

- **MARKETING OF AGRICULTURAL PRODUCE**
material for management training in agricultural co-operatives

TRAINER'S MANUAL

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by Malcolm Harper



MATCOM
Material and techniques for cooperatives management
training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

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Preface

This training package is one of a number of training packages designed by the ILO - MATCOM Project to assist people who plan or carry out training for the managerial staff of agricultural co-operatives in developing countries.

The training provided under this training package, as well as under the other packages in this series, is based on a thorough analysis of:

- (i) the tasks and functions to be performed in agricultural co-operative societies in developing countries;
- (ii) the common problems and constraints facing the effective performance of these tasks and functions.

The result of this analysis is reflected in the MATCOM "Curriculum Guide for Agricultural Co-operative Management Training". The Guide contains syllabuses for 24 management subjects and MATCOM has produced training packages, similar to this manual, for the following subjects.

- Collecting and Receiving Agricultural Produce
- Transport Management
- Storage Management
- Supply Management
- Rural Savings and Credit Schemes
- Staff Management
- Work Planning
- Financial Management
- Cost Accounting and Control
- Risk Management
- Project Preparation and Appraisal
- Export Marketing
- Management of Larger Agricultural Co-operatives
- Cooperative Audit and Control
- Management of Multipurpose Cooperatives

For more information on the above training material, please write to:

The MATCOM Project
 c/o CO-OP
 International Labour Office
 CH 1211 Geneva 22
 Switzerland

THE TRAINING PROGRAMME1. Target Group

Target groups for this training programme on "Marketing of Agricultural Produce" are managers and assistant managers who run or plan to run an agricultural co-operative society with marketing functions.

Co-operative officers or extension staff could also benefit from the programme.

2. Aim

The aim of the programme is to train people to manage the marketing of the society's produce effectively.

In particular, the programme will enable trainees:

- to define the role of marketing in the economy, and to identify the need for effective marketing management;
- to identify the various "ingredients" of the marketing mix, and to analyse marketing situations in terms of presence or absence of each ingredient;
- to decide what market information is needed in a certain situation, and how to obtain it efficiently and economically;
- to select appropriate methods of packaging for agricultural products;
- to identify appropriate produce related responses to changing market conditions;
- to select appropriate distribution channels for their members' produce;
- to decide whether they should entrust distribution of their members' produce to exclusive or non-exclusive marketing outlets;
- to select appropriate methods of transport, and to identify and quantify the costs and benefits of storage;

- to design an appropriate "communication mix" for their society's products;
- to identify the role of the salesman and to sell their society's products effectively;
- to calculate prices for their society's produce in the light of cost of production and their effect on demand;
- to fix prices in relation to costs, demand and competitive behaviour;
- to design an appropriate marketing mix for a given co-operative society;
- to apply what they have learned to "marketing" situations in their own societies.

3. Use

The programme as described in this manual can be used for a specialised course on marketing. The complete programme, or individual sessions or parts of sessions, can also be incorporated in the curriculum for a more comprehensive management programme.

4. Duration

The programme, as described in this manual, consists of 15 learning sessions. Session times vary from 12 to 5 hours. The total programme will take approximately 35 - 40 hours, or between 6 and 8 days, depending on the qualifications and experience of the trainees and the hours worked each day. The time may well be exceeded, and each instructor must decide on the likely duration in view of local conditions. A timetable should be prepared accordingly.

5. Training Approach and Methods

The programme is based on the assumption that training is expensive and that money for co-operative management training is scarce.

Therefore, it looks upon training as an investment, and unless the training yields results, the return on the money invested in it will be nil.

On their return home from the training programme, the trainees should therefore be able to show concrete results of improved management. In order to prepare and equip the trainee to achieve this, the programme has adopted a highly active learning approach through the use of "participative" learning methods and a built-in action commitment.

Trainees will not learn about Marketing in a general and passive way. Their day-to-day management problems have, as much as possible, been translated into realistic case studies, role plays and other problem-solving exercises. Trainees (working mostly in groups and on their own) will learn by solving these problems as in real life with the necessary assistance and guidance from the trainer, who will act more as a "facilitator" of learning than as a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage every trainee to contribute as much as possible from his own insights and experience, so that all will go away with the accumulated knowledge that each brought to the programme.

This sort of shared learning is in fact almost always more important than the knowledge that you, the instructor, or the material in itself, can contribute. You should treat each trainee as a source of ideas and suggestions which are at least as valuable as your own, and the material is designed to help you to draw out, or "elicit" these contributions.

The built-in action commitment at the end of the programme will give each trainee the opportunity of using the knowledge and expertise of his colleagues in the training programme to find a concrete and acceptable solution to a specific marketing problem he is faced with - a solution to which the trainee will commit himself for implementation.

6. Structure

The programme is divided into 15 TOPICS (see the table of contents on page X). The following material is provided for each session:

- a session guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session, including instructions on how to conduct the session;
- handouts (white pages) of all case studies, role play briefs, etc., to be reproduced for distribution to the trainees.

7. Adapting the Material

Before "using" the programme in a real training situation, it will probably be necessary to adapt it. This can be done as follows:

Read through the programme and decide whether:

- the programme can be run as it is;
- only certain topics or sessions should be used;
- new topics and sessions should be added.

Your decision will depend on the training needs of your trainees and the means you have at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts. Modify them to include local currencies, names, crops and so on. Such adaptation will help trainees identify themselves more easily with the people and the situations described in the handouts, and will considerably increase impact and effectiveness of the training programme.

Do not feel that this manual is like a book which contains the only answers. It is merely a collection of suggestions and ideas, which you must' adapt, modify, use or reject as you think fit. The best

evidence that you are using the material properly will be the amount of **changes, additions and amendments you have yourself written** into this copy.

8. Preparing the Training Material

Handouts constitute an important part of the training material used in the programme. They can be reproduced from the original handouts supplied in the ringbinder, after the necessary adaptation has been made. Reproduction may be done using whatever method is available: stencil, offset printing, photocopy, or other.

The only item of training equipment which is absolutely essential is the chalkboard.

Some suggestions for visual aids are given in the session guides. If flipcharts or overhead projectors are available, you should prepare these aids in advance. If they are not available you can still use the chalkboard.

The Pre-course Questionnaire should be sent to trainees in advance. Trainees should be asked to complete it and hand it in at the beginning of the training programme.

9. Preparing Yourself

Some trainers may feel that material of this sort means that they need only spend a few minutes preparing for each session. This is not the case. You should go through the following steps before conducting any course which is based wholly or in part on this material:

1. Read carefully; be sure you understand the content, and that you envisage what is intended to happen in the classroom.
2. Work through all the calculations; be sure that you understand them completely and try to predict the errors that trainees are likely to make, and the different answers which may not be wrong, but which will be worth following up.

3. Work through the case studies yourself, and try to predict all the possible analyses and answers which trainees may come up with.
4. Look up and write down on the material itself, as many local examples as you can to illustrate the points that are raised.
5. Plan the whole session very carefully; try to predict approximately how many minutes each section of the session is likely to take, and make the appropriate modifications to fit into the time that you have available. Do not take the suggested time at the beginning of the session guide too seriously.

10. Conducting the Programme

While using the material, you should try to observe the following guidelines:

1. Arrange the seating so that every trainee can see the faces of as many as possible of the others; do not put them in rows so that the only face they can see is your own.
2. Be sure that the session is clearly structured in the trainees' minds; outline the structure at the beginning, follow it or say that you are diverging from it, and summarise what has happened at the end.
3. Bear all the learning points in mind, and do not forget the job-oriented objectives of the session.
4. Be flexible, do not follow the material slavishly and be prepared to change the approach, depending on what trainees, themselves, suggest.
5. Avoid, whenever possible, telling the trainees anything; in a successful session all the points will have been elicited from them by skillful questioning.
6. If you fail to elicit a particular answer from the trainees, it is your fault not theirs. Persist, by asking the same

question in different ways by hinting and so on, and only make the point yourself if all else has failed.

7. Use silence as a weapon; if nobody answers a question, be prepared to wait for 20 or 30 seconds in order to embarrass somebody into making an attempt.
8. Avoid talking yourself. Trainees' discussion and suggestions should occupy around three quarters of the total time; ask, listen and guide rather than talk. (The more you yourself talk, the more you are revealing your own insecurity and ignorance of the subject, in that you are not willing to risk questions or comments with which you cannot deal).
9. Never ridicule a trainee's answer or suggestion; there is bound to be some merit of it somewhere, and the very fact that he or she has put forward a suggestion is commendable.
10. If you cannot answer trainee's question, or comment on a suggestion, (or even if you can) ask another trainee to answer or make a comment. You are the facilitator, not the source of knowledge.
11. Write trainee's own words on the chalkboard whenever possible; do not follow the words in the material, even if they are more precise.
12. Be prepared to act as "Devil's Advocate" by supporting the opposite view to that held by the majority of participants; there are usually no right or wrong answers to management questions, and trainees must see and understand both sides of every issue.
13. If trainees appear to be following a quite different track from that suggested in the material, do not dismiss this out of hand; it may be useful or more so.
14. Call on the silent, and if necessary, silence those who talk too much.

15. Be sure that everybody understands what is going on; do not allow the discussion to be taken over by the few who understand.
16. Be dynamic, lively and active. Move around, walk up and down the classroom, and generally keep everyone alert to your physical activity.

11. After the Course

Note down each trainee's action commitment, and be sure to contact every trainee, in person or at least by letter, about six months after the end of the course to find out how they have managed to apply what they have learned and how well they are implementing their action commitments. If they have failed, it is not they who were at fault, but the course. Either the training was ineffective, the trainees were poorly selected or you failed to recognise problems which might prevent them from applying what they learned.

TABLE OF CONTENTS

TOPIC/SESSION 1	INTRODUCTION
TOPIC/SESSION 2	WHAT IS MARKETING?
TOPIC/SESSION 3	THE MARKETING MIX
TOPIC/SESSION 4	MARKETING RESEARCH
TOPIC/SESSION 5	PACKAGING
TOPIC/SESSION 6	THE PRODUCT
TOPIC/SESSION 7	DISTRIBUTION OUTLETS
TOPIC/SESSION 8	EXCLUSIVE OR NON-EXCLUSIVE OUTLETS
TOPIC/SESSION 9	PHYSICAL DISTRIBUTION
TOPIC/SESSION 10	MARKETING COMMUNICATIONS
TOPIC/SESSION 11	PERSONAL SELLING
TOPIC/SESSION 12	PRICING
TOPIC/SESSION 13	PRICING IN PRACTICE
TOPIC/SESSION 14	DESIGNING A MARKETING MIX
TOPIC/SESSION 15	ACTION PROGRAMME AND COMMITMENT

topic

1

introduction

SESSION 1

INTRODUCTION

Objective : To demonstrate the importance of effective marketing, and to identify sources of marketing expertise within the group.

Time : 1 to 2 hours.

Material : Completed pre-course questionnaire, timetable and list of participants.

Session Guide :

- 1) If a prominent visitor is to open the programme, he or she should be asked to give examples of problems or failures that have arisen through inadequate marketing and to stress that people in the trainees' position can make a major contribution in this area.
- 2) Ensure that any administrative problems are dealt with. Matters of accommodation, payment of expenses, transport, rooms for private study and any other points of information should be settled now.
- 3) Point out that a training course such as this is an investment. Attempt to estimate its total cost (including trainees' salaries while in training). Ask trainees to suggest how they might use this sum of money if it was available to them to improve the marketing activities in their societies. They may mention investment in marketing research, promotion or something else. Point out that unless the value of the benefit to the members from this course exceeds the cost of the course, the money would have been better spent as suggested. Trainees should therefore continually relate what they are learning to their own jobs. If it appears irrelevant, mistaken or they do not understand how to use it, they must say so and the course will be changed accordingly.
- 4) Go briefly through the timetable and stress that trainees will be required to contribute and not merely to listen: people learn not

by sitting and listening but by participating and doing things themselves.

- 5) Ask each trainee to summarise his prior training and experience, and to state what he hopes to gain from attending this course. Refer to the pre-course questionnaire if necessary. Stress that everyone brings something to the course and that the total experience in the group as a whole is substantial. While trainers and the material will provide ideas and guidance about techniques and a structure to the course, a major input must come from the trainees.

Attempt to classify trainees' objectives and experience on the board: identify the special expertise or experience that each trainee brings to the course, emphasising the point that the group as a whole is an extremely powerful source of expertise and experience.

- 6) Tell trainees that at the end of the course everyone of them, individually, will be expected to produce and commit himself to an action plan which will include:
 - A statement of marketing problem in his society.
 - A brief description of the way in which they propose to solve this problem.
 - Ideas on how they will "sell" this solution to their superior and/or subordinate staff, and to the committee and members if necessary.
 - A specific description of exactly what the trainee expects to have achieved by a certain specified date (within six months or one year from the end of the course).

Tell the trainees that the instructors intend to contact them after this specified period to assess how successful they have been in implementing their plans; the course, rather than they themselves, will be evaluated by their success.

Pre-Course Questionnaire

Name:

Co-operative Society:

Job Title:

Brief description of your responsibilities:

.....
.....
.....

What parts of your job do you enjoy the most?

.....
.....
.....

What part of your job do you find the most difficult?

.....
.....
.....

Please complete the following sentence:

As a result of attending the course on Marketing, I hope that I shall be able to

.....
.....
.....

topic

2

what is marketing ?

SESSION 2

WHAT IS MARKETING?

Objective: To enable trainees (i) to describe the crucial role of marketing in the economy and (ii) to identify the need for effective marketing management in order to satisfy both the producer and the consumer.

Time: 12 to 2 hours.

Material: Tape Dialogues "The Farmer Meets The Consumer".

Session Guide:

- 1) Play or, if a tape player is not available, ask two trainees to enact the dialogue, "The Farmer Meets The Consumer - One". If necessary, distribute copies of the dialogue.
- 2) Ask trainees what could be done to change the situation outlined in the dialogue. Lead them to suggest traditional remedies such as:
 - Rapacious middlemen should be controlled or eliminated.
 - Marketing boards should be established to control prices and wholesale operations.
 - Co-operative societies should replace extortionate merchants as purchasers of farm produce.
 - Co-operative retail outlets should replace profiteering private shops.
- 3) Play or enact dialogue "The Farmer Meets The Consumer - Two".
- 4) Again, ask trainees what could be done to change the situation outlined in this dialogue? Suggestions will probably include:
 - Farmers need a wider choice of marketing outlets.
 - Farmers require a more convenient place to deliver their produce.

- Farmers who need it should be able to obtain advances to finance their crop production.
 - Consumers require produce to be available at times and places which are convenient for them.
 - Consumers want goods to be inspected, cleaned and reliably weighed.
 - Some consumers need to be able to buy goods on credit.
- 5) Ask trainees which of the two situations is better for the farmer and the consumer. Suggest that it is at least possible to argue that a well functioning marketing system with profiteering middlemen, who minimise the return to farmers and maximise prices to consumers, is preferable to any marketing system which fails to function.
- 6) Ask half the trainees to write down a brief description of an ideal marketing system from the farmer's point of view. The other half should similarly describe an ideal marketing system from the consumer's point of view. Point out that the descriptions should include factors such as:
- Price
 - Delivery
 - Credit
 - Quality
 - Timing
- 7) Ask those trainees representing farmers to read out their descriptions; summarise them on chalkboard/OHP. Ask trainees representing consumer interest to read out their descriptions and summarise them likewise, opposite the corresponding items in the "Farmers' List". The contrasting lists should contain the following items among others:

Farmers' List

Consumers' List

- | | |
|--|---|
| <ul style="list-style-type: none"> - Maximum prices to be paid. - Produce to be purchased at harvest time. | <ul style="list-style-type: none"> - Mimimum prices to be charged. - Produce to be available when it is needed for consumption. |
|--|---|

Farmers' List

Consumers' List

- Produce to be paid for in cash or in advance.
 - Produce to be collected from the field where it is grown.
 - All produce to be accepted, whether good or bad quality.
- Produce to be available on generous credit terms.
 - Produce to be available as close as possible to the home.
 - Produce to be only of the highest quality.
- 8) Stress that the function of marketing is to fill the "gap" between farmers' and consumers' needs in such a way that both are satisfied. Clearly this requires a compromise.

Institutions whose function it is to market farm produce must therefore be efficiently managed, so that they add the features needed by consumers at minimum cost, and so that as much as possible of the final consumer price can be given to the producer. Stress that this does not mean minimising the service provided: the objective of efficient marketing management is to provide the service which consumers need, at the lowest cost; not to minimise the services themselves in order to save money.

The Farmer Meets The Consumer - One

Joshi's cousin Margaret went to the city years ago; she has returned to his farm for a visit.

Margaret: It's nice to see you after so long; it all looks like it always has, surely you could have put a tin roof on the house by now, I'll bet the thatch leaks as much as ever.

Joshi: Of course it does, but how do you think a poor farmer like me could afford a new roof? I can barely keep the family going on what we earn.

Margaret: Don't try that "poor farmer" stuff on me. You people in the rural areas are squeezing the city dry.

Joshi: What are you talking about, with your fine dress and your expensive bus ticket out here? All we grow is maize, and you know what has happened to the price of that: it has barely moved since you left and if I can get \$1 I am lucky.

Margaret: How is that possible? I paid \$2.10 last time I bought maize, it's becoming a luxury food.

Joshi: Those traders are crooks, I knew it all along! They argue and complain about all their costs, they force the price down and down and although sometimes I can get a penny or two more from one than from another, it's never enough.

Margaret: I can't believe it! The maize here in these bags is not different from what I buy in the shops, and I pay more than twice what you get. It's robbery!

Joshi: But what about us farmers then? Let us complain! Fertilizer and so on get more expensive all the time. Some of the traders help us out a bit by giving something in advance, but then they end up by paying us even less for our maize.

Margaret: Maybe I am a village girl at heart, I like maize in these big jute bags. The one kilogram plastic bags are very pretty with all the stuff about weight and so on printed on them, but I wish I could take it straight off the field like I used to.

Joshi: The traders are not the only ones in the racket; they always moan about the wholesalers and the transporters, they're a thieving lot too, I've no doubt!

Margaret: What about the shopkeepers? There are far too many of them, everywhere in town, everyone trying to sell more than the next one, open all hours when honest people should be at home, the whole system is crazy I think! You do all the work and hardly cover your costs, I just want to get maize as cheaply as possible, but these parasites sit between us getting fat of both of us. The government should do something about it and quickly too!

The Farmer Meets The Consumer - Two

Simon went off to the city to find a job; he came home for a weekend and is talking to his brother Howard.

Simon: It's good to see you, Howard, and the farm is looking fine too. You must be thankful to have such a good crop of maize this year. But, why don't you sell your maize? We can't buy maize anywhere in the city, and if we can, it's at twice the normal price.

Howard: That's ridiculous, my maize has been lying here for weeks. The co-operative say they can't store it, or that the lorries have broken down, and meanwhile it's spoiling in the rain. I have no room for it under cover!

Simon: I am really surprised to hear this! Whenever a few bags of maize are delivered to the government supply store in town, the women get to hear about it and it's all gone in an hour or so! People bring old paper bags, newspapers or even buckets to take it away in, and they'll wait hours in a queue if necessary.

Howard: I wish they'd come here for it. Even when the co-operative does arrive, they will only pick it up at the road and that's a kilometer from here. I've carried four or five bags down there more than once, only to find the lorry does not turn up so I have to bring it all the way back.

Simon: Have prices gone up since I left, everything else seems to be getting more expensive?

Howard: When they pay, you don't get a bad price, but it takes months to come through and there's no hope of getting any advance for fertilizer or seed. And if they can't collect the maize what hope is there that I'll ever get the money?

Simon: Why not try selling it to someone else, even for a lower price surely that would be better than having it rotting here?

Howard: Do you think I'm crazy? The co-operative committee would accuse me of disloyalty and they might even throw me out of the society so I could not buy supplies or sell maize to anybody!

Simon: I didn't know about that. By the way, how is it that maize is of such a bad quality lately? In the government stores in town, sand, broken and mildewed maize are common, someone even found a dead rat in a bag once! Not to speak about the scales which they use in the government stores, they are so inaccurate!

Howard: That sounds terrible. I certainly try to grow decent maize, although I won't be able to vouch for the quality of this lot if the co-operative doesn't collect it and it rains again. If the maize you buy in town is dirty or spoiled, can't you get your money back and buy some from another shop?

Simon: Oh no, the government shops are few and far between. It would not be worthwhile to go to another one since they're all the same anyway. I suppose you could refuse to pay if you bought on credit, but it's all cash business nowadays anywhere.

topic

3

the marketing mix

SESSION 3

THE MARKETING MIX

Objective: To enable trainees to identify the various "ingredients" of the marketing mix, and to analyse marketing situations in terms of the presence or absence of each ingredient.

Time: 2 hours.

Material: Micro Case Studies "The Marketing Mix".

Session Guide:

- 1) Distribute the micro case studies, and ask trainees to specify what was wrong in each case; why was the consumer not satisfied? Allow up to 30 minutes for this, ask trainees for their suggestions and elicit answers as follows:
 - a) The milk was not packaged correctly.
 - b) The oranges were not branded so that customers could not associate them with the promotion.
 - c) The eggs were not sold in the right place, where people who could afford them were likely to go.
 - d) The meat was not correctly refrigerated, the facilities were inadequate.
 - e) The rice was not available to consumers at the right .
 - f) The chicken was too expensive, the price was not right.
 - g) The wool was not of the correct type, the product was wrong.
 - h) The consumer in the foreign country did not know about the tea, it was not promoted .
 - i) The distributor failed to follow up the sale of the cassava flour, the after sales service was neglected.
- 2) Point out that a marketer must decide whether to use each of the marketing functions identified in these micro cases. Once he has

decided to use a certain function he must decide in what way he will use it since many alternatives will be available for each function. His decision will depend on the nature of the product and the needs of the consumer. In order to illustrate this, ask trainees to suggest alternative ways of marketing products which they buy as consumers, or which they sell as co-operative marketers.

Examples might include:

- Bread can be bought wrapped or unwrapped (Packaging).
 - Maize flour can be bought in plain sacks or in printed bags (Branding).
 - Potatoes can be bought at village markets direct from the grower, or in city shops after passing through a number of different hands (Place).
 - Beer can be bought in bottles in a shop, or can be bought and drunk in a bar from a glass, perhaps with television or other entertainment (Facilities).
 - Fruit can be bought fresh at the time of harvest, or preserved at any time of the year (Time).
 - Charcoal can be bought very cheaply in the forest, or for a far higher price delivered to people's homes in the city (Price).
 - Maize can be bought on the cob, as loose grains, or ground into flour (Product).
 - Medicines may be vigorously advertised, or available only from a doctor (Promotion).
 - A tractor can be backed with extra spares and service facilities, or the manufacturer may leave it to the purchaser to make his own arrangements (After Sales Service).
- 3) Show trainees an example of an elaborately packaged and heavily promoted consumer product such as a detergent, a package of cigarettes or chewing gum. Write the retail selling price on the chalkboard/OHP, and ask trainees to guess the price of the physical product, before the marketing elements, as have already been identified, are added.

Attempt if possible, to find out the actual cost of manufacture. In any case it is unlikely to be as much as one third of the retail selling price.

- 4) Ask trainees to go through the list of marketing functions in relation to the product discussed, attempting to allocate a cost to each in order to show how the difference between the production cost and consumer price is made up (clearly "price" is not a marketing function but is the result of the combination of functions which are used).

Elicit and write on the chalkboard/OHP a list of the following form:

Product Cost		1.00
Packaging	0.25	
Branding and Promotion	0.15	
Transport	0.15	
Cost of Wholesale Warehouse Facility	0.10	
Cost of Retail Selling Facility	0.15	
Cost of Storage	0.15	
Cost of Capital Employed in Marketing	0.05	
Profit Margin (for Wholesaler, Retailer and Transporter)	0.30	
Taxes and Other Costs	<u>0.20</u>	
Total Marketing Cost		<u>1.50</u>
Total Retail Selling Price		2.50

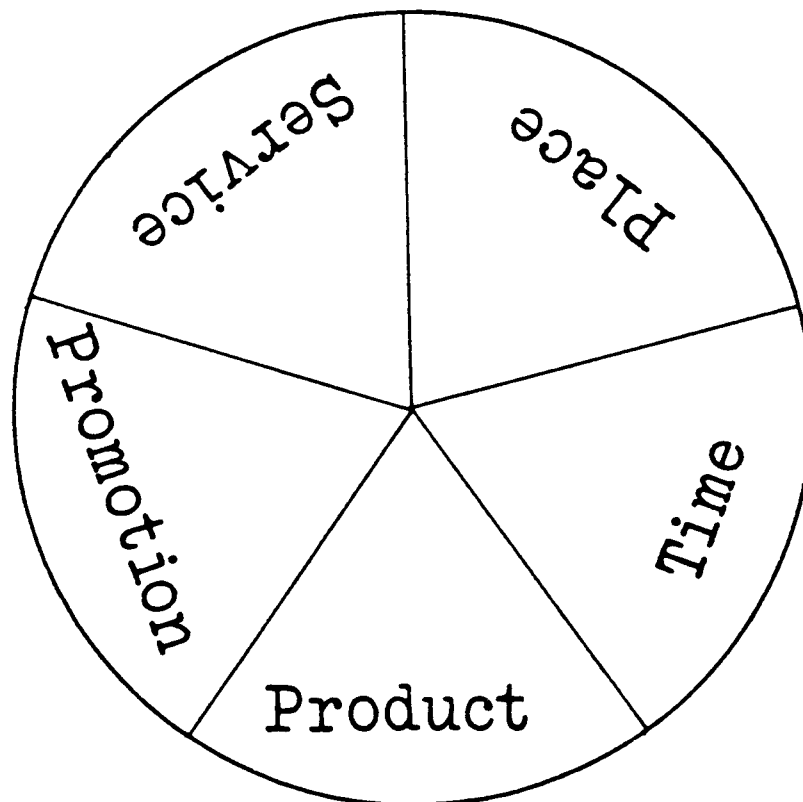
Trainees may accept marketing expenditure of this sort on heavily promoted consumer goods, but they may not believe that such expenditure is necessary for agricultural produce such as they are responsible to market for their members.

Demonstrate by reference to local crops or other farm produce that similar functions have to be performed and that marketing margins, apart from some profit, are mainly covering the cost of performing functions which are necessary for the consumer. Stress that any

producer who produces other than for his own consumption must first consider the needs of the consumer, since his activity depends on satisfying the consumers' needs.

When the marketing functions are combined in a particular way for a particular product we call it the marketing mix of that product.

- 5) Illustrate the marketing mix concept, by drawing a diagram of the following form:



Ask trainees to imagine that the radial lines can be moved, thus reducing or enlarging the importance of each function (reflected by the share of the circle allocated to each function). This illustrates the flexibility of the marketing mix.

Ask them to suggest which segment(s) would be bigger for each of the following products:

Gasoline: A convenient place is all important to the motorist.

Cars: Good service and a high quality product are vital.

Ask them to suggest which segment(s) would be bigger for each of the following products:

Gasoline: A convenient place is all important to the motorist.

Cars: Good service and a high quality product are vital.

Magazines: These must be displayed, or promoted, in a convenient place.

Gifts for a

Festival: They must be available at the right time.

Show how consumers may be equally well served by comprehensive (and very expensive) marketing or by a lower degree of service which allows a lower price.

Refer to examples such as fruit or vegetables in rural markets or in urban shops, or flour in bulk from the mill or delivered to the home or local shop in one kilogram bags.

6) Remind trainees:

- The objective is not to minimise marketing expenditure but to maximise consumer satisfaction at a minimum cost.
- This requires knowledge of what the consumer needs which is the subject of the next session.

The Marketing Mix

Study each of the following situations, and identify what particular marketing function is not satisfactory in each case.

Case A

A co-operative dairy society wished to sell its milk in a city. They arranged for churns to be delivered to selected shops, so that people could bring their own containers and buy what they wished. The milk was cheaper per litre than at competitive suppliers, but it was often spilt or polluted. After a while customers refused to buy it and the shopkeepers stopped buying as a result.

Case B

A fruit growers co-operative vigorously and expensively advertised their very high quality oranges in a new market; shopkeepers bought large initial stocks of the oranges, but since they did not look any different from other oranges from other sources, which were slightly less expensive, the shopkeepers sold the other type to customers who asked for the co-operative fruit. The sales results were after a while quite insufficient to cover the costs of the promotion.

Case C

A group of farmers realised that there was a demand for high quality eggs among the expatriate community and the rich people in the city. They paid in average 50% more for a dozen of first grade eggs. The farmers jointly set up a stall near the bus stop where buses from their area unloaded in the city, and stocked it with first grade eggs hoping for some good business. Unfortunately, very few eggs were sold, and the farmers soon stopped their marketing effort.

Case D

A group of farmers started to raise improved beef cattle, and they wished to market the surplus meat. They persuaded some local butchers to stock the meat, but customers were put off by the flies and the meat soon went bad in the heat. A great deal was wasted and the farmers regretted that they had lost their money on these new cattle.

Case E

A rice co-operative wished to save money on storage; they delivered all their crops to the wholesale market at harvest time, but were very disappointed because they received a price which barely covered the cost of production.

Case F

A foreign advisor suggested that the people in a certain district should start to raise poultry since land was very scarce, and people in the area were starting to eat chicken. The members decided that chicken was a very luxurious food, so they set a very high price for it. As a result, hardly anyone bought chicken from this group, and although the sales they did make seemed to be very profitable, their costs were actually far higher than they had estimated because they sold so few. The poultry farmers eventually gave up.

Case G

Some farmers decided to sell the surplus wool from the sheep which they kept; it was very strong and thick, and they had for many years used it for their own clothes. Since the only extra cost involved was transporting wool to the market, they were sure that they could compete with other growers. The merchants refused to buy the wool at any price. They said that fashion had changed to lighter, looser garments which could only be knitted from thinner wool which had to be imported.

Case H

A tea growers' co-operative union decided to introduce their brand of tea to a foreign country, which was very friendly with their own. They sold large quantities to the wholesalers and retail traders in the foreign market, but the shopkeepers complained that nobody ever asked for the new brand of tea; they had never heard of it. Shops therefore refused to buy any more and the whole initiative was a failure.

Case I

A large multi-purpose farmers' society found out that cassava flour could be used to supplement wheat flour in bread; providing the baker made some small changes in his procedures, the addition of 20% cassava flour made no difference to the taste of bread and was far cheaper. Their representatives explained the necessary changes to a number of bakers, and they bought some flour. After a few months they stopped buying; the representatives called to find out why, and discovered that the bakery workers had soon forgotten to make the necessary changes and the quality of the bread had gone down. The bakery managers had decided that it was not worth the trouble to try the new flour again.

topic

4

marketing research

SESSION 4

MARKETING RESEARCH

Objective: To enable trainees to decide what market information they need, and how to obtain it efficiently and economically.

Time: 4 hours.

Material: Case Study "The Kansai Co-operative Dairy".

Session Guide

1) Ask a few trainees to state what the overall objective of their society is. They will probably mention:

- Improving farmers' welfare.
- Improving farm incomes.
- Helping the poorest people in a rural area.

Stress that these are legitimate objectives but that they refer entirely to members and their interests. Ask trainees to suggest another group whose interest must be served if these first objectives are to be achieved.

- Customers are the only people on whom any business organisation must depend; if they are not satisfied, nothing else can be achieved.

2) Ask trainees to say who are the customers of their members. Their answers will of course depend on the products in which they trade, but they may include:

- The co-operative itself, which buys the produce from the members.
- The co-operative union which buys primary societies' output.
- A local wholesaler who buys from the society.
- Local retailers.

- The final purchaser.
- The consumer.

If cash crops are grown for export, there will be far more customers; in addition to the primary society and the users they may include:

local export houses;

- foreign importers;
- foreign processors and packers;
- foreign distributors;

as well as wholesalers, retailers, purchasers and consumers.

Trainees may not appreciate the distinction in every case. Ask them, for instance, who actually purchased the coffee or tea they drank today. It may have been their wife, the cook or a restaurant proprietor. The consumer may be different from the final purchaser.

3) In other words, the customer is therefore:

- The individual or organisation which actually pays for and takes delivery of the goods from the producer.

OR

- The final consumer, whose satisfaction is the objective of all the other "customers".

Stress that the exact meaning of the word is not important. What matters is that ever organisation or individual which was suggested as a customer must decide in favour of a given product. If just one link in the chain is broken, the sale will not take place.

4) Ask trainees what they need to know about their "customers", as defined above, in order to sell successfully to or through them. Elicit for example items such as the following:

- Their numbers.

- Their wealth.
 - Their location.
 - Their education.
 - Their social attitudes.
 - Their tastes.
 - Their family size.
 - Their ownership of relevant equipment (refrigerators, bicycles, etc.).
 - Existing preference.
 - Existing shopping habits.
 - Seasonal availability of cash.
 - Access to storage facilities.
- 5) Stress to trainees that it will cost money to obtain all that information, in that people are occupied obtaining and analysing it, who could have been doing something else. Information should only be obtained if the benefit of having it exceeds the cost of getting it.

Co-operatives often miss good marketing opportunities because they spend too much time trying to find information to help them make a decision. When they are ready to decide, the opportunity has passed.

Ask trainees if they are aware of situations of this sort or describe lost opportunities which have occurred as a result of failure to make decisions.

- 6) Ask trainees how they can collect relevant information quickly and economically about a large group of customers or consumers. Trainees may not be familiar with the concept of sampling. If the information to be obtained is simply a matter of a "yes" or a "no" answer to a question, and there is no reason to suppose that the group who are being asked are any different from the total population in whom the researcher is interested, it should normally be sufficient to ask between 30 and 40 people in order to obtain a re-

sult which is not too different from the actual figures for the total population.

Ask trainees for examples of information of this type which they might wish to obtain as part of an attempt to gain information on which to base a marketing decision:

- To find out how many members own a particular piece of equipment in order to decide whether or not spares for it should be stocked in a farm supply service.
- To find out what proportion of a group to whom it is proposed to sell a particular product, have bank accounts, in order to decide how they should be charged.

7) Ask trainees who own cars to identify themselves. Ask them why it may not be reasonable to apply this proportion to the whole population.

- The group may not be representative of the whole population, in that they may be richer, or poorer, or different in a way that makes them more or less likely to own a car.

Stress that the sample must be sufficiently large, and must be representative of the total population about whom information is to be obtained.

8) Divide trainees into groups and distribute copies of the case study, "The Kansai Co-operative Dairy". Make sure trainees understand the assignment. Allow them up to one hour for analysis and preparation of their conclusions.

9) Reconvene trainees, and ask each group to present their conclusions. They should cover at least the following points:

The area to be covered must first be defined. Information obtained may suggest that the society will have to look beyond the town for a market, but the initial information must be obtained from a clearly defined area, within which it appears reasonable to suppose that the market is to be found.

Information	How Obtained
<p>a) <u>Final Customers</u> (individuals)</p> <ul style="list-style-type: none"> - How many households are there? - Into how many groups must households be divided for the purpose of obtaining information about their milk consumption? - How much milk does each household consume? - Where do they buy milk? - What do they pay for milk? - What milk supply problems do they have? 	<ul style="list-style-type: none"> - Published census information. - Common sense (e.g. upper, middle level income in urban and sub-urban areas, i.e. four groups). - Ask a sample of about 40 people in each group, that is 160 people altogether, using school children or voluntary members and their families to produce the necessary information.
<p>b) <u>Final Customers</u> (institutions)</p> <ul style="list-style-type: none"> - What and where are the institutional purchasers? (Schools, Hospitals, Government Offices, etc.) - How much milk do they buy? - Where do they buy it and who decides on the source? (i.e. Central Government purchasing officers, etc.) - What do they pay for milk? - What milk supply problems do they have now? 	<ul style="list-style-type: none"> - Personal visits by the manager to each institutional customer are likely to be very valuable, and an information gathering visit can also be an initial selling visit.
<p>c) <u>Marketing Outlets</u></p> <ul style="list-style-type: none"> - What shops are there which presently sell milk or might do so in the future? - How much milk do they buy? - What price do they pay? - What price do they sell milk for? - What problems do they have with buying their milk? 	<ul style="list-style-type: none"> - Preferably by personal visit, since shops may well be important customers. If there are too many, suitably selected committee members might assist.

Information	How Obtained
<ul style="list-style-type: none"> - If it is found that shops buy from local wholesale distributors, the same information must be obtained from them. 	<ul style="list-style-type: none"> - Manager himself, since wholesaler will be very important customer.
<p>d) <u>Transport Facilities</u></p> <ul style="list-style-type: none"> - What transport facilities exist which are suitable for local delivery of milk? - What prices do transporters charge? - Where do transport services run and when do they go there? 	<ul style="list-style-type: none"> - Personal inquiry by the manager or a suitable committee member from the bus and transport operators in the area.
<p>e) <u>Promotion</u></p> <ul style="list-style-type: none"> - What local advertising facilities are there? - What do they cost? - Who is exposed to them? 	<ul style="list-style-type: none"> - Observation and inquiry by the manager from newspaper owners, poster printers, radio services or those in charge of other facilities.

10) Groups may not mention the need for a questionnaire. If not, ask how information obtained by a number of different people, such as committee members or school boys from consumers, or even by the same person on a number of different occasions, can be consistent so that it can be accumulated in order to give you sure results.

- Simple, brief questionnaires should be used, to assure consistency, to ensure that no questions are forgotten and to avoid lengthy and unnecessary conversations with interviewees which are likely to irritate potential customers.

- If they have not done so, ask trainees to design a suitable questionnaire for the consumers. A possible layout might be as follows:

Consumer Questionnaire

Introduce yourself as follows:

I work for the Kansai Dairy Co-operative. You may have heard that the NCC will stop selling milk in Kansai next year. We are hoping to replace them, but we need some information from our prospective customers. May I therefore interview you?

1. Where do you live?
2. What is the total monthly income in your household?
 - 0 Below \$ 100
 - 0 Between \$ 100 - 300
 - 0 Above \$ 300
3. How many are you in your household?
4. How much milk do you consume per week in your household?
.....
5. When do you buy your milk for your household?
.....
6. Where do you buy your milk?
7. What do you pay for your milk?
8. Do you have any problems in obtaining milk?
.....

Stress the following points in relation to groups' suggestions, when compared with the suggested questionnaire:

- The name of the respondent is not required; some people are reluctant to answer questions if they think that they may be followed up afterwards or if they think the information could otherwise be related to them personally.

- Questionnaires should be as simple and short as possible, no question should be included unless the answer will actually help the co-operative to make a decision.
- It is necessary to remind the interviewer to introduce himself properly so that people will not doubt his intentions.
- Only a small space is given for each answer; if answers are too detailed, it is difficult and time consuming to interpret them and to add them together.

The Kansai Co-operative Dairy

The farmers of Kansai were in some confusion. Three years ago they had been persuaded by the National Creamery Corporation (NCC) to dispose of their traditional animals and to rear high quality graded dairy cattle instead. Technically the move has been a great success and the farmers were soon averaging 15 litres a day from each milking cow. The NCC purchased all the milk for a standard price of 25 cents a litre, collecting it in 1,000 litre containers from nominated collection points. The 100 farmers formed a co-operative society for the purchase of feed concentrates, insemination services and veterinary attention, and their 700 milking cows, along with the offspring which they owned, were rapidly making a very positive economic impact on the area.

A crisis has just arisen, however; the senior management of NCC have been dismissed on charges of inefficiency and corruption. The new director had appraised the operation and concluded that it was basically unsound. The NCC was collecting enormous numbers of small lots of milk, transporting it over long distances, processing it in the large centralised dairy and then attempting in turn to sell milk in the scattered provincial towns, such as Kansai, as well as in the capital.

The new director had concluded that the existing NCC monopoly of milk sales should be ended outside the capital, and that the NCC should no longer be required by law to purchase milk from any farmer or group of farmers able to fill a 100 litre container as the present day regulation stood. The NCC would in future draw milk from large suppliers near the capital city, and sell to the city and its neighbouring communities. The change was to take effect in 12 months' time. Over this period the NCC would continue to collect milk from scattered groups such as Kansai farmers, but they were encouraged to develop alternative outlets.

The Kansai farmers realised that if they did nothing there would be no market for their milk. A few might sell some milk to individual consumers or hotel owners who were able and willing to drive the ten kilometers from Kansai township to the cattle area, but the people of Kansai town were used to regular deliveries of packaged milk, direct to each shop or even their house. It was not likely that they would be willing to collect the milk from the farmers themselves instead.

The farmers were also aware that although the NCC had been selling some milk in Kansai, the existing demand might well not be enough to absorb all their capacity. The records of the NCC were in such a confused state that it was impossible to discover from them how much milk they had been selling through what outlets.

Kansai was a typical rural township with about 30,000 people. It was a district headquarters town, with a number of government offices. There were ten primary schools catering for the local population and a secondary school catering for children from the surrounding area as well as the town. There was also a technical college and a district hospital. There were no large industries, there was one medium sized fruit canning factory and a number of small workshops catering to the needs of the town and the local agricultural community.

NCC milk is packed in cardboard "tetrapacks". Because of poor supervision, the milk is not always of the highest quality and a number of leaking packs were normally found in each consignment. Shopkeepers of Kansai were said not to be very happy with the quality, the packaging, the delivery service or the profit they made on milk, but since there was no legal alternative to NCC, and there was some demand for milk, they bought without too much complaint.

The farmers of Kansai had no marketing organisation as such, and no processing or packaging facilities, since they had always relied on NCC to purchase their raw milk. The committee had thought to apply for a loan for processing equipment and transport vehicles, but the co-operative officer had pointed out that the co-operative bank demanded full feasibility studies before considering loan applications. This was particularly important because it was expected that a number of dairy groups would be applying for funds and that some private organisations would also be interested in the opportunity arising from the NCC's withdrawal. Only the best presented applications, backed by accurate information, would ever be considered.

The chairman of the society realised that the co-operative officer was right. There were obviously a number of alternative ways in which the society could attempt to process its milk. He himself had been on a dairy technology course and he thought he was qualified to investigate

the various technical alternatives. He realised that the choice must depend in the end on the market. He therefore asked the manager to obtain all the information he would need from the market-place. He felt that they should have gathered all the necessary information within a month, in order to allow time for deciding what investments they would make for preparing the necessary facilities before NCC stopped operation in Kansai.

The manager had never been faced with this type of problem before. He only had very limited funds available for obtaining information and would have to depend on his own or possibly on some voluntary assistance from members of the committee or other members. First of all he wanted to decide what information he would need and how he would try to obtain it.

Assignment :

Advise the manager. List the information which is needed. Show how each item of information should be obtained.

topic

5

packaging

SESSION 5

PACKAGING

Objective : To enable trainees to select appropriate methods of packaging for agricultural products.

Time : 2 hours.

Material : Examples of different forms of packaging of the same products such as sugar or flour prepacked or wrapped in newspaper.

Session Guide :

1) In this and subsequent sessions trainees will be considering the different ingredients of the marketing mix. They will identify possible alternatives for:

- Packaging.
- The product itself.
- The distribution outlets.
- The transport methods.
- The promotion.
- The prices.

They will consider the factors which influence their choice of one alternative or another.

Trainees should imagine that the Kansai Dairy Co-operative Society is carrying out the marketing research suggested in the previous session. In session 14 on the basis of this information they will in groups have to decide how the Kansai Dairy Society should market its milk. In the meantime, they will be introduced to the other marketing possibilities, and to the factors to be considered when making decisions as to each "ingredient" of the marketing mix.

Remind trainees by reference to Session 2 that each "ingredient" cannot in fact be considered in isolation. The marketing mix, as its name implies, must be integrated. Trainees will have the opportunity to design an appropriate mix when they receive the "answers" to the Kansai Dairy Society's research.

2) Ask trainees to suggest the function of a wooden crate such as is used for export or long distance internal freight.

a) Protection

- Against damage in handling.
- Against damage from the weather.
- Against theft.

b) Information

- About handling ("This Side Up", "Use No Hooks", "With Care", etc.).
- About destination (through stencilled letters or attached labels).
- About content ("Perishable Goods", "Poison, Handle With Care" etc.).
- About weight.

3) Show trainees an example of an elaborately packaged consumer item such as an expensive bar of soap or detergent. What is the function of such a package?

a) Protection

- Against dirt.
- Against pilferage.

b) Information

- Instructions for use.
- The amount included in the package.
- Analysis of content (when legally required).
- The brand name and the manufacturer.

c) Promotion

- To attract customers' attention.
- To announce or sometimes even to increase the advantages of the product.

- 4) Ask trainees to suggest all the possible ways in which milk can be packaged:

- In glass bottles.
- In rigid waxed cardboard containers.
- In plastic bags.
- In triangular paper tetrapacks.
- In cans.
- In churns.
- In bulk tanker lorries.

Ask trainees to rate each method as high, medium, or low in its effectiveness in carrying out each of the three packaging functions identified, namely, protection, information and promotion. Use a table as shown below.

Trainees suggestions may be as follows:

Packaging Method	Protection	Information	Promotion
Glass Bottle	Medium	Low	Low
Waxed Carton	High	Medium	Medium
Plastic Bags	Low	Medium	Low
Tetrapacks	Medium	High	High
Cans	High	High	High
Churns	Medium	Low	Low
Bulk Tanker	High	Low	Low

- 5) Ask trainees why cans and tetrapacks, or whatever other methods they may have rated most highly, are not used by all producers of milk? Why are churns and bulk tankers still used at all?

a) Cost

Some customers are unwilling or unable to pay more than the absolute minimum costs, and require little information or persuasion. Ask trainees for examples:

- Large bulk users such as creameries, hotels, ice cream manufacturers or other industrial users.
- Poor rural consumers who can collect milk from farmers themselves and for whom saving money is all important.

b) Volume Required (depending on the consumer)

Only buyers such as industrial processors or schools and other institutions are able to buy milk by the lorry or large container load. Although this is the cheapest form of packaging, it is not suitable even for the poorest customers who cannot collect the product themselves.

- 6) Ask trainees to suggest alternative ways of packaging sugar, flour or other products in packages containing the same amount but differing as to the degree of protection, promotion and information they give.

Take the examples of newspaper wrapped and prepacked sugar or flour. Ask trainees to specify the type of consumer and outlets for which each method is appropriate.

Newspaper wrapped as example:

- Poor consumers for whom low price is more important than cleanliness or information.
- Consumers who do not want to buy more even if the product is vigorously promoted to them.
- Consumers who have time to wait in shops, while their purchases are individually wrapped, since they have few profitable alternative things to do.
- Shopkeepers who have space for sacks and the wrapping process.
- Shopkeepers who have cheap labour to wrap the products individually.
- Shopkeepers who are known and trusted by their customers.
- Shopkeepers where there is little effective display space, so that attractive packaging would not be seen.

- 7) Ask trainees what sort of a shop and customer is likely to fit these specifications:

Prepacking:

Wealthier customers buying from self-service shops.

Newspaper Wrapped:

Poorer individual customers buying from small local counter service shops.

Stress that the above is a typical example of the necessity for integrated decisions in marketing: the method of packaging is dependent on the retail outlets as well as on the needs of the consumers.

- 8) Ensure that trainees appreciate that virtually every product can be packed in a number of ways:
- How are their society's products packaged now?
 - Why are they packaged as they are? (Customer's needs, types of outlets used or merely "we have always done it this way".)
 - What alternatives are available? (Vegetables may be cleaned and bagged or sold loose, fresh fruit may be shrink-wrapped in plastic film, grain may be sold in jute bags or loose in bulk.)
 - Are there possibilities, now or in the future, for changes which may improve sales? (Additional costs may be incurred, but will the added value to customers exceed the cost, so that customers will buy more, and at a higher price?)

topic

6

the product

SESSION 6

THE PRODUCT

Objective: To enable trainees to identify appropriate produce related responses to changing market conditions.

Time: 2 to 3 hours.

Material: Micro Cases "Changing Market Conditions".

Session Guide:

1) Distribute the micro cases and ask trainees to "vote" on the different suggestions put forward. Record their preferences; encourage discussion and argue as to their respective merits, and ask trainees to classify the nine suggestions into the following categories:

- Those that advocate a change or improvement in the crop (b, d, g).
- Those that advocate further processing of the crop (c, f, i).
- Those that advocate the resistance to change and protection of the existing market (a, e, h).

Ask those who voted for some or all of the last group, a, e, h, whether they are favouring a market or a product oriented solution: would these proposals be in the long term interests of the society's members?

2) Trainees may well have rejected the "protectionist" views perhaps because the questions have been asked in the context of a marketing course. Ask how farmers, co-operative managers and senior government officials and politicians tend to respond to threats of this sort:

- Some complain but do nothing.
- Some resist change and advocate protectionist measures like suggestions a, e, h.

- Some search for alternative ways of changing their crops, or of carrying out further processing, to overcome the threat.

Ask trainees to identify the most prosperous and dynamic societies in their countries; on which type of response has their success been based?

- 3) Ask trainees what alternatives there are to a dairy co-operative in addition to selling liquid milk.

- They can sell butter, cheese, yoghurt, powdered milk, long-life milk or cream.

These are all products which can themselves be made direct from milk; ask trainees to identify the processing stages which crops such as coffee, tea or wheat go through before final consumption.

Coffee

- Pulping.
- Roasting.
- Blending.
- Grinding.
- (Conversion into instant coffee).
- Actually making coffee.

Tea

- Chopping.
- Fermentation.
- Drying.
- Blending.
- Packing.

Wheat

- Milling.
- Baking.

Some farmers, particularly large plantation owners, undertake the whole process and even sell through to the final consumer through their own retail shop.

Other farmers of all sizes sell their crops unharvested to another organisation which arranges to harvest, transport and process their product.

Co-operative marketing societies are themselves a response to the need of generally smaller farmers to combine their crops for marketing and possibly certain processing activities. What factors determine the extent to which farmers, or their societies, should themselves undertake processing of their crops? Elicit and list the following facts:

- The level of demand for the product.
- The technical feasibility and cost of transporting the product at each stage of processing.
- The type and cost of the equipment necessary for processing.
- The volume of product produced.
- The finance available to the society.
- The technical and management skills available to the society.

- 4) Many agricultural societies act as if their activities can never change; ask trainees to examine the above list and to suggest whether each factor is fixed or likely to change in relation to the products of their societies. In most cases change can be expected. Ask trainees for examples of changes which have drastically affected the nature of the society's business.

Examples may include:

- New varieties dramatically increase production and reduce costs.
- Co-operative lending schemes make funds available.
- New machinery reduces the minimum scale at which it is economic to carry out certain processes.
- Customer demands change.

Ask trainees for examples of these and other changes which have led them or other co-operatives to increase (or reduce) the amount of processing they carry out. Are there other changes to which they

have not yet reacted, or should their societies be proposed to modify products now in view of probable future changes?

- 5) Check that all trainees are aware of the most important final uses to which the products which their societies market are put. Ask them for how many years their members have been producing their present crop; what guarantee is there that they will be able to sell the same crops for the same uses in 10 or 20 years from today?

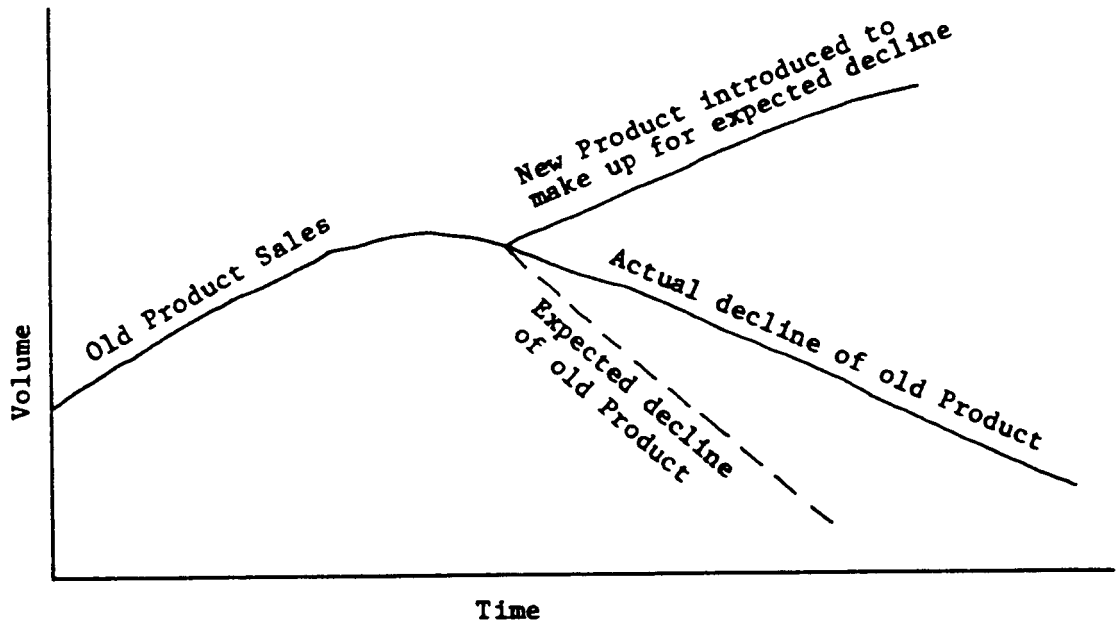
Ask trainees to imagine that they knew without doubt that demand for their members' present cash crop would disappear within ten years; what would they do now? Suggestions should include:

- Investigate alternative use for the same crop. (Gasohol for sugar cane or maize, industrial starch for cassava, etc.)
- Investigate possible modifications to the existing product which will prolong or restore its marketability.
- Improve varieties, greater standardisation, different timing of harvest.
- Prepare an "audit" of the members and the society's existing physical resources and skills and identify items such as:
 - Land quality and capacity.
 - Water availability.
 - Labour availability.
 - Farmers' cultivation and the society's management and marketing skills.
 - Seasonal employment factors.

Identify as many as possible alternative crops which could be produced with the same resources and skills; assess their likely future demand and plan to devote all or a part of the society's membership to these new products. (Examples might include small-scale handicraft manufacture, fresh fruit or flowers, intensive poultry raising, tourism, etc.)

- 6) Remind trainees that most products may eventually go out of fashion; should they not prepare contingency plans for change which may develop into additional sources of income?

Illustrate on the chalkboard/OHP the way in which preparation for a product obsolescence can lead to increased income, if the judgement about the existing product's rate of decay is too pessimistic.



Stress that only change is certain. If co-operative societies are ready for change, they will protect members and may significantly increase their incomes even if things do not turn out as expected.

Changing Market Conditions

Study the problems below and decide which of the different suggestions you yourself would have followed.

Case 1

A new synthetic fibre called polypropylene was developed. String manufactured with this was resistant to rotting and more consistent in its properties than sisal's string, so that farmers all over the world who used to use sisal in their hay and straw baling machines, changed over to the new fibre. It was less expensive, the bales did not break when they had been damped for a long period and the fibre worked more easily in the baling machines. A co-operative union whose members were primarily dependant on sales of sisal saw that this development would seriously damage their business. At a committee meeting, three very different suggestions were put forward for dealing with the threat.

Member A suggested that the union should ask the government to instruct its delegates at international gatherings to protest about the change which would deprive some farmers of their income. They should mobilise political support and attempt to boycott the products of the multi-national chemical company which had developed the new fibre. He suggested that the invention was part of a neo-colonialist plot to subvert the economy of developing countries. As loyal citizens their task was to protect their country's traditional crops.

Member B said that they should ask the country's agricultural research institutions to undertake research into new types of sisal plants, in order to produce more consistent and durable fibres. It was well known that foreign carpet manufacturers were starting to use the better grades of sisal for carpet backings; the union, he said, should vigorously promote its members' product to this new market.

Member C said that they should consider setting up a factory to manufacture sisal bagging material and sacks, which were in short supply in the country because they presently had to be imported from abroad. He agreed that this would require substantial investment and major modifications to the union's management structure, since they had originally been set up as an agricultural marketing organisation, with very simple

processing facilities, and would now have to undertake a manufacturing business as well. He argued that it was nevertheless the only thing to do.

Case 2

A large number of sheep farmers in a certain country were dependant on the local market for wool. Fashions changed, and people came to prefer lighter more clinging garments which could not be made from the coarse very durable wool produced by the local farmers, and the demand for their wool fell dramatically. A prominent sheep farmers' society held a meeting to discuss the problem; three different recommendations were put forward.

Member D suggested that they should use their accumulated resources to finance the import of breeding animals from abroad and to assist members to finance the purchase of new sheep with finer wool. They should subsidise the slaughter of the original sheep and introduce an advisory service to help farmers with the special problems involved in breeding and caring for the unfamiliar animals.

Member E pointed out that one of their main customers' was the co-operative owned wool spinning and knitting factory. They should bring pressure to bear on the management of this factory to ensure that they would only buy the traditional wool. The National Co-operative Union should also conduct an advertising campaign on the theme that loyal citizens of the country should use the tough national wool as a matter of duty.

Member F said that they should start a factory to dye and spin their members' wool so that it could be sold for home knitting on the local and export market, since a substantial minority preferred harder wearing wool, and were disappointed that garments made from it were no longer available. The society should also investigate the possibility of carpet manufacturing, since this required the hard wearing wool which their own members produced.

Case 3

As people's incomes increased, they came to prefer bread from imported wheat rather than the traditional national staple made from maize. As a result, the local market for maize was less buoyant and the National Cereals Board found it necessary to sell the farmers' surplus on the international market, at very low prices. The management of one of the more important maize marketing societies recognised that this was a major threat to their members' income; a number of different proposals were put forward when the subject was discussed in committee.

Member G suggested that membership be encouraged to diversify their crops; there was an increase in local demand for fresh vegetables and the society should re-direct its training and extension efforts in order to introduce members to the various foreign vegetables which were now becoming popular. They should set up marketing contacts with the wholesalers and retailers who purchased these crops.

Member H thought that the trend to, what was after all a foreign food, was a disturbing indicator of the country's cultural decline, as well as being a drain on scarce foreign exchange resources. He suggested that the society's representative at the National Co-operative Congress should press for a ban on the import of wheat. In their own society they should ensure that members were properly informed of the superior nutritional value of maize as a staple food.

Member I recommended that they should contact other societies and put forward the idea of constructing a maize starch plant. This would be a major investment, far beyond the capacity of any one society, but he thought that the market for industrial starch was far steadier than that for raw maize. And in any case much of the maize sold abroad was used for this purpose. Why should the profit and the employment associated with the processing plant not benefit the farmers who grew the maize?

topic

7

distribution outlets

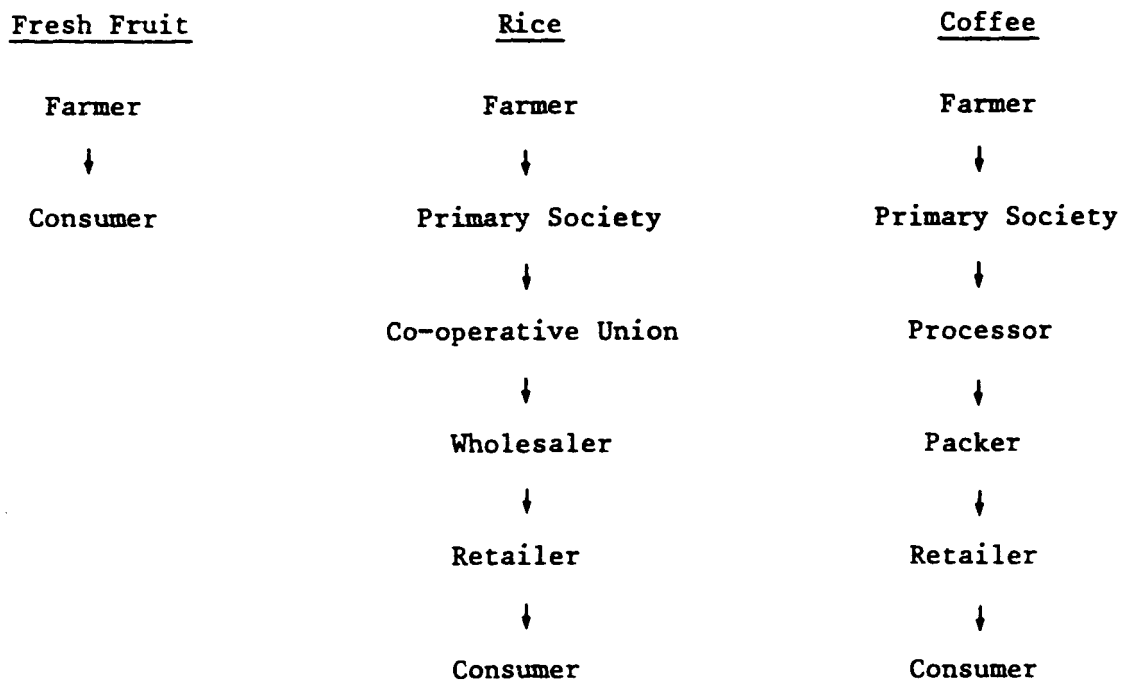
SESSION 7DISTRIBUTION OUTLETS

Objective : To enable trainees to select appropriate distribution channels for their members' produce.

Time : 1 to 2 hours.

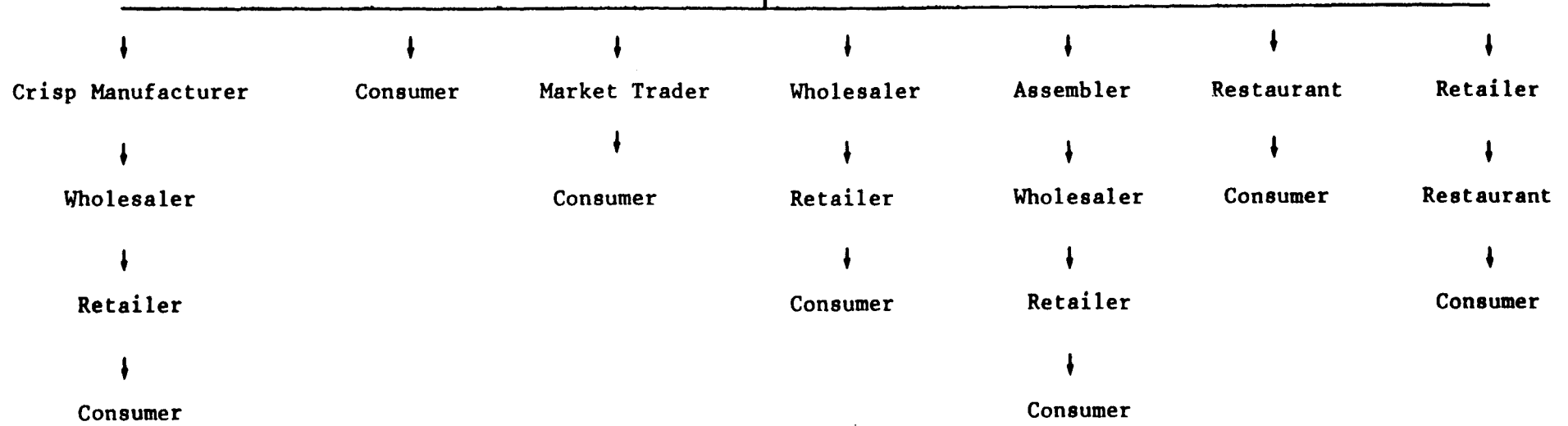
Session Guide :

- 1) Remind trainees of the various "customers" they identified in Session 4. Ask them to list the different outlets through which their society's products pass on their way to the final consumer. Illustrate these channels by diagrams of this form:



- 2) Ask trainees to write down in this form as many different sets of outlets through which a common locally consumed agricultural product produced by their members might reach a domestic consumer. A typical suggestion might be as follows:

Potato Farmer



Stress that a given product, even from the same farmer or society, may go through a number of different sets of outlets, depending inter alia on the season and the particular individual who eventually consumes it.

- 3) Ask trainees to list the functions that are performed by whatever set of outlets or "middlemen", handling their produce between the farm and the consumer. This will be no more than a revision of the ingredients of the "marketing mix" but the exercise will serve to remind trainees of this.

Ask trainees to allocate each function to each outlet in a particular set which is familiar to them. Put this up on chalkboard/OHP in this form:

Farmer: grows, delivers to central collection point.

Wholesaler: collects, grades, stores, delivers.

Retailer: promotes, stores, packs, gives credit.

Consumer: transports from shop, finally processes, consumes.

- 4) Trainees may have included their own society as one of the alternative outlets, or they may have placed it between the farmer and all the others since they believe that members do, or should, market all their produce through their society. Discuss:
 - What functions do their societies perform?
 - If members are bound to be "loyal" to their society, that is to market all of a particular crop through it, are they in fact "loyal" or do some of them market some of their produce through other outlets?
 - If some members are "disloyal", is this because alternative outlets provide either the producer, the subsequent outlets in the system or the final consumer a better or less expensive service? Should "loyalty" be based on compulsion or on voluntary choice of the society as the best outlet?

5) Ask trainees why some products and some consumers require a "longer" or more "complicated" set of outlets with many different organisations involved in the marketing of the produce, while others can be effected with two or, one or even no "middlemen" at all. Elicit a list of variables which will determine the type and number of outlets to be used:

- Distance between producer and consumer.
- Need for processing or packaging.
- Need for credit for producer and/or consumer.
- Amount purchased at a time by the consumer or produced at one time by the producer.
- Difference between the time produced and the time consumed.
- The need for promotion or information.

The word "middlemen" often has unsatisfactory associations. Stress that the above needs have to be satisfied, and that producers may not be in a position to do this themselves. The marketing function often has to be performed by other organisations.

6) Suggest that although the phrase "gross margin" is often used to describe the difference between what is paid for a product by a marketing outlet and what the product is sold for, it is not all profit: the marketing functions cost money. Present the following alternative ways of evaluating the cost of marketing, that is the difference between the farmgate price and the final selling price.

Farmgate Price	=	\$1
Final Selling Price	=	\$3

Approach A: It cannot be right for the farmer to get one third of the final selling price only, while the marketing outlets receive two thirds".

Approach B: "Exactly what are the marketing outlets doing for \$2? Does it maximise satisfaction and thus sales to the consumers, or could it be done better or less expensively by any other combination of marketing outlets?"

The Proportion of the final selling price spent on marketing is unimportant. What matters is how much is spent in relation to how effectively the marketing task is performed.

- 7) Many large-scale marketers are in a position to select, control, or if necessary set up their own marketing outlets. Stress that most small farmers and primary societies must select the best outlets through which to sell. But they must also sell to them effectively since many other producers may also be competing for the services of these outlets. In order to sell to marketing outlets effectively it is necessary to be aware of what marketing outlets need.

Ask trainees to suggest what marketing outlets (that is middlemen) really need:

- A reasonable margin, covering costs and producing some profit.
- Products that are easy to store.
- Products that can easily be sold to the next outlet in the marketing system, or to the final consumer.
- Credit from the producer.
- Reliable supply at constant prices.

Ask trainees which of these needs may be inconsistent with the consumer's needs.

Clearly consumers want a low price. Producers, however, must not aim for so low a final price that it is impossible for middlemen to perform the service needed by consumers. This will not serve producer or consumer interests in the long run.

- 8) Trainees may feel that any discussion of alternative distribution outlets is irrelevant or even frustrating, since there are no alternatives to whatever channels they presently use, however unsatisfactory these may be. The lack of choice may be caused by the fact that there is only one outlet available, or because societies are legally required to sell only through a certain channel. In either case, managers are often tempted to despair and lose interest, because they feel that there is nothing they can do.

Remind trainees that even in a severe drought some farmers still manage to do better than others because they try to improve things by digging irrigation channels or in some other ways. Other farmers despair and do nothing and suffer even worse as a result. In the same way, co-operative managers should try to improve even on situations which appear hopeless.

Ask trainees to suggest ways in which a manager might try to improve their distribution channels even if there appear to be no alternatives:

- They could try to assist their existing channels to manage their own operations more effectively.
- They could try themselves or together with other societies to develop alternative co-operative owned channels.
- They could investigate the possibility of further processing so that their crops could be sold in a different way.

How can co-operative society managers improve their distribution channels if the law requires them to use a particular board, union or other officially supported body:

- They could discuss the problem openly with the local manager of the distribution organisation, in order to identify ways in which the society could make his job easier.
- They could investigate the possibility of further processing, so that their products would escape the law and be able to be sold however they wished.
- They could investigate the possibility of members producing different crops altogether which would not be tied to the unsatisfactory distribution channels.

There is no guarantee that any or all of these steps will necessarily improve the situation. A good manager must nevertheless attempt in every way to improve the operations of his society.

topic

8

exclusive or
non-exclusive outlets

SESSION 8

EXCLUSIVE OR NON-EXCLUSIVE OUTLETS

Objective: To enable trainees to decide whether they should entrust the distribution of their members' produce to exclusive or non-exclusive marketing outlets. (If trainees are bound by law to sell their society's produce through certain outlets only, this session may be omitted, or it should be made clear that it relates to any future crops which they may care to introduce to their societies where the marketing channels would be at the discretion of the management.)

Time: 2 hours.

Material: Tape Dialogue "The Manager Meets The Distributor".

Session Guide:

- 1) Play the tape dialogue, or if a player is not available ask two trainees to enact it. Trainees should listen carefully.
- 2) Ask trainees what Mr. Seth should do now. They may suggest:
 - Mr. Seth should accept the proposal and appoint Premier as exclusive distributors.
 - Mr. Seth should reject Mr. Das's proposal and sell their pineapples to every firm that wishes to buy them.
 - Mr. Seth should obtain further information before making a decision.

The last response is clearly correct. Ask trainees what information the manager should obtain before making a decision. Elicit the following items among others:

- The financial standing of Premier Distributors.

- The willingness of Mr. Das to guarantee a minimum quantity of pineapples to be bought each year, at a fixed price.
 - The number of years for which Mr. Das wishes to obtain exclusive distributorship rights.
 - The identity and experience of any other producers whose products are handled exclusively by Premier.
 - The views and business experience of wholesalers and retailers who buy from Premier Distributors.
 - The extent to which sales of fruit are affected by promotion, as opposed to price alone.
 - The management and financial capacity of the society and the manager to control the marketing process.
- 3) Remind trainees that if their own societies demand, or are legally empowered to require that members market their produce solely through them, they are acting as exclusive distributors for their members, just as Mr. Das is proposing to Mr. Seth. Similarly, if their own societies have to market their members' produce through a particular co-operative union, they are in the same position as Mr. Seth if he accepts Mr. Das's proposal, with the exception maybe that they perhaps never had the opportunity to choose.

Ask trainees:

- Are they or their members free to choose whether or not they can grant exclusive distributorship rights to the co-operative?
 - If they were free would they prefer to market their produce through a number of different organisations?
- 4) Ask trainees to suggest the advantages and disadvantages of working through a sole distributor. Elicit the following points and others:

Advantages

- Producers can rely on the marketing skills of the distributor.
- New produce can benefit from the strong market reputation of a well established distributor and his other products.

- Marketing activities can be financed by distributor.
- Demand can be forecast more easily.
- It is administratively simpler and less expensive to deal with a single customer.
- The producer and the exclusive distributor can work together closely to evolve an effective marketing programme.

Disadvantages

- The producer relies completely on one outlet; if it fails the whole market is lost.
- The credit risk is concentrated on one customer.
- The distributor may exploit the producer's dependence by forcing prices down or demanding other concessions.
- The producer is cut off from new innovative distributors.
- The producer is effectively delegating the whole marketing function; he himself can never learn to be an independent marketer in this way.
- Customers who for any reason do not purchase from the sole distributor are totally cut off from the producer.

5) Ask trainees for which type of producers it would be wise to rely on one exclusive distributor.

- Producers without marketing experience.
- Producers with weak financial resources.
- Producers whose product is new to the market.
- Producers lacking customer contacts.
- Producers with weak administrative capacity.

Ask trainees whether this description applies in any way to their own societies, or to their members.

Stress that even the largest, strongest producers and manufacturers often find it necessary to work through sole distributors, particularly in foreign markets.

A sole distributor can fill certain gaps for a producer, but a producer must be capable of controlling and monitoring the marketing effort, even if he is not implementing it. This requires good management and knowledge of marketing methods, which will be dealt with in the next session.

The Manager Meets The Distributor

Mr. Seth is manager of the Alpha Pineapple Growers Society. This society was founded recently in order to market members' pineapples, which were previously bought from individual farmers by merchants who paid very low prices and often failed to buy the whole crop at all. The society plans to collect, grade and pack its members' pineapples, and then to arrange for them to be sold to wholesalers and retailers in urban areas. The manager has called on Mr. Das, the manager of Premier Distributors, to discuss how they might do business together.

Mr. Das: I'm delighted that you came to see me Mr. Seth. I have watched your members' excellent fruit being mishandled and poorly marketed in the past, and I'm sure that you'll be able to do better with us.

Mr. Seth: Thank you Mr. Das. Everyone agrees that our pineapples are as good as any, and we are making sure that they are properly graded and packed. What we have to do now is to make sure that they are marketed as they deserve to be.

Mr. Das: Excellent. And if I may, I would like to congratulate you for coming to see us. Premier Distributors is the best firm in the area and I'm very pleased that you plan to entrust us with your distribution.

Mr. Seth: I see; perhaps you would tell me how you will be able to help us.

Mr. Das: I know I don't have to give an experienced co-operative manager like you a lesson in marketing. Quite simply, we can transport, promote and sell your pineapples in such a way that everyone, consumers and your members alike, will be satisfied.

Mr. Seth: This is excellent, maybe you could tell me how many tons you think you could take next season, so that I can allocate our crop accordingly.

Mr. Das: Now excuse me, don't get me wrong. When I say I am sure we can market your pineapples, I am naturally assuming that Premier Distributors will act as the sole exclusive distributor for your pineapples.

Mr. Seth: I'm not sure I understand.

Mr. Das: I see, well, let me explain. Your pineapples are of the highest quality but up to now they have been virtually unknown in the market because they have been distributed by large numbers of backstreet traders. What you need is a well planned, soundly financed and totally consistent marketing plan. Our sales representatives, our vehicles and our reputation can do this for you.

Mr. Seth: Of course, but what has this got to do with "exclusive", as you call it?

Mr. Das: Well, let me ask you a question. Supposing we were to invest heavily in the type of marketing effort I'm talking about and we generate a steady demand for your pineapples. This will cost us money, which I hope, we shall get back by selling lots of pineapples. Do you agree?

Mr. Seth: I suppose so.

Mr. Das: Well, what do you suppose our customers will do if you yourself, or some other trader who has not spent any money generating demand, comes along and offers them your pineapples at a slightly lower price than we can, because he has not spent any money on marketing. Will our customers prefer to buy from us or from the newcomer?

Mr. Seth: I'm not sure . . .

Mr. Das: I'm afraid I am. Our traders are fiercely competitive and I would never expect any trader to pay more than was necessary for the same product. In fact, I'd call him a fool if he did.

Mr. Seth: I see what you mean. But where does all this get us?

Mr. Das: It's quite simple; we can only do your pineapples justice if you agree to sell everything you produce to us. Then we can be sure that nobody else can come and undercut us after we have created the market at substantial expenses.

Mr. Seth: I can understand your point, but I must say this is all rather a surprise. I am pleased that you want to do business with us, but you are not the only fruit distributor in the area you know. I'm not sure about pineapples, but I have always believed that you should not put all your eggs in one basket!

Mr. Das: It's up to you of course. I'm not denying that we have competition but Premier is without doubt the best established firm in the area. We do things properly, but we must be protected.

Mr. Seth: I see, I don't know what to say.

topic

9

physical distribution

SESSION 9

PHYSICAL DISTRIBUTION

Objective : To enable trainees to select appropriate methods of transport, and to identify and quantify the costs and benefits of storage.

Time : 2 hours.

Material : Micro Cases "Distribution".

Session Guide :

1) Ask trainees what they expect of the transport which their societies own or hire for carrying their members' produce. They may mention:

- Speed
- Reliability
- Safety
- Economy

Ask whether all these features are consistent. Clearly the fastest service is not usually the cheapest. Ask trainees what method they actually apply when selecting transport.

They may refer to low price and availability. Point out that if alternatives are available, the decision must be based on measuring and comparing transport benefits and costs.

2) Ask trainees why their members' produce is stored at various times between harvest and consumption. Elicit responses such as:

- To accumulate sufficient volume to make up an economic load for a vehicle or a machine.
- To await transport.
- To allow for the fact that consumers may not wish to consume produce at the same time as it is harvested.
- To wait for higher prices.

Here again, storage costs are being incurred in return for certain benefits. It is necessary to measure and compare storage costs with benefits in order to make optimum storage decisions. •

- 3) Distribute the micro cases and allow trainees up to 15 minutes to work out Case A individually.
- 4) Ask trainees for their answers. Stress that the answers to this and to the following examples must be calculated. It is necessary to work out the costs and the benefits of each alternative, and to see which is most profitable. Elicit and go through the calculations as follows:

Selling price when transported by lorry	1.00 a kilo
Cost of transport by lorry	<u>0.25</u> a kilo
Price net of transport	<u>0.75</u> a kilo

Selling price when transported by rail	0.90 a kilo
Cost of transport by rail	<u>0.10</u> a kilo
Price net of transport	<u>0.80</u> a kilo

It is therefore better to transport by rail, although it is slower. Stress that trainees must show good reasons to go against this very significant price difference. Such reasons may be:

- The society may be trying to acquire a reputation for high quality fruit production in order to be able to charge higher prices in future.
- The train may be very unreliable and fail even to achieve the estimated time on a number of occurrences, leading to even lower prices.

- 5) Allow trainees up to 15 minutes to estimate an answer for Case B. Ensure that every trainee has attempted to calculate the answer and then elicit and work through the calculations as follows:

<u>Cost of air freight</u>	=	\$ 250
Cost of sea freight	=	\$ 100
Cost of interest lost on \$4,000 for three months at 1.5% per month	=	\$ 180
<u>Total cost of sea freight</u>	=	\$ 280

Air freight is thus "cheaper" and to be preferred.

Ensure that all trainees understand the time value of money, which is fundamental to transport and storage decisions. Ask any trainee who appears not to be clear, whether he or she would prefer to receive \$100 today or in three months' time. Their answer, and their willingness to take a lower sum today in return for immediate rather than delayed use of the money, should demonstrate the concept to them.

- 6) Allow a further 15 minutes for Case C. Again, ask trainees for their answers and work through the calculations as follows:

- Cost of bus transport = $(250 \times 10 \text{ cents}) + \$25 \text{ loss for breakages} = \underline{\$50}$
- Cost of transport by car = \$40
- Car is therefore preferable.

Ask trainees what they would have concluded if both costs had been equal. The value of individual personal service is important although difficult to value in money terms. The specialised carrier is probably to be preferred over the bus even if it is marginally more expensive.

- 7) Allow 15 minutes for Case D. Elicit and go through the calculations as follows:

- Selling price of potatoes transported by lorry = \$4 - \$1 transport = \$3.00
- Selling price of potatoes transported by ox cart = \$3 - 10 cents \$2.90

- The lorry is marginally preferable, but any further price increase is likely to alter the situation. The potential competition might be used to bargain with the lorry operator for a lower price.

8) Allow trainees 15 minutes to calculate an answer for Case E. Trainees may not at first appreciate that storage and transport decisions are fundamentally similar. Explain that costs and benefits must be estimated and compared in the same way. Elicit and work through the calculations as follows:

- Cost of Storage for three months

\$300 rent + \$30 insurance + loss of 3% interest on \$200 x 50 tons = \$630

- Benefits of Storage for three months

50 tons x \$12 per ton higher price = \$600

- It is marginally better to sell at once and avoid storage. But if the expected price rise is likely to become larger, the decision should be reconsidered.

9) Remind trainees that storage and transport decisions are closely linked. Different forms of transport often require different types and durations of storage.

Stress the major factors to be considered in making transport and storage decisions:

- Cost of transport or storage itself.
- Insurance.
- Risk of loss or damage.
- Price reduction through perishableness or loss of market opportunity.
- Price increase through passage of time.
- Value of use of money which may be tied up in produce in transit or in storage.

Distribution

Case A

The manager of the Alpha Orchard Society had to decide how to transport his members' fresh fruit to the market. He could hire a lorry which worked out at 25 cents a kilo. It took a day to reach the town and the fruit was sold for an average price of \$1 a kilo. Alternatively they could use the railway, which only cost 10 cents a kilo. This took up to five days however, and the fruit would only fetch an average of 90 cents a kilo because it was not so fresh. Which transport benefits the society most?

Case B

Coffee was like gold, thought the manager of the Beta Coffee Growers Society. It was worth \$4,000 a ton at the time. The society's overseas customers paid as soon as they received their coffee and the money could be put on deposit for six months before members' accounts were finally settled. The interest payment at a rate of 18% per year went a long way to covering the society's costs. The voyage by sea took three months, and freight cost \$100 a ton. Some people were even shipping by air, but the manager knew that this was foolish. The cost of air freight was \$250 a ton which was over twice as much as by sea. The coffee was anyway stored sealed in the ship so that it did not lose any value during the long sea voyage. Overnight service was all very well for people or urgent spares, but it was quite unnecessary for routine shipments of coffee he thought. Was the manager right? Calculate costs and benefits.

Case C

As a result of improved poultry and better feeding the members of the Gamma Poultry Society were now producing 250 dozen eggs a day. Their success posed a transport problem however. The hotels and grocery shops in the region were happy to buy as many eggs as the society could produce, at \$1 a dozen. The local bus driver delivered the eggs at the various villages along his route for ten cents a dozen. He often claimed that the eggs were broken, and the manager estimated that they

lost about 10% of the eggs in this way. Now an enterprising operator proposed to deliver the eggs in his own vehicle. He would charge \$40 a day to deliver each day's production, and he said he would take responsibility for any breakages. The members were not sure what to do. What decision should they take?

Case D

Diesel fuel was becoming more expensive every month, and the members of the Delta Vegetable Growers Society were paying out more and more to transport their potatoes to the market. Now it cost \$1 to transport each bag, and they only sold for \$4 a bag. On one or two occasions the lorry had been delayed, and by the afternoon the price had fallen to \$3 in the market. One member suggested, as a joke, that they should go back to ox carts like the old days. The traditional cart could carry 20 bags, and he said he would still be happy to take a load to the market for \$2, since he would be going anyway. He could not travel by night, though, because of thieves and wild animals, so he would not be able to reach the market until the afternoon. Which alternative benefits members most?

Case E

It cost the Eta Society \$100 a month to rent the warehouse, and a further \$10 a month to insure the corn they stored there. This was a heavy expense, particularly when they had to borrow money for paying the farmers for their produce at 12% a year. The manager thought it was worth it though; the warehouse held 50 tons of maize, and he knew that the price would go up from \$200 to \$212 a ton during the three months' storage period. Some members of the committee disagreed however. They said that the society should be happy with \$200. This was far higher than the price five years ago they pointed out. Calculate which alternative is best?

topic

10

marketing
communications

SESSION 10

MARKETING COMMUNICATIONS

Objective: To enable trainees to design an appropriate "communication mix" for their society's products.

Time: 2 hours.

Material: A selection of newspapers, posters, leaflets, journals and a tape with recorded radio advertisements.

Session Guide:

1) Ask trainees to recall the last item they purchased, whether it was a packet of cigarettes, a newspaper or anything else. Connect their purchase with what they learned from earlier sessions: the product was presumably what they wanted, and it was in a convenient place for them to purchase it. What other tasks had the manufacturer, and/or the seller, to perform to enable the article to be sold?

- The prospective purchaser had to be informed that the item was available.

Ask trainees how they acquired the information about the item they bought. They may not associate some forms of promotion with advertising or marketing, but stress that some form of communication had to take place and that this is promotion.

Elicit a selection of promotional methods which gave the information about their most recent purchase. These may include:

- Visual Display: fruit in a market, cigarettes on a roadside stall or kiosk.
- Voice: a newspaper vendor shouts to announce his presence or a music shop plays tapes or records to encourage customers to purchase.
- Print: the owner of a second-hand car advertises it in a newspaper.

2) Choose a particular item purchased by a number of trainees. Ask them to identify as many different forms of communication or promotion as possible which may have influenced their purchase. In the case of a packet of cigarettes these might include:

- Newspaper advertisements for the cigarettes.
- Posters advertising the cigarettes.
- Radio or television commercials.
- The package itself displayed by the seller.
- The seller's voice calling attention to his presence.
- Other people's opinion of the cigarettes or verbal information about where it could be obtained (particularly in the case of scarce commodities).

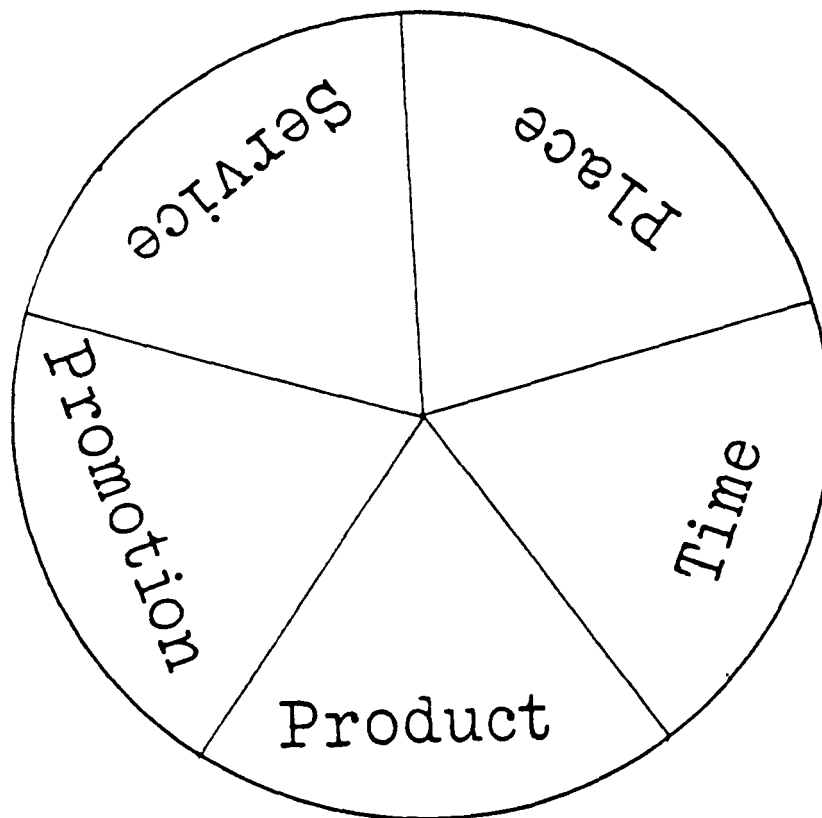
3) Allow trainees up to 15 minutes to list on paper as many examples as they can of ways in which producers or traders, promote the products to their customers. Ask each trainee to give one method, and continue until a long list has been produced on the chalkboard/OHP.

- | | |
|--|----------------------------------|
| - Newspapers | - Magazines |
| - Posters | - Leaflets |
| - Mail Circulars | - Radio |
| - Television | - Shop Display |
| - Printing on Packages | - Painted Vehicles |
| - Cinema Advertisements | - Loud Speaker Vans |
| - Fairs and Exhibitions | - Shouting |
| - Sales Representatives | - Sponsorship of Sporting Events |
| - Information Given to Journalists for Inclusion in Editorials | - Demonstration |
| - Competitions | - Free Samples |
| - Carrier Bags | - T-Shirts |

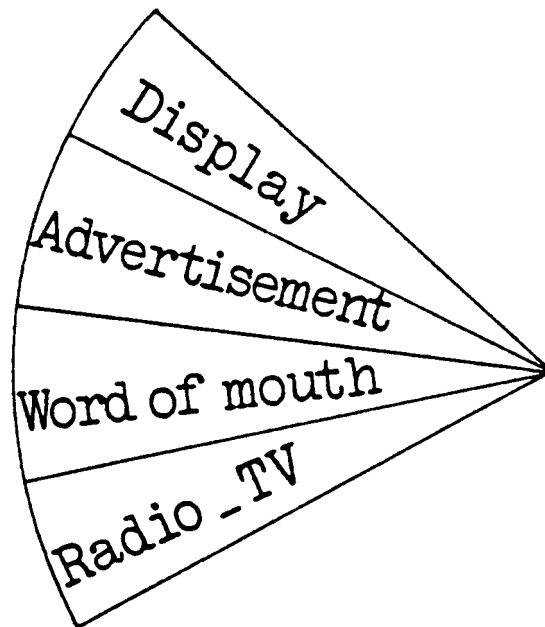
Check by reference to examples that trainees know what each of these methods are. The actual words or classification is unimportant.

ant; the purpose is to appreciate the vast range of potential methods or "media" available.

- 4) Stress that all these make up the "communication mix" which eventually leads the customer to make the purchase in question. Remind trainees of the "marketing mix" illustrated by the circle with segments of various sizes.



Show that the promotion segment itself consists of a number of different methods of communication, which can be used to a greater or lesser extent to achieve the final objective of a sale. Illustrate this by reproducing the promotion segment and dividing it as below:



5) Ask trainees whether any single component of the communication mix which was identified for the purchase analysed earlier would on its own have been enough to lead to the actual sale. Trainees may suggest that the site of a newspaper vendor, or cigarettes on display in a kiosk was all that was required:

- Would they buy a newspaper they had never seen before just because it was sold on the street?
- Would they buy a totally unfamiliar brand of cigarettes just because it was on display in a kiosk?

Clear display alone is not enough. People will not even buy tomatoes in a market unless they already know what tomatoes are and what they taste like.

Ask trainees whether knowledge of a product's existence is on its own enough to make someone buy it:

- The potential customers must be aware that a product exists.
- Potential customers must believe that the product is the one which is suitable for them.
- Potential customers must be motivated actually to buy the product (usually by information about where and how to obtain it).

6) Distribute examples of newspapers, leaflets, posters and other advertising material and, if appropriate, play examples of radio commercials. Ask trainees to suggest the objective of specific examples:

- Is it trying to make potential customers aware of the existence of a product or service?
- Is it trying to make potential customers prefer a particular product or service?
- Is it trying to finalise or close the actual sale?

Use display advertisements, classified advertisements and posters to provide a range of examples.

Clearly every type of promotion is intended to lead eventually to a sale. The purpose of this exercise is to identify what part of the total communication process is achieved, or intended to be achieved, by a particular example.

Attempt to use examples promoting products of different value, such as cigarettes and cars. Show that personal promotion, by the salesman, becomes more important when the value of the sale increases.

7) This session so far has concentrated on trainees as consumers. Ask any trainee to describe the communication mix used by his society to inform and persuade customers to buy its members' produce. Many co-operatives have a promotion mix of the following form:

- Information about the specific products of the society is unnecessary because it is a "commodity" which is not different from the product sold by other agricultural marketing organisations.
- Persuading customers to prefer a product is largely achieved by price negotiation, or by better transport or other associated services.
- The sale is actually closed as a result of a personal meeting.

Ask trainees whether their society markets their members' produce in this way. If so, is there any way in which promotion of any kind can improve results:

- Advertising, mail circulars and personal contact can increase the number of potential customers that reduce dependence on one outlet and strengthen the society's price bargaining position.
- A society can carefully analyse its products and services in comparison with its competitors. Even if the product is very similar, small differences in quality, regularity of supply, delivery or other factors can only be exploited if customers know about them; they must be promoted.
- A society can at least investigate the possibility of "differentiating" its products by different quality, processing, packaging, and establishing a higher and more stable price level which is to some extent insulated from the basic commodity price; this requires promotion.

8) In other cases the customer and the price are fixed and outside the control of the society. Sales are automatic and neither the buyer nor the seller can make any decision whether or not to sell or buy. Is there any way in which promotion can improve members' income when marketing appears to be wholly outside the control of the society: such as when all produce has to be sold at fixed prices to a tertiary level co-operative union or agricultural marketing board?

- If the law allows, a society may investigate the possibility of developing alternative local markets by promoting its own products.
- A society may provide more opportunities to members by "promoting" new products for which an independent market may be developed.
- A society's management has a responsibility for the effectiveness of its marketing outlets, even if these are legally imposed. Management should examine the communication mix used by the society's customers, whoever they are, and make suggestions for improvement when appropriate.

- Even in a fairly small society, communication with members is not always effective. The techniques of promotion and marketing communications should be used in order to ensure that all members are aware of the society's services, that they prefer to use them, and that they actually do use them. (Refer to the MATCOM course on Supply Management.)
- 9) Remind trainees of the Kansai Dairy case study; they will have an opportunity in a later session to design a communication mix for a primary co-operative marketing society. At this stage they should examine their own society's present products and potential to see whether there are opportunities for improving results through promotion.

topic

11

personal selling

SESSION 11

PERSONAL SELLING

Objective: To enable trainees (i) to identify the role of the salesman and (ii) to sell their society's products effectively.

Time: 2 to 3 hours.

Material: Tape Dialogue "The Co-operative Salesman - One" and "The Co-operative Salesman - Two".

Session Guide:

1) Remind trainees that the previous session mainly dealt with advertisements by radio, newspapers, posters or television. Ask trainees to suggest the fundamental weakness of "media" of this sort as a form of communication between a society and its customers, as compared with "personal selling".

- Advertisements are a "one way" form of communication. There is no opportunity for the advertiser to tailor make the message for each individual customer, or to deal with objections.
- In addition, advertisements cannot gather "feedback" from customers about their preferences, as a basis for future marketing activities.
- Advertisers cannot be sure that the advertisement will reach the people for whom it is intended.
- Except for products which can be sold through mail-in orders, advertisements cannot deliver products, take orders or collect money: the finalisation of a sale must actually depend on other means.
- Advertisements cannot physically demonstrate the merits of the product.

2) Ask trainees to give examples of "personal selling" to which they have been exposed as customers. Ensure that trainees all appre-

ciate that shop assistants, travelling salesmen or the chief officer of a large organisation are all sales representatives when they are face to face with a customer or potential customer in some part of the process leading up to a sale.

Why are sales representatives not the only form of promotion used?

- Sales representatives are expensive.
- Sales representatives cannot be directly and continuously controlled by their employer.
- Sales representatives can only reach a very small number of people within a given time.

- 3) Ask trainees to estimate the cost of a typical sales representative meeting with a customer, and to compare this with their estimate of the cost of communication with a customer by a newspaper advertisement or a radio commercial.

Clearly their answers will depend on local salary levels and the type and size of advertisement used but typical figures might be as follows:

Advertisement

- \$500 for an advertisement reaching 50,000 people.
- Cost per Contact = 1 cent

Sales Representative

- Salary and Expenses = \$5,000 per year.
- Meetings: 6 per day x 20 days per month x 12 months per year = 1,440
- Cost, per Meeting = approximately \$3.50

The sales representative's contact costs 350 times as much as contact through an advertisement.

Ensure that trainees appreciate that occasional sales of other calls by co-operative staff who are mainly otherwise occupied should be "costed" in the same way.

- 4) Ask trainees how the disadvantages of sales representatives, namely cost and lack of control, can be minimised. How can a co-operative society's manager improve the effectiveness of his own personal selling activity, or that of any representative employed by the society.
- Sales calls must only be made if they are an integrated part of a total marketing approach, supported by appropriate products, delivery, promotion or whatever else is appropriate.
 - Whoever is making a sales call must be totally prepared, with all the necessary information.
 - The sales representative must have a clearly defined objective; he or she must know the reason for the sales call before making it.
 - Sales representatives must be trained in personal selling skills.
 - The work of sales representatives must be carefully planned in order to minimise travelling time and avoid calls on customers who are out.
- 5) Warn trainees that they are to hear a dialogue of a meeting between a co-operative salesman and his customer. Ask them to note down as they hear it, all the mistakes which the salesman makes and to be prepared to list these afterwards. Play the tape dialogue. "The Co-operative Salesman - one", or if a recorder is not available ask two trainees to enact this. If necessary, play the dialogue a second time and then ask trainees to list the mistakes made by the representative.

These may be summarised as follows:

- The representative was unprepared: he did not even know the name of the customer on whom he was calling.
- The representative admitted that he had no particular objective in calling and that the call was not particularly important to him since he only called in because he happened to be passing.
- The representative had no information about the past transactions between his society and the customer's organisation.

- The representative grossly exaggerated the quality of the product in a totally unbelievable way.
- The representative had no sample of the product although it was of a kind that could easily have been carried with him.
- The representative was not aware of the nature of his customer's business and was thus not able to tailor his presentation accordingly.
- The representative was not fully familiar with the details of his own product.
- The representative gave away a large price discount at the first sign of any resistance.
- The representative blamed his own colleagues in his own organisation rather than representing the whole organisation in the eyes of the customer.

Point out to trainees that this was an exaggerated account but that all these mistakes have been made on many occasions by sales representatives. Ask trainees whether they or sales representatives calling on them have made these mistakes. They are typical of a badly planned sales activity by a badly trained sales representative.

- 6) Warn trainees that they are to hear a further dialogue, which will be interspersed with "bleeps". Warn them that the tape or dialogue will be stopped at each "bleep" and that trainees will themselves be asked to suggest how they will counter the objection that has been raised by the customer. After their suggestions have been discussed they will hear how the representative actually countered the objection before going on with the sales negotiation.

Play the tape dialogue, "The Co-operative Salesman - Two", or if a recorder is not available ask two trainees to enact it.

Stop the tape or the reading at each "bleep" and ask individual trainees to suggest how they would continue the meeting if they were sales representatives. Discuss the nature of the objection that has been raised by the customer and ask trainees how they would in their own situation respond to objections of this sort.

Ask them whether they make this type of objection when meeting with people who are trying to sell things to them. Are salesmen who call on them effective in overcoming objections? Are trainees themselves able to overcome customers' objections and finalise the sale when promoting their own society's and members' produce?

The Co-operative Salesman - One

Amiri, the manager of the Sigma Fruit Growers Society, is calling on Sinha, the buyer for National Fruit Wholesalers Limited.

Amiri: Good afternoon Mr. . . . Sinha. It is good of you to see me, I just thought I would drop in as I was passing your office.

Sinha: Good afternoon, do sit down; what can I do for you today?

Amiri: Well as I said, I just had a moment to spare, but well, I wonder if we could talk about your purchases from us. We would be happier if you were to increase your business with us, you know.

Sinha: So would I, I suppose, I haven't got our purchase figure with me just now. What did we take from you last quarter?

Amiri: I'm not sure, our accounts people would have the figures I'm sure, but I don't think you have bought our new variety of lemons; they are proving very popular, outselling everybody in the country I should say.

Sinha: Really, that's strange, I haven't seen any unfamiliar lemons this season. Still, let's have a look at one.

Amiri: No, actually I haven't got one just now, but they are a wonderful fruit, keep very well too.

Sinha: I see, is the price any better than what others are offering? What would you quote for 100 kilograms a day for a month for a start?

Amiri: That's a nice start, I'll have to find out about the price tomorrow, I'll drop you a line with a quotation. I can tell you though, they look beautiful on the shelves. Supermarket operators such as yourselves will be more than satisfied with the results.

Sinha: Actually, we supply restaurants and export markets.

Amiri: Oh yes, of course.

Sinha: Tell me what is the average cost per kilogram? We've been rather bothered with wide variations in fruit sizes recently.

Amiri: I'll let you know when I've had a chance to check a few batches. I'm sure we could give you a really good price though, ten per cent or fifteen percent off a good trial order.

Sinha: One thing you could tell me; your mangoes seem to be of very variable ripeness these days; some are ready to eat, and others need two weeks ripening. Can you do anything about it?

Amiri: I'm glad you mentioned that. The foreman of our sorting department has really not been doing his job recently and I need complaints like that to make my point. How can they expect me to sell their fruit if they can't sort it properly.

Sinha: I should imagine you have great difficulty in selling any fruit. I'm very sorry for you.

Amiri: Thank you, I must be off. Sorry, could you give me your card, I can never get the spelling of your name right.

Sinha: Here you are, good bye.

The Co-operative Salesman - Two

Mr. Basu, salesman for the Omega Vegetable Farmers Society, is trying to persuade Mr. Dey, owner of Dey's Vegetable Stores, to place a regular contract order for their new variety of cabbages.

Mr. Dey: Look here Basu, it's very good of you to call, but we are really quite happy with our present cabbage suppliers.

BLEEP 1

Mr. Basu: I'm pleased to hear that Mr. Dey. Price, quality, delivery, they're all just what you want are they?

Mr. Dey: Well, I suppose you might have something there. I can't say they always arrive just when we want them, but it's no good talking to me now, our shelves are full of cabbages. Just take a look.

BLEEP 2

Mr. Basu: Very good looking cabbages too, I must congratulate you. Tell me though, don't your customers prefer the new white firmer type? These are some of the best green veined variety I've seen for a long time, but a lot of people are now turning over to the new variety.

Mr. Dey: I've not seen them; might I have a look?

Mr. Basu: Here you are, I thought you might like to see one. A shop like yours usually has all the best things.

Mr. Dey: Mmm, nice, firm, a good looking cabbage I must say. I'll bet it costs the earth too.

Mr. Basu: The price is \$2.40 a dozen delivered as we always do.

Mr. Dey: What, are you crazy! I sell these cabbages for 22 cents each, I should have to ask about 25 cents for yours. I'm not contributing to inflation like that, it's too much, how about a trial batch at \$2 a dozen?

BLEEP 3

Mr. Basu: No sir, we are confident that a quality product will command a premium price, just look at the comparison, never mind the taste. Your sort of customers would be the kind to pay a bit more for the best, surely?

Mr. Dey: Well, maybe they would if they'd heard of it, but a brief glance will tell them very little. We haven't got time to explain all about them to every customer. My assistants would get it wrong anyway. No, I'm sorry, they might be worth it but our customers never heard of them.

BLEEP 4

Mr. Basu: I appreciate that, and so do our seed suppliers. Look they've produced these posters showing their new varieties and explaining their advantages. They give us some of these with every consignment of seeds so that we can help to sell our new produce.

Mr. Dey: It's a nice looking poster, I must admit. It'd look good on that wall above the vegetable rack. still your co-operatives are all the same, lots of promises and then no deliveries. I daren't rely on you really.

BLEEP 5

Mr. Basu: Don't prejudge us, just give us a try, we can deliver with our own transport every day, you'll not be disappointed and you'll make more money on every cabbage you sell.

Mr. Dey: Mmm, I didn't know you delivered here. I wish I could give it a try, but I know you people want cash, and I'm broke. My overdraft is going up, my expenses are rocketing, I just haven't got the cash.

BLEEP 6

Mr. Basu: We're all in the same boat then, but I can't believe that a few cabbages are beyond you, however bad things are. How about a trial consignment of say ten dozen, or would that be more than you could manage to sell in a couple of days?

Mr. Dey: Oh no, we'd sell those in a morning, but look we've been talking too long. I must have some time to think about it, drop in next week some time and I'll talk it over properly.

BLEEP 7

Mr. Basu: Well we're fully committed early next week. I am sure ten dozen cabbages is not going to be a very big decision for a business like yours. With one cent extra profit per cabbage, you'll make a dollar and twenty cents extra just with your first trial consignment.

Mr. Dey: Every little helps, that's true, but the trouble is my wife always decides these things. She went to see her mother this evening and it's really not up to me.

BLEEP 8

Mr. Basu: Look, I know your wife has good taste, and I know you run the business the way you want to run it. Let your wife have this cabbage with my compliments, and sign this order for a trial batch of ten dozen. Look, here's my pen.

Mr. Dey: Well it's worth a trial, but we might as well do it properly. Make it 20 dozen, delivered the day after tomorrow. I'll have the cash ready. Be sure to send a couple of the posters too.

Mr. Basu: Thank you very much. I'll call in the next day or so to see how they've moved. I'm sure you've made a good decision. Good bye.

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Mr. Dey: Well it's worth a trial, but we might as well do it properly. Make it 20 dozen, delivered the day after tomorrow. I'll have the cash ready. Be sure to send a couple of the posters too.

Mr. Basu: Thank you very much. I'll call in the next day or so to see how they've moved. I'm sure you've made a good decision. Good bye.

topic

12

pricing

SESSION 12PRICING

Objective: To enable trainees to calculate prices for their society's produce in the light of cost of production and its effect on demand.

Time: 2 to 3 hours.

Material: Exercise "The Cost Conscience Co-operative Society".

Session Guide:

1) Ask trainees to list the cost items of growing a traditional variety of crop with which they are familiar. They may list items such as:

- land ownership;
- seed;
- fertilizer;
- planting, cultivation and harvesting labour.

2) Ask trainees to list the cost items of their own society and to state which are fixed and which are variable with the volume of production handled. Summarise their lists on chalkboard/OHP as follows:

<u>Fixed</u>	<u>Variables</u>
Rent	Payments to Members for Produce
Officers' Salaries	Fuel
Committee Expenses	Casual Labour
Depreciation of Equipment	Contract Transport Services
Loan Interest	Handling Charges
Office Expenses	Produce Insurance
Insurance for Buildings and Equipment	

Stress that all costs are variable at the extreme of production. If the co-operative did no business at all there would be no costs, and if the volume was multiplied by say two or ten times the

present figure, it would be necessary to employ extra officers, to rent extra space and possibly even to have more committee meetings. In other words the fixed costs would become variable.

- 3) Present trainees with the following situation on the chalkboard/OHP:

Fixed Costs: \$1,000 (between 500 and 5,000 units).

Variable Costs: \$1 per unit.

Selling Price: \$1.50 per unit.

Sales: 1,200 units.

In order to check their understanding of the meaning of fixed and variable costs, ask trainees to calculate the profit or loss of this enterprise.

<u>Sales</u> :	1,200 x 1.50	=	\$ 1,800
<u>Fixed Costs</u> :			\$1,000
<u>Variable Costs</u> :	1,200 x \$1		<u>\$1,200</u>
<u>Total Costs</u> :			<u>\$ 2,200</u>
<u>Loss</u>			\$ 400

Assuming that cost cannot be changed, what should this society do to improve its results?

Trainees may suggest higher prices. Ask them to calculate the effect of increasing the price to \$2:

<u>Sales</u> :	1,200 x \$2	=	\$ 2,400
<u>Costs</u>	as before	=	<u>\$ 2,200</u>
<u>Surplus</u>			\$ 200

Ask trainees how demand would probably be affected by such a price increase. Ask trainees to calculate the effects of a fall in volume to 800 units.

<u>Sales</u> :	800 x \$2	=	\$1,600
<u>Fixed Costs</u> :			\$ 1,000
<u>Variable Costs</u> :	800 x \$1	=	\$ <u>800</u>
<u>Total Costs</u> :			<u>\$ 1,800</u>
<u>Loss</u> :			\$ 200

4) Ask trainees what other alternatives are available. Ask them to calculate:

- The total cost of one unit, at the present production rate of 1,200. (\$1.83 per unit.)
- The cost of one extra unit at any rate of production. (\$1, since no extra fixed costs are required.)

Ask trainees to calculate how many units would have to be sold at \$1.40, and at \$1.20, in addition to existing sales of 1,200 units at \$1.50, in order for the society to "break even", i.e. to cover the loss incurred on the sales of 1,200 units sold at \$1.50.

- Additional sales at \$1.40 per unit less cost per extra unit (\$1.00). Contribution per unit 40 cents. One thousand additional units would absorb the loss of \$400. Total production will be 2,200.
- Additional sales at \$1.20 per unit less cost per extra unit (\$1.00). Contribution per unit 20 cents. Two thousand additional units would absorb the loss of \$400. Total production will be 3,200.

Stress that price reductions of this sort must only be made if they are genuinely "marginal", that is, they do not affect the price charged for the rest of what is being sold.

5) Ask trainees to assess whether their own societies fulfil the following conditions:

- There is additional capacity for members to produce and the society to process and market more than is produced now.
- A significant proportion of members' and the society's costs would not change if production were to be increased
- Additional produce could easily be sold if a large price reduction was given, and the rest of the society's business would continue to be sold at the original higher price.

Point out that these conditions may exist, even if trainees are not aware of them. In such conditions any organisation should seriously consider offering some produce on a marginal price basis, in order to increase its surplus.

Stress however, that this technique of "marginal sales" is effective but dangerous. It is essential before trying to obtain extra sales through lower prices to be sure that:

- Members and the society can produce, process and market the expected extra volume without adding to fixed costs.
- Existing customers buying at higher prices will continue to do so and will not force their own prices down to the marginal level enjoyed by the new additional customers.

6) Ask trainees to give examples of the type of customers who might be expected to buy substantial quantities at lower prices, and whose business could be kept separate from that of existing customers:

- Industrial processors for maize starch, cassava or milk surplus.
- Hotels or restaurants for fruit and vegetables.
- Animal feed millers for surplus grains.

Point out that by-products which are presently being wasted can be sold at any price, so long as it covers the society's extra expenses. Co-operative societies have significantly improved their results by selling items such as:

- Waste material from coffee for industrial boiler fuel.

- Rice straw for paper making.
- Slaughter house offal for fertilizer manufacture.

Stress that a society attempting to sell by-products, or surplus produce, need not be concerned with the total cost of production; all that is necessary is that the additional revenue should more than cover the additional costs involved in earning it.

- 7) Stress that planned offers of marginal or specially lower prices for surplus products are not the same as consistent underpricing of everything that is sold.

Refer to earlier sessions. Successful marketing generally involves selling most of the produce for higher than average prices. Successful marketers can do this because the marketing mix they use provides better value to customers than the cheaper, less effectively marketed produce of their competitors.

Illustrate the distinction by the following example:

Poor Marketing:

- Production Cost \$ 1.00
- Marketing Cost \$ 0.10
- Total Cost \$ 1.10
- Total Value to
 Customer \$ 1.10
- Surplus nil.

Effective Marketing:

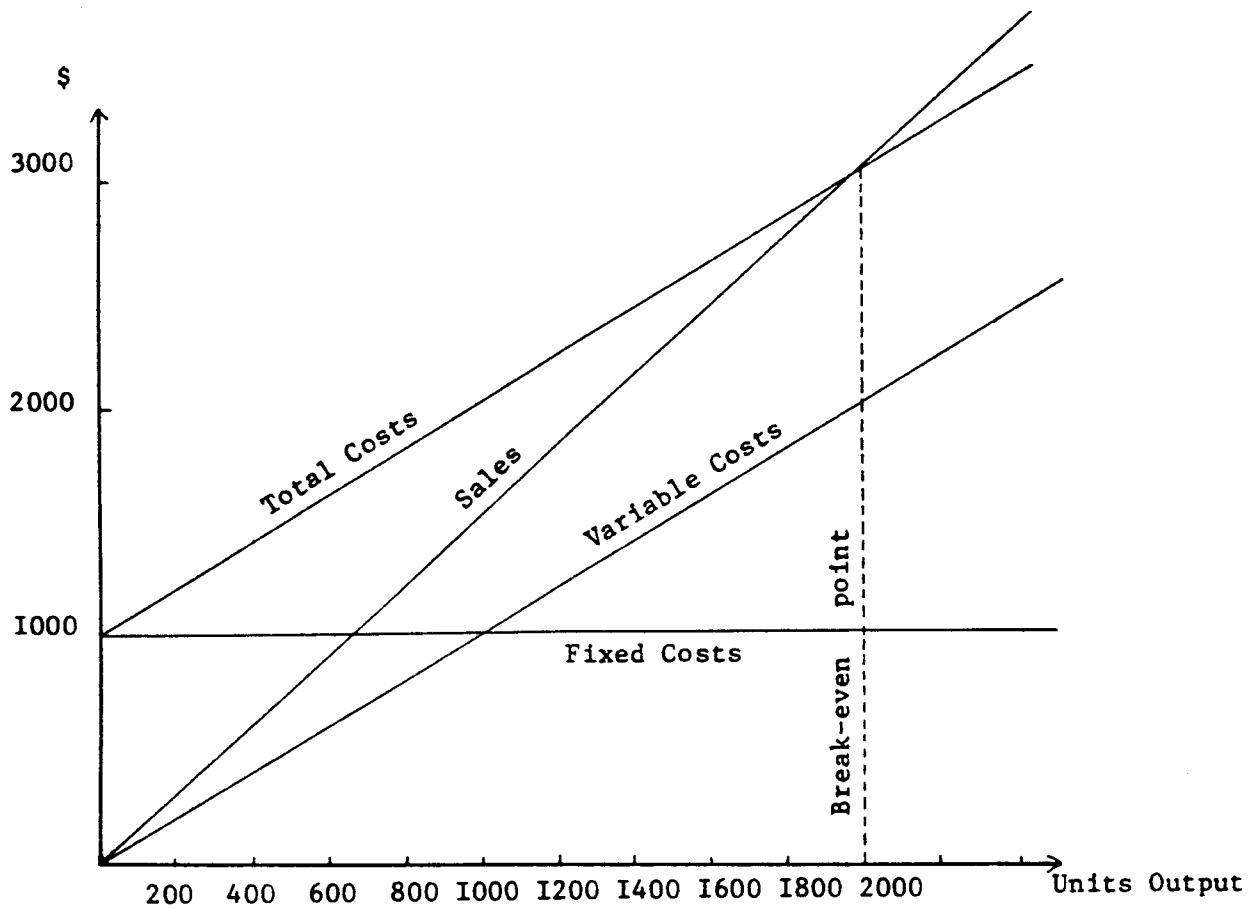
- Production Cost \$ 1.00
- Marketing Cost \$ 0.20
- Total Cost \$ 1.20
- Total Value to
 Customer \$ 1.30
- Surplus 10 cents.

- 8) Display and explain a simple illustration of a "break-even point" graph, as below, on the chalkboard/OHP. The graph is based on following figures:

Fixed Costs: \$1,000

Variable Costs: \$1.00 per unit

Selling Price: \$1.50 per unit



Use above figures to illustrate the calculation of a break-even point. The variable cost being \$1.00 per unit and the selling price \$1.50, each unit produced and sold will contribute \$0.50 towards paying the \$1,000 fixed costs.

Ask trainees how many units must be produced and sold before all fixed costs are paid for:

$$\frac{\$1,000}{\$0.50} = 2,000 \text{ units (break-even point)}$$

Clearly for 2,000 units the following figures will apply:

- Fixed Costs	\$ 1,000
- Variable Costs 2,000 x \$1.00	<u>\$ 2,000</u>
- Total Costs	\$ 3,000
- Sales 2,000 x \$1.50	<u>\$ 3,000</u>
No Surplus, No Loss	0 (= break-even)

The formula for break-even calculations can easily be derived from the above:

$$\text{Break-even point} = \frac{\text{FIXED COSTS}}{\text{INCOME PER UNIT OF PRODUCTION} - \text{VARIABLE COST PER UNIT OF PRODUCTION}}$$

- 9) Distribute the exercise and allow trainees up to 30 minutes to complete the exercise on their own. If possible, the exercise figures should be replaced by actual trading figures for a local co operative society. When trainees have finished ask them to give their answers. Ask one who has the right answers as below to explain his calculations to any trainees who have made mistakes. Ensure that all trainees understand how to calculate the figures and how to read the results from a graph. Their answers should be as follows:

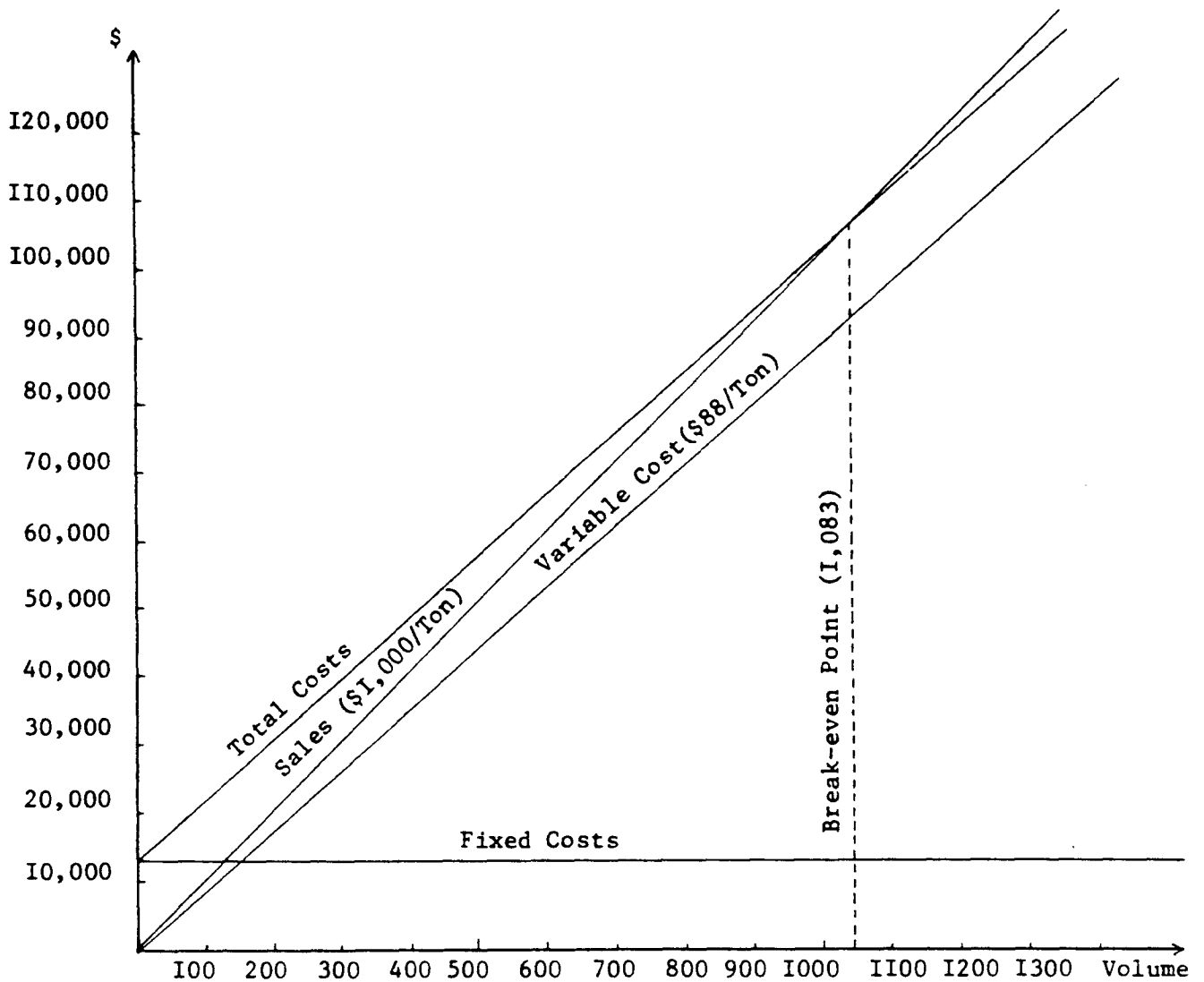
Question 1: A loss of \$1,000

Question 2: Fixed Costs: wages and salaries \$8,000, depreciation \$500, office supplies \$300, insurance \$200, interest charges \$2,500, member education \$500, telephone \$200, electricity \$300, tax \$100, audit fees \$200, committee member allowance \$200 - Total \$13,000.

Variable Costs: Costs of produce paid to farmers \$80,000, transport hire \$1,000, casual labour \$1,000, fumigation \$1,000, bags \$5,000 - Total \$88,000.

Variable Cost per ton \$88.

The graphical presentation and solution to question 2 is as follows:



Question 3:

At 900 tons -	Sales	\$90,000
	Variable Cost - $900 \times \$88 =$	\$79,200
	Fixed Cost	\$13,000
	Total Cost	\$92,200
	Loss	\$ 2,200
At 1,100 tons -	Sales	\$110,000
	Variable Cost - $1,100 \times \$88 =$	\$96,800
	Fixed Cost	\$ 13,000
	Total Cost	\$109,800
	Surplus	\$ 200

At 1,200 tons - Sales \$120,000
Variable Cost \$105,600
Fixed Cost \$ 13,000
Total Cost \$118,600
Surplus \$ 1,400

Question 4: \$13,000 Fixed Costs divided by ($\$100 - \88) i.e. \$12 per ton contribution to Fixed Costs equals 1,083.33 ton.

Question 5: At \$95 per ton 1,250 tons equals Sales \$118,750, Variable Costs \$110,000, Fixed Costs \$13,000, Total Costs \$123,000 - Loss \$4,250. The society would therefore have been worse off to lower its price.

Question 6: The society would have made an additional contribution of 200 times ($\$93 - \88) i.e. \$1,000 and would thus have eliminated the loss. They should have done this so long as the low price did not lead other customers to demand price deductions in that or subsequent years.

The Cost Conscience Co-operative Society

1981 Trading results in the society were as follows:

<u>Sales</u> 1,000 tons @ \$100	\$ 100,000
Less Purchases from members 1,000 tons @ \$80	\$ <u>80,000</u>
Gross Margin	\$ 20,000

Expenses

Permanent Staff Wages and Salaries	\$ 8,000
Transport Hire Charges	1,000
Depreciation	500
Office Supplies	300
Insurance	200
Casual Contract Labour paid on a per ton basis	1,000
Interest Charges	2,500
Members' Education Course	500
Fumigation (charged per ton)	1,000
Telephone Charges	200
Electricity	300
Property Tax	100
Audit Fees	200
Committee Members' Meeting Allowance	200
Bags	5,000

Assignment

- 1) What surplus or loss did the Cost Conscience Society make during 1981?
- 2) List the Fixed and Variable Costs of the society. How much does it cost to buy and sell one additional ton of produce? Draw a break-even graph illustrating the society's results.
- 3) What surplus, or loss, would the society have made if the price had remained the same but sales had been:
 - 900 tons?
 - 1,100 tons?
 - 1,200 tons?

- 4) At what sales level in tons, at the present price, would the society have "broken even"?
- 5) If the society had lowered its price to \$95 per ton and had as a result sold 1,250 tons, would they have done better or worse than they actually did?
- 6) The society was offered an additional order for 200 tons at \$93 per ton. Should they have accepted it?

topic

13

pricing in practice

SESSION 13PRICING IN PRACTICE

Objective: To enable trainees to fix prices in relation to costs, demand and competitive behaviour.

Time: 3 to 5 hours.

Material: Handouts for four textile mills and three cotton growers' societies. Lined writing paper and carbon paper.

Session Guide

- 1) Explain that trainees are about to participate in a business "game", which in a brief period simulates the experience of buying and selling in a competitive environment. Four individual trainees will act as "Buyers" for four separate textile mills. They have to buy cotton for their annual production, while the remaining trainees will be divided into three groups representing three separate cotton growers' societies. They have to sell their cotton for the highest possible price to one or more of the textile mills.

Start from some general indications given in the handouts shortly to be distributed. Neither the buyers nor the sellers know the prices to be charged, the exact demand or the production capacity of the other suppliers.

- 2) Select four trainees to act as "Buyer" for the four textile mills A, B, C and D. Divide the remaining trainees into three groups, each to represent one of the three cotton growers' societies X, Y and Z. Issue each of the textile mills and each of the groups representing the cotton growers' societies with a buyer's or seller's handout. It is vital that none of the buyers or the sellers should see the handouts of other buyers or sellers at any point during the game.

Allow trainees to read and if necessary ask questions about their handouts. Ensure that any questions are asked and answered

privately so that other groups or individuals are not able to find out anything about the content of each others' handouts.

- 3) The procedure to be followed in the game is as follows:
 - a) The buyers send inquiries for particular quantities of cotton to such growers' societies as they wish to contact.
 - b) The societies respond to these inquiries with quotations for the quantity requested.
 - c) The textile mill buyers place orders for the quantity quoted for, if they care to.
 - d) The growers' society accepts the order.

Stress that no order can be considered as finalised until it has been accepted. Cotton growers' societies may send quotations to buyers without having first received an inquiry if they think fit.

Stress that all transactions are to take place in writing, that both buyers and sellers must retain copies of every message which they send and that the trainer is to be the only conveyer of messages.

- 4) If possible locate each buyer in a separate corner of the central room, and each group representing a growers' society in a separate room adjacent to the central room. If there is not enough space available, locate the groups in such a way that it is impossible to overhear discussions taking place in an individual group.
- 5) Start the game by inviting the mill buyers to send inquiries as they think fit. Point out that the game is completed either when the buyers have purchased all they need, the societies have sold their complete crop or the trainer decides that time has run out. The winning textile mill is the one which buys its full requirement at the lowest price, while the winning growers' society is the one which makes the highest profit during the period.
- 6) It is vital during the process of the game that the trainer should ensure that the growers' societies do not accept orders for more

than their capacity of 400 bales, that the textile mill buyers do not place orders for more than a total of 250 bales each and that trainees are in general not making obvious mathematical errors.

Each textile mill buyer or growers' society should, when it has earlier bought its full requirement or sold its full production, submit a profit and loss account to the trainer for final evaluation.

- 7) The game should last between 45 minutes and two hours: when the game has been completed and the results have been announced it is vital to allow time for discussion of what has been learned.

The following points should arise as a result of the game:

- It is usually unwise for a society to attempt to obtain too high a price for its produce. Some orders may be received but the cost of unused capacity and therefore fixed costs which remain the same regardless of production will most probably exceed the benefit gained from the higher prices.
- It is also dangerous to quote too low a price; the society with the lowest prices will probably sell all its production first but will not make a high surplus.
- A competitive quotation is of no value if it arrives too late; speed and accuracy must be combined in business transactions.
- All societies should work out their basic costs in preparation for inquiries which are expected. They should not wait until they receive inquiries before calculating costs.
- It is vital for both societies and buyers to record all orders, inquiries and quotations carefully. All messages passing between them must include the name of the supplier and the addressee as well as the price and the quantity on which it is based.
- Some suppliers may budget for under-used capacity by allocating their fixed costs over a smaller quantity than their capacity, such as 300 bales. Others may estimate their costs on the basis of selling their full capacity but add for the risk of not doing so by adding to the profit margin. It is important that

trainees should appreciate that the fixed costs remain the same however much produce is sold. The total sales must cover the variable costs as well as the fixed costs and yield a surplus as well.

- 8) The final results should of course be presented on chalkboard/OHP. Typical results for the societies are presented on the following pages:

<u>X Society</u>	\$	\$	\$
<u>Sales</u>			
250 to Mill B @ \$32			8,000
150 to Mill C @ \$35			<u>5,250</u>
Total			13,250
<u>Production Costs</u>			
Fixed	2,000		
Variable 400 x \$15	<u>6,000</u>		
Total		8,000	
<u>Selling Costs</u>			
Fixed	400		
Variable 400 x \$4	<u>1,600</u>		
Total		2,000	
<u>Delivery Costs</u>			
250 x \$6	1,500		
150 x \$8	<u>1,200</u>		
Total		2,700	
Total Costs			<u>12,700</u>
Total Surplus			\$ 550

<u>Y Society</u>	\$	\$	\$
<u>Sales</u>			
150 to Mill A @ \$35			5,250
50 to Mill C @ \$35			1,750
200 to Mill D @ \$38			<u>7,600</u>
Total			14,600
<u>Production Costs</u>			
Fixed	2,000		
Variable 400 x \$15	<u>6,000</u>		
Total		8,000	
<u>Selling Costs</u>			
Fixed	400		
Variable 400 x \$4	<u>1,600</u>		
Total		2,000	
<u>Delivery Costs</u>			
150 x \$8	1,200		
50 x \$10	500		
200 x \$7	<u>1,400</u>		
Total		3,100	
Total Costs			<u>13,100</u>
Total Surplus			\$ 1,500

Z Society

\$

\$

\$

Sales

50 to Mill C @ \$40		2,000
100 to Mill A @ \$40		4,000
50 to Mill D @ \$40		<u>2,000</u>
Total		8,000

Production Costs

Fixed	2,000	
Variable 400 x \$15	<u>3,000</u>	
Total		5,000

Selling Costs

Fixed	400	
Variable 200 x \$4	<u>800</u>	
Total		1,200

Delivery Costs

50 x \$10	500	
100 x \$9	900	
50 x \$10	<u>500</u>	
Total		1,900

Total Costs		<u>8,100</u>
Total Loss		(\$ 100)

Role Play Brief : The Cotton Growers' Society

Your society sells cotton. There are four textile mills who make up the market and they are believed at the moment to be paying between \$25 and \$45 a bale. Your maximum capacity for the period of this game is 400 bales. Your production, selling and distribution costs are as follows:

Production Costs :

Fixed Costs of ginnery, machinery and administration = \$2,000
 Variable Costs of cotton bought from members = \$15 per bale

Selling Costs :

Fixed Costs of Sales Office = \$ 400
 Variable Costs of agents' commission = \$ 4 per bale

Delivery Costs

(Determined by size of each order; all orders must be quoted on a delivered price basis and delivery costs must be borne by the society).

<u>Quantity</u>	<u>Total Cost</u>	<u>Cost per Bale</u>
50 bales	\$ 500	\$ 10
100 bales	\$ 900	\$ 9
150 bales	\$ 1,200	\$ 8
200 bales	\$ 1,400	\$ 7
250 bales	\$ 1,500	\$ 6
300 bales	\$ 1,650	\$ 5.50
350 bales	\$ 1,750	\$ 5
400 bales	\$ 1,850	\$ 4.62

The profit to be made depends on the numbers sold and the price received. The society making the most profit will be the winner.

The society's staff must work out quotations for inquiries received from individual buyers, or may submit quotations to buyers even if they are not solicited. You must fix a selling price which will both secure orders and earn you the best profit. You must communicate with the four textile mill buyers in writing and in no other way, and your quotations or acceptances of order must clearly indicate who has sent them and to whom they are addressed as well as the quantities and prices involved.

You must keep a record of all quotations and completed transactions and maintain a running total to ensure you do not supply more than your total capacity.

Role Play Brief : Textile Mill Buyers

You are a buyer for one of four textile mills and it is your job to buy 250 bales of cotton at the best possible price. There are three co-operative societies from whom you may buy cotton and you may not be able to buy all you require from one society. You can communicate with the three societies at any time, to place orders, expedite inquiries or negotiate prices. This must be done only in writing and it is vital that every communication carries a note of who has originated it, to whom it is addressed and the quantities and other details involved. It is vital that you should keep a record of all inquiries and orders sent, and also of your progress towards obtaining your total requirement of 250 bales. The winning buyer is the one who buys his full requirement for the lowest total average price.

topic

14

designing
a marketing mix

SESSION 14

DESIGNING A MARKETING MIX

Objective : To enable trainees actually to apply the content of previous sessions to a real marketing situation.

Time : 3 to 4 hours plus advance preparation.

Material : Case Study "The Kansai Co-operative Dairy" (from Sess. 4)
Marketing Research Data.
Assignment "A Marketing Mix for Kansai Co-operative".

Session Guide:

- 1) Remind trainees of the situation faced by the Kansai Co-operative Dairy in Session 4. If necessary, ask trainees to read "The Kansai Co-operative Dairy" case study from Session 4 again. Distribute copies of the "Marketing Research Data" and warn trainees that they will be asked to design a specific marketing mix or plan for the dairy society in this coming session. They must read the material carefully, well before the session and evolve their own provisional conclusions.
- 2) Divide trainees into groups of three or four members and distribute the assignment. Allow up to two hours for each group to prepare a marketing plan for the Kansai Society. Stress that they must be prepared to present and justify specific decisions on each ingredient of the marketing mix as well as to show the trading results which they expect during the first year of direct marketing of milk by the Kansai Society. Each group should appoint a spokesman, and they may care to use flip charts or other display methods to assist their presentation.
- 3) Reconvene the groups. Ask each group's spokesman in turn to present his group's conclusions and summarise them on chalkboard/OHP in the following form:

<u>" Ingredient "</u>	<u>Group A</u>	<u>Group B</u>	<u>Group C</u>
Packing:	Glass bottles		
Retail Selling Price:	35 cents.		
Distribution Margin:	4 cents (to allow for handling empty bottles).		
Society's Selling Price:	31 cents.		
Society's Costs:	Processing 2 cents, bottling 3 cents, transport 1 cent and promotion 1 cent.		
Distribution Management and Administration:	\$2,000 per month.		
Members' Price	24 cents.		
Distribution Channels	Direct to schools, college and hospital, via supermarkets and local shops for all other customers.		
Transport	Deliver to institutional customers and retail shops by society.		
Promotion	Initial announcement through advertising site rental for six months plus 500 posters.		
Anticipated Daily Volume	9,000 litres at 31 cents is \$2,790, dropping to 8,000 litres during four months of school and college holidays, \$2,480.		
Surplus/Loss	Break even, advertising to be dropped after first month, members' price to be increased to 25 cents or more depending on results.		

Forecast of Trading Results for first year of direct marketing of milk.

Sales - Month 1

30 days x 9,000 litres x 31 cents	\$ 83,700
Cost of Milk - 9,000 litres x 24 cents	\$ <u>64,800</u>
Gross Margin	\$ 18,900
Bottling, Processing and Transport, 30 days x 9,000 litres x 6 cents	\$ <u>16,200</u>
	\$ 2,700
Management and Administration	\$ 1,000
Promotion:	
Sign Painting	\$ 100
Site Rental for six months	\$ 500
Posters	<u>100</u>
	0

Sales - Months 2 - 12

30 days x 9,000 litres x 31 cents x 7 months	\$ 585,900
30 days x 8,000 litres x 31 cents x 4 months	\$ <u>297,600</u>
	\$ 883,500
Cost of Milk	\$ <u>684,000</u>
Gross Margin	\$ 199,500
Bottling, Processing and Transport, (85,500 + 57,000 + 28,500)	\$ <u>171,000</u>
	\$ 28,500
Management and Administration	\$ <u>22,000</u>
Net Surplus	\$ 6,500

The new distribution manager and his staff would be appointed three months before the society actually has to start marketing its own milk. The accumulated deficit of 3 x \$1,000, i.e. \$6,000, would be covered by the \$6,500 surplus, leaving \$500 for additional promotion as necessary. The society should not anticipate making a surplus on the first year's trading, and any loans that are necessary should not have to start being repaid until the second year of direct marketing.

4) One possible suggestion is included as an example above; whatever their suggestions, trainees must have included the following points in their presentation:

- Consumers' present dissatisfaction is not resulting from price but from poor packaging and unreliable storage and delivery; quality must be assured before any thought is given to lower prices and lower prices may well give the impression of lower quality if they are introduced at first.
- Consumers will in future be free to buy from wherever they choose, and the Kansai farmers will have to be prepared for competition from other suppliers. They cannot expect to perpetuate the NCC monopoly. The society must also offer the best outlets for its members.
- Distribution channels can be persuaded to stock and sell a product by an appropriate mix of generous discounts and a quality product, effectively promoted.
- Members should not necessarily expect to improve upon or even to equal the return they were used to from NCC; they must be prepared to invest in the establishment of the new market.
- Although the secondary schools, the technical college and the hospital are buying insufficient quantities to take delivery in churns without individual packaging this would be less convenient for them and would associate the change from NCC to Kansai with a lowered standard of service; this must be avoided.
- The Kansai Society must avoid the risk of "over selling" as well as of failing to sell enough. Failure to deliver would allow competitors to enter the market. They must allow for farmers' own consumption, for seasonal supply variations and for an increase in demand as a result of the anticipated improved service. The initial expected demand must either be well within existing production with some arrangement for disposal of the surplus, or there must be arrangements for purchasing bulk supplies from elsewhere if there is no reserve from Kansai members themselves.
- The new venture represents an important and demanding step for the society; management and administration must be effective and adequately staffed.

- Kansai should attempt to associate some new and improved feature, such as different packaging, with the changed arrangements; customers' dissatisfaction with NCC should not be allowed to develop into dissatisfaction with milk in general.
- The promotion message should stress whatever changes are proposed, and the local origin of the milk.

Assignment: A Marketing Mix for Kansai Co-operative

The manager of the Kansai Co-operative Society was justifiably satisfied. He had succeeded in obtaining a large amount of information about the local market for the society's milk. He had worked very hard to obtain this and had in addition persuaded a large number of committee members, farmers and others to assist. He had presented all the information to the president of the society but was rather disappointed to be told that this was only the first stage. Now he had to answer the following questions:

- What price will the milk be sold for to the final consumer?
- What marketing channels will be used to sell the milk?
- What distribution margin will be given to these channels?
- How much will members themselves receive for their milk?
- What form of transport will be used?
- How will the society promote the new arrangements and what message will be put over in this promotion?
- How much milk will the society expect to sell under the new arrangements?

Answer the above questions for the manager, thus evolving a marketing mix for the Kansai Co-operative Dairy.

Produce a forecast of the trading results which the society can expect for its milk marketing operation during the first 12 months if they follow your recommendations.

Kansai Township, Marketing Research Data for MilkIndividuals/Households

- Population 30,000
- 100 senior government and other upper class households.
- 400 junior officials and small business owner households.
- 4,500 working class households.

Households	Average Milk Consumption Per Day	Where Milk Bought	Price	Problems
Upper Class	3 litres	Supermarkets, Delivery Boys	35 - 37 cents	Poor Packaging, Poor Quality
Middle Class	2 litres	Supermarkets, Local Shops	35 cents	Unavailability, Poor Packaging, Poor Quality.
Working Class	1½ litres	Local Shops, Vendors	35 cents 32 cents	Unavailability, Poor Quality.

Institutional Market

- 10 primary schools consume on average)
20 litres a day.)
- 1 secondary school consumes on average)
100 litres a day.) All buy direct
- 1 technical college consumes on average) from NCC at 32
50 litres a day.) cents per litre.
- 1 hospital consumes on average)
100 litres a day.)

20 restaurants, hotels and tea shops average 20 litres a day and buy from local shops.

Marketing Outlets

- One supermarket buys 500 litres at 30 cents.
- 40 small independent shops buy 200 litres a day at 32 cents.

All buy from NCC for cash and all complain of erratic deliveries, broken packages and stale milk.

Transport

- Buses and jitneys cover outlying areas and can deliver goods, but no regular delivery services within the town.
- Most milk is bought in the shop and taken home by consumers, some delivery rounds are operated by unemployed youths, charging 37 cents for the milk.
- The cost of delivering milk from Kansai to local outlets in bulk is \$1 per hundred litres.

Promotion

- Posters can be put up outside shops at no charge apart from the cost of the labour involved in persuading the shopkeepers to cooperate; cost of posters \$25 per 100 or \$100 per 500.
- Some large advertising sites are available in the centre of the town and can be rented for three months at a cost of \$250 plus the sign painting (estimated at \$100).

Cost of Processing

The cost of collecting and processing the milk prior to packaging is two cents a litre.

Packaging Alternatives

The extra cost of packaging is calculated on the assumption of approximately 8,000 to 10,000 litres per day being processed, and that any capital requirements could be financed by a loan from the Co-operative Development Bank to be repaid over five years.

- Individual plastic bags two cents a litre.
- Tetrapacks five cents a litre.
- Glass bottles three cents a litre.
- 50 litre churns nil.

Management

A qualified and experienced distribution manager can be appointed for \$1,000 a month salary and expenses. The management task might be performed by the existing staff, if necessary.

Administration

Two invoice clerks would be needed, at \$300 a month each, and a distribution clerk at \$200. Their associated expenses would amount to a further \$200 a month. It might be possible to "get by" with one clerk and the existing transport controller.

topic

15

action programme
and commitment

SESSION 15

ACTION PROGRAMME AND COMMITMENT

Objective: To enable trainees to apply what they have learned to situations in their own societies.

Time: Up to one day.

Session Guide:

Trainees should have been told at the beginning of the course that they would be expected to describe a marketing problem that exists in their society and to prepare a plan which tackles this problem and which they will implement when they return home. They should have been reminded at frequent intervals during the course of the need to apply the material in the sessions to their own situation and in particular to identify one particular problem which the course will help them to solve. The purpose of the final day is to give them the opportunity to develop a solution to their particular problem in consultation with a number of other trainees, and to present the solution to the whole group for criticism and discussion.

The problems and solutions chosen by trainees will be unique to each trainee and his organisation, but typical examples might be:

Problem: For a rather long time I have been under pressure from my committee to develop poultry schemes among our members and to market the eggs in our neighbouring city. I have hesitated to do so, because I have never been sure that we would be able to sell all the eggs the committee has planned that the members should produce. On the other side I have never been able to convince my committee about the risks in starting an enterprise of this kind either.

Solution: I shall now suggest to the committee that we plan and carry out marketing research according to the model outlined in this course. That will help us to make the right decision on the matter. I shall discuss this with them immediately on my return to office and the whole research should be completed within four months from now.

Problem: Our society has always had one exclusive outlet for the vegetables that our members produce. I have had a feeling lately that we have become too dependent on this man and that he is utilising us, but I have not been quite sure. My committee is satisfied with matters as they are.

Solution: Now that I know the pros and cons of having one exclusive outlet as compared to several ones, I shall investigate whether we should find alternative market outlets for our vegetables. I know how to go about it. I will discuss it with the committee, make a strategy for the investigation and then implement it. Within two months I shall know!

The time available should be divided into two periods - the consultancy period and the presentation period. During the consultancy period the trainees should be divided into groups of three to four people. The groups should not contain trainees of the same co-operative and ideally should include trainees from different backgrounds. In this period each trainee should be allowed about 30 minutes to present his problem and proposed solution to the other members of the group, who are expected to comment and help develop a solution to the problem, together with a timetable for its implementation.

During the presentation period each trainee should have at least ten minutes to present his problem and solution to the whole group, and to hear and react to at least a few of their comments. In this brief period the trainee must:

- Describe the problem.
- Describe the solution.
- Describe how the solution will be "sold" to whoever is involved.
- State a specific date by which the plan or programme of action will be completed.

Trainees who are in a position of authority in a co-operative may feel that it is unnecessary to "sell" their idea to their subordinates. Such trainees should be warned that subordinate staff will contribute more efficiently to the work of the co-operative if they believe what they are doing is useful rather than if they do it out of fear or simple obedience.

If possible a brief reunion of the trainees on the course should be arranged to take place after an appropriate interval. If this can be done trainees should be asked to state what parts of their plan can be implemented by this date so that progress could be compared with their earlier intentions. The reunion would not only be a useful course evaluation exercise, it would also provide a powerful incentive to actual implementation of the stated plans.

The actual timing of the "consultancy" period and the presentation period will depend on the number of participants in the course. Ensure that each trainee has at least 30 minutes to discuss his problem with other trainees in his group and that at least ten minutes is devoted to a presentation to the full group of course members. In order to ensure that these minimum times are allowed to each trainee the normal session hours should be extended or some time should be allowed during the previous day. The session is important since it provides an effective "bridge" between the course material and the normal environment of the trainees. It also ensures that the trainees regard the completion of the course not as the end of training but the beginning of personal improvement on the job.