



Agribusiness: A path to prosperity

Business skills

Module 2



Acknowledgements

This training manual has been produced as part of the TOMAK program in Timor-Leste. TOMAK (*To'os ba Moris Di'ak* or Farming for Prosperity) is an agricultural livelihoods program supported by the Australian Government. The program is working with government, NGO and private sector partners to sustainably increase market engagement and household nutrition for farming families across the country.

A key aspect of the program is supporting the development of commercial agriculture through the enhancement of household capacity to confidently and ably engage in agriculture markets. This manual, designed to help farmers understand and embrace basic business practices, is an important educational tool supporting this work.

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Thank you for your contributions.

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TABLE OF CONTENTS

1 Introduction.....	5
1.1 How to use this manual – a guide for trainers.....	5
2 Business skills	7
2.1 Market research	8
2.2 Choosing the right product.....	9
2.3 Promotion.....	11
2.4 The business canvas	12
2.5 Understanding profit.....	16
2.6 Production, costs and profit	19
2.7 Financial record keeping	23
2.8 Contract farming	26
2.9 Quality control	28
3 Group dynamics	30
3.1 Collective marketing.....	31
3.2 Side selling.....	32
3.3 Keeping youth on the farm.....	35
Summary.....	36
Training evaluation	37
Lesson plan.....	39

1 INTRODUCTION

The Timor-Leste Strategic Development plan outlines a vision in which “Subsistence agriculture will have been replaced by commercial, smallholder agriculture” by 2030. Despite this target, only 2.6% of private households reported being “involved in agriculture mainly for sale” in the 2015 Population and Housing Census.

At the time of writing in 2017, commercial agriculture remains a rudimentary but emerging sector of the Timorese economy. Few farmers are used to operating in a market system, large scale trade is rare for crops other than coffee, and the majority of transactions for agricultural produce take place at the local marketplace level. Exports of food crops are almost non-existent, and only minimal amounts of industrial crops are produced. Large scale government investment in irrigation systems and other infrastructure has provided resources for production in some areas, but efforts to increase productivity are hampered by the lack of market activity to consume the produce. Despite these limitations, recent growth in the market for products such as fresh vegetables and an increasingly urbanised population show potential for growth of commercial activity in the agriculture sector. There is a preference for local produce among the emerging middle class, and self-sufficiency in staple grain remains a government priority.

This training program was written to assist subsistence farmers both women and men, with little or no commercial experience who wish to begin the transition to commercial agriculture. It is targeted at farming families who do not yet have the capacity to access business support services. The program is designed to be non-technology dependent, deliverable in remote areas, and as accessible to illiterate and low literacy participants as possible. The information contained in each lesson is meant to be used to guide trainers to facilitate discussions, and participatory activities reinforce the concepts and provide opportunities for self-reflection among the participants. The lessons have been divided into two modules which could form the basis for a single training program, or each module can be delivered individually depending on the needs of the participants.

1.1 How to use this manual – a guide for trainers

The lessons in this training manual are meant to guide discussions on each topic with examples and activities to reinforce and provide context for the information. The trainer’s job is not to simply deliver the material, but instead to guide the participant’s understanding of how they feel about commercial farming and the issues that they must consider if they want to transition out of subsistence farming. Discussion should be encouraged throughout the lessons prompted by the questions that are included throughout the text. Trainers are welcome to use local languages if they are able in both the lessons and the discussions. The goal is to involve the participants in the learning process and to promote as much interaction as possible. Trainers should identify participants who quickly grasp the topics and utilise them to explain concepts, assist others, or even co-facilitate lessons.

Trainers must read and understand each lesson in advance in order to prepare the necessary materials and to ensure that they are able to explain the concepts and information. This includes writing out the tables of numbers so that they are ready to reveal to the participants during the training. If multiple trainers will be delivering the lessons, they should review the material together and discuss how they will divide the delivery. This is especially important for the examples and activities, which require some materials and planning for how the participants will be organised. Instructions and lists of resources are included at the beginning of each activity, as well as in the lesson plans.

Some symbols appear throughout the text with special instructions for trainers, ★ denotes key points, and definitions are in **bold text**.

It is up to the trainers to assess the level of each training group, and to adjust the lessons as necessary for the capacity of the participants. Trainers should be cautious that both the complexity of the material and the speed at which it is covered is appropriate for the group. Trainers should be conscious of possible gender differences in the participants and ensure both women and men have equal opportunities to speak and be listened to. The trainers must also be conscious of participants who cannot read or are not used to working with numbers. For most examples and activities, the tables and calculations should be written on a piece of flipchart paper before the training begins. The tables should be kept covered until they are needed in the lesson, and revealed row-by-row or column-by-column to avoid overwhelming participants who are not used to working with tables of numbers. Using a second piece of paper as a cover sheet is useful in revealing the tables in this way. Using simple symbols next to words (such as \$+ for 'money in' no \$- for 'money out') can help participants who cannot read to keep track of the information being presented. Many of the concepts are related, and some concepts (such as supply/demand and economy of scale) apply to many different sections. Drawing attention to past concepts when they apply to a lesson is a good way to reinforce the information. The 'concept wrap-up' found at the end of most activities is particularly important to bring the activity back to the original concept and to emphasise how it is applied to the activity scenario.

2 BUSINESS SKILLS

A commercial farm is a business, and a business is an activity that is designed to make money. To do this, the business must provide a service or produce a product that people want or need. **A business creates something that the customer values.** For a product based business like a commercial farm, the owner must ask him/herself: Who are my customers and what can I make that they would want?

One way to begin this process is deciding who the business will target as a customer. Customers could be neighbours, the local community, people in a market place (local, municipal, or national), local traders, big companies, the government, or NGOs. Everyone needs something, and a good business person thinks about which of those needs he/she can fill. The next step is to try to think of what those customers might value, and whether the business can produce something to provide this value. Another way to start a business is to first decide what the business can produce, and then ask the question: “Who would value (i.e. want to buy) this product?” A good business person tries to think of all of the possible customers that might buy the product. Friends and neighbours need to buy vegetables, but what about a local trader or a supermarket in a municipal capital?



Another way of looking at these questions is: “What problem does someone have that my business can fix?” People in the cities don’t have enough land to grow rice, but a commercial rice farmer can fix that problem by selling it to them. People have trouble finding mung beans in the market when they are not in season, but a commercial farmer with good storage can save and sell them in the off-season (and probably make a very good profit).

★ Discussion:

Ask the participants to think about who they could sell something to in their communities, municipalities, and in Dili. Are they selling to some of these people already? What barriers are keeping them from selling to other customers? Can the participants think of a few examples of where a customer has a problem, and they can produce something to fix that problem?

2.1 Market research

Whether a farmer is selling new or existing products, the best way to find customers to buy them is to do market research. Market research is not complicated and any commercial farmer can do it. It is simply looking for new information that is useful for selling your product. The first step in conducting market research is to see what products have a high demand. This could be among neighbours and the community, in a local market, at a municipal market, or even on the global market. A commercial farmer conducting market research might travel to the municipal capital and spend a day in the local market just watching what people buy and sell, what is being loaded on or off of trucks from other places, how the goods are being sold (in small piles, sacks, or by the truckload), what prices are being paid, what the quality standards are, and anything else that they could use to improve their business. They should watch the sellers, but also the buyers. Are there many buyers looking for a product that is scarce? Are buyers asking for a particular quality, type, or standard of a product?

If observing the market yields good information, asking questions can only be better. Traders depend on buying from producers, so they should be happy to talk to someone who might be able to sell them something in the future. If a trader is willing to talk, the farmer should try to get as much information as possible to inform their production decisions. What goods does the trader buy? How often, and in what quantities? What are the trader's standards of quality? Could they provide transport, or do they only buy from the market place? A farmer who knows the answers to these questions can make better production decisions and have a better chance of selling their crop.

Conducting market research gives the farmer the chance to form relationships with other stakeholders in the value chain. By meeting with traders, input suppliers, transportation providers, and other producers, the farmer forms linkages that can be valuable later when marketing his/her crop. Market research also helps the farmer to compete with other producers in the market. By researching the market, a farmer might learn which variety of tomatoes traders are looking for and can make production decisions accordingly.



ACTIVITY 1 – Market research discussion

Duration Min 30

Materials Flipchart for each group / markers

Objective Participants should start thinking about their products from a marketing perspective, and be proactive about finding information that will improve their sales.

Ask the participants to fill in the blanks in the following sentence and tell them to the rest of the group:

"If I was producingI would want to know from"

If the group is small, ask each participant to suggest a scenario. If the group is large, ask for volunteers. Encourage the group to think of what information would help them to better sell their crop. If the participants have trouble, give them some examples such as:

- "If I was producing **mung beans** I would want to know **how the price changes in the months after harvest** from **municipal traders**."
- "If I was producing **red rice** I would want to know **how much an increase in quality increases the price** from **supermarkets**."
- "If I was producing **peanuts** I would want to know **what quantities customers buy** from **my local market sellers**."

★ Discussion:

For each scenario suggested by the participants, briefly discuss what they would have to do to find this information, and how it would influence the way that they plan and produce or manage their crop. Be sure that the participants cover topics like: when the buyers would want the product, what quality they want, which products they buy, where they want to buy them (do they transport, or does the farmer), etc.

2.2 Choosing the right product

Choosing the right crop to produce and sell is a critical decision for the commercial farmer. Farmers must choose their crop based on the resources they have or can obtain, but they must also consider what they can sell. Deciding what crop to produce based only on what the neighbours are growing or what has been grown for a long time is not a very good strategy for success. The commercial farmer must look at the market, think about who could be a client and what they would want, and decide if he/she has the resources to produce something to fill the client's need.



The farmer must produce a product that is competitive in the market. The training section on competition discusses how a farmer could produce a new crop, a better quality crop, or a better timed crop (i.e. producing it early or storing it until there is a good market price) to compete in the market. These are all strategies that the farmer must consider when deciding what to produce. Long before the sale is made and even before the crop is grown, the farmer should be thinking about ways to make their crop the one that the market will want. When choosing a product, farmers should ask themselves: Is there a way to make something I'm already producing more marketable? What new products do my clients (or potential clients) want or need to buy?

Commercial farmers must also consider the time, effort, resources, and skills it would take to produce a new crop. They may see a market opportunity for a product, but without the resources to produce it, they will not be able to take advantage of the opportunity.

ACTIVITY 2 – Choosing a product

Duration Min 20

Materials Paper and pens for each group

Objective Participants should understand the process of choosing a new product based on marketing principles.

Divide the participants into small groups of 2-3 people each. Ensure that at least one person in each group can write a list. If there are not enough literate participants, the trainers can write the lists. Allow at least 5-10 minutes for groups to discuss each task below. Don't show all the instructions to the participants at the same time. Wait until they have completed one instruction, before showing them the next.

1. Ask the groups to make a list of 10 products that they would **like to sell**. These can be crops that they already produce, or crops that they would like to produce.
2. From the crops they have listed, ask the group to choose 8 products that they have the **resources to produce**, and cross off the others. (Remind the groups that they will need: enough land, enough water, enough labour, enough inputs, enough time, etc. Do the new crops fit with their existing cropping schedule? Do they have places to dry or store the crops after harvest? Do they have the money to pay for costs to produce the crop?)
3. When the lists are complete, ask the groups to choose the six crops from the list that they best **know how to produce**, and cross off the rest.
4. From the crops that are left, ask the groups to choose the four crops that they **know they can sell**, and cross off the rest. (Remind them of the marketing principles of why customers buy. Will there be a lot of competition with other producers of these crops?)
5. From the crops that are left, ask the groups to choose the two crops that will get the **best price**. (Remind the groups to consider both the selling price and the cost of production.)

Go to each group and ask them to announce the two crops that they have chosen and **why they have chosen them**. Ask each group questions about why they think these are the best crops. Focus on reinforcing marketing concepts such as: Will many other farmers be selling the same crops at the same time? Where will you find customers for this crop? Does that crop have high production costs? Do you plan to sell retail, or wholesale to a trader? Why is this the best way to sell? Use these questions as a concept wrap-up to reinforce the material from the lesson.

2.3 Promotion

In every village in Timor-Leste, there are signs advertising mobile phone companies, soft drinks, and household items. These companies are promoting their product. They are trying to **create demand** for their product by getting more people to want to buy it. While this type of advertising is not appropriate for the small commercial farmer, the concept of promotion is important for finding buyers and increasing sales.

The simplest form of promotion is word-of-mouth. Simply telling people that you have (or will have) a product to sell and hoping that the news spreads. Friends and neighbours might travel to different neighbourhoods or cities, and might spread the word there that you are selling something. Talking directly to market sellers or local traders is an excellent way to promote your product. What about the local ministry of agriculture office, your local extension worker, or truck and bus drivers? If no one knows that you are selling, how can they come to buy it?



After making it known that you have something to sell, the next step is to convince people why they should buy your product. Are your mung beans the only ones available this time of year? Are your tomatoes fresher than the ones that come from far away? Can you reliably sell 5 bags of shallots every month? Customers won't know the answers to these questions unless you tell them. Sometimes, if the product is a new one, the producer might even need to educate the buyer. A producer might promote his/her product by informing buyers of the health benefits of a new vegetable, the cleanliness of his/her processing facility, how to cook a new food, or how to judge the quality. There are risks with introducing a new product into a market, but by promoting it through educating the buyer, the producer reduces his/her risk. Taking samples to show buyers is another good method of promotion. A producer might travel to a municipal capital with 10 kg of mung beans to show to traders, or to Dili with a basket of tomatoes to show to supermarkets. If the producer can answer questions about the quantity he/she can supply, and if the delivered product is the same type and quality as the sample, this could be the beginning of a profitable relationship for the farmer.

★ Discussion:

Do the participants do anything now to promote their products? Can they think of a way that someone else promotes a product to them? What are some simple steps that they could take to better promote their product (or potential products)?

2.4 The business canvas

The commercial family farm is a business, and all businesses need a plan. A plan helps the business owner to stay on track and to identify all of the critical parts that keep the business running. Businesses have many parts that must work together. A farmer who produces very good crops but does not do any marketing will have few customers. A farmer with land and water resources but few production activities will have no crops to sell. By creating a business plan the farmer can see how his/her resources, production activities, marketing, customers, costs, and income fit together to make a functioning business.

A good way to visualise all of the aspects of a business is to create a business canvas. A business canvas is simply a table where a farmer writes down certain information about his/her business to see how it fits together. If the farmer encounters problems or the business isn't running well, looking at the business canvas can help to identify where the problems are and where work needs to be done to fix them. Figure 1 shows the business canvas. Draw the diagram on a flip chart or whiteboard and discuss each box with the participants.

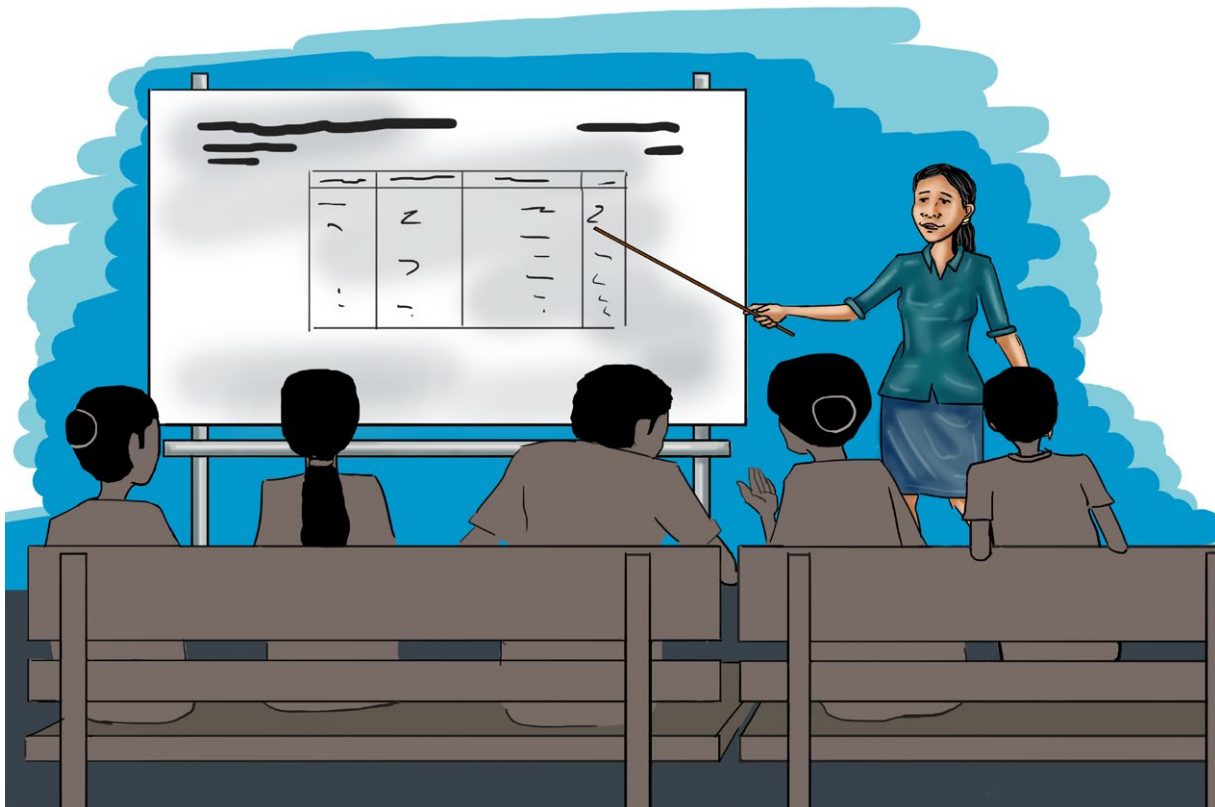













Figure 1: Business canvas

The Business Model Canvas		Designed for:	Designed by:	Date:	Version:
Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 	
	Key Resources 		Channels 		
Cost Structure 		Revenue Streams 			

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The farmer should list certain types of information in each box in the business canvas. It is important to think carefully about each box so that information is not left out. The types of information to include are described on the following page:

Partners – These are people or organisations that provide services or support to the business. Examples might be: MAF extension officers, a shop that sells seed, etc.

Activities – These are what the business actually makes or does. Examples might be: Growing cabbages, raising chickens, etc.

Resources– These are the people and things that the business uses to carry out its activities. Examples might be: 0.5 hectares of land, irrigation pipes and tanks, a family team of 5 workers, etc.

Value proposition– The value proposition is what the business provides to the customers. It answers the question: ‘What does your business make or do that customers want?’ or ‘What problem can I solve for my customer?’ Examples might be: ‘providing quality, locally-grown red rice do Dili restaurants.’ or ‘selling mung-beans in the off season.’

Customer relationships – This section is for marketing - the methods used to reach customers. Examples might be: ‘taking samples to supermarkets,’ or ‘directly contacting trading companies.’

Channels – These are the ways that your goods reach your customers. Examples might be: farmers’ cooperatives, local markets, etc.

Customers – This is a list of people or companies that will buy your products. Examples might be: Local community, a primary school, small traders, big trading companies, etc.

Costs – This is where expenses are listed. The purpose is not to list specific amounts, but to write a list to see where money is going out. Examples might be: seed, fertiliser, transport, etc.

Income – This is a list of how money comes in to the business. Again, this is the types of income rather than the amount. Examples might be: mung bean sales, sales to traders, local market sales, etc.

ACTIVITY 3 – Creating a business canvas

Duration Min 60 - 90

Materials Pens for each participant / blank printed copies of the business canvas (or participants can draw one if no copies are available)

Objective Participants should understand the process of planning a business through the creation of a business canvas. The canvas helps the participants to consider how all of the different aspects of the business fit together.

Explain to the participants that they will be making a business canvas for their commercial family farms. Participants can make the canvas based on crops that they have sold in the past, are currently selling, or would like to sell in the future. Pay close attention to the descriptions of each box from the lesson, and help the participants to choose the correct type of information for each box. The order that they enter the information is important, so tell the group that you will be guiding them through the business canvas.

1. Ask the participants to fill in the ‘**Resources**’ box. Here, they should list their land, water, equipment, and labour resources. Some of these resources might not apply depending on what activities they select later, but it is important to first list what is available for starting the business.
2. Ask the participants to think about the ‘**Value proposition**’ box. This is perhaps the most critical part of the business plan. The participants should be thinking: “Based on the resources that I have available, what can I produce that someone

(a potential customer) would want?" Remember that they have not decided who their customers are yet, so they need to think from many different perspectives. What do the people in their local market want? What do local traders want? What do supermarkets want? What do big companies want? Another way to look at the question is: "What problem do potential customers have that I can fix with my resources?" Do local people want to buy something that they cannot find? Do people want to buy something, but the price is too high? Do people want to buy something all year that is only available in a certain season? Would people rather buy something produced locally that they can only get as an imported product? By providing a solution to any of these questions, the business is providing value to the customer. The more value the business can supply, the more likely it is to have a lot of customers.

3. After completing the 'Value proposition' box, the '**Customers**' box should be easy. Who are the participants providing value to? Hopefully this will be a list of multiple customers. Goods might be sold in small quantities in the local market, and in larger quantities to a local trader. Encourage the participants to think of all of the people or companies that would be interested in their product.
4. Now, complete the '**Customer relationships**' box. How will the business stay connected to existing customers and attract new ones? How will the business promote its products? Remind the participants that "Money does not come looking for you, you must go out looking for money!"
5. The next box to complete is '**Channels**.' How will the business get the goods to the customers? Will they sell collectively with other farmers, individually in a market stall, or directly to a trader? Will they sell from their homes, or will they transport their goods somewhere else? There may be many channels through which the product moves, especially if there are many different types of customers.
6. The participants should now move on to the '**Activities**' section. What does their business do to create value for the customer? This might be one main activity, or several smaller activities. These activities should relate directly to a value proposition.
7. Now fill in the '**Partners**' box. What other individuals, businesses, or organisations provide help, services, or inputs for the business? If the business owner finds it difficult to source an input or get help with a problem, how could they identify a partner that could fill this need?
8. Move on to the '**Costs**' box. What are the goods and services that must be paid for in order for the business to operate? Are there investments to be made such as renting land or buying equipment? What inputs does the business need?
9. Finally, fill in the '**Income**' box. What are the sources of money coming in to the business? This could simply be the sale of the crop each year, sales of different prices to different customers, or sales of many different crops on a regular basis.

★ Discussion:

Now discuss the completed business canvas with the participants. What are their strongest, and weakest points? Can they identify any problems? What could they do to fix those problems? Do they have sufficient resources to produce their product? If they know of a good value proposition but do not have the resources to build a business around it, is there any way they could get the necessary resources? How can the business plan guide the planning of resource use, labour, and finances? Do they have the resources to add additional activities?

2.5 Understanding profit



Note to trainers

This lesson and lesson 2.6 **must follow the order** outlined in the manual. Each piece of information is important and helps avoid confusion among participants. Trainers should wait to show calculations to participants until after they have explained the first part of these two lessons (don't show beforehand). These two lessons use the following symbols whenever the trainer should read aloud directly from the manual.



The story adds context to the calculations and data that will be presented to the participants.

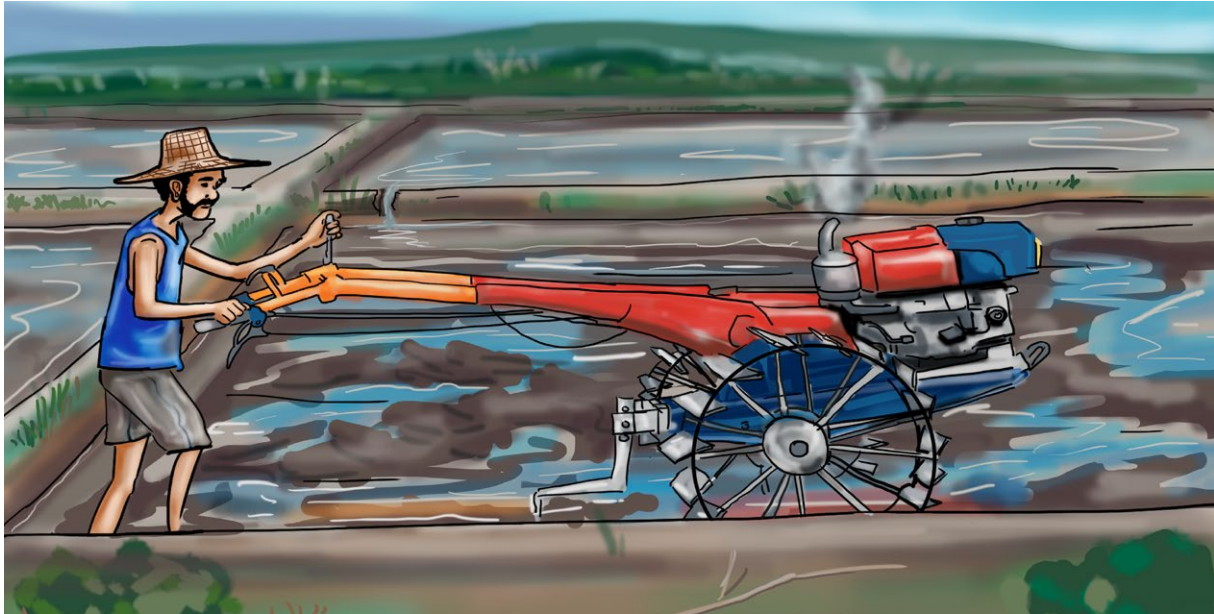
The most basic objective of any business is to make a profit. People who operate a business make or do things in order to make money. There are always costs associated with running the business, so it is up to the business owner to make sure that they are selling their produce for more than it cost them to produce it. The business owner also has to make sure that the profit they receive is worth their effort. If a business owner does not know how much it cost them to produce something, or how much effort it took to produce, it will be very difficult to know whether or not they made a profit.

Sometimes a farmer might spend small amounts of money throughout the season buying inputs, hiring labour, or feeding an animal. When the harvest or animal is sold, they receive what looks like a lot of money and think that they have made a profit. The small costs of production can add up, though, and sometimes they might have spent more to produce the good than they received when they sold it. Good record keeping and a good understanding of profit can prevent this from happening, and ensure that the business owner does not waste money or effort.

Profit can be simply calculated:

$$\text{Income} - \text{Expenses} = \text{Profit}$$

A farmer can look at profit for the farm as a whole, but it is also important to understand how each activity adds to or subtracts from the total profit. A simple profit calculation for an agricultural activity might look like the example below:



Note to trainers

Read the following example to the participants, but do not write down the costs until you are finished. AFTER discussing whether Julio made a profit, list and add up the expenses together with the group. The objective of this story is to **surprise** participants with whether Julio made a profit or not.

Trainers **should not encourage or leave time for participants to write down the costs in this example** so that they can surprise them with the question about Julio's profit, and show them that if they do not write down costs, they cannot know if they have made a profit or not. This situation happens in reality in their farm businesses. If some participants write down the costs throughout the example and answer the question correctly, that's no problem. Explain to the participants that they know the answer because they wrote down their costs and use this to reinforce this point.

“ Julio decides to plant red rice to sell to a local trader. He agrees to rent 1 hectare of land for \$150. He buys some seed for \$40, and pays \$80 for some labourers to help him plant his crop. For three months he goes to his rice field every day to pull weeds, control the water, and protect the crop from animals. As the crop grows he notices rice bugs attacking the plants, so he buys some pesticide for \$30 to kill the insects. At harvest, Julio again has to hire labour at a cost of \$110. He pays \$30 to hire a thresher, \$20 for some clean bags, and spends another week drying the rice in the sun. Finally he pays \$40 to mill the rice, and is left with 1000kg of good red rice. Because it is a premium product, the trader buys the rice for \$1/kg, and Julio now has \$1000 in his hand. Did Julio make a profit on his rice? How much profit? Was it worth his effort? ”

Does the group think that Julio made a profit? Can they be sure? After briefly discussing this with the group, add up the expenses on a whiteboard or flipchart.

Expenses	
Land rental	\$ 150
Seed	\$ 40
Labour (planting)	\$ 80
Pesticide	\$ 30
Labour (harvest)	\$ 110
Thresher	\$ 30
Bags	\$ 20
Milling	\$ 40
Total	\$ 500

“ Julio's total costs amounted to \$500, so he calculates his profit as:

Income	-	Expenses	=	Profit
\$ 1000	-	\$ 500	=	\$ 500



Julio's profit is \$500. Would he have known this if he had not recorded all of his expenses? Would he have been able to remember everything that he spent to grow his rice? Is this a good profit or not?



Now that Julio knows how much profit he has made, he decides to think further about whether it was a good return on his labour. He thinks about how much of his time he invested in growing the crop. Looking at the calendar, a few days of preparation, the time spent growing his crop, and a week of post-harvest processing amounted to 120 days to produce the crop. Julio subtracts the Sundays that he didn't work, and finds that he has worked 103 days to produce his rice crop. He divides his profit by the number of working days, and finds that his profit equals \$4.85 for each day spent working in his rice fields. ”

Profit	÷	Working days	=	Profit/day
\$ 500	÷	103	=	\$ 4.85

★ Discussion

Is this a good return for a rice farmer? Only Julio can decide that. If he is not happy with his return, what can he do to improve his profit next year? Could some small additional expenses (such as fertiliser) improve his yield and increase his profit? Planting a larger area might increase some expenses, but would it also increase his profit if he had more rice to sell? Would having good records of his expenses, income, and production help him to make these decisions next year?

2.6 Production, costs and profit


Business owners are always interested in ways to increase their profit, and the commercial family farmer is no different. There are several strategies that a business owner can use to try to increase the amount of money they make. These could include:

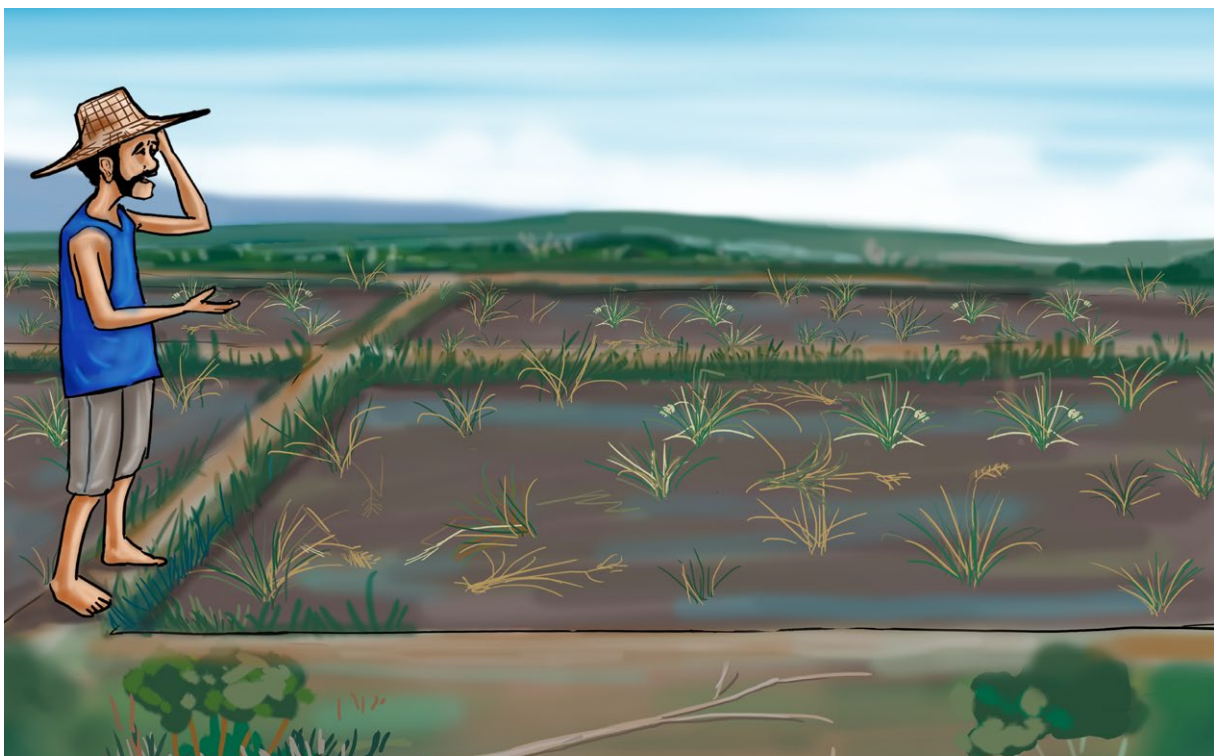
- Reducing costs
- Increasing sales
- Stopping production of unprofitable crops
- Producing new, more profitable crops
- Producing better quality products for higher prices

It is very important that farmers realise that for many crops if production is low, income is low but costs are **only slightly reduced**. If we look at the example from the last lesson, we can see how changes in production affect costs and profit.

Note to trainers

This example shows what happens when the unit cost of production is high. Because the amount of red rice produced is low, but the costs stay nearly the same, the cost per kilogram of rice is much higher than in the example from the last lesson. This means more of the price per kilogram of rice that Julio sells has been taken away by costs. Return to the table of costs and profit from the example of Julio the rice farmer. Discuss the following changes with the group. ★ Refer back to the Module 1 lesson about Economy of Scale.

 “What would happen if Julio did not go to the rice fields for a week and he was not there to control the flow of water or animals destroyed part of his crop? Now he has only 600kg of red rice to sell at the end of the year. How would this affect his costs?”



Add the new figures based on the lower production to the original table as follows:

Expenses:		
Land rental	\$ 150	\$ 150
Seed	\$ 40	\$ 40
Labour (planting)	\$ 80	\$ 80
Pesticide	\$ 30	\$ 30
Labour (harvest)	\$ 110	\$ 88
Thresher	\$ 30	\$ 24
Bags	\$ 20	\$ 16
Milling	\$ 40	\$ 32
	\$ 500	\$ 460



“With less red rice to harvest, he will need less labour, fewer bags, and his processing costs will be lower. If he sells his 600 kg of red rice and gets the same price of \$1/kg, he receives \$600 from the trader. Julio's profit calculation now looks like this:

Income	-	Expenses	=	Profit
\$1000	-	\$500	=	\$500
\$600	-	\$460	=	\$140

...and his return per day calculation looks like this:

Profit	÷	Working days	=	Profit/day
\$500	÷	103	=	\$4.85
\$140	÷	97	=	\$1.44



This is an important lesson for commercial farmers. Julio's costs reduced by only \$40 ($\$500 - \$460 = \40) but his profit reduced by \$360 ($\$500 - \$140 = \360) and he now only receives \$1.44 per working day. The land rental, seed, planting labour and pesticide did not change, because this money had already been spent. Because there was less rice to collect, the harvest labour, bags, and processing costs were lower, **but this did not make a big reduction to the total costs.**



Now let's see what happens if Julio's production increases. We will return to the first example, but this time Julio decides to add two bags of fertiliser to improve his yield. The fertiliser costs \$17/bag (for a total of \$34), but now when he harvests his crop he has 1200 kg of red rice to sell to the trader. Julio's costs now look like this: ”

Add the new figures based on the higher production to the original table as follows:

Expenses:		
Land rental	\$ 150	\$ 150
Seed	\$ 40	\$ 40
Labour (planting)	\$ 80	\$ 80
Pesticide	\$ 30	\$ 30
Labour (harvest)	\$ 110	\$ 132
Thresher	\$ 30	\$ 36
Bags	\$ 20	\$ 24
Milling	\$ 40	\$ 48
Fertiliser		\$ 34
	\$ 500	\$ 574



“With more rice to collect he needs more labourers for harvest, more bags, his processing costs are higher, and he has an added cost for the fertiliser. If he sells his 1200 kg of red rice and gets the same price of \$1/kg, he receives \$1200 from the trader. Julio's profit calculation now looks like this:

Income	-	Expenses	=	Profit
\$1000	-	\$500	=	\$500
\$1200	-	\$574	=	\$626

...and his return per day calculation looks like this:

Profit	÷	Working days	=	Profit/day
\$500	÷	103	=	\$4.85
\$626	÷	103	=	\$6.08



As Julio's production increased, so did his profit. **This is not just due to the increase in sales, but also because the increase in his costs was small compared to the increase in his production.** Because he invested a small amount of extra money in the fertiliser, and because the additional expense of harvesting, processing, and bagging the extra rice were small, his profit increased compared to his expenses.



It might look like Julio made more money simply because he sold more red rice, but actually he used two of the strategies for increasing his profit. Julio's production, costs, and profit for the three examples look like this: ”

Production	1000 kg	600 kg	1200 kg
Costs	\$ 500	\$ 460	\$ 574
Profit	\$ 500	\$ 140	\$ 626

Ask participants how to calculate the cost per kg **before** showing them the following table:

“ If we divide the total costs by the number of kilograms produced, we see that the cost to produce each kilogram of rice goes up and down with the production.

Cost	÷	Production	=	Cost / kg red rice	Profit / kg
\$ 500	÷	1000 kg	=	\$ 0.50	\$ 0.50
\$ 460	÷	600 kg	=	\$ 0.77	\$ 0.23
\$ 574	÷	1200 kg	=	\$ 0.48	\$ 0.52



When Julio produces 1000 kg of red rice, he pays \$0.50/kg in costs. If his production drops to 600kg, he pays \$0.77/kg to produce his red rice. When his production increases to 1200 kg, he pays only \$0.48/kg in costs. This means that for every kilogram he sells, he gets to keep more or less of the price depending on how much he has produced. By increasing his production, Julio both increased his sales AND reduced his costs. ”

Note to trainers

Repeat this exercise with a real example. Ask a participant to choose a product and then list their expenses and income. Then calculate their profit with the group.



2.7 Financial record keeping

Note to trainers

It is normal business practice to divide costs by type. You may know this as 'variable' and 'fixed' costs, or 'direct' and 'indirect' costs. These are important distinctions to make as a business develops, but the target group for this training is transitioning from subsistence to commercial farming and has no prior experience keeping records or running a business. For participants at this level, it is best to keep the concepts as simple as possible and help them to understand the importance of keeping records and how income and expenses affect their profit.

One of the most important aspects of operating a commercial family farm is keeping good financial records of the farm's income and expenses. It is impossible to remember everything that was sold or spent for past years, and this is valuable information that the farmer must know in order for his/her business to be successful. Simply negotiating with a trader for what seems like a lot of money is not a good strategy. Making sales is not the same thing as making a profit. If many small expenses add up to more than the sale price, the farmer has lost money, time, and effort growing his/her crop.

The calculations required for financial record keeping are not difficult, especially if they are done regularly. Basic financial record keeping is just writing down the money that comes in from selling crops, and the money that was spent to produce them. If a farmer is producing a crop that is sold every few months, the process is simple and might look like this:

Crop: Shallots					
Date	Item	Quantity	Price/ item	Expenses (money out)	Income (money in)
1 May 17	Labourers to prepare land	2	\$ 5.00	\$ 10.00	
5 May 17	Packets of shallot seed	3	\$ 3.00	\$ 9.00	
10 May 17	Bucket for watering	1	\$ 4.00	\$ 4.00	
10 May 17	Hose for watering	1	\$ 12.00	\$ 12.00	
20 May 17	Hoe for weeding	1	\$ 7.00	\$ 7.00	
15 Jun 17	Labourer for weeding	1	\$ 5.00	\$ 5.00	
1 Aug 17	Labourers for harvesting	5	\$ 5.00	\$ 25.00	
7 Aug 17	Clean sacks	20	\$ 0.50	\$ 10.00	
20 Aug 17	Kilograms shallot	100			\$ 120.00
Total				\$ 82.00	\$ 120.00

Ask the participants if someone can show how to calculate the profit based on the example above. If not, the trainer can show the calculation as below:

Income	-	Expenses	=	Profit
\$ 120.00	-	\$ 82.00	=	\$ 38.00

If a farmer is recording this data each day during the growing season, he/she can easily add up the money spent to produce a crop, and then decide what price they will need to get in order to make a profit. In this example, the total amount spent (the total of the 'money out' column), was \$82.00. After the sale,

the farmer can also use the records to calculate exactly what he/she made in profit by subtracting the expenses from the income.

For a crop that is sold regularly, such as for vegetables, the records might be a little bit more complicated:

Crop: Vegetables (carrot, bok choy, cabbages)					
Date	Item	Quantity	Price/ item	Expenses (money out)	Income (money in)
1 May 17	Labourers to prepare land	2	\$ 5.00	\$ 10.00	
5 May 17	Packets of carrot seed	2	\$ 3.00	\$ 6.00	
10 May 17	Pipes for irrigation	5	\$ 5.00	\$ 25.00	
10 May 17	Kilograms bok choy	4	\$ 3.00		\$ 12.00
10 May 17	Cabbages	20	\$ 0.85		\$ 17.00
12 May 17	Packet of cabbage seed	1	\$ 4.00	\$ 4.00	
15 May 17	Labourers for weeding	3	\$ 5.00	\$ 15.00	
17 May 17	Kg carrots	2	\$ 4.00		\$ 8.00
17 May 17	Kg bok choy	4	\$ 3.00		\$ 12.00
20 May 17	Packets of bok choy seed	5	\$ 2.00	\$ 10.00	
22 May 17	Kg urea fertiliser	5	\$ 1.25	\$ 6.25	
24 May 17	Kilograms bok choy	4	\$ 3.00		\$ 12.00
24 May 17	Cabbages	20	\$ 0.85		\$ 17.00
Total				\$ 76.25	\$ 78.00

Profit	\$ 1.75
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The farmer could have decided to keep a separate record for each crop, but in this case has treated their vegetable production as a single activity. They have totalled their income and expenses by month instead of by crop. What are the benefits to adding up income and expenses by crop or by month? (By month is simpler if there are many crops because some expenses like tools apply to many different crops. By crop is helpful to identify which crops are the most profitable.) Did this farmer make a good profit for the month of May? Was buying the irrigation pipe a different type of expense than the other costs? Will they need to buy irrigation pipe every month? If not, do you think they will make a better profit in June?

Note to trainers

There is no need to explain exactly what each expense is or how it is used. You can just explain that a pipe is not something that is purchased every month. Pipes can be used for long time and can increase the farmer's chance of making profit in later months.

Costs can often be estimated in advance so a farmer can predict whether a crop will be profitable and how much money they will need to cover expenses before they make their first sale. Estimating costs could be done by looking at last season's expenses for a crop, comparing the new crop to a similar crop, asking a neighbour, or simply thinking about what will be needed. If the farmer doesn't get the expected profit when he/she sells the crop, it is important to look back at the farm records to understand **Why?**

Were costs too high? Was the price lower than expected? Was production too low? Was the quality not good enough? If the farmer understands why they did not get the desired profit, they can look for ways to fix the problem next season.



ACTIVITY 4 – Making a farm record book

Duration Min 30

Materials A small notebook for each participant / a pen for each participant / rulers / scissors / permanent markers of different colours

Objective Participants make a farm record book to record important information about their farm businesses. The record book is a planning tool where financial information is stored and past successes and failures can be used to improve future performance.

By making their own farm record book, the participants will not only have a place to keep their data, but will also understand that keeping records does not require complicated or specialised materials. The participants should use the normal ledger style that is commonly used for group books, visitor records, hotel registers, and small business accounting throughout Timor-Leste. Most participants will have been exposed to this style at some point, so it should be familiar to them. The farm record

book will be divided into two sections: the farm journal, and the finances section.

Ask the participants to divide their notebook into two sections. The farm journal section should take up around $\frac{3}{4}$ of the notebook, with the rest of the pages reserved for the finance section. The farm journal section takes up most of the notebook because data should be recorded every day. On the last page of the first section, instruct the participants to write the following headings:

Date	Activity	Commentary	Weather
------	----------	------------	---------

The participants should use a ruler and a pen or marker to separate the columns. Now ask the participants to cut the top line off of the pages in front of the headings, so that the headings show through to every page in the section. Remind the participants about what information should be recorded, and that they should keep a record of their activity and the condition of their crops and livestock each day. It will only take a few minutes per day to write this information, but the data will be a valuable resource in the future. If the participants find writing difficult, this task could be delegated to a family member.

Now ask the participants to open their notebooks to the first page of the finances section. On the top of this page, instruct them to write the headings we used in the financial records lesson:

Date	Item	Quantity	Price / unit	Money out	Money in
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These headings will need to be re-written at the top of each page. Again, tell the participants to use the rulers and pens or markers to separate the columns. Financial data should be recorded in the same way as in the examples at the beginning of the lesson. Remind the participants what information goes in each column, and discuss how they will total their income/expenses. They could choose to keep one page for each crop or use one page (or more) for each month.

An example of how to enter data in the farm journal section is below. For an example of the finances section, look at the tables at the beginning of the lesson.

Date	Activity	Commentary	Weather
18/12/17	Planted red rice, weeded vegetables	Caterpillars attacking bok choy, planted red rice 1 hectare, hired 4 labourers for 1 day	Heavy rain
19/12/17	Repaired plastic tunnel, sprayed pests	Sprayed caterpillars with Turex WP, replaced 4 metres of plastic for vegetable tunnel	Light rain

2.8 Contract farming

As a commercial farmer develops beyond selling small quantities of produce to local markets, they might begin signing contracts to sell their crops. **A contract is simply an enforceable agreement, usually in writing, that spells out what each person will do so that there is no confusion.** For example: A farmer might sign a contract with a trader stating that they will deliver 2 tonnes of mung beans to the trader's warehouse by June 1st, and the trader will pay a price of \$0.85/kg to the farmer on that date. This contract spells out the product, quantity, timing, and price for the transaction. Other requirements might also be

added, such as the trader specifying that the mung beans must be free of weevils, or the farmer specifying that the trader must pay cash on delivery.

★ Contracts are very beneficial for both parties, because it allows everyone (both the farmer and the trader) to plan ahead, and to have some security for what will happen. This security and ability to plan reduces the risk for both sides. A farmer will probably be more willing to invest money or effort in his/her farm if he/she has a contract guaranteeing that a trader will buy the produce. With a contract in hand the farmer knows that they do not need to look for a customer, and what price they will receive. This is good for the trader as well, because he/she can plan for the storage, transport, and labour necessary for big quantities of the product. The trader who signs a contract with farmers might have also signed a contract with a larger trader or export company.



Sometimes, traders who need a large quantity of a product sign contracts that help the farmers to produce the product in exchange for the farmer guaranteeing to sell only to the trader. The farmer and trader might sign a contract **where the trader provides seed and inputs, the farmer grows the crop, and the trader buys the whole harvest at a set price.** This price will be set so that the trader can pay the expenses of the seed and input, and still make a profit on the sale. For this arrangement to work, the farmer and trader must trust each other. If a trader pays for seed and inputs, and then discovers that the farmer has sold part of the harvest to an NGO or a different company, the trader will not contract with the farmer again next season. A small gain for the farmer who breaks a contract will only hurt their business in the long term. It is essential that both parties respect the contract so that a good business relationship can be formed. Traders often know each other, and a farmer who breaks a contract with one trader will quickly become known as unreliable. If the traders come from another place, this could even affect the reputation of the whole community. A farmer's reputation for respecting contracts will help them to maintain momentum and attract buyers in the future.

When a farmer and a trader are negotiating a contract, it is best to make it as clear as possible. The farmer should be asking the trader: What are his/her quality requirements? How should the product be packaged? Where and when will the transaction take place? How will the product be measured (sacks, tins, kilograms)? Will payment be made before, at, or after delivery? Will the trader provide any inputs during planting? Is the contract for a single sale, or for an ongoing supply of produce? What happens if something goes wrong? If the answers to these questions are written into the contract, there will be no confusion and both sides will know what they are getting.

★ Discussion

Ask participants if they have had any experiences with contract farming? Discuss as a group.

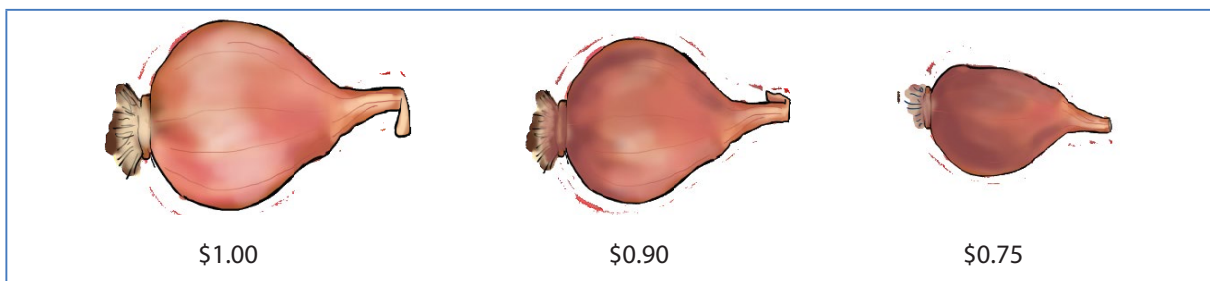
2.9 Quality control

Consumers have standards of quality for a product, and this demand for quality moves along the value chain to the producer. It can be difficult for some buyers, especially those dealing in large quantities, to check the quality of the product for every sale. In these cases, the buyer depends on trust, and his/her relationship with the seller. A trader who is cheated by a farmer, or a supermarket that discovers wilted vegetables hidden among fresh ones, is not likely to buy from the seller in the future. Traders sometimes protect themselves by paying only one price for a product. This price is lower than a high quality product is worth, but the trader factors in that some of the product will be low quality or unsellable. The producer disadvantages themselves by not controlling the quality of their produce, because this limits them to only being able to sell at the single low price. A farmer who sorts his/her product for quality might have less product to sell, but if they have a good reputation and get a good price, they could still make more profit.

Quality control is not just deciding what is good and bad. Following a standard can make a big difference to who buys a product. For example, bananas that are sold in small quantities at the local market generally need to be ripe so that the consumer can eat them straight away. But a supermarket might prefer to buy unripe bananas in a large quantity so that they can store them and sell them as they ripen. A small shop might only want to buy large fruit, but a processor (like a jam producer) might not care about the size of the fruit as long as they are fresh.

Quality control is done by developing a standard and sticking to it. These standards might be set by the producer themselves, by a farmer's group, or by an industry group in more developed markets. These standards mean that a buyer always knows what they're getting when they buy from the producer. This could mean only selling vegetables of a certain size, milling red rice to a low percentage of broken grains, or sorting out all of the bad peanuts after drying. Not all produce that falls below the highest standard needs to be discarded. **Grading is establishing standards of multiple levels and sorting the product accordingly.**

★ A farmer might sell their best grade product for a higher price, and their lesser quality product for a lower price. This is acceptable, because the trader knows what they are getting. Grading is a type of value adding, because if the trader buys graded produce from a reputable producer, he/she does not need to sort or assess the product before selling it on. Remember that making a transaction easier is an effective way of attracting buyers.



Strategies for improving quality are not just implemented by sorting, but also during and even before the crop is planted. Effectively managing pests (both weeds and insects) and diseases will reduce damage and improve the quality of the product. Good post-harvest handling, such as drying and storage, also improves quality. If a product such as rice is to be milled, the condition and operation of the mill makes a significant impact on the quality of the finished product. Farmers must know about all of these aspects if they are to become successful producers. Technical training can be sought from

extension services, as well as from many programs working in agriculture. A good producer does not just know how to grow the crop, but also how to process, handle, store, and market it effectively.

Example

Candlenut in Timor-Leste is not usually graded for quality by producers. A trader buying candlenut is likely to find some rotten nuts mixed in with the good ones, and some producers boil their candlenut which makes them easier to shell but discolours the kernel. Because of these factors, traders buy all the candlenut they can get at a low price, take it to their warehouse, and pay workers to grade the candlenut before shipping it to Atambua for sale. Because it would take a lot of work to check the quality of each truckload in the field, the traders assume all of the candlenut they buy is of low quality and pay the same price for everything.

Ask the participants: If you were a candlenut producer, what could you do to get a better price? How could you prove to the trader that your candlenut was higher quality? Would the trader trust you right away, or would it take some time to develop the relationship? Would it be worth throwing away some rotten candlenuts if you got a better price for the rest? What could you do to make the transaction easier so that the trader would buy from you? If the trader didn't have to pay workers to grade the candlenut, do you think he/she would give the producers a better price? Does this situation apply to the crops that you produce?

3 GROUP DYNAMICS

For small scale commercial farmers, especially those in remote areas, finding buyers, transporting goods, and reducing costs can be difficult. Even if they are lucky enough for a trader to come to buy their goods, the farmer often has very little power in the transaction because the quantities they are selling are small and it is not likely that there will be much competition from other buyers. To increase their power in bargaining with traders, and also to reduce costs, many farmers decide to form groups. These groups can take many forms. Farmers might form a **producers' group where the members work together, share labour and resources, and then divide either the crop or the profit from selling the crop among the members.** This type of group can benefit farmers who cannot afford to hire labour or buy equipment. A **marketing group is a group of farmers that produce their crops independently, but market them collectively.** The produce from many members' farms together might be a big enough quantity to sell to a larger trader, or at least attract more buyers. Marketing together can improve the chances that all of the members will get a fair price, and if the produce has to be transported or processed, can help to reduce costs for all of the members that participate. Working together in a group can help individual farmers capture economies of scale that they could not access on their own. For example, a group of farmers might buy a hand tractor or rent a piece of land together. This not only reduces the costs compared to the individual buying the tractor or renting the land, but also results in the group members being able to benefit from a bigger investment than they could have made themselves. Even a family team is a type of farmer's group where labour, responsibilities, and rewards are shared among family members working on a commercial family farm.



In order for the farmers' group to be a success, the members must decide what type of group it is and how it will work. Will the group produce together, market together, or both? What resources will be shared and how will they be divided? How will decisions be made about what to plant, where to sell, what price to accept, how the profit will be divided, etc.? How will responsibility be delegated and what will happen if a group member does not meet his/her responsibilities? Where will the crop be grown, processed, and stored? How will the costs be paid before the crop is harvested?

Do the participants have experience working in farmers' groups? Did they produce together, market together, or both? Was the group a success? If not, what went wrong? Did the group try any of the marketing strategies from the business skills section?

3.1 Collective marketing

Marketing collectively takes advantage of shared resources to benefit group members. Collective marketing also benefits traders because they can buy larger quantities in one place at one time. Because the transaction is easier, the trader is attracted to buying from the group. Farmers who market together have more power when negotiating with buyers. A single farmer selling a small quantity of produce is not a big priority for a trader, so they are likely to be offered a 'take it or leave it' price. A group with a large quantity of produce, a reputation for quality, and the resources to make the transaction easy for the trader has more capacity to negotiate the price and terms of sale.



Farmers' groups who market collectively also benefit from dividing responsibility among the members. Market research performed by the group benefits all of the members. A single person can be sent to represent the group to buyers in a distant city instead of each farmer going themselves. Farmers with good production practices can share their knowledge and increase the quantity and quality of the entire group's produce. Members with good literacy or numeracy skills could be put in charge of the groups record keeping and finances. This specialisation of responsibility allows each group member to focus on the activities that they do best, while benefitting from other members' skills. Each member's responsibilities should be conducted in a transparent way so that everyone in the group knows how resources are being used.

It is common practice for groups to set quality standards for their members. This benefits the group's reputation, ensures a higher price for everyone, and prevents jealousy. It wouldn't be fair if members bringing high and low quality produce received the same price. It is up to the group to decide on the quality standards according to what gets the best price in the market, and to enforce the standards for all of the members. For fresh products like vegetables, standards are often set by the size of the product and a picture of what a first, second, or third quality vegetable looks like. For grain crops, the amount of foreign material, broken grains, and colour might set the standards. Groups should regularly check with buyers and potential buyers to see what quality standards they require.

★ Discussion

Split participants into 3 groups for a 10-minute discussion about the advantages and disadvantages of collective marketing.

Example

Starting in 2011, Community Seed Producer Groups were formed in Timor-Leste to produce planting material (seeds and cuttings) of the varieties of crops released by the Ministry of Agriculture and Fisheries. These groups are made up of individual farmers and produce seed under contract from the Timorese government. In many areas, several groups joined to form farmers' associations which collectively produce and market their seed to both government and non-government buyers. These groups adhere to standards of quality set by the government, store their products collectively, and market directly to many different buyers. Because the groups and farmers' associations are made up of many different producers, they are able to compete for large contracts to supply many tonnes of seed. Some associations use collectively farmed land, some are made up of producers growing on their private land, but all share processing and storage equipment. This keeps transport, packaging, and storage costs to a minimum, and facilitates transport and sales of large quantities. Many of these groups and associations have been very successful at producing good profits for their members and are still operating today.

3.2 Side selling

One of the risks of collective marketing is that some members will engage in side selling. **Side selling is when a group agrees to sell a quantity of product to a buyer, but some of the members break the agreement and sell their produce to someone else.** They may do this because they get a better price, or because they need the money now and want to make a sale more quickly. A group member who side sells their produce hurts both the other group members and themselves because the whole group's reputation will be damaged if they do not fulfil their agreement. It was the group's reputation and the large quantity of produce it could offer that attracted the buyer in the first place. The side selling member might get their money more quickly or a slightly better price, but what will happen next year? Is losing your reputation worth the small benefit in the short term?



ACTIVITY 5 – Side selling role play

Duration Min 30

Materials 25 pieces of paper, each with the word of a specific crop such as “maize” written on it

Objective After this exercise the participants will be able to describe the negative effects of side selling on a marketing group.

Preparation¹

You will need people to play the following roles. The trainers can perform the role play, or ask for volunteers from among the group. Trainers should pick volunteers and work with them to prepare before starting this activity. Before lunch is a good time to prepare the volunteers.

1. First trader (you can play this role yourself)
2. Miller
3. Five farmers (all members of a farmers’ group)
4. Second trader

Take the volunteers aside and explain the role play to them. Give each of the five “farmers” five pieces of paper marked with the word “maize.” Explain that each piece of paper represents a bag of maize.

Together with the volunteers, perform the following role play to the audience of other participants. Feel free to make up the dialogue as you go along. Try to build some humour in to make the role play amusing!

Trainers must read sentences in quotation marks (“...”) before each scene so the group knows where each scene is taking place.

“Scene 1 (Wednesday: in the village before the maize harvest)”

The first trader visits the farmers’ group and negotiates to buy 25 bags of maize after the harvest: enough to fill a pickup. The farmers and trader agree on a price of \$12.00 per bag. They agree to meet in the village after the harvest next week, when the farmers will hand over the maize and the trader will pay them. The trader and the farmers shake hands, it’s a deal!

“Scene 2 (Thursday: at the miller’s in town)”

After the meeting with the farmers, the first trader meets with a miller in town and signs a contract to sell 25 bags of maize the following week. The miller has a big order to fulfill and needs maize urgently.

“Scene 3 (Tuesday: in the village, after the maize harvest)”

The day before the expected sale, the second trader visits the village and meets two of the farmers. This trader wants to buy maize now. He offers the farmers \$10.00 per bag. The farmers say they already have an offer for \$12.00 a bag. The second trader says that first trader is very unreliable: “He will not come, but I will give you \$10.50 a bag right now!” The two farmers are worried. They agree and sell their maize to the

1 Adapted from: *Seven Steps of Marketing Course on Agroenterprise and Market Development for Field Agents*, CRS.

trader.

“Scene 4 (*Wednesday: The first trader returns to the farmers’ group*)“

The farmers bring their maize to the collection center. But only three of the five farmers in the group arrive. They have only 15 bags, not the 25 agreed on. The trader arrives and wants to buy all 25 bags.

The trader tells the farmers: “If I cannot get the 25 bags today, I cannot fulfill my contract with the miller. I will have to find more maize whatever the price! If you have only 15 bags to sell I have to give you a lower price!” The three farmers are very upset, but in the end they have no choice but to agree. The trader gives them \$10.00 per bag. “Next year I will find another group to buy from!”

The three farmers are angry with the trader, and angry with the two farmers who sold a day early.

Concept wrap-up

Facilitate a discussion among the audience and actors about what happened. Some points to bring out:

- Because some farmers sold early, everyone is worse off.
- All the farmers were paid less than the price they had negotiated for the full consignment.
- The trader is worried that he or she will not fulfill his contract with the miller. The trader will have to buy maize somewhere else, perhaps at a higher price, and will incur more transport costs to find the maize.
- If the trader cannot deliver, the miller will not be able to fulfill his or her own contract. The farmers no longer trust each other and they don’t like the trader. This is how farmers and traders fail to make good trading relationships and fail to get better deals.

★ **Discussion**

Ask the group: Why did the farmers side sell? Will some farmers always side sell? Should the farmer groups and traders plan for a degree of side selling, so that plans have some flexibility? What would it take to avoid large scale side selling when farmers are working together?

3.3 Keeping youth on the farm

It is a common complaint among farmers that young people no longer want to work the land. Despite the government's targets for food self-sufficiency, every year more and more young people come to look for work in the cities. While there are both benefits and drawbacks to this trend of urbanisation, agriculture and the food security that it brings is crucial to the future of the nation. The development of the commercial agriculture sector is vital to retaining the nation's agricultural workforce. Without access to the cash economy, there is little incentive for young people to stay on the land. Modern commercial agriculture is an exciting field which utilises new technology and provides good returns for those who learn how to compete in the market. Resources are available for those who want to develop new agricultural skills. Young people will see a future in agriculture, as long as it is profitable, modern, and exciting.

★ Discussion

Ask the participants: What do they see as the key issues for youth on family farms? Do they want their children to continue as farmers? If so, what strategies do they think will keep young people involved in agriculture? Do they see food production as a matter of personal or national pride? What is their vision for agriculture in Timor-Leste in the future?



SUMMARY

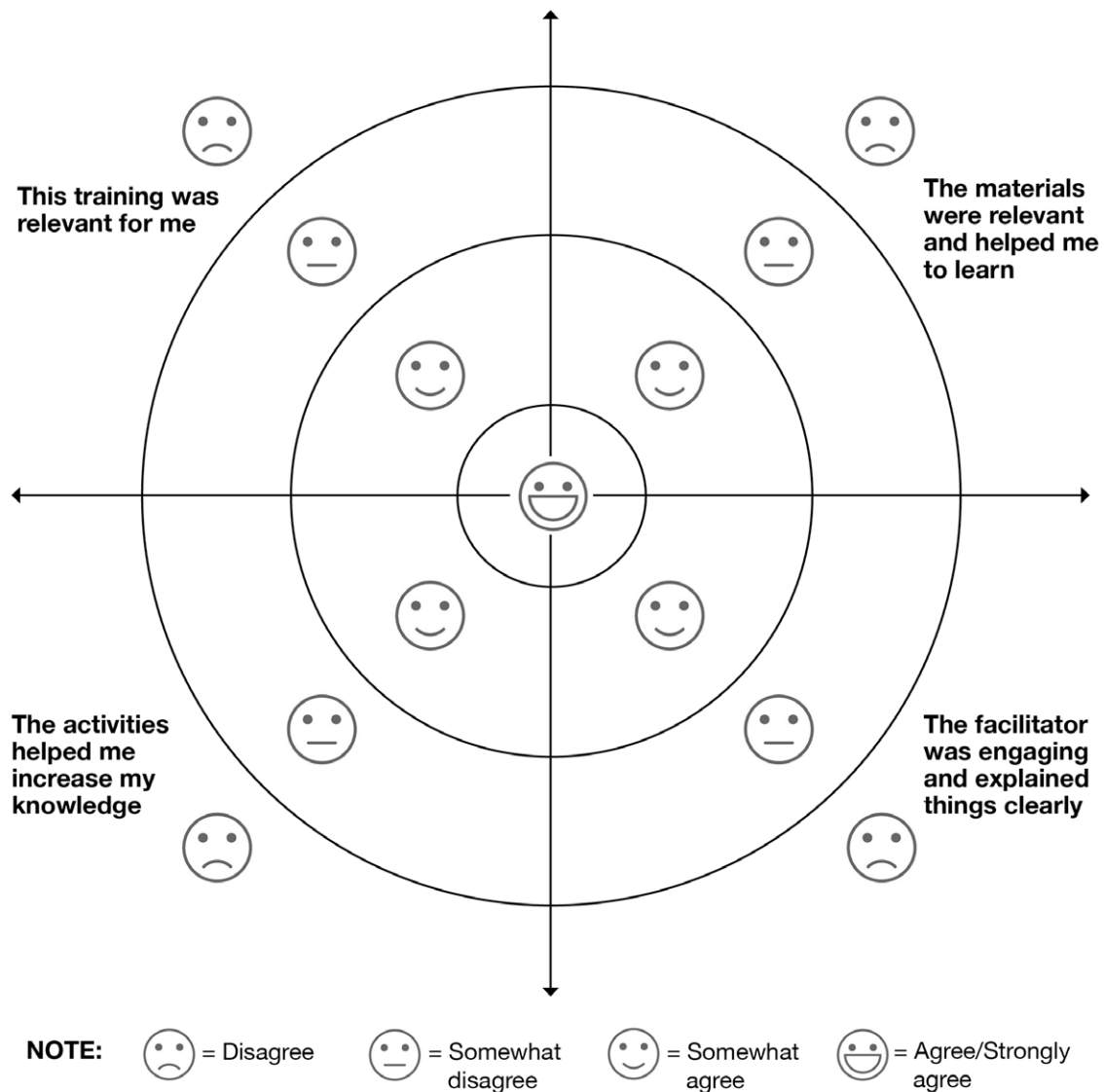
Distribute training booklets to the participants and use the information on each page to summarise the training. Ask participants to explain key concepts according to their understanding and reinforce the key points.



Allow time for participants to reflect on what they have learned and the things they are going to apply after the training. Thank the participants for their attention and ask the participants if they have any final questions before ending the training.

TRAINING EVALUATION

To evaluate the training with participants, draw the following figure on a flipchart or whiteboard. Participants will mark or place a sticker on the diagram based on their feeling and opinions of the training, according to the four aspects described in each corner (total of 4 marks/stickers). Set up a private place where participants can mark the flipchart one at a time, away from other participants.



Explain to participants how to mark the diagram, and emphasise that no one will see or judge how they mark the diagram. Participants will evaluate the training according to 4 statements: 1) This training was relevant for me; 2) The materials were relevant and helped me to learn; 3) The activities helped me increase my knowledge; and 4) The facilitator was engaging and explained things clearly.

Participants should place a mark in each corner of the circle based on their opinion of the training. Marking the small inner circle indicates the participant **agrees** or **strongly agrees** with the statement, the middle circle indicates the participant **somewhat agrees** with the statement, the big circle indicates the participant **somewhat disagrees** with the statement, and the outer area of the circle indicates the participant **disagrees** with the statement. Each participant should place 4 marks in total.

Ask participants to head to the evaluation area one by one to mark the diagram. When all participants have completed the evaluation, thank them for their feedback and honesty.

LESSON PLAN

Module 2 (2 days)

Topics covered

- Business skills
- Group dynamics

Learning outcomes

By the end of the module, the participants should understand:

- 2.0** What a business is and how to give the customer what they want
- 2.1** The importance of market research and how it is easily done by commercial farmers
- 2.2** The process of choosing a new product and factors to consider when making the decision
- 2.3** Product promotion, creating demand, and how this can be done at a local level
- 2.4** Each part of the business canvas and how they fit together to make the business function
- 2.5** The definition of profit, how it is calculated, and how to calculate return per day
- 2.6** The effect of decreased production on costs and profit
- 2.7** How and why to keep good financial records
- 2.8** The process and benefits of contract farming
- 2.9** The importance of quality control, consistency, and meeting customer expectations
- 3.0** The types of groups and how a group is formed
- 3.1** The benefits of collective marketing
- 3.2** The negative consequences of side selling
- 3.3** The importance of commercial agriculture to keeping youth on the farm

Trainers should read and plan the delivery of sections

- **2.0, 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 3.0, 3.1, 3.2, 3.3**

Materials

- ☐ Flipchart
- ☐ Paper and pens for each group
- ☐ Blank printed copies of the business canvas
- ☐ A small notebook for each participant
- ☐ A pen for each participant
- ☐ Rulers
- ☐ Scissors
- ☐ Permanent markers of different colours
- ☐ 25 pieces of paper, each with the word of a specific crop such as “maize” written on it

Business skills

1 Introduction

Duration Min 20

Lesson / activity –

Materials Flipchart

Instruction Welcome the participants and fill in the attendance sheet. Briefly remind the participants of the topics that were covered in Day 3, and ask if they have thought of any questions on those topics. Give a brief overview of the topics to be covered in today's session.

2 Business skills

Duration Min 30

Lesson / activity 6.0

Materials Flipchart

Instruction We've already told the participants that a commercial farm is a business. In this lesson, we define what that means. The main concept is that the business makes money by providing the customer with what they want. Fixing the customer's problem is another way of looking at this concept. Use the discussion questions to explore how the participants interact with potential customers in their communities.

3 Market research

Duration Min 20

Lesson / activity 2.1

Materials Flipchart

Instruction Explain what market research is, how important it is to the commercial farmer, and how it can easily be done by any aspiring commercial farmer.

4 Market research discussion

Duration Min 30

Lesson / activity Activity 1

Materials Flipchart

Instruction Use the guided discussion in this activity to get the participants to think about what they would like to know and who might be potential customers for a variety of products.

5 Choosing the right product

Duration Min 20

Lesson / activity 2.2

Materials Flipchart

Instruction Many aspiring commercial farmers will be adding new products. Explain how this decision is made, and some good/bad reasons on which to base the decision. How do the participants choose new products now?

6 Choosing a product

Duration Min 45

Lesson / activity Activity 2

Materials Flipchart

Instruction Go through each of the numbered items in the activity making sure that the groups have time to thoroughly consider each one. Trainers should visit each group to ask the discussion questions and remind the participants of the concepts for each level of the activity.

7 Promotion

Duration Min 30

Lesson / activity 2.3

Materials Flipchart

Instruction Explain that promotion is creating demand for a product and that this is a crucial activity for a business. How can someone buy your product if they don't know that you're selling it? Discuss strategies that participants use now to promote their products, and how this can be improved at the level where they are targeting their customers.

8 The business canvas

Duration Min 30

Lesson / activity 2.4

Materials Flipchart

Instruction Draw a diagram of the business canvas on the whiteboard. The business canvas is one way of creating and documenting a business model. Participants will probably not have encountered the idea of a business model before, so it is important to explain each step and how this helps them to map their business. Refer back to the planning exercises such as resource mapping and compare the business canvas concept to the resource map. Both are designed to examine and document a whole system. The value proposition is one of the most important parts, so be sure to explain this carefully.

9 Creating a business canvas

Duration Min 60 - 90

Lesson / activity Activity 3

Materials A pen for each participant / blank printed copies of the business canvas

Instruction Follow each of the numbered instructions in order, making sure the participants understand each part and have adequate time to complete them before moving on. Refer back to the lesson text if necessary to review the different parts of the business canvas. Use the discussion questions at the end to encourage participants to see their business as a system with each part making a contribution.

10 Understanding profit

Duration Min 60

Lesson / activity 2.5

Materials Flipchart

Instruction Explain profit to the participants and how it is calculated. For the example of Julio the rice farmer, do not write down the costs until you are finished reading the example to the participants and have begun the first discussion questions. Use this example to introduce the concept of profit, and the importance of understanding it for the commercial farm.

11 Production, costs and profit

Duration Min 60

Lesson / activity 2.6

Materials Flipchart

Instruction This lesson demonstrates an important concept: that profit is greatly affected by decreased production because the reduction in the sale is much more than the reduction in the costs. Many farmers fall into this trap. Work through the calculations from the next part of the example of Julio the rice farmer together with the participants. The trainer can write the new calculations next to the ones from **2.7** to show what happens to Julio's profit when his production and costs change.

12 Financial record keeping

Duration Min 45

Lesson / activity 2.7

Materials Flipchart

Instruction (See the note to trainers at the beginning of the lesson) Explain the importance of good financial record keeping and how this is done. Refer back to the income and expenses lesson from Planning the Family Farm, and remind the participants of those concepts. Emphasize that it is easy to keep these records as long as the information is regularly recorded, and how important they can be for the business.

13 Making a farm record book

Duration Min 30

Lesson / activity Activity 4

Materials Flipchart / a small notebook for each participant / a pen for each participant / rulers / scissors / permanent markers of different colours

Instruction This activity is to make a record book that includes both financial information, and general information about cropping, weather, and the operations of the farm. This should help the participants to see that they do not need complicated systems or resources to keep good records. Follow the instructions in the activity and assist the participants to make their record books.

14 Contract farming

Duration Min 20

Lesson / activity 2.7

Materials Flipchart

Instruction Explain the process of contract farming and how this benefits both the buyer and the seller. Emphasise the importance of following a contract, and how a farmer's success is dependent on his/her reputation.

15 Quality control

Duration Min 20

Lesson / activity 2.8

Materials Flipchart

Instruction Explain the importance of quality control and that it is set by standards that are adhered to by the producer. Explain grading, and price setting for different grades. It is up to the producer to produce at the quality standard that the customer wants.

Group dynamics

16 Group dynamics

Duration Min 20

Lesson / activity 3.0

Materials Flipchart

Instruction Explain to the different types of farmer's groups and how they are formed. Encourage the participants to share their experiences of being involved in farmer's groups (most of them will have been in a group at some time.)

17 Collective marketing

Duration Min 20

Lesson / activity 3.1

Materials Flipchart

Instruction Esplika benfísiu sira husi merkadoria koletiva/hamutuk. Konseitu seluk saida husi formasaun ne'e mak relasiona ho merkadoria hamutuk (ekonomia eskala nian, komersiante nia modelu negósiu, nsst.)

18 Side selling

Duration Min 15

Lesson / activity 3.2

Materials Flipchart

Instruction Side selling is breaking an agreement. Briefly discuss the definition of side selling and the negative consequences for the individual, the group, and the trader.

19 Side selling role play

Duration Min 30

Lesson / activity Atividade 5

Materials Surat tahan 25, idaidak ho liafuan kona-ba produktu ai-han espesífiku hanesan “batar”

Instruction Act out the role play with the participants according to the instructions. A trainer can act as the narrator to explain the context, and the participants can make up the dialogue outlined in the instructions. The role play demonstrates the negative consequences of side selling.

20 Keeping youth on the farm

Duration Min 20

Lesson / activity 3.3

Materials Flipchart

Instruction This lesson is the final message in the training. Migration of young people away from farming is a growing issue in Timor-Leste. Ask the participants how they feel about this, and what strategies they think will help to keep youth on the farm.

21 Wrap-up

Duration Min 15

Lesson / activity –

Materials –

Instruction Very briefly list the topics that were covered today and any important concepts that you think the participants should understand. Distribute handouts to the participants and use the content on each page to summarise the training - ask participants to help explain the key concepts and reinforce any important points. Thank the participants for their attention and ask them to complete a short evaluation (if required).

