

# MODULE 1 – BEFORE YOU START

## INTRODUCTION

Before you start investing in the development of your export capacity or certification, you should ask yourself a few questions:

- **Farmer organizations**
  - *Do we want to export ourselves, or do we want to sell our products to an exporter?*
  - *If we choose to work with an exporter, do we stay independent, and sell to whoever we choose, or do we enter into an outgrower partnership with an exporter, and benefit from the services the exporter has to offer?*
- **Exporters**
  - *Do we want to develop our own production capacity, or do we source our products from individual farmers or farmer organizations?*
- **Farmer organizations and exporters**
  - *Which market do we target?*
  - *Which certification scheme do we choose?*
  - *What are our strengths and weaknesses?*

This module aims at providing some tools to answer these preliminary questions. Some of these tools require basic management capacities. If you feel you do not understand the material or are not yet capable of using the tools, we suggest that you first study some of the tools on basic management in Module 2 before returning to Module 1.

As a first step, we will give you the necessary information to carry out a preliminary self-evaluation of your strengths and weaknesses. Second, we will provide you with the necessary tools to analyse the opportunities and challenges presented by the market. At the end of Module 1, we will give you some tools to select the type of supply chain in which to operate, as well as the certification scheme best suited to your organization.

## THE 5M-APPROACH

We advise you to carry out a preliminary self-evaluation of the strengths and weaknesses of your organization and product by adopting the 5M-approach. According to the 5M-approach<sup>1</sup>, organizations are evaluated on the basis of five variables: MEN, MEANS, METHODS, MACHINES and MEASURABLES.

*Try to answer the questions listed below. If you do not understand a question or are unable to answer it, skip it for the moment – you will carry out a more complete analysis in Module 3, where you will develop a proper business or export plan.*

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<sup>1</sup> Adapted from the CBI Export Planner, paragraph 2.5.1. See [www.cbi.eu/marketinfo/cbi/docs/export\\_planner\\_a\\_comprehensive\\_guide\\_for\\_prospective\\_exporters\\_in\\_developing\\_countries?via=pub](http://www.cbi.eu/marketinfo/cbi/docs/export_planner_a_comprehensive_guide_for_prospective_exporters_in_developing_countries?via=pub).

**( MEN ) Who are the people in your organization? What are their experiences and capabilities?**

- Farmer organizations
  - *How would you describe the relation between the organization's members and its executive committee/management? Are the members democratically represented in the organization's decision making bodies? Do the member representatives possess the knowledge and skills to effectively execute their roles? Are both the organization's members and its management motivated to develop its activities, do they share the same objectives?*
  - *Is your organization managed by an executive committee consisting of member representatives, or by a professional salaried manager and staff, supervised by a board?*
- Farmer organizations and exporters
  - *What are the basic management capacities in your organization? Do you have the skills to organize meetings, develop a vision and strategy, draft work plans?*
  - *What are the export managing skills in your organization? Do you have skills for market research, contract negotiations, financial management, logistical organization, quality management, etc.? What are the computer and language skills in your organization?*
  - *Do you have contacts with support organizations (governmental, non-governmental, private) that can assist you? Do you already have business relationships, and are they long- or short-term?*

**( MEANS ) What is the financial situation of your organization?**

- Farmer organizations and exporters
  - *Does your organization have a bank account, a basic accounting system, annual financial reports, external audits, etc.?*
  - *What are the financial resources your organization can draw upon? Does your organization have enough funds to pay for its running costs, or have you accumulated debts? Do you need prefinancing to buy products, or to prefinance your suppliers' production? Do you need prefinancing for the operational costs related to exporting? Do you have funds to expand your activities or will you have to obtain credit?*
  - *Do you already have relations with banks or other parties (exporters, importers) willing to invest in your organization?*

**( METHODS ) What are the managerial methods and professionalism of the organization?**

- Farmer organizations
  - *What is the legal status of your organization? Are you officially a not-for-profit organization, and may this change as your activities grow?*
- Exporters
  - *What is the ownership structure of your company (family company, limited liability company, subsidiary, etc.)? Is the management free to decide on the company's strategy?*

- Farmer organizations and exporters
  - *Do you have export permits?*
  - *How is your organization structured? How does it organize its production and export activities? Does the organization's organigram clearly indicates everyone's responsibilities, as well as the "line of command"?*
  - *(For more advanced organizations) Do you have a sales or export officer or department? Do you have a quality management system/traceability system?*

### **( MACHINES )** What is the production capacity of your organization?

- Farmer organizations and exporters
  - *Is the current production level sufficient to deliver exportable quantities? Can you easily expand your production capacity or would this require a long-term investment?*
  - *How easy is it for your organization to switch products?*
  - *To which degree do you depend upon external suppliers or factors beyond your control? For example, are there risks of production shortfalls due to black-outs or adverse weather conditions? Have you taken measures to deal with such risks (e.g. set up your own electricity generator or built a stock of inputs)?*

### **( MEASURABLES )** What are the performance indicators of your organization?

- Farmer organizations and exporters
  - *How has your sales volume developed over time?*
  - *(For more advanced organizations that have already carried out a cost-benefit analysis) What is your profit per unit/return on investments/labour productivity?*
  - *How do these indicators compare with those of the competition? Are you more or less efficient?*

Try to decide, for each M-variable, what your organization's main strenghts and weaknesses are. List at least one and no more than three strenghts and weaknesses for each M-variable.

*Note that weak organizations are usually weak at carrying out an analysis based on the 5M-approach. Indeed, if you have only a very vague idea of the issues involved in setting up an export business, it is also very difficult to assess your strenghts and weaknesses. Organizations tend to concentrate their analysis on their practical experiences, and only identify weaknesses where they have actually encountered problems. However, "unknown" weaknesses are usually more problematic than "known" weaknesses. Remember this rule of thumb: if you haven't done it yet, your lack of experience is a weakness.*

## MARKET RESEARCH

### The product

If you still have the possibility to change your product without too many investments, it is important to know for which product demand is growing, and for which product demand is declining. Even if you cannot switch products, there may still be different demands for different varieties, qualities, grades etc. It is very important to understand these “differentiated market demands” because you may have to adapt your production methods to cater for them.

### The market – demand and price

To make an informed decision about investments, you need to know in which market you are likely to find a buyer. Which specific demands do different markets have for your product, and what are the price developments in these markets? Markets can be differentiated according to their region (the West-African market, the European market, the North-American market), their country (the Italian market, the German market), or their sales level (the wholesale market, the retail market). Within the retail market of a specific country different types of markets can be distinguished, such as the market for branded products, the market for supermarkets’ own label products, markets for high and low priced products, etc. Note that markets for certified products (including organic and fair-trade) and other niche markets often have their own characteristics, and do not necessarily follow the general market trends.

### The market – other characteristics

Other market characteristics that may have an important impact upon your business include: the distance to the market (transport time), the language

skills of importers, cultural similarities or differences that may influence the relations between business partners, and barriers to trade, including import tariffs, import restrictions based on rules of origin, labeling requirements (e.g. nutritional labeling), food safety and phytosanitary regulations and traceability requirements.

### The competition

What the competition is doing is as important as what the market is doing. Are there many other suppliers trying to sell the same product? Is your product over- or undersupplied?

### Organic and fair-trade markets

If you are thinking about targeting the [fair-trade](#) or [organic](#) markets, you may want to read the Market Briefs in this guide (see [www.fao.org/organicag/organicexports/oe-market-briefs/en/](http://www.fao.org/organicag/organicexports/oe-market-briefs/en/)). These briefs discuss the markets for a number of products that are important for West and Central Africa (cocoa, coffee, cotton, mangoes and pineapples), but contain information that is relevant for producers in other regions too. The list of references at the end of the briefs may prove particularly useful. Searching the internet on the names of the authors in the list may lead you to more recent publications on the same topic. Furthermore, the list contains numerous websites where you can find additional – and more recent – information.

*We will come back to market research (at a different level) in [Module 7](#) of this guide, where we will discuss market research and marketing.*

## COMBINING SELF-EVALUATION AND MARKET RESEARCH

### SWOT ANALYSIS

SWOT analysis is a much used strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or business venture. It involves specifying the objective of the project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective.

Strength and Weaknesses refer to the internal situation of your organization, to those aspects that

you can influence. We have already explained how you can analyse the strengths and weaknesses of your organization using the 5M approach. In the SWOT analysis, you should only mention those elements for which you score better or worse than your competitors. Opportunities and Threats refer to attributes of the external environment in which you operate, and which you do not control.

The analysis is presented in the SWOT matrix. It is advisable to carry out a separate SWOT analysis for different aspects of your organization and business, including (a) human resources and management; (b) finances; (c) production and operations; and (d) marketing. As far as the SWOT analysis of your marketing position is concerned, you should use at least the following information from the 5M analysis:

- Men: marketing skills in your organization;
- Means: the available marketing budget;
- Methods: traceability and quality management systems;
- Machines: production capacity and flexibility;
- Measurables: production costs per unit.

Combining the 5M and SWOT methods will allow you to identify the opportunities and threats for your business.

### CHOOSING YOUR SUPPLY CHAIN STRUCTURE

	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (organization)	<b>S</b> trengths	<b>W</b> eaknesses
External origin (environment)	<b>O</b> pportunities	<b>T</b> hreats

There are many different types of international supply chains, and it is useful to assess the opportunities and disadvantages presented by each structure. Examples of international supply chain structures include:

Individual farmers → local trader → exporter → importer

Individual farmers under contract → exporter → importer

Outgrower group under contract → exporter → importer

Farmer association + subcontracting exporter for export services → importer

Farmer association → importer

Individual farmer (plantation) = exporter → importer

This is obviously a very simplified overview. It does not include the suppliers of inputs to farmers or the wholesalers and retailers to which the importers sell their products, and omits the more complex chains of processed and composite products. For example, the “local trader” in the first supply chain structure may consist of a number of village produce agents, small and larger traders and processors.

The relation between a farmer organization and its exporter may take various forms. On the one end of the spectrum, the exporter manages the outgrower group, controls the production planning and provides all the inputs; the growers are not allowed to sell to other buyers (third example). On the other end of the spectrum, the farmer organization manages itself, sources its own inputs, is certified under its own independent Internal Control System (ICS) and subcontracts an exporter to provide export services (fourth example). Other autonomously managed farmer

associations decide to supply a single exporter under contract. Certain exporters manage the internal control system of a farmer organization, but do not supply inputs and allow the farmers to sell to other buyers. While each situation requires its specific arrangements, it is always important to clearly specify the roles and responsibilities of each party. More information on contract farming can be found at the FAO Contract Farming Resource Centre: [www.fao.org/ag/ags/contract-farming/en/](http://www.fao.org/ag/ags/contract-farming/en/).

The SWOT analysis provides you with insights into your strengths and weaknesses, and allows you to assess which supply chain arrangement is most suitable for your organization. You should carefully assess the investments you need to make in order to take up your preferred position in the international supply chain. Do the benefits of these investments outweigh the costs? If you decide to export directly, for example, will the difference between the export price and the farm gate

price enable your organization to assume all operational costs (costs of grading, packing, transportation, certification, port handling, etc.)? You may find that it is more profitable to sell your products to an exporter or processor, or even on the local market. This should not be seen as a “defeat”; after gaining more experience, you may decide to start exporting directly if a good market opportunity presents itself.

*Module 4* provides an in-depth look at cost-benefit analysis.

## CHOOSING YOUR MARKET AND CERTIFICATION SCHEME

If you choose to export directly, you obviously need to choose your market. But even if you decide not to export yourself, it is good to have a general idea of the market you wish to supply, to know which exporters you should approach for collaboration. The SWOT analysis allows you to assess your strengths and weaknesses against the opportunities and threats presented by the market. In which market would your strengths give you a competitive advantage over your competitors?

For example, you may have learned that the European market is highly demanding as to the traceability of your product. If your organization already has a good internal quality management system in place, it may be able to meet these demands, while its competitors may have more difficulties. The market demand for traceability represents a competitive edge for your organization.

In another example, your product is being supplied by various competitors, and there is not much room for product differentiation in quality. In this case, you may decide to obtain organic certification – especially if your producers are not using any agrochemicals anyway – to supply a niche market where competition will be less fierce.

At this point, you should not be too specific in your choice of a market. For example, instead of Germany, you may choose Western Europe, to keep alternative options open.

## MAKING A WORK PLAN

Now that you know which market you want to target, you should develop a work plan to get there. The work plan should:

- Set out a number of clear, measurable targets;
- Contain a step-by-step strategy (including a timeline) to obtain these targets;
- Clarify responsibilities: who does what;
- Evaluate costs.

Look at the weaknesses of your organization as identified in the SWOT analysis. Which are your most important weaknesses, which weaknesses should be addressed first?

At this point, you should also identify whether you need any external help. If you do, you should start looking for organizations that can offer such kind of help. You may be able to obtain financial funds from your government or a project to hire private consultants.

*Module 2* will help you choose your partners.

## INFORMATION FOR BUSINESS SUPPORT ORGANIZATIONS

In West and Central Africa, where very few farmer organizations have the capacity to set up an export business, the “drive” to export is often provided by export promotion projects, which “recruit” farmer organizations to comply with their donors’ requirements. Business support organizations should clearly point out to farmer organizations the costs and risks involved in any export activity, as well as alternative ways to play a role on international markets. Indeed, selling to an exporter may prove a viable alternative to – and may even be more profitable than – exporting directly.

The expectations of the farmers involved in the project should be managed carefully. Farmers must be enthusiastic about the project in order to participate in training sessions and comply with quality and other standards. If the preparatory phases of the project take longer than expected, farmers may become disillusioned and abandon the project, taking the results of investments in farmer training with them. It is therefore very important to:

- Inform farmers about the expected duration of the preparatory phases of the project;
- Minimize the number of farmers involved in the development of the organization’s traceability, quality management and Internal Control Systems. While you may provide training to a larger group of farmers (e.g. to meet the donor’s project targets or create a pool of trained farmers to supply products when business picks up), involving too many farmers too early will make it impossible to buy the output of every farmer who has invested in meeting the project’s production and quality requirements;

Clearly inform the farmers of the production volumes that will be bought by the farmer organization or exporter; they will have to sell the remainder of their production volumes through their “old” channels.

Farmer organizations wishing to supply the fair-trade market are often obliged to export directly, which may lead business support organizations to go too fast in setting up export operations. In the worst case scenario, delivery problems are such that the whole fair-trade project is dropped altogether; in the best case scenario, the business support organization takes full control of the export activity, while it takes the farmer organization years to build the necessary export capabilities. To avoid such disappointments, it is crucial to carefully assess the farmer organization’s capacities and experiences and clearly – and realistically – inform all parties of the feasibility of activities, results and timeframes.

In addition to the SWOT tool discussed in this module, you may use Participatory Rural Appraisal (PRA) tools, empowering and involving farmers in the analysis of their initial situation. The following PRA tools may prove useful in the development of the organizations’ marketing system:

- VENN diagram  [<www.fao.org/Participation/tools/venndiagram.html>](http://www.fao.org/Participation/tools/venndiagram.html)
- Flow diagram  [<www.fao.org/Participation/ft\\_more.jsp?ID=3061>](http://www.fao.org/Participation/ft_more.jsp?ID=3061)
- Mobility mapping  [<www.fao.org/participation/tools/mobilitymap\\_545.html>](http://www.fao.org/participation/tools/mobilitymap_545.html)
- Participatory cost/benefit analysis  [<www.fao.org/Participation/ft\\_more.jsp?ID=142>](http://www.fao.org/Participation/ft_more.jsp?ID=142)  
(see Module 4)

More PRA tools can be found at  [<www.fao.org/participation/tools/PRA.html>](http://www.fao.org/participation/tools/PRA.html).

