



Agribusiness: A path to prosperity

Module 1: Transitioning from subsistence to commercial farming

A handout for farmers



Prepared by Joseph Freach, Mark Notaras, Jenny Ikelberg, Beatriz Antónia dos Santos and Joaquina Guterres.

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Commercial agriculture is the production of crops or animals to sell for money



Who makes a good commercial farmer?

Characteristics of a good commercial farmer include:



RISK is taking a chance even when the outcome is uncertain

If we don't take risks, we might not lose very often, but we usually **won't make profit.**



Successful commercial farmers **make a plan before** they start producing and take steps to reduce their risk.



If I want to be a producer, processor and a seller of my product, this **will take a lot of my time** and I won't be able to focus heavily on improving my production.

If I try to plant, transport, look for a market and sell my product by myself, I will **take all the profit** but I will also **take all the risk**.

In the modern market economy, the PRICE I receive for my product is NOT set by the government.

Four factors influence the market price:

1. Costs
2. Competition
3. Supply
4. Demand

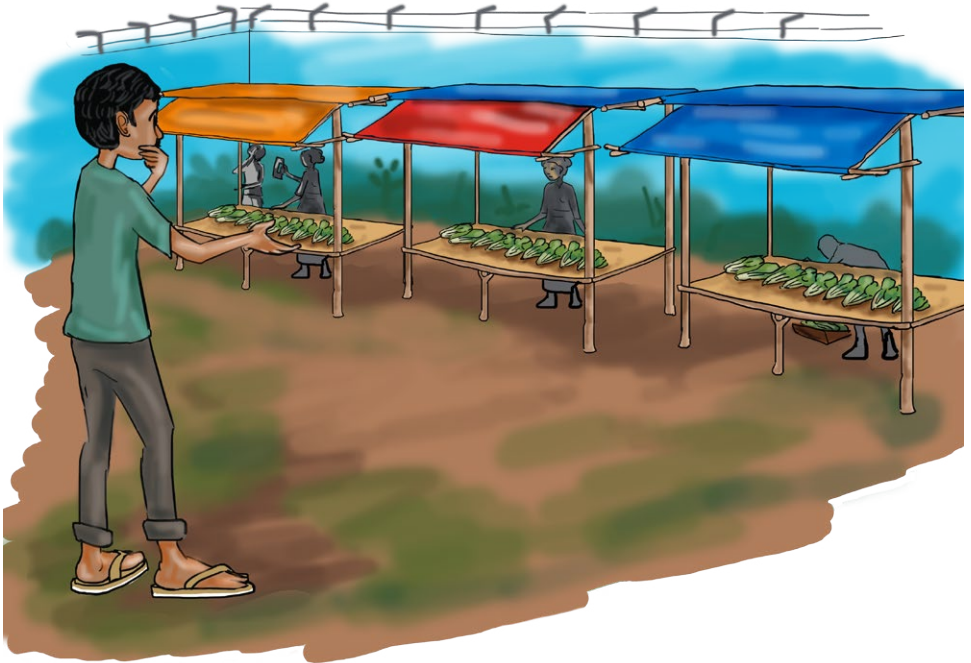
Before I sell my product, I need to **know my costs** so I can decide on the best price for my product.

I should establish a **price which is higher than my costs**, but that consumers will still accept.

If my product costs more than buyers are willing to pay, they will not buy it. Then I cannot sell my product and EVERYONE LOSES.



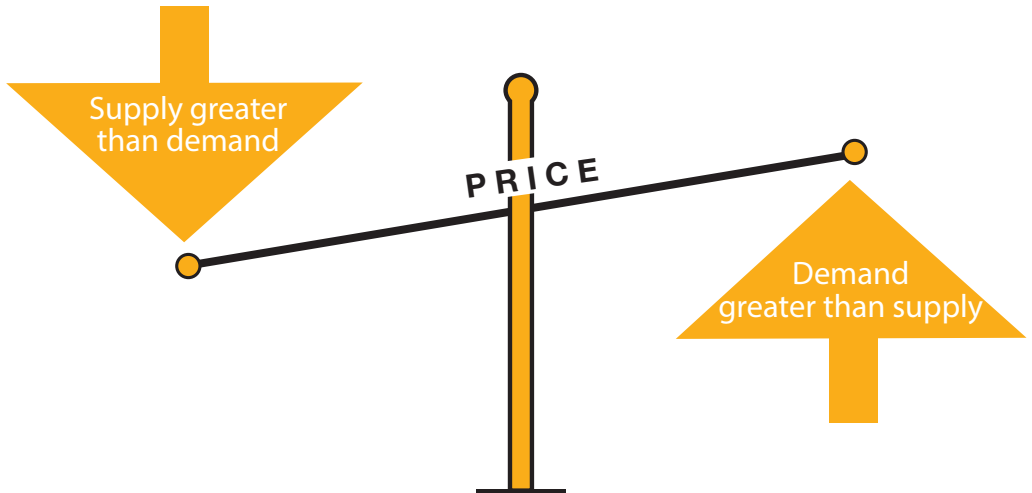
COMPETITION is when other sellers
compete with me to sell the same product.



DEMAND is the amount of a product that people
want to buy.

SUPPLY is the
quantity of product available
for people to buy.

SUPPLY and DEMAND are the two most important factors that determine price



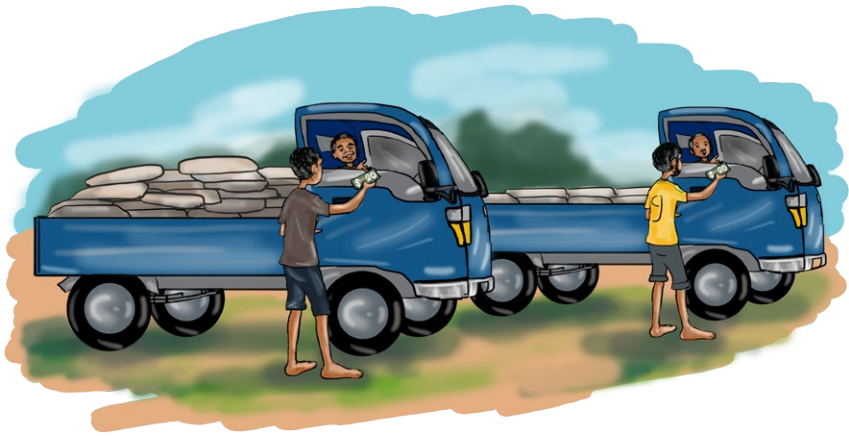
Prices in local markets **depend on the quantity of product** available. During harvest times, prices drop because there is a large supply of products.

Sometimes, **global prices** have an effect on the price of my product because imported products (e.g. rice) are sometimes available at a low price.



Asking for a price based only on the price that other sellers are asking is not the best way to succeed in business.

ECONOMY OF SCALE is when I increase production, and reduce my overall production costs **per kilogram**.



In order to become a successful commercial farmer,
I don't need to ask a high price for each product
I sell.

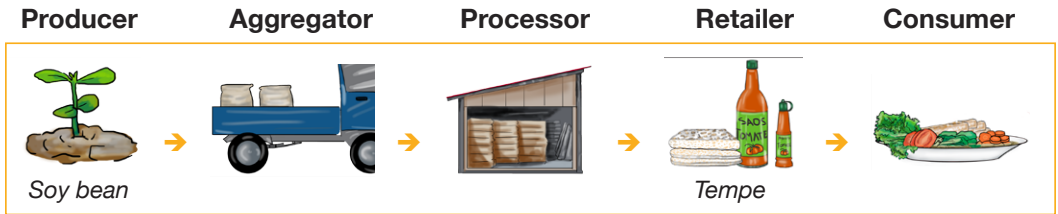


The highest price is not always
the best price, because
there may be less buyers.

It is better to **reduce my price** and
and sell more because I will attract more buyers.

MAKE SMALL GAINS, BUT OFTEN.

A VALUE CHAIN is the process of moving my product to the consumer through various businesses that buy and sell goods.



Key stakeholders in a value chain include:

- **Producers** – Who grow or make the produce.
- **Aggregators (small traders)** – Who buy small quantities of local produce and sell them in larger quantities.
- **Wholesalers (big traders)** – Who buy and sell big quantities of produce.
- **Processors** – Who buy the produce and use it to make something else.
- **Retailers** – Who buy large quantities of produce, divide or package them, and then sell them.
- **Consumers** – Who eat or use the final product.

Each business in a value chain depends on the others to move the product to the consumer.

Simple international value chain:



The price of a product **cannot stay the same** throughout the whole value chain because each business involved, whether as an aggregator, processor or retailer **must make a profit**.

Everyone in the value chain has costs, including farmers. **Everyone must make a profit** or the value chain will not function well.

If any business in the value chain is not making money, **the system stops working** and my product will not make it to the consumer.



If I **put my product** together with my neighbours in a single place, we can **reduce the costs** for buyers.

If a buyer is making good money, they **will come back regularly** and buy our produce.

Money will not coming looking for me. I must go out and look for money!

