3. Market Chain Study

Figure 9. Market chain map drawn from a corn market chain study using the RMA.

Figure 10. Market chain map drawn from a vegetable market chain study using the RMA.
2. Value chain (margins along chains)

As shown in Figure 11, expenses are incurred as the product moves from one point to another along the chain. These have to be considered so as to be able to determine later the possible or actual margin like the one reflected in Figure 12.

![Figure 11. Example of a value chain for dried coffee beans.](image)

![Figure 12. Another way of presenting the margins along the chain.](image)
3. **Buyer comparison for market opportunity assessment**

A buyer comparison table provides information about buyers and their conditions and requirements. It gives the grower an idea on where to sell products for maximum profit.

Market chain study must be designed well to really include all relevant buyer information to guide decisions and production plan of farmers.

A buyer comparison matrix like the one shown in Figure 13 is used to guide the WG in deciding which buyer can offer the best value. This can still be improved or enriched to include information such as quality index (like moisture content), frequency, preferences for organic or inorganic products, and prescribed packaging.

![Figure 13. Matrix for Buyer Comparison summarized by the farmers after market survey and visits.](image)
Table 3: Sample matrix used in comparing the values offered by buyers. (Derived from Figure 13.)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Nestle</th>
<th>Trader 1</th>
<th>Trader 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact information</td>
<td>Davao City</td>
<td>Davao City</td>
<td>Nabunturan</td>
</tr>
<tr>
<td>Growth in demand</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Time of year scarce</td>
<td>May-Oct</td>
<td>May-Oct</td>
<td>May-Oct</td>
</tr>
<tr>
<td>Price/kg</td>
<td>G1 P54.00</td>
<td>P48.00</td>
<td>P44.00</td>
</tr>
<tr>
<td></td>
<td>G2 P52.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>G3 P50.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality required</td>
<td>Less than 12%</td>
<td>All in</td>
<td>All in</td>
</tr>
<tr>
<td></td>
<td>Triage, Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>than 12% MC,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>acceptable</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>cup taste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery Needs</td>
<td>Delivery</td>
<td>Delivery</td>
<td>Delivery</td>
</tr>
<tr>
<td>Volume purchased/week</td>
<td>No limit</td>
<td>No limit</td>
<td>No limit</td>
</tr>
<tr>
<td>Minimum Purchase Volume</td>
<td>1 kg</td>
<td>1 kg</td>
<td>1 kg</td>
</tr>
<tr>
<td>Packaging Required</td>
<td>Sacks</td>
<td>Sacks</td>
<td>Sacks</td>
</tr>
<tr>
<td>Largest Buyer for this product</td>
<td>Nestle</td>
<td>Nestle</td>
<td>Nestle</td>
</tr>
<tr>
<td>Frequency of Purchase</td>
<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
</tr>
<tr>
<td>Terms of Payment</td>
<td>Claim from bank</td>
<td>Cash</td>
<td>Cash</td>
</tr>
<tr>
<td>Interested in buying from a Farmers Group?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
4. **Price trends**

Price trends traced from and to a particular time can be interestingly presented using graphs. This set of information will guide farmers in preparing their production plans as determined by expected or projected price, and as affected by the agro-climatic condition at a particular time.

Figure 14 presents a price trend for coffee in a 1.5 year period.

![Nestle Coffee Buying Price Jan '06-Jun '07](image)

**Figure 14.** A graph of the Nestle Coffee Buying Price over a 1½-year period.

5. **Projections on marketing costs & returns based on buyer comparison**

Based on the PSA and the Market Chain Study information, the farmers are guided to make financial projections if they undertake the marketing. This will help the farmers choose the buyers they will connect
Step 3. Market Chain Study

to in the marketing, and what it means in terms of price and net incomes for them in the marketing.

Figure 15 shows the projections made by a cluster on the marketing costs and returns for coffee with a number of identified buyers.

![Figure 15. Projected Marketing Costs & Returns from Various Buyers in the Coffee Market Chain.](image)

Activity 4. Options for Farmers and Development Support Needed

To facilitate the agroenterprise planning by the clusters of farmers (refer to Steps 4 and 5), the RMA team with the WG shall summarize the options that farmers can undertake to strengthen their position in the market chain and increase incomes.

Options for farmers to increase income can come from:

- Better price with the choice of a better market in the supply chain
- Higher price with product quality management (i.e. sorting, good packaging that will give the buyers less
Step 3. Market Chain Study

damage and higher recovery, thus warrants their giving a higher price, etc

- Good organization of farmers and buyer’s trust in their delivery and quality reliability
- Good management of production related activities such as good product quality from the field, minimal deterioration during harvest, more efficient use of inputs and labor, thus lowering costs, etc.
- Good management of market related activities such as procurement and distribution of packaging of materials, better packaging, transport, receiving and invoicing, etc.
- Favorable program and policies (e.g. infrastructure development support from the local government)

These will be the basis for the development interventions to be extended to them. These interventions can include:

- Technology innovations that strengthen improve production yields and quality, lower production costs, provide value added opportunities and specific points in the market chain
- Enterprise design, implementation and management assistance
- Organizational mobilization through cluster formation
- Various areas of business support such as market information, extension services, market linkage, etc.

Activity 5. RMA- Market Chain Study Report

A concise report on the results of the PSA and the Market Chain Study must be prepared and presented to the farmers as input to agroenterprise planning (Step 5). The whole write-up should not take more than 10 pages and should revolve on the two main analyses of market opportunity and how the farmers will take advantage of them given their product supply capacity, assets and constraints.
The RMA team leader spearheads the report writing work, putting clear emphasis on the following minimum parts and topics:

I. Background
   A. The farmers’ project, objectives, the site and the development partners
   B. Rationale for the PSA and Market Chain Study

II. How the Study Was Conducted
   A. PSA
   B. Market Chain Study
   C. Methods and Tools
      • Direct observation
      • Semi-structured interviews
      • Focus groups
      • Formal questionnaires (if applicable)

III. Results
   A. Product
      • Product features
   B. Demand analysis
      • Market types/size,
      • Demand conditions and prospects
      • Market opportunities by market type
      • Volume Trends
   C. Supply analysis
      • Supply sources
      • Principal supply channels and constraints
      • Supply Trends
      • Production conditions (technology, costs, etc)
   D. Prices and margins
      • Price trends
      • Margin analysis (gross, net and break-even)
   E. Principal Market Chain and the most promising buyers
   F. Strengths, weaknesses, opportunities and threats (SWOT) related to production and marketing
      (See Facilitator’s Tool Kit No. 3 for a sample of SWOT analysis.)

IV. Strategies for the farmers
V. Conclusions
A. CONDUCTING A KEY INFORMANT INTERVIEW (KII)

Information to be gathered by KII:

1. Demand-Supply conditions
   • Seasonality and price responses

2. General Business Information
   • Type of business, kinds of activities handled (vertical integration done?)

3. Pricing Mechanisms
   • Months of lowest price and highest price over the past 12 months
   • Months of lowest demand and highest demand over the past 12 months
   • Months of lowest supply and highest supply over the past 12 months
   • Quality /Grading
   • Procurement Practices (terms, frequency, source)

4. Trading Information
   • Products handled
   • Purchase Data over the past 12 months, (purchase frequency, volume/purchase, month of highest purchase, month of lowest purchase, highest purchase price, lowest purchase price)
   • Source of Products (suppliers, who is the preferred source and why)
   • Procurement Practice (method of procurement – suppliers come or go to source, Mode of purchase – picked up or delivered? Manner of payment – cash or terms)
   • Basis of Buying Price (prevailing, quality specs, time and season, credit obligation from supplier)
Step 3. Market Chain Study

- Market Outlets (who are the outlets for his/her traded products, type of outlet, reason for choice of outlet, location)
- Selling Practice (price, volumes, grading/standardization done before selling)

5. Marketing Investments (Facility/Equipment and Capacity)

6. Market Share Protection (provides financing, undertake own production, give price incentives, months of lowest demand and highest demand over the past 12 months)

7. Openness to future supply/volume in the next 12 months (what products and what estimated volume requirements, frequency of supply)

8. Problems Perceived and/or encountered in his/her marketing business

Tips on conducting KII:

1. Introduce yourself and your organization.
2. Be clear about the purpose and timing of the interview.
4. Be friendly and relaxed, use humor.
5. Ask simple and clear questions.
6. Follow a logical sequence.
7. Avoid leading questions.
8. Ask most sensitive questions last.
9. Be prepared to listen and learn.
10. Engage the respondent (don’t be afraid to challenge the accuracy of the information provided, use diagrams to assist discussions).
11. Investigate new areas of interest as they arise.
12. Avoid very lengthy interviews, follow up if necessary.
13. Use the information to improve the next interview.
Sample of a Buyer Interview Guide

<table>
<thead>
<tr>
<th>English</th>
<th>Filipino</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is your name?</td>
<td>1. Ano ang inyong pangalan?</td>
</tr>
<tr>
<td>2. What is your complete address?</td>
<td>2. Ano ang inyong address?</td>
</tr>
<tr>
<td>3. What is your cell phone and landline number?</td>
<td>3. Ano ang inyong cellphone at landline number?</td>
</tr>
<tr>
<td>6. What container is appropriate?</td>
<td>6. Anong ang maayos na paglagyan ng produkto?</td>
</tr>
<tr>
<td>7. How much is your buying price at present? How much was the highest and the lowest price you offered or gave in the past 12 months?</td>
<td>7. Magkano ang bili ninyo ngayon? Magkano ang pinaka mataas na presyo na presyo ng nakaraang 12 na buwan? Ano naman ang pinaka mababa?</td>
</tr>
<tr>
<td>8. What is the payment arrangement, cash or terms? If “in terms”, how long?</td>
<td>8. Paano ang bayaran? Cash o terms? Kung terms, gaano katagal (ilang araw, linggo, buwan)</td>
</tr>
<tr>
<td>9. Do you pick up, or is the product delivered to you?</td>
<td>9. Pick-up po ba o delivery?</td>
</tr>
<tr>
<td>10. What is the minimum and maximum volume that you buy at a time?</td>
<td>10. Gaano karami and kaya ninyong bilhin? Gaano kakonti naman ang pwedeng ibenta sa inyo?</td>
</tr>
<tr>
<td>11. Where do you sell the product?</td>
<td>11. Saan ninyo ibinebenta and producto?</td>
</tr>
<tr>
<td>12. In the past 12 months, what were the 3 months of highest demand from your buyer?</td>
<td>12. Anong buwan and pinaka maraming kailangan ang inyong buyer?</td>
</tr>
<tr>
<td>13. In the past 12 months, what are the 3 months of lowest demand from your buyer?</td>
<td>13. Anong buwan and pinaka kaunti na kailangan ang inyong buyer?</td>
</tr>
<tr>
<td>15. Would you be interested to buy from us?</td>
<td>15. Interesado ka bang bumili mula sa amin?</td>
</tr>
</tbody>
</table>
TO THE TEAM: Through direct observation, note down the facilities, equipment other assets used by the buyer in marketing, as well as the marketing set up and operations, that can be indicative of the buyer’s capacity.

B. CONDUCTING SWOT ANALYSIS

Below is a portion of a report on a SWOT Analysis conducted for the Coffee Clusters in Maragusan, Compostela Valley. The report shows the strengths, weaknesses, opportunities and threats inside and outside of the enterprise. These served as bases in determining marketing strategies and the development interventions.

This sample report can serve as guide in conducting SWOT Analysis

---

**SWOT Analysis**
**Coffee Cluster**
**Maragusan, Compostela Valley**

Objective: Grade 1 Green Coffee Beans sold directly to Nestle Philippines, Inc., Davao City Buying Station

**Strengths**

- Maragusan used to be a major coffee-producing area in Southern Mindanao and farmers have been growing coffee for several decades
- Coffee trees grow well in the municipality due to its high elevation and cool climate
- Absence of typhoon
- Farmers are predominantly self-financed, they can decide on their product independently because they are not tied up with the traders
### Weaknesses

- Coffee is a seasonal crop- farmers neglect their coffee trees and tend to it only when they are about to bear fruits
- Poor quality as farmers seldom practice selective harvesting of berries thus producing low-quality beans
- Coffee trees are old- most of them are more than 10 years and fruiting has started to decline
- Difficulty in drying beans due to high rainfall especially during months of coffee harvesting
- Lack of drying facilities
- Minimal agricultural extension services that can inform the farmers on the proper management, harvesting and processing of coffee

### Opportunities

- Domestic consumption and local demand for coffee is constantly increasing thus prompting the major instant coffee producers to import from Vietnam & Indonesia
- There is an increasing demand for brewed coffee which is spurred by the growing specialty coffee shops and processors
- Farmers can be taught to harvest their berries selectively to improve the quality of their product and thus fetching higher prices from their buyers, and to rejuvenate their ageing coffee trees
- Opportunity for the farmers to plant the higher value variety of coffee (Arabica) due to its high elevation requirement
- The biggest coffee buyer in the Philippines is providing free training on coffee production and processing and has a multitude of coffee buying stations nationwide
- There is a development project (CRS- assisted in partnership with Kasilak Development Foundation, Inc.) that currently assists the farmers in conservation farming by way of proper land use.
Step 3. Market Chain Study

Threats

- Coffee farmers have begun to convert their coffee areas into short-term crops such as corn, rootcrops and vegetables to finance their daily needs.
- The recent price slump (early 2000s) of the global coffee prices has discouraged traditional coffee farmers and forced them to look for other profitable crops.
- Because it is the second most traded commodity in the world, coffee prices are subject to sudden and dramatic price fluctuations in a short period of time.
- Coffee trading in the municipality has been handled by a handful of traders which have been buying ‘all-in’ at one price regardless of quality and moisture content- which de-emphasizes the need for better quality.

Marketing Strategies

1. Introduce and emphasize the need for value-adding activities such as selective harvesting, sorting and proper drying to the farmers.
2. Sell to Nestle through its Coffee Buying Station to earn bigger margins for the farmers.
3. Identify other buyers near the Nestle Coffee Buying Station which can absorb the coffee beans which may be rejected.
4. Identify other higher-value markets which may be interested in procuring good quality beans directly from the farmers.

Suggested Development Interventions

1. Introduce the clustering strategy in marketing so that the farmers can acquire capability to meet the requirements of the market for quality deliveries.
2. Organize farmers into clusters so that they can be grouped effectively to consolidate product volume and to immediately address market feedback.

3. Extend trainings and exposure related to marketing.

4. Work on the quality management program starting at the field and up to post-harvest, with the Agri-extension component. Avail of the free training provided by Nestle to enhance the cultural management and post-harvest practices of the farmers;

5. Provide assistance in market opportunity identification, business planning and in the actual run of the first marketing moves.

6. Install basic operating systems (i.e. recordings, financial management, delivery monitoring, etc).

7. Provide assistance in market linkage to both the wholesalers and the processors market.

8. Extend business coaching especially in the first marketing activities so that critical gaps are immediately addressed and the marketing project can take off.
Step 4

Cluster Formation

4.1 PROCESS OBJECTIVES

Through competent facilitation, the Facilitator with the Working Group can:

1. Present the findings of the PSA and Market Chain Study;
2. Provide marketing basics and orientation on the clustering method of business organizing to the farmers;
3. Provide farmers with informed choices by discussing the benefits of clustering as a business group;
4. Facilitate the formation of agroenterprise clusters and leader identification, as well as the cluster basic agreements.

4.2 INTRODUCTION

Clustering is a general term that refers to the goal-oriented cooperation of stakeholders in an industry. In 1999, the government through the Department of Trade and Industry (DTI) introduced industry clustering as a development strategy to build industries at the sub-regional and regional levels (e.g. food production industry in the province of Bukidnon, fisheries and eco-tourism in the Panguil Bay area in Region X). This strategy was conceived as a response to the challenge of competition resulting from globalization that allowed the open movement of products across geographical boundaries.

Four years after, the vegetable industry association in Region X called the Northern Mindanao Vegetable Producers Association Inc. (NorminVeggies) adopted the clustering strategy focusing on the cooperation among the small and medium scale producers for a strategic move towards high value markets like supermarkets and fastfoods. Thus, NorminVeggies called its vegetable clusters as marketing clusters. In this endeavor, NorminVeggies received competence enhancing support from its partners: the DA, DTI and the GEM-USAID.

In 2005, CRS-Philippines studied the NorminVeggies experience on clustering. Its lessons on market and industry moves were valuable but CRS project implementors saw the importance to undertake the basic work first. This is the adequate preparation of farmers so they will be ready to engage the market in the first place. This has not been easy given the farmers’ challenges: poor productivity, infrastructure
gaps, poor logistical capabilities, a lack of understanding on how markets work, fragmented locations and farming activities. All these problems impede on the farmers’ ability to effectively participate in the market and gain from the clustering method of market organizing.

In undertaking the SFMP, CRS-Philippines tried out innovative development interventions guided by the NorminVeggies experience and by the informational materials drawn from the CRS-SEAPRO and CIAT Learning Alliance. It achieved a promising process in farmers organizing appropriate to their circumstances for market preparedness and effective market participation. And it called the farmer clusters formed as agroenterprise clusters.

### 4.3 AGROENTERPRISE CLUSTERING

#### 1. The Starting Point: Motivating Farmers for Collective Action

Organizing farmers for collective marketing is a decision that should result from a need felt by farmers to work together for a common market. It should not be imposed on them. The Facilitator’s task is to organize farmers into clusters and empower them to carry out collective marketing, not to be the one to undertake the marketing for them. The first step towards this process is for them to understand the benefits of working together in a joint marketing enterprise.

Participatory involvement through a consultation attended by farmers producing the selected products is conducted. In the consultation, the PSA and the market chain study results are presented to them by the WG, highlighting the analysis and options for improvements that bring income increase.

Discussion follows wherein the Facilitator points out how it is not possible to take advantage of and benefit from the market
opportunities if the farmers are not organized, and to explain how the group needs to organize itself to carry out whatever plan it will come up with.

This discussion sets the stage to introduce the approach of organizing agroenterprise clusters that will be the vehicle of farmers to strengthen their position in the market chain and gainfully participate in marketing.

2. What is Clustering?

Farmers often help one another be it in farm activities like planting and harvesting, or in the exchange of information about how best to grow their crops and who their buyers are, and also in social activities like the celebration of a feast day. These are good starting points of cooperation but they need to be carried further to bring them the advantages in the markets.

The type of cooperation where farmers are organized into small groups or clusters and actually consolidate their products, coordinated with a common plan, and directed at the agreed market(s) is what is referred to as agroenterprise clustering.

An agroenterprise cluster is a small group of individual farmers who, under a shared agroenterprise plan, commit to work together for collective marketing.

This definition presupposes that the farmers in a cluster bring not just their person into the group but also their products because in a cluster, they are formed as a product supply unit for an identified market(s). And they come together to actualize their business potentials through collective action.

A cluster may come from a sitio (sub-village), barangay (village), or municipality. At these levels, the clusters can seek interventions in the local economy for problems and bottlenecks in their production and marketing activities. When
clusters join for linkage at the municipal or even provincial level, they can impact not only on temporary or village based agroenterprise related issues but also on policies and programs that will have long term and encompassing benefits in the environment where clusters undertake their business.

4. Types of Agroenterprise Clusters

One product cluster

As the name implies, this type of cluster commits to the joint marketing of one product. An example is the Coffee Cluster of Impasugong in Bukidnon.

Diversified product cluster

This type of agroenterprise cluster handles the marketing of two or more commodities produced by the cluster members and combined for the needs of buyers. One good example is the Diversified Vegetable Cluster of Maragusan, Compostela Valley that is a preferred supplier of the assorted vegetable needs of a supermarket.

5. Cluster Size

Based on experience, successful collective marketing is generally carried out by a cluster of five (5) to 15 members. For the collective marketing to succeed, all the farmers should meet regularly to discuss their problems and plan for the future. The bigger a group is in a meeting, the more difficult it is to ensure that everyone’s voice is heard.

The advantage of small groups is that the members can be gathered more easily, and they can get to know the group members well. It is recommended therefore that in most cases, the membership of a cluster is kept at below 20.
Farmers need to be able to talk regularly with each other and to establish the essential trusting environment among cluster members that have a big bearing on whether they will also entrust their products into the joint marketing. In the case of 30 farmers in a barangay for example who want to form a cluster, it is recommended that the 30 farmers will be organized into two (2) clusters.

6. Features of an Agroenterprise Cluster

- A cluster can be composed of 5-15 members from the same sitio or barangay.
- The cluster is product based and is a product supply unit.
- A cluster is headed by a cluster leader. The cluster can opt to choose also an assistant cluster leader, a secretary and a treasurer.
- The cluster is guided by an agroenterprise plan with each cluster member following common product quality management procedures.
- The cluster adheres to the practice of market facilitation in the marketing of the products so the cluster members continue to own their products up to the buyer’s end.
- There is strong emphasis for the core values of sharing, discipline and joint responsibility to consolidate the quality and quantity as negotiated with the market.
- A cluster may start as an informal organization and later establish its formal structure as a business entity such as a cooperative; or it may exist within a cooperative or association as special structures for product consolidation and marketing.

Figure 16 shows the basic structure of a group of clusters operating as a small network in a barangay.
Step 4. Cluster Formation

Figure 16. Basic structure of a group of clusters.

6. Scope of Agroenterprise Cluster Agreements

On the minimum, cluster members agree to help one another to:

1. Consolidate a particular product volume;
2. Attain agreed quality;
3. Deliver as promised or scheduled;
4. Follow the agreed product operational flow (from farm to consolidation point and labeling for traceability of supply source); and
5. Plan and implement group agreements such as regular meetings, the payment of facilitation fees, particularly management fee and marketing fee, and the mobilization of savings.

The above agreements are usually verbal when the clusters are just new and they are still going through trial marketing (refer to Step 6). But it is recommended that agreements be written when the clusters undertake commercialization operations (refer to Step 7).
7. Clustering – Not for All Farmers

The Facilitator has to be prepared that there will be farmers who will decide not to take part at all in the clusters for a number of reasons:

- They are satisfied with their own local markets such as a roadside market or the barangay market day (also called tabo) giving them satisfactory prices; or they have good relations with a trader.
- They are not comfortable working in a group.
- They are physically isolated that makes collective marketing activity difficult to establish.
- Their production is just for basic needs that they may not yet have surplus for marketing and other types of development assistance are needed.

8. The Concept of Market Facilitation by the Cluster

In marketing through the clusters, a key concept is market facilitation. This means that the cluster only acts as the “bridge” to connect the farmers to the market as well as to link them to the business service providers like the truckers, package suppliers, etc. There is no “trader” between the farmers and the buyers to whom the ownership of the product changes hands.

The farmers in a cluster own the product up to the buyer’s end and so they get the price offered by the buyer. With the ownership of the product is also the corresponding accountability for the product in terms of quantity, quality and delivery reliability.

The mechanism to trace product supply to a farmer, and accordingly impose discipline in following the cluster agreement on product quality and delivery reliability, is product labeling by cluster and by cluster member.
As product owners, the farmers in a cluster, through representation by the cluster leaders, interact with the buyers face-to-face. The commitment to supply therefore is given to the buyer by the clusters themselves, not the Facilitator. From experience, this practice has made the clusters directly responsible for problems that they experience, which is expected in a fluid market environment; and not to blame the Facilitator when a problematic situation arises.

To operate a collective marketing successfully, the cluster needs people devoting their time and efforts in the activities such as the cluster leaders, the product consolidators who may be assigned, and others. Their expenses have to be compensated, hence the farmers while they get the buyer’s price must also shoulder the market facilitation cost by paying service fees based on the products that they have marketed through the cluster.

9. Cluster Leadership and Management

Successful clusters need the basic skills of group management and decision making to make them functional. At the minimum, the cluster must have a common goal for collective marketing. This is the reason why clusters are formed from farmers who are ready to bring in their products because this is the starting point of a goal that is simple and that can be broken down into responsibility or accountability each one in the cluster can take up.

The cluster must use democratic methods to make decisions in order to give every member a feeling of full participation and ownership in the cluster’s marketing venture. No one should be allowed to dominate the cluster’s decision.

The focal person in the group management is the cluster leader. The type of leadership required in an
agroenterprise cluster needs to be elaborated. The cluster leader need not be the biggest producer in the cluster. What is important is he/she has the personality and the skills to mobilize the members of the cluster. He/she is tasked to convene and facilitate cluster meetings, and to coordinate activities related to collective marketing.

The cluster may recognize one or more sub-leaders to share the responsibilities. The cluster leader may take responsibility for market related activities while a sub-leader can handle the production related concerns. A secretary writes down meeting proceedings and agreements, while a treasurer ensures that a record and report of the marketing transactions are made.

10. Communication – The Importance of Regular Cluster Meetings

This Guidebook stresses the importance of holding regular cluster meetings (i.e. once a week during trial marketing, and every month subsequently). The meeting is the venue to assess performance versus targets in the plan made. Only by regularly reviewing activities, identifying good practices and analyzing the bad ones can the cluster develop the systems that work best.

With the opportunity that a meeting provides for each one to be informed and involved, trust is built. This is of utmost importance considering that marketing is a difficult process, and not all transactions will turn out to be a success. This high level of trust ensures that members will persevere and work out the problems together.

At the start, the Facilitator convenes and facilitates the cluster meetings until the cluster leaders are chosen and they are phased in with guidance, and also when the meeting schedules and basic cluster agreements are tackled.
Step 4. Cluster Formation

The cluster meetings actually serve to ensure that the development interventions are carried out in a participatory manner; and that the farmers are not just passive clients but are active participants of the whole process, actually learning the business by doing it.

11. Collaboration of Clusters and Linkages

The farmers must be able to produce enough product quantity at the right quality and time to interest the buyers in the first place. This is the basis for the clustering approach that brings together individual farmers to jointly market their products.

More advantages of collective marketing are realized when the clusters form a network among themselves and marketing a significant quantity of products. For example, barangay-based clusters working together as a municipal level network can fill up a truckload of product for a bigger market. The higher the level of networking, as in the case of municipal level clusters working together, the more is the bargaining influence towards higher value markets.

The cluster leaders acting together will become the prime movers of the enterprise. Later when the clusters transform into a formal organization like a cooperative, representative leadership can be practiced with the cluster leaders taking up the position of the board. Refer to Step 8 for cluster strengthening.

Clusters are more likely to succeed if they not only cooperate among themselves but are also linked to other organizations. These include national government agencies, local government units, financing institutions, transport groups, farm input suppliers, school/academe, other farmer organizations and industry association. It may take sometime to build these linkages but they should be sought because the clusters will need many kinds of support.
Step 4. Cluster Formation

Which groups to connect to? The Facilitator can assist in the linkage building process by analyzing the needs of the cluster. The most important connections needed by the clusters are with the business sector (i.e. other suppliers like them who have bigger production scale and have influence in the market, and the buyers).

12. Cluster Strengthening

It is recognized that in working with farmers, there is a maturation period required wherein they are gradually trained and primed for agroenterprise operations. The role of the Facilitator is to assist this maturation process through training, coaching, facilitation of cluster activities and group development, leadership development, installation of business policies and system.
Cluster development takes time. It is an investment in group learning and doing. Cluster strengthening will be elaborated in Step 8.

4.4 FACILITATION GUIDE FOR AGROENTERPRISE CLUSTER FORMATION

1. Conduct a consultation in the barangay, inviting the farmers growing the products selected for agroenterprise development. This is done right after the PSA and the market chain study, the WG has analyzed the results and is ready to present them to the farmers for validation in the consultation.

Emphasize the following information during the consultation:

- Market opportunities as revealed in the market chain study will remain beyond the reach of farmers if they are not organized and cannot consolidate a significant product quantity for the market.
- Agroenterprise clustering is the tried strategy to transform the farmers acting independently and with fragmented farm areas into valued suppliers with consolidated products.
- Important information for the farmers are: definition of a cluster, types of cluster, structure, key features, leadership and management, advantages in forming clusters, networking of clusters, and cluster strengthening, benefit of clustering.
- Membership in the cluster will require farmers to commit a certain quantity of their products into the cluster for collective marketing. Also, the cluster agreements bind the farmers in a cluster.
Step 4. Cluster Formation

2. At this stage, it is helpful if experiences and lessons from organized clusters can be shared. (It is best handled if the sharing comes directly from a local, promising/successful agroenterprise cluster). Allow the participants to freely interact with the resource persons and with each other. And give time for reflection. Then ask those who are interested in clustering to group together.

3. Proceed to the formation of the agroenterprise cluster/s.

   - Gather expressions of interest to work together for common marketing
   - Facilitate listing of members and election of cluster leader

   - A participatory tool to facilitate cluster formation is the **cluster map** that communicates the components of the cluster (adaptation of the DTI Industry Cluster Map). It identifies the farmers and their planned product commitment, the agreed markets, the supporting businesses on which the farmers rely on, and the strategic partnerships from the public and private sector i.e. NGO, national government, and others.

(Refer to Facilitator’s Tool Kit No. 4 for an example of a cluster map).

Use of meta cards or strips is recommended so that during the process, if a farmer changes his/her mind in joining the cluster, he/she can easily remove the card. If a farmer wishes to add information, additional meta cards can be pasted.

   - Cluster members will then set a schedule for enterprise planning. As an assignment, the cluster members are ask to review their farm
• activities and bring with them the information on the quantity of the product they can commit into the joint marketing and the schedule of delivery. A tool to use for this information is the harvest calendar, which the Facilitator introduces to the newly-elected cluster leader and members. The calendar contains an estimate of the total production capacity of the cluster members.

(Refer to Facilitator’s Tool Kit No. 4 for an example of a harvest and delivery calendar).

4. Before the next meeting of the newly formed clusters for the clusters’ enterprise planning, it is recommended that the chosen cluster leaders can be introduced to the local officials/leaders. Each cluster leader will also reach out to farmers who are interested but were absent during the cluster orientation and formation. They are advised to give time for farmers who joined the consultation but were not immediately prepared to join with the others and commit their products for the joint marketing.
Facilitator’s Tool Kit No. 4

Figure 18. Cluster Map of Saranga Coffee Farmers.

Figure 19. Coffee harvest and product delivery calendar of Saranga Cluster.