



Managing your Agriculture Cooperative

MODULE 4

Cooperative Marketing

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Agriterra is an organization for international cooperation founded by rural people's organizations in the Netherlands. Agriterra offers, among others, farmer-to-farmer advice and direct financial support to rural people's organizations in developing countries so that they become strong and representative organizations. These organizations are indispensable for the promotion of democracy, for a better distribution of income and for the economic development of a country. If farmers organize themselves to jointly coordinate their production and to improve their presence in the market, they stand a better chance to succeed in increasing their incomes and in the creation of employment. Agriterra aims to promote such economic activities and to stimulate, support and finance the international cooperation between rural people's organizations in the Netherlands and those in developing countries.

<http://www.agriterra.org>



Centre for International Development Issues Nijmegen (CIDIN) is an interdisciplinary academic institute addressing issues of inequality, poverty, development and empowerment. It carries out undergraduate and postgraduate education in development studies, as well as research in a variety of subjects related to development, economics, sociology and anthropology. CIDIN has broad experience in interdisciplinary research on rural development and value chains, collection action and market integration, impact assessment of value chain codes and standards, and gender theory, policy and mainstreaming.

<http://www.ru.nl/cidin>



Cooperative College of Kenya (CCK) is located 17 kilometres from Nairobi city centre in a serene environment. The College was established in 1952 to train government cooperative inspectors to oversee the activities of the cooperatives in Kenya. The College has grown until now it is pursuing a charter to become a university. The broad aim is to equip the staff of the cooperative movement and the associative economy with appropriate managerial and supervisory skills in order to contribute more effectively to the development of cooperatives. The College offers Degree Diploma and Certificate courses in Cooperative Management and Banking. It also offers short courses that target the employees and management of cooperatives. The College is ISO 9001:2008 certified.

<http://www.cooperative.ac.ke>



Cooperative Facility for Africa (COOP^{AFRICA}) is a regional technical cooperation programme of the International Labour Organization (ILO) in support of cooperative development. It promotes favourable policy and legal environments, strong vertical structures (such as cooperative unions and federations) and improved cooperative governance, efficiency and performance. The programme covers nine countries in East and Southern Africa (Botswana, Ethiopia, Kenya, Lesotho, Rwanda, Swaziland, Tanzania mainland and Isles, Uganda and Zambia) from the ILO Office in Tanzania with technical support from the ILO Cooperative Programme (EMP/COOP) in Geneva. It was launched in October 2007 with core funding from the UK Department for International Development (DFID). COOP^{AFRICA} is a partnership initiative involving a range of international and national organizations.
<http://www.ilo.org/coopafrika>



Empowering Smallholder Farmers in Markets (ESFIM) is a partnership between national farmers' organizations in eleven countries and AGRINATURA. ESFIM's overall objective is to generate demand-driven action research supportive to the policy activities undertaken by farmers' organizations to strengthen the capacities of smallholder farmers in developing countries to generate remunerative cash income from markets by creating an enabling policy and regulatory environment as well as effective economic organizations and institutions.
<http://www.esfim.org>



International Labour Organization (ILO) is the tripartite UN agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world. The ILO views cooperatives as important in improving the living and working conditions of women and men globally. Its Cooperative Programme (EMP/COOP) serves ILO constituents and cooperative organizations based on the ILO Recommendation 193 on the Promotion of Cooperatives Recommendation, 2002. EMP/COOP works in close partnership with the International Cooperative Alliance (ICA) and is part of the Committee for the Promotion and Advancement of Cooperatives (COPAC).
<http://www.ilo.org> and <http://www.ilo.org/coop>



International Training Centre of the ILO is the training arm of the ILO. Its Distance Learning and Learning Technology Applications (DELTA) programme has a double mandate of strengthening the Centre's internal capacity in applying state-of-the-art learning and training methodologies and processes as well as providing training services to outside partners and customers. It provides these services in line with ILO Recommendation 195 on Human Resources Development. Its Enterprise, Microfinance and Local Development (EMLD) programme offers training on cooperatives and the social and solidarity economy as well as, among others: entrepreneurship education and training; enabling business environments for sustainable small enterprise development; value chains and business development services and women's entrepreneurship development.

<http://www.itcilo.org>



Food and Agriculture Organization of the United Nations leads international efforts to defeat hunger. Serving both developed and developing countries, FAO acts as a neutral forum where all nations meet as equals to negotiate agreements and debate policy. FAO is also a source of knowledge and information, helping developing countries and countries in transition modernize and improve agriculture, forestry and fisheries practices and ensure good nutrition for all. Since its founding in 1945, it has focused special attention on developing rural areas, home to 70 per cent of the world's poor and hungry people.

<http://www.fao.org>



Kenya National Federation of Agricultural Producers (KENFAP) is a registered non-political, non-commercial, democratic membership federation that was founded in 1946 as Kenya National Farmers' Union (KNFU). Its mission is an empowered Kenyan farmer with a strong voice making informed choices for improved sustainable livelihoods. As the legitimate 'voice' of the Kenyan farmers, its key role is to articulate issues specifically affecting farmers and the general agricultural sector. KENFAP serves its members by offering representation, lobby and advocacy services. It facilitates cooperation and networking among its members and with national, regional and international associations. It also provides consultancy services and carries out research activities in the interest of the farming community.

<http://www.kenfap.org>



Moshi University College of Cooperative and Business Studies (MUCCoBS)

is the oldest cooperative training institution in Tanzania, accumulating the experience of 48 years in the fields of cooperative accounting, cooperative management and rural development. MUCCoBS came into being as a result of upgrading the former Cooperative College into a Constituent College of Sokoine University of Agriculture (SUA) in May 2004. It offers cooperative and business education at both undergraduate and postgraduate levels. It provides opportunities for acquisition, development, promotion, dissemination and preservation of knowledge and skills in cooperative, community, business, organizational and entrepreneurship and any other area as may be determined by the University College through training, research and consultancy activities.

<http://www.muccobs.ac.tz>



The Nigerian Cooperative Development Centre (NCDC) is located at kilometre 61, Abuja–Lokoja highway. It occupies a 14-hectare plot of land away from the city centre to ensure a conducive research and learning environment. The Centre provides technical backup to the Federal Department of Cooperatives and the entire cooperative movement. It does this through research and adoption of global best practices in cooperative policies, legislation and training. It also generates and analyses cooperative data to support policy and programmes for the development of the cooperative sector, including the training of a cadre of competent cooperative management, supervisory and training personnel.



Royal Tropical Institute

The Royal Tropical Institute (KIT) in Amsterdam is an independent centre of knowledge and expertise in the areas of international and intercultural cooperation. The Institute aims to contribute to sustainable development, poverty alleviation,

and cultural preservation and exchange. Within the Netherlands, it seeks to promote interest in and support for these issues. KIT conducts research, organizes training activities, and provides consultancy and information services. Central to KIT's approach is the elaboration of practical expertise in policy development and implementation. The Institute stewards cultural heritage, organizes exhibitions and other cultural events, and provides a venue for meetings and debate. A key objective underlying the Institute's work is to enhance and exchange knowledge of and understanding for different cultures. "KIT is a not-for-profit organization that works for both the public and the private sector in collaboration with partners in the Netherlands and abroad" (Mission Statement).

<http://www.kit.nl>



UGANDA COOPERATIVE ALLIANCE LTD

Uganda Cooperative Alliance Ltd. (UCA) is an

umbrella organization of cooperative organizations in

the country. It was registered in 1961 with the aim of promoting the economic and social interests of cooperatives in Uganda. It was formed for the purposes of promoting, advocating and building the capacities of all types of co-operatives in the country (primary societies, district and national unions). In its development activities, UCA has concentrated on six key areas: capacity building in primary societies and area cooperative enterprises; development of a strong cooperative financial system based on members' savings; technology transfer; women's empowerment; creation of youth self-employment and environmental protection and improvement.

<http://www.uca.co.ug>



WAGENINGEN UR

For quality of life

Wageningen University & Research Centre (WUR)

explores the potential of nature to improve the quality

of life. A staff of 6,500 and 10,000 students from over 100 countries work everywhere around the world in the domain of healthy food and living environment for governments and the business community-at-large. Its Centre for Development Innovation (CDI) works to create capacities for change. It facilitates innovation, brokers knowledge and develops capacities with a focus on food systems, rural development, agri-business and the management of natural resources. The Centre links Wageningen University Research Centre's knowledge and expertise with processes of society-wide learning and innovation.

<http://www.wur.nl/UK> and <http://www.cdi.wur.nl/UK>



List of abbreviations

| | |
|--------|---|
| AMCOs | Agricultural Marketing Cooperatives |
| CLU | Central Lanera Uruguay (Uruguayan Wool Central) |
| CTC | Cooperative Training Centre |
| FLO | Fairtrade Labelling Organization |
| NCMF | National Cooperative Marketing Federation |
| NGO | Non-Governmental Organization |
| RSPO | Roundtable on Sustainable Palm Oil |
| TEASEC | Tea Sector Service Centre |

Certification Formal procedure by which an accredited or authorized person or agency assesses and verifies (and attests in writing by issuing a certificate) the attributes, characteristics, quality, qualification, or status of individuals or organizations, goods or services, procedures or processes, events or situations, in accordance with established requirements or standards.

Source: <http://www.businessdictionary.com/definition/certification.html> (accessed 19 Oct. 2011).

Chain operator A cooperative providing services to enhance the efficiency, effectiveness and quality of the activities and products of its members (and possibly non-members), buying their products and adding value to them before selling.

Chain supporter A cooperative providing services to enhance the efficiency, effectiveness and quality of the activities and products of its members (and possibly non-members) without buying or owning the product.

Consumer The consumer consumes the product. His/her satisfaction is the objective of all other customers.

Cooperative marketing Regrouping various marketing services a cooperative can provide, i.e. collective marketing as well as marketing services that support the individual marketing of its members.

Customer The cooperative's customer is the individual or organization that actually pays for and takes delivery of the goods from the cooperative. This can be, but is often not, the final consumer, whose satisfaction is the objective of all other customers.

Fair Trade A trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions for, and securing the rights of, marginalized producers and workers – especially in developing countries.

Source: Fair Trade Glossary, http://www.fairtrade.net/fileadmin/user_upload/content/2009/about_fairtrade/Fair_Trade_Glossary.pdf (accessed 19 Oct. 2011).

Marketing Marketing is everything related to selling the product: assessing needs, defining markets, storing, certifying, promotion, and so on.

| | |
|-----------------------------|---|
| Marketing mix | A marketing mix is composed of 5 elements: product, price, promotion, packaging and place. These elements are also referred to as “the 5 Ps”. |
| Market development | Market development is the expansion of the total market for a product or company. This can be achieved by (1) entering new segments of the market, (2) converting non-users into users, and/or (3) increasing usage per user. |
| Market information | Any information used or required to support marketing decisions |
| Market opportunities | Newly identified trend in terms of needs, wants, or demands a firm can exploit because it is not being addressed by competitors. Source: http://www.businessdictionary.com/definition/market-opportunity.html (accessed 19 Oct. 2011). |
| Market penetration | Market penetration occurs when a company enters/penetrates a market with current products. Source: http://www.encyclo.co.uk/define/Market-penetration (accessed 19 Oct. 2011). |
| Market segmentation | Market segmentation is about understanding the needs of customers and how they decide between one offer and another. |
| Market share | A percentage of total sales volume in a market captured by a brand, product, or company. Source: http://www.businessdictionary.com/definition/market-share.html (accessed 19 Oct. 2011). |
| Marketing strategy | A strategy that integrates an organization's marketing goals into a cohesive whole. Source: http://www.businessdictionary.com/definition/marketing-strategy.html (accessed 19 Oct. 2011). |
| Market transparency | A market in which current trade and quote information is readily available to the public. Source: http://financial-dictionary.thefreedictionary.com/Transparent+Market (accessed 19 Oct. 2011). |

| | |
|-----------------------------|--|
| Organic agriculture | <p>An ecological production management system that promotes and enhances biodiversity, biological cycles, and soil biological activity.</p> <p>Source: http://www.nal.usda.gov/afsic/pubs/ofp/ofp.shtml (accessed 19 Oct. 2011).</p> |
| Production standards | <p>The quality levels relating to production.</p> |
| Specialized markets | <p>Specialized markets refer to those markets which require that the cooperative products meet certain quality standards before they can be sold.</p> |
| Transaction cost | <p>Mainly, costs of the preparation and execution of business transactions, costs of collecting and processing relevant information (in order to indentify the best offer, business opportunities and risks). Costs of drawing up agreements and controlling their implementation.</p> <p>Source: H.H. Münkner and J. Txapartegi Zendoia: <i>Annotiertes Genossenschaftsglossar, Annotated Co-operative Glossary, Glosario cooperativo anotado</i> (Geneva, International Labour Organization, 2011).</p> |
| Upgrading | <p>The concept of upgrading highlights options available to farmers and cooperatives for obtaining better returns from their activities.</p> <p>Source: http://www.kit.nl/net/KIT_Publicaties_output/ShowFile2.aspx?e=1687 (accessed 19 Oct. 2011).</p> |
| Value chain | <p>A value chain refers to the entire system of production, processing and marketing of a particular product, from inception to the finished product.</p> |

Introduction

Why this training package on the management of agricultural cooperatives?

Agriculture is a crucial sector for global development as “farmers feed the world”. Agriculture is also the second greatest source of employment worldwide.¹ Historically speaking, agriculture has been key in the development paths of many countries. Within the diversity of cooperatives worldwide – one finds for instance cooperatives amongst news agencies, schools and green energy suppliers – agriculture remains a sector where cooperatives are a prominent form of enterprise. This package is motivated by the conviction that *“strong and representative agricultural organizations are indispensable for the promotion of democracy, for a better distribution of income and for the economic development of a country.”*² Evidence shows that

many countries with an important agricultural sector, such as, for instance, Argentina, Ethiopia, France, India, the Netherlands, New Zealand, as well as the United States of America, also have strong agricultural cooperatives.³ However, agricultural cooperatives face numerous external and internal challenges. External challenges may be linked to markets, regulations, infrastructure or climate change. Challenges that are internal to the cooperative usually have to do with governance and management issues. Cooperatives are enterprises for which the primary aim is not making profit but responding to members’ needs and aspirations. Cooperative members **own** their enterprise through cooperative shares, they **control** their enterprise

1 The service sector is the most important source of employment in the world. See: <http://www.ilo.org/public/english/dialogue/sector/sectors/agri/emp.htm> (accessed 7 Oct. 2011).

2 *About Agriterra*, <http://www.agriterra.org/en/text/about-agriterra> (accessed 22 Sep. 2011).

3 Source: *Global 300*, <http://www.global300.coop> (accessed 7 Oct. 2011).

through democratic mechanisms, and, finally, they are the principal **users** of the cooperative services. This makes the cooperative a resilient but also a complex and challenging business model. Cooperatives may find themselves stretched between (at times conflicting) members' interests, business opportunities and social considerations.

What is My.COOP about?

My.COOP stands for “*Managing your agricultural cooperative*”. The My.COOP training package aims to strengthen the management of agricultural cooperatives so that they can offer high quality, efficient and effective services to their members.

The package draws on the ILO training series developed by the Materials and Techniques for Cooperative Management Training Programme between 1978 and the early 1990s. Today, My.COOP is a broad partnership initiative initiated by the ILO Cooperative Facility for Africa and ILO's Cooperative Branch. It is the result of a collaborative effort involving a wide

range of partners such as cooperative development agencies, cooperative colleges, cooperative organizations, organizations of agricultural producers, universities and agencies of the United Nations. More information on the partners can be found in the list that is included at the beginning of this document.

The objective of this training material is to enable (existing and potential) managers of agricultural cooperatives to identify and address major management challenges that are specific to cooperatives in market oriented agricultural development.

As stated above, cooperatives may find themselves stretched between (at times conflicting) members' interests, business opportunities and social considerations. Within such context cooperative managers should ensure sound decision-making on service provision for services that are common to many agricultural cooperatives, including supply of farm inputs and marketing. These issues are reflected in the structure of the My.COOP training package:

1

Basics of Agricultural Cooperatives

2

Cooperative Service Provision

3

Supply of Farm Inputs



4

Cooperative Marketing

For whom is My.COOP?

My.COOP has been designed for existing and potential managers of agricultural cooperatives as well as for members involved in managerial tasks of the cooperative. The material presumes that these women and men already possess some practical experience as active members in agricultural cooperatives. The material is not developed for people who are starting an agricultural cooperative for the first time.

In addition, the My.COOP package can be a helpful tool for organizations

and individuals that train agricultural cooperatives. These can include:

- leaders and managers of cooperative structures, such as unions, federations and confederations;
- cooperative trainers working in cooperative colleges, non-governmental organizations (NGOs) and other (including private) training providers;
- cooperative officers and extension staff of government departments and agencies.

What's in the package?

The training package consists of one trainer's manual and four modules, as shown in the diagram below.



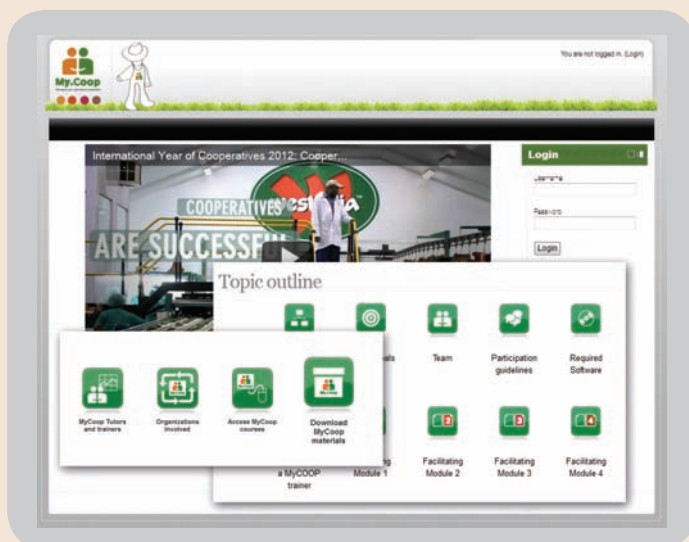
Each module consists of several learning topics. A learning topic consists of brief content descriptions that are complemented with real life cases from various parts of the world that present solution solving approaches to common challenges in the management of agricultural cooperatives. Besides, each topic offers explanatory boxes on definitions

and concepts as well as self-assignments that help the self-learner to apply the contents to his or her own cooperative or situation. Modules and topics can be used independently from each other, in any given order, in line with the training needs.

My.COOP online

My.COOP is more than a training package. My.COOP is also a website (www.agriculture-my.coop) where you can find not only the package but

also related services and tools online, such as a distance learning platform for training of trainers and a mobile learning kit.



About Module 4: Cooperative Marketing⁴



This module is about cooperative marketing. The members of agricultural cooperatives are farmers and therefore primarily concerned with production. This requires a variety of support services. A cooperative can play an important role in meeting the needs of its members by providing them with services that help them optimize their production. When farmers do not produce for their own use but aim to sell their produce on the market, they might need additional services: for example, transporting, and sometimes sorting and grading and adding value through processing. Another important group of services in which many cooperatives are engaged is related to

the marketing of produce.

Compared to customers for their products, farmers are small-scale and have corresponding low negotiating and bargaining power. At the same time, the transaction costs for collection and marketing of agricultural products for the individual farmers are very high. To address these challenges, cooperatives can support farmers in marketing by collective marketing or by providing marketing services, for example the provision of market information or the establishment of contacts between farmers and potential buyers. Marketing is everything related to selling a product: assessing needs, defining markets, certifying products, promotion, and so on.

Marketing is based on thinking about the business from the point of view of the customer, and considering customer needs and satisfaction.⁵

Marketing services focus on smooth marketing of the product. For example, marketing services could involve

⁴ This module builds partly on M. Harper: *Marketing of agricultural production, Material for management training in agricultural cooperatives*, MATCOM (Geneva, International Labour Office, 1991) and J.F. Hein: *Export marketing, Material for management training in agricultural cooperatives*, MATCOM (Geneva, International Labour Office, 1992).

⁵ A customer is often not the same as the final consumer of a product. A direct buyer is the customer that actually receives and pays for the sold goods or services. The customer, for example a supermarket, then sells the product to its final consumer. The consumer is the one that consumes the product.

transport or storage of the products or, for example, sending information from the production area to the market (e.g. on products available, volumes) and from the market back to the production areas (e.g. on prices and supply levels, consumer preferences and changes in taste). If marketing services are improved, this will contribute to better performance by the farmers.



Content of this module

This module on cooperative marketing discusses a number of challenges for managers of cooperatives. There are two different groups that have to be satisfied: the members as suppliers and the end buyers of the produce. This module helps the reader to understand the challenges related to marketing services, including collective marketing, and to identify adequate responses.

The module is split up into three sub-sections with the following topics:

Topic 1: Marketing Services

Topic 2: Strategic Marketing

Topic 3: Certification



Learning objectives

After studying this module, you will be able to:

- explain how a cooperative can get to know its customers;
- identify ways in which a cooperative and its members can improve their marketing performance;
- distinguish different methods of “upgrading”;
- target markets more efficiently;
- explain the 5 Ps of a marketing mix;
- explain the importance of knowing the (changing) context in which customers are embedded;
- propose how a cooperative can adequately respond to changes in this context;
- propose relevant certification schemes and explain the pros and cons.



TOPIC 1

Marketing
Services

Introduction to the topic

In the other training modules, we have seen that cooperatives are involved in a number of services, including input supply services, financial services and value added services. All these services support farmers in their activities. In this module we focus on one specific set of services: marketing services, including collective marketing.

Originally, the term “marketing” referred to going to the marketplace to buy or sell goods. The producer would sell his or her goods directly to the consumer. Today, the producer and consumer do not usually meet face-to-face.

Marketing

Marketing is everything related to selling a product: assessing needs, defining markets, storing, promotion, and so on. Marketing is based on thinking about the business from the point of view of the customer, and considering customer needs and satisfaction.

The cooperative's customer

The cooperative's customer is the individual or organization that actually pays for and takes delivery of the goods from the cooperative. This can be, but is often not, the final consumer, whose satisfaction is the objective of all other customers. The needs of your customer, however, depend on the demands of his or her customers, etc.

Farmers do not deliver products directly to consumers, but they still need to get their goods to the consumer in some way. Farmers sell products to a trader or processor. Cooperatives can assist in this, by providing marketing services, and linking farmers to these customers.

Marketing services encompass a range of activities. Examples of marketing services are: informing the market about products available, and the other way round, informing members about customer preferences, price information services and branding. We also consider collective marketing to be a service that a cooperative can provide to its members.

Collective marketing

Cooperatives can either support their members' individual marketing by providing them with marketing services, or they can buy their members' produce and market it themselves. The latter is called collective marketing and is a feature of many cooperatives.

Collective marketing therefore refers to “selling together”. In collective marketing, the cooperative buys the members' produce and becomes the owner of the produce (i.e. a chain operator). The premise of collective marketing is that selling together brings more benefits for smallholders than selling

Price instability in rural Africa

Prices fluctuate widely between areas, within a season, and between seasons. This is related to the dominance of rain-fed agriculture, frequent harvest failures, limited storage facilities, and the limited integration of markets due to poor roads. During “normal” years, producers’ prices for staple food crops can be expected to double or increase even more, from immediately after the harvest to the “lean season” before the next harvest.

Source: Royal Tropical Institute, Amsterdam, and International Institute of Rural Reconstruction, Nairobi: *Trading up: Building cooperation between farmers and traders in Africa* (Amsterdam, KIT Publishers, 2008).

individually. Individually, these farmers produce low volumes of products and often fetch low prices. By jointly selling farm products, farmers can negotiate better prices and services. Collective marketing can empower farmers in markets.

Collective marketing also helps to meet market requirements, especially for accessing markets outside the local area (e.g. urban markets or export markets) or for delivery to a processing industry. These markets often demand higher volumes, which requires bulking.

A cooperative can take various collective marketing measures. As a first step, a

cooperative can help farmers to bulk their produce. Bulking can be done in different ways, using different methods (e.g. temporary collecting hubs, local storage, etc.). Another step in collective marketing that a cooperative can take is to add value to the produce it now owns. For example, if it is a maize cooperative it can add value to the maize by drying and packaging it. As a result of this service, the cooperative can negotiate a higher price. But providing extra services also involves a cost. Whether or not adding value is worth the investment depends on the costs and benefits, and also on the market requirements.

Collective marketing of agricultural produce has some particularities. One is that collective marketing implies that there are two different groups that have to be satisfied: the suppliers/producers and the buyers of the produce. The suppliers are often the members of the cooperative. Consequently, as a cooperative, you are restricted in the selection of markets and types of products. A cooperative has less freedom: because the cooperative is set up by its members, it is expected to buy what the members supply and pay a fair price for the produce. This situation can affect the cooperative’s ability to compete with, for example, traders, who have more freedom to choose the farmers and supply markets they source from. This poses a number of challenges to managers of cooperatives involved in marketing, especially in a market where uniform product quality is required.

How can a cooperative align the activities of the different farmers to ensure the delivery of required quantities of uniform products at a specific time? Sanctioning is an option, but not always appreciated. There are also more



positive incentives that can stimulate farmers to meet production standards, for example, paying premium prices for high-quality products. The case of Rukaka Dairy Cooperative in Uganda illustrates this.



Case 1.1: Improving quality by means of incentives

Diversity can give strength to a group, but it can also be a problem. Cooperatives can benefit from having very diverse members because they can contribute different ideas, experiences and points of view. But this diversity can be a challenge when the aim is to produce and sell a product of uniform quality. One approach to dealing with variations in quality is to adopt a punishing attitude: farmers who do not comply with certain standards are excluded from the cooperative. The problem with this approach is that, while it might benefit the cooperative as an organization, it does nothing to improve the livelihood of the individual farmer. The solution implemented by the Rukaka Dairy Cooperative in Uganda takes a more positive approach. Instead of punishing members who fail to comply with certain standards, the cooperative plans to reward those who do. This will create an incentive for farmers to improve production – and will provide them with better incomes.

The problem of mixed quality is common among dairy farmers in the Mbarara district of Uganda. Currently, all producers are paid the same price, regardless of the quality of the milk they deliver.

This means that farmers who invest in better breeding and handling technologies are not rewarded, so there is very little incentive to improve quality. If better milk was better paid, farmers who improved their quality standards could increase their income. The Rukaka Dairy Cooperative in Uganda has set out to solve this problem by paying a premium price for quality milk, with the aim that producers upgrade their production standards, acquire a more business-oriented attitude towards dairy farming, and ultimately increase their incomes. Paying a premium price is a long process that requires many changes. Firstly, the cooperative has invested in a new cooling infrastructure that allows its members to improve handling of this perishable product. Secondly, farmers have been given the necessary support to achieve better breeding techniques and improved pastures. Lastly, the cooperative has invested in milk-testing technology that will allow it to grade the milk accurately and test its quality.

The cooperative has made important advances, but the process is ongoing. The infrastructure has been improved, and production has already increased. Farmers have many of the tools they need to provide better quality milk – but one crucial part is missing. Currently, the only buyer of milk pays solely based on volume, not on quality. The Rukaka Dairy Cooperative is now involved in building its own factory and processing plant, a move that will allow it to become an important buyer. Once the plant is finished, the cooperative will create demand for quality milk, and establish a premium price that will encourage members to produce it.

Source: based on an interview with Leuben T. Baseeta, advisor to the Rukaka Cooperative, and on an evaluation report prepared by an ILO consultant.



Self-assignment 1.1

Paying a premium for quality products is not always feasible. What could be other incentives for the Rukaka Dairy cooperative to improve the quality and uniformity of its produce?

Now, think about your cooperative. What does it do to stimulate supply that meets market standards?

Collective marketing also poses some other challenges. Some of them have to do with finance. Marketing cooperatives are more capital-intensive than other cooperatives due to the fact that the harvesting (i.e. the moment that cooperatives buy their members' products) and sales seasons (i.e. the moment



they sell the products to customers) are not always exactly the same. If farmers are not paid immediately they might decide to sell their produce to middlemen. Many cooperatives face the problem of side-selling. If a marketing cooperative does

not apply a 100 per cent delivery duty to its members, the cooperative will most likely face difficulties. This could even lead to losses and eventually to bankruptcy.

Costs pose another risk. Weighing, checking quality, paying farmers all involves administrative work and requires investments (e.g. buying weighing scales). A cooperative manager should reflect carefully on whether investing in collective marketing outweighs the price benefits received. Price instability is another challenge, especially when there is a price difference between the moment of delivery and the moment of payment.

A cooperative sells products coming mainly from its members. But where can a cooperative best sell these products? The answers to this question can vary from the local market in the village, to a nearby town where agricultural products are being sold on the market, or to a futures market, where future contracts for delivery of commodities are traded on an auction. Before starting marketing, a cooperative needs to take the decision on where to market and what strategy will be used. For such decisions, information about the market is highly relevant.

Market information

A cooperative needs market information for collective marketing, but it can also collect and disseminate market information as a service to its members. Market information includes information on marketing channels, buyers, quality standards and so on.

Market information

Market information is the generation, processing and dissemination of all facts regarding the marketing of different commodities.

What market information do cooperatives and their members need?

Some examples of information that is important for marketing are:

- actual price of agricultural and livestock commodities;
- insights into price trends;
- competitors and their marketing strategies;
- requirements of consumers;
- required arrival timings of commodities;
- quality specifications by various buyers;
- grades and standards;
- packaging specifications preferred by buyers;
- terms and conditions of different commodity traders;
- transport costs;
- market fee/levy/charges, taxes, among other things;
- international standards for commodities;
- world market price trends.

Access to market information is not always possible and is often unequal. For example, large buyers of agricultural products often have better access to market information than smallholders. Unequal access to market information or shortages of reliable market information could be one of the reasons for farmers' low bargaining power and ultimately, the low prices they derive from marketing agricultural commodities.

Providing market information is a valuable service that a cooperative can offer to its members. Cooperatives first of all need to gather market information. Then, the information needs to be disseminated to members.

How to access information?

Generating and disseminating reliable market information can be a costly exercise. Moreover, poor infrastructure, such as computer networks and telecommunication equipment, internet connections and electricity supply, is often problematic. Also, less transparent market operators can make it difficult for a cooperative to provide adequate services.

Information is not free

Generating and disseminating market information requires skill and time. It can be worthwhile to recruit and train market information promoters.

In Module 1 we described the cooperative pyramid. It might be easier to get access to information at union level than at primary cooperative level. Unions operate on a larger scale and are often closer to national government bodies, partners and information networks. A union could support the availability of market information to its cooperatives by, for example, keeping track of market trends and publishing the information on a website.

If market information is not available, it may be necessary to perform market research. A cooperative can carry out market research for its own sale strategies; it can also perform market research as a service to its members that sell individually. The results of research should direct the cooperative or the producer to trade what their customers need and want.

It is important to note that access to information does not always improve the bargaining position of farmers, especially in more remote areas with poor coverage by traders.⁶

Market research

Market research is used to identify and analyse the requirements and needs of the different markets. Separating the many customers into specific groups is referred to as market segmentation. Market segmentation is about understanding the needs of customers and how they decide between one offer and another.

Often, a cooperative will not do market research itself, but will hire a firm or consultant to get the required information. Before hiring a consultant to do any type of market research, the cooperative should define what markets it wants to research and what it wants to achieve from the market research. This will differ from cooperative to cooperative. A recently established cooperative may want to identify potential products or markets. Others may want to understand how their cooperative relates to competitors in the market. And others might be more concerned with understanding their members' potential in terms of delivering to a selected preferred marketing channel. Other criteria include, for example, the availability of financial resources for conducting market research.

Market research

Market research involves the process of systematically gathering data related to cooperative marketing, and the recording, interpreting and reporting of the findings to the cooperative management in order to make informed decisions. Market research is also about understanding competition and the success of the current marketing strategy in place.

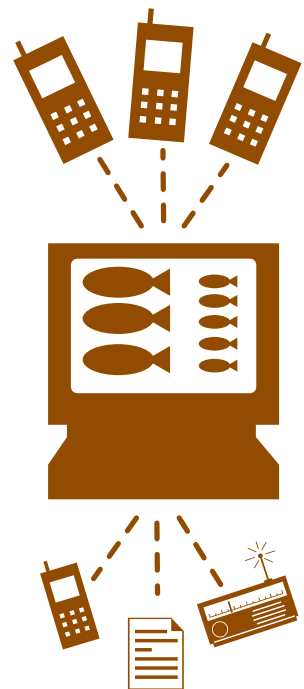
⁶ H. Kindness and A. Gordon: *Agricultural marketing in developing countries: The role of NGOs and CBOs*, Policy Series No. 13 (Chatham, UK, Natural Resources Institute, 2001).



A decisive factor in choosing a method to gather your market information is the location of the markets that are of interest to your cooperative and its members. If you sell on the domestic market, getting data on consumer needs is both important and feasible. This is different if the produce is exported. In this case, it makes more sense to question direct buyers of the products, instead of the consumers, who are far away from your market.

After identifying the objective and the location of the market, the process of gathering data can start. Market research should take place regularly. Customers' needs change over time and the economic context is continuously evolving.

If a cooperative has access to the desired information, the next step is to disseminate this information to members.



How to disseminate market information?

There are many different strategies that a cooperative can use to disseminate market information. A cooperative could use different kinds of media, such

as radio, newspapers, internet or cooperative billboards. Mobile phones are increasingly used to access and distribute information. The following case, from Kenya, gives an example of how mobile phones are used to send market information in real time. This contributed to market transparency and enabled Kenyan fishermen to make better deals.



Case 1.2: Creating market transparency using technology in Lake Victoria

Small-scale producers around the world face many common challenges, from unpredictable natural cycles to limited availability of technical resources and credit. Very often, producers lack something less tangible, but equally important: information. Information is a crucial resource for participating in the market, either as a buyer or a seller. The more you know about prices, or how much is being produced and purchased, the better you can negotiate and get a fair deal. Unfortunately, producers often lack this kind of information, and end up in a position of disadvantage relative to their buyers.

Kenyan fishermen, who work in Lake Victoria, are no exception. Even though the fishermen benefit from being organized into cooperatives, fishing landing sites and markets are separated by long distances, so fishermen have very limited information about the market conditions. How much fish was caught in a given day? What prices were paid on the opposite shore? Having this information would be very valuable in order to negotiate a good price, but it is hard to come by.

This is the problem that the Kenya Marine and Fisheries Research Institute, working together with fishing cooperatives, set out to address. The Lake Victoria region is reasonably well covered by mobile networks, and mobile phones are widely available in the area. Why not use these technologies to the fishermen's benefit?

The concept is fairly simple: fishermen use their mobile phones to send information in real time about catch volumes and prices being paid at about 150 different landing sites and fish markets around the lake. This information is then gathered and processed at a data centre, from where it is then made publicly accessible via mobile phones, the internet, printed media and radio. The information received by fishermen around the lake is not only about the prices paid, but also about the number of buyers and storage trucks, as well as key weather data that can affect fishing conditions. This information is a powerful asset for fishermen's cooperatives. In the first place, middlemen find it much harder to fix false prices. Secondly, fishermen are able to avoid landing sites that are over-supplied, and save on transportation costs. If knowledge is power, then the information system established in Lake Victoria is certainly empowering.

Source: ILO/COOP^{AFRICA}: *Enhancing fish market information (EFMI): Use of modern communication technology to improve Lake Victoria fishing cooperatives income* (2009), <http://www.ilo.org/public/english/employment/ent/coop/africa/download/kmfri.pdf> (accessed 19 Oct. 2011).

In the case of fishermen in Lake Victoria, it turned out to be strategic for fishing cooperatives to work together with the Kenya Marine and Fisheries Research Institute. It also illustrates that it can be a good option to build upon the cooperative structure for dissemination of information. For example, a contractual agreement between a cooperative union and a mobile phone services provider to transmit market information to primary cooperatives and individual farmers can be considered.



Self-assignment 1.3

What is the role of your cooperative in generating and providing market information to your members? Try to list the benefits and the costs of this activity. What are the constraints?



TOPIC 2

Strategic
Marketing

Introduction to the topic

In planning for marketing, the organization basically has to decide what it is going to sell, to which target market and with what marketing mix.⁷

Markets differ in their needs and requirements. They are different in terms of geographic location, economic class, social-cultural aspects, etc. Differences between domestic and international markets can be large. These differences lie almost entirely in the differences in national contexts.⁸ Other examples of very different markets are specialized markets, such as fair trade and organic markets. Accessing these markets requires meeting standards and obtaining a certificate (Topic 3 elaborates on certification).

If you have sufficient information on the different markets you can decide what market a cooperative can best target. But sometimes a cooperative has little choice. Their farmers' products, for example, only comply with the requirements of the local market. In other cases, a cooperative can target various markets. Everything depends on the products the members are able to supply. A cooperative can play a role in "upgrading" the products, helping them to meet specific market requirements and access new markets.

Targeting markets through upgrading

Cooperatives involved in collective marketing have two main clients: their members, who supply the produce and their business partners, to whom they sell. When members and/or the cooperative are able to improve their performance, buyers might be more willing to buy the improved product, pay a higher price, or to buy more.

There are different ways for cooperatives and their members to improve their performance, and to enter into more favourable contracts. For example, the cooperative can support farmers to move into more sophisticated product lines (niche markets), which is also known as "product upgrading".⁹

Upgrading

The concept of "upgrading" highlights options available to farmers and cooperatives for obtaining better returns from their activities.

Product upgrading means improvement of the product marketed. Farmers can

⁷ Food and Agriculture Organization of the United Nations: *Introduction to Global Marketing* (Rome, FAO, 1997), <http://www.fao.org/docrep/W5973E/w5973e02.htm> (accessed 19 Oct. 2011).

⁸ *ibid.*

⁹ It can be helpful to distinguish different upgrading strategies: product upgrading, process upgrading, functional upgrading, inter-sectoral upgrading and social upgrading: L. Dell et al.: *Making retail supply chains sustainable: Upgrading opportunities for developing countries* (2009).

improve their product in various ways. For example, they may plant a new variety that has more desirable characteristics; or they may invest more time in post-harvesting (e.g. drying and fermentation), which increases the quality and the price of the product. The cooperative can support farmers in doing this. It can also support farmers in accessing alternative certified markets. Certified products receive higher prices.

A cooperative can also support farmers in improving the way products are being produced; this is known as “process upgrading”.

Process upgrading means producing the same product more efficiently, for example by using new technologies or management methods. For example, farmers may grow more by applying fertilizer; they may reduce pest attacks and save costs through integrated pest management rather than spraying. Process upgrading can also take place at the level of the cooperative. The cooperative may husk maize more quickly using a machine rather than by hand; or it may invest in building new grain bins to improve storage.

Process upgrading can also refer to better working conditions and lessen health and safety risks. This is also known as “social upgrading”. What can agricultural cooperatives do to achieve this? Cooperatives can take action at the cooperative site (for instance around warehouses, sorting and grading areas) and at their members’ farms. They can raise awareness of dangers (for instance, through posters and signs) and train members on handling machinery, equipment and agro-chemicals. They can also develop user instructions and distribute protective clothing and equipment in order to reduce risks. Modelling good practice at the cooperative site may inspire replication at members’ farms. The box below refers to a practical tool that cooperatives can easily use for this purpose.



Box 2.1: Action list on health, safety and working conditions in agriculture

To assess health, safety and working conditions, cooperatives can use the action list developed by the ILO. It provides examples of practical and low-cost actions for improvement, and is illustrated with drawings and pictures. The checklist can be adapted easily to the context of the cooperative for six working areas:

1. Material storage and handling;
2. Work station design and work tools;
3. Machine safety;
4. Work environment and control of hazardous agents;
5. Welfare facilities (such as toilets, drinking water or a shaded and furnished place to rest and eat);
6. Work organization.

Example of improving the work station design: arranging and sorting potato seeds usually requires a continuous standing posture. Place a stool near to the work area and occasionally lean on the stool to rest during work.



Source: ILO: *Work improvement in neighbourhood development: Training programme on safety, health and working conditions in agriculture* (Bangkok, 2002).

If better member performance leads to access to new markets, this does not automatically result in more returns for a cooperative and does not always satisfy all members. It can be the case that for some members it is more difficult to obtain higher returns than for others. The cooperative should consider whether unequal opportunities exist and think carefully about the advantages and disadvantages of the desired strategy. Relevant questions may be: is there a market for better quality? Is the price difference worthwhile?

Are members excluded from accessing a premium market (which is in need of additional services)?

Instead of focusing on the performance of its members, a cooperative can also focus on improving its own performance by looking for ways to add more value to the products it buys from its members. For example, a cooperative could start processing the products (e.g. instead of selling bulked paddy rice, sell bulked white rice) or invest in packaging. This is also known as “functional upgrading”.

Functional upgrading means taking on new activities or changing the mix of activities a cooperative undertakes in order to add value to the produce marketed. Processing and branding are examples of functional upgrading for a cooperative. These kinds of activities are often not feasible for individual farmers. For farmers, collective marketing is an example of functional upgrading: a cooperative enables farmers to perform a function higher up in the value chain, namely marketing instead of production alone.

If a cooperative embarks on activities higher up in the chain, the chain becomes shorter and the cooperative starts receiving a higher margin. Although tempting, it is not always the best way forward. For example, getting rid of middlemen that distribute the produce implies getting rid of the people who are specialized in this task. Is the cooperative ready to replace this specialist? It might be more rewarding to start working better with traders instead of removing them.¹⁰ So, in case a cooperative considers taking up such new tasks, questions could be: does the cooperative already have the skills to become involved in these new activities? Does this new activity require any investments or additional costs?

Diversification

Instead of focusing on “doing better” it can also be strategic for a cooperative to explore how higher returns can be obtained by doing different things. It may, for example, be strategic to diversify products and services. For example, farmers may start growing a new crop, keeping a new species of livestock, or beginning a new enterprise such as dairying or agrotourism. For farmers, diversification can be an important strategy for dealing with risks. If farmers transfer their skills and experience from their existing enterprises to a new activity in another value chain this is referred to as “chain upgrading” or “inter-chain upgrading”. A cooperative can use the same strategy. The case of Central Lanera Uruguay (CLU, Uruguayan Wool Central) gives an example of a cooperative that responded to changes in demand for (lambs)wool by converting slowly to

¹⁰ Royal Tropical Institute, Amsterdam, and International Institute of Rural Reconstruction, Nairobi: *Trading up: Building cooperation between farmers and traders in Africa* (Amsterdam, KIT Publishers, 2008).

(lamb) meat production. Because the cooperative continued to build upon core activities in its market reorientation, it was able to face challenges and still exists now.



Case 2.1: Confronting the challenge of innovation

It is often noted that once a cooperative becomes successful, it becomes irrelevant. This may be something of an exaggeration, but it is certainly true that when cooperatives are able to fix some of the market problems that they were set up to solve, it is much harder for them to continue to justify their presence to their members. This is what happened to CLU, a very successful lambswool commercialization cooperative in Uruguay. The solution: keep being good at its core business, and offer a new service that adapts to the market's changing conditions.

When CLU came into being over 40 years ago, the market for wool was not transparent, and wool producers were not receiving a fair deal. The cooperative was set up using a very simple idea: it would pay a fixed price (which it called “average price”) for every type of wool, regardless of the volume purchased. Furthermore, it would announce its price early in the harvesting season, even before other buyers had determined theirs. The average price set by the cooperative became a sort of baseline price, effectively forcing competitors to at least match CLU's price. After four decades of consistently offering an average price, CLU had created a more transparent market, benefiting even those producers who did not sell to the cooperative.

With the market becoming more transparent, CLU's role was seen as less necessary. The cooperative decided to stick to its time-tested system of paying an average price, but it also decided to take a step in a new direction. Realizing that the world demand for wool was declining due to the use of synthetic fibres, the cooperative began to promote conversion to meat production. The conversion was slow and difficult, but the cooperative used its credibility and financial robustness to aid its members in the process. Today, meat is a far more important business for Uruguayan lamb ranchers than wool, and CLU has been playing a leading role in driving new technologies by offering the same system of average prices that helped it build its success with wool.

Source: based on an interview with Gastón Rico, founder of Central Lanera Uruguay, an Agriterro partner, and with Christian Gouet, an Agriterro consultant.



Self-assignment 2.1

How could your cooperative contribute to better performance from its members? What are the possible constraints or requirements?

How could your cooperative improve its own performance and add value to the products it buys? What are the costs and benefits of “upgrading”?

Marketing mix

Marketing is about building lasting relationships that satisfy the needs of the supplier and the buyer. The key elements of marketing are “customer value”, “competitive advantage” and “focus”. This means that organizations involved in marketing have to study the market, develop products or services that satisfy customer needs and wants, develop the “correct” marketing mix (product, place, promotion, price and people) and satisfy its own objectives as well as giving customer satisfaction on a continuing basis.

Although farmers want to receive the best price for their products, customers want to buy products at the lowest possible price. But they also want good quality products and may be willing to pay more for higher quality products. Customers also want the products to be available when they need them.

A cooperative’s strategy must take these needs, also referred to as QQF (Quantity, Quality and Frequency), into consideration:

- Quantity refers to the volume of the agricultural produce taken to the marketplace for the intended target market. The right quantity is necessary for both the seller and the buyer.
- Quality is the perceived benefit/value of the produce. From the perspective of the buyer, quality is linked to meeting changing tastes and preferences of consumers. From the cooperative’s perspective, it is the cost of producing the agricultural produce plus the desired surplus.
- Frequency refers to the number of times/the period when the cooperative’s produce is expected to reach the intended customers and consumers. Frequency affects transport costs and storage needs.

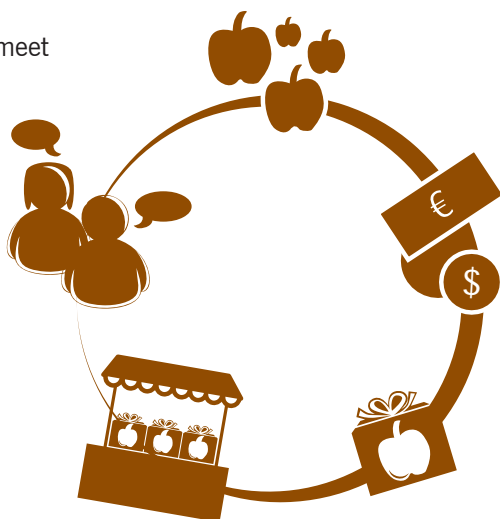
The 5 Ps

An agricultural cooperative could enhance its marketing in different ways by influencing the following elements: product, price, promotion, packaging and place. These elements can be referred to as “the 5 Ps” and are known as the “marketing mix”.

1. Product

This refers to the commodity that a cooperative produces and has to present to the market for the intended customers. The product should be the right one for the customers based on their needs and wants. To meet the demands of the customers, a cooperative could:

- enhance the quality of the products to meet customers' quality standards;
- ensure that the right quantities are available at the time they are requested by customers;
- enhance packaging and labelling, ensuring the right packaging size, materials and information.
- Cooperatives can enhance the quality of products in order to meet market demands. This is very much related to Quality in the QQF.



2. Price

From the seller's perspective, this is the value of the product which incorporates the cost of producing the product plus the desired surplus. From the customer's point of view, this is the amount of money which the customer will have to part with in order to obtain the product from the cooperative. Cooperatives need to set a competitive price that provides surplus. The right price determines the marketing of the product.

3. Promotion

This is considered to be the activities which the cooperative can use to create awareness about the existence and quality of the product amongst the intended consumers. This may include advertising, sales promotion, personal selling, public relations, and direct marketing. For example, in its promotion

and marketing, a cooperative can shift from product awareness to low price awareness, to attract the next layer of price-sensitive consumers. This is especially important if the cooperative is targeting price-sensitive consumers.



4. Place

It is important that a product is available and accessible at the right place and the right time. Good distribution ensures that the cooperative product is available and accessible to consumers. Cooperatives should place emphasis on the convenience of accessibility of their produce to the intended consumers. A channel of distribution is a mechanism through which goods and services are moved from the cooperative to the customers. Adequate distribution systems enhance the marketing of the product.

5. People

“People” refers both to the customer and to staff. For customers, it is important to

know: what kind of customers are they? Who are they? What are their needs? Can they be broken down into groups with common characteristics, needs, etc.? What are the customer strategies?

People refers also to people working within a cooperative. You could call this “internal marketing”, which can be defined as “the task of successfully hiring, training, and motivating able employees who want to serve the customers well”.¹¹

By using the 5 Ps in an appropriate manner, a cooperative can achieve its marketing objectives. For example, it could aim for market modification. In this

¹¹ People, de vijfde P in de marketingmix, <http://zakelijk-financieel.todoo.nl/marketing-advisering/people-de-vijfde-p-in-de-marketingmix-2237.html> (accessed 19 Oct. 2011).

case the cooperative will try to increase the number of customers purchasing the product by identifying new users or converting non-users into users and entering new market segments. By studying its customers, it can decide to modify the marketing mix: other marketing programmes should be reviewed according to customers' interests. For example, such measures could include effective pricing, effective distribution and effective promotion. If the price has been considered by the consumers to be high, the cooperative may consider shifting the price downward in order to attract the many price-sensitive consumers.



Self-assignment 2.2

List the activities for each of the Ps for your cooperative. What could be a good marketing mix for your cooperative?

Satisfying member needs

When choosing a marketing strategy, the short-term satisfaction of members and the long-term viability of the enterprise can be a dilemma. In this case, the manager has to balance the different interests and sometimes make tough choices. A case from the Philippines shows how a new management team dealt with the dilemma of satisfying customers or members, and how concentrating on customers and creating profit helped the cooperative to become sustainable.



Case 2.2: Satisfying customers or members?

The Cooperative Training Centre (CTC, now known as NCMF) is a rice commercialization cooperative in Manila that was able to turn around its finances through good management, and some tough choices. The CTC does not buy directly from farmers, but instead from other smaller producer cooperatives. Prior to 2001, the CTC was buying rice from many different suppliers, paying little attention to quality and offering good prices. This led to a situation in which the buyers were unhappy with the product, and the cooperative was running very high losses. Things started to change in 2001, when a new management team was brought in by the board.

The new managers realized that, to make the cooperative sustainable, they had to satisfy their customers before they could satisfy their members. Both the quality of the rice and the choice of customers had to improve. In the competitive rice market of Manila, customers demand very specific quality standards and volumes. In a move that was unpopular among the rice providers, the CTC started by raising the quality standards of its purchases. This was unpopular because many of the traditional providers could not meet the stricter standards, but it started to raise the profile of the CTC as a seller of quality rice. To make up for the loss of suppliers, the CTC started to purchase from private (non-cooperative) suppliers that did meet the standards, allowing it to increase its sales volume and begin to turn around profits. While at the beginning they were unhappy, some producer cooperatives started to make improvements and eventually were able to become suppliers of the CTC and benefit from its favourable prices.

A second thing that the new management realized was that the cooperative was struggling because it was competing for clients with some of the largest rice distributors. It needed to find new markets. Instead of selling to supermarkets, as it had traditionally done, the management identified a market opportunity: it decided to sell directly to institutional buyers such as schools and hospitals, which were not being catered to by the large distributors. The cooperative bought a truck, and started a very successful sales and delivery system. Without the competition of large distributors, the CTC was able to find a favourable commercialization channel that helped it to become profitable again.

Source: based on an interview with Raul Montemayor, member of NCMF, and on information provided by Christian Gouet, an Agriterro consultant.



Self-assignment 2.3

Explain some of the marketing strategies you think the cooperative should use to retain the product at the growth stage.

Strategic marketing

Marketing requires knowing everything about the customer, but even more important is knowledge of the customer in context, which includes the competition, government policy and regulations, and the broader economic, social and political macro forces that shape the evolution of markets. When marketing also takes into account these contextual factors, we talk about “strategic marketing”. In strategic marketing, generating benefits for different stakeholders is crucial.¹²

So, if a cooperative is involved in providing marketing services it has to know its main customers and the context of which the customer is part. In module 1, we already discussed the changing context of the agricultural market. In this module we also refer to the value chain in which cooperatives and other chain operators and supporters are embedded. Let us first take a closer look at the value chain, and see how it helps us in strategic marketing.

How does the value chain help us in strategic marketing?

A value chain refers to the entire system of production, processing and marketing of a particular product, from inception to the finished product. In module 1, we discussed the fact that a value chain consists of a series of chain operators, linked together by flows of products, finance, information and services. Chain operators only own the product at one particular stage of the chain. For example, a farmer owns maize from planting seed to selling the maize to his/her cooperative, which then becomes the owner. The cooperative

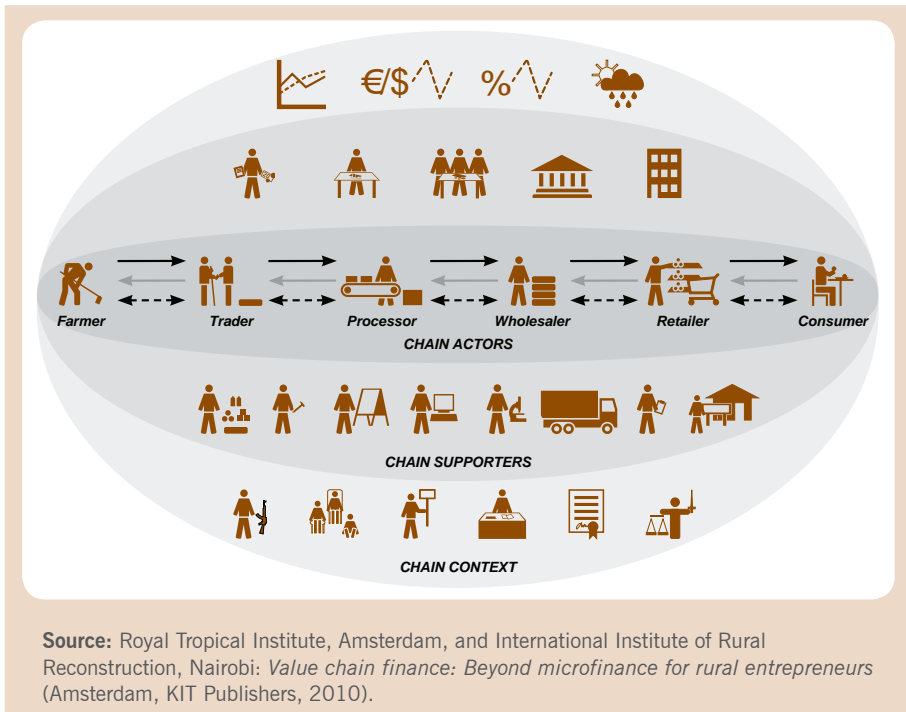
¹² Food and Agriculture Organization of the United Nations: *Introduction to Global Marketing* (Rome, FAO, 1997), <http://www.fao.org/docrep/W5973E/w5973e02.htm> (accessed 19 Oct. 2011).

bulks its members' maize and packages the produce, before it sells it to the miller, who is the new owner, etc. At each stage of the chain the value of the product goes up. The activities needed to increase the value of the product result in a certain cost. As long as the value increase is larger than the cost involved in obtaining the higher value, a positive margin results for the chain operator. The flow of products, money, services and information between farmers, cooperatives and other value chain operators varies for each product.

In addition to direct chain operators, such as farmers, cooperatives, traders, wholesalers, retailers and consumers, there are often other organizations involved, supporting the smooth operation of the value chain. These chain supporters may provide financial and non-financial services to the individual farmers or to the cooperative. Such services include technical assistance, support in business management, certification support, financial management, and organizational strengthening. In the example of the rice chain in Rwanda (see Module 1), a credit provider helped the cooperative to increase its working capital. If an agricultural cooperative is only involved in providing inputs to its members, we do not consider it a chain operator (as the chain starts with production on the farm), but we do consider it a chain supporter (as the availability of proper inputs can significantly influence the quantity and quality of on-farm production).

Chain operators and chain supporters operate within a context that includes the larger social, political and economic environment. This external environment affects not only farming activities, but also has an impact on the whole value chain. Currency exchange rates, government policies, rules and regulations as well as infrastructures (water and energy supply, roads, information and communication technology) may all have an impact on the efficiency of value chain transactions. Trends in the international environment may also affect the choices and decisions of value chain operators. For example, international advocacy organizations may influence market demand by encouraging consumers to buy products that are produced in a socially- and environmentally-friendly way. At national level, tax regimes might make it difficult for formal organizations to compete with private traders. At local level, traditional relations within a community might favour certain groups in accessing services and decision-making processes. It is obvious that developments in the wider context provide both risks and opportunities for chain operators, including cooperatives and their members. The embedding of the value chain in a wider social, political and economic context is shown in Figure 2.1.

Figure 2.1: A value chain and its wider context



Self-assignment 2.4

Map the value chain in which your cooperative and your customers are involved. Indicate the flow of products, money, services and information. Who are the chain operators and who are the chain supporters? What particular developments in the wider context affect the chain and thereby influence the performance of your cooperative?

A recent development in agricultural value chains is that buyers increasingly try to establish direct links with farmer organizations. There are various motivations to do this. For example, sourcing directly from organized farmers reduces transaction costs. Another reason is that it improves traceability; increasingly, companies have to be able to show where their products come from and



products are easier to trace when the provider is a cooperative. Moreover, being organized helps farmers to access training and finance, which supports farmers in improving production quality and volumes. This is beneficial, not only for the farmers involved but also for the customers (providing them with better quality and higher volumes of a product) and can help the whole chain to run smoothly.

For cooperatives, it is also important to establish a long-term relationship with buyers, as this can reduce uncertainty created by the market. This is often a challenge, but the next case, from a buyer's perspective, illustrates how building trust through credibility can overcome the difficulties in establishing long-term relationships with buyers.



Case 2.3: Buying coffee from cooperatives: a buyer's perspective

What are buyers looking for? How do they decide which cooperatives to buy from and which to avoid? The answers to these questions provide important insights about a very common challenge faced by agricultural cooperatives around the world: establishing a long-term relationship with a customer. Durable relations between suppliers and buyers tend to work well for both sides: buyers get a dependable stream of raw material, and producers remove a great deal of uncertainty from the market. This can be a particularly tricky issue because the members of the cooperative might be interested in obtaining quick returns, and the benefits of a long-standing link with a customer may take some time to become apparent.

Van Weely Koffie is a coffee importer in the Netherlands that buys from cooperative producers in Africa and Latin America. The company likes to maintain a wide base of suppliers so that it can offer a variety of coffees to its clients, and that means that it deals with all sorts of cooperatives, from huge enterprises to small local organizations. Some cooperatives are better structured than others; some are wealthier, some are poorer. But what Van Weely Koffie is mainly looking for is reliability. As a buyer, the main concern is that the seller does not become a risk. The key to a sustainable business partnership, then, is to establish trust.

This is easier said than done. One of the most common problems encountered by this coffee buyer is that suppliers will make promises they cannot keep. This is not due to bad faith. What happens is that producer cooperatives will often commit to unrealistic volumes, qualities or prices that later they cannot uphold. Credibility is built when suppliers are able to demonstrate, year after year, that they can deliver on their commitments, however modest these may be. This implies that the cooperative has a very clear understanding of its own possibilities and limitations. Another challenge commonly encountered by Van Weely Koffie is the lack of strategic management in cooperatives. Too often, the management will change buyers, or sell simultaneously to (too?) many buyers seeking the best price. While this may turn a quick profit, it can result in price fluctuations and instability. On the other hand, cooperatives that have a longer-term vision and concentrate on establishing trusting relationships with fewer but more stable buyers can benefit from better overall prices, and much more predictable outcomes.

Source: based on an interview with Frank Kraaijkamp of coffee importer Van Weely B.V. (Netherlands).



Self-assignment 2.5

Identify for your cooperative the different types of customers of your produce. What do you know about their needs? What kind of relationship do you have with your customers?

Sometimes partnerships can help to establish direct links between cooperatives and buyers. Below, we present a case on the Upland Marketing Foundation and Pecuaría Development Cooperative in the Philippines. This case illustrates how a partnership between a cooperative and a foundation created links between a cooperative and modern retailers.



Case 2.4: Creating links to modern retailers in the Philippines

Supermarkets have expanded rapidly throughout the world. Today it is common to find modern retailers not only in industrialized countries, but in cities and towns across Asia, Africa and Latin America. This rise of supermarkets brings potential opportunities for farmers – and also many obstacles. On the one hand, supermarkets offer a significant channel through which to reach potential customers, many of whom are relatively wealthy and willing to pay good prices. On the other hand, selling to supermarkets is not easy. Modern retailers have strict quality standards and delivery demands which are hard to meet, especially for smallholder farmers. In addition, supermarkets do not pay their providers immediately, delaying their payments for weeks and even months.

The Upland Marketing Foundation was established to help farmer cooperatives and other community-based organizations in the Philippines overcome the obstacles that prevent them from reaching the potentially lucrative possibilities offered by supermarkets. The Foundation is an intermediary that helps connect farmers to modern retailers through marketing, branding and financial services. One of the foundation's most successful customers is Pecuaría Development Cooperative, a rice growers' cooperative from the southern part of Luzon Island. Pecuaría was already a well-established and strong cooperative, but it knew that it had to find new business opportunities if it was to remain relevant and profitable. About ten years ago, the members of Pecuaría realized that organic rice might well be the opportunity they were looking for. At the time, there was very little production of organic rice, so the cooperative decided to tap into a niche that nobody else was exploiting. Supermarkets in Metropolitan Manila appeared to be the ideal outlets for reaching potential customers. But how to become a supplier for modern retailers?

This is when the partnership with the Upland Marketing Foundation took off. The cooperative had the production system in place, and the foundation provided the support and financing needed to meet the requirements of the new buyers. Over the years, Upland Marketing helped Pecuaría to develop better and more attractive packaging, and it began to sell the rice under the Foundation's brand. The cooperative has also received advice on how to develop new products that can target different types of consumers. In short, the partnership has allowed Pecuaría to create attractive products and to effectively put them on the market. In addition to providing marketing support, Upland Marketing Foundation helps cooperatives like Pecuaría to deal with the problem of delayed payment by supermarkets. Producers establish a clear commitment in terms of volumes to be supplied, and the foundation makes frequent and regular payments to the cooperative.

Source: based on an interview with Mr Fonollera, office manager of the UMF.

Direct links between cooperatives and large buyers do not guarantee favourable outcomes for a cooperative and its members. For example, the conditions under which a cooperative sells to a buyer can be unfavourable (e.g. delay in payment) or risky (e.g. high price fluctuations). Another risk is the creation

of a relationship of dependency. In this case an option is to move away from the buyer by diversifying markets and possibly also diversifying products. Alternatively, the cooperative could move towards the buyer, by engaging in activities further up in the value chain (e.g. processing).¹³

Who decides what to sell, how much, to whom and at what price?

Ideally, in a cooperative, the members, together with the management, decide what they sell, how much they sell, to whom and at what price. The management may control payment terms, definition of grades and standards, targeting of consumers, innovation management, and so on.

But in reality it is often not only the cooperative that decides. There are often others, both within the chain as well as outside it, who influence the decision-making process within a cooperative. It is, for example, no exception that prices are set outside a cooperative's direct sphere of influence. It is also common that services that are needed to improve performance are absent (e.g. finance).

Often, buyers of products demand specific quality or volumes of products. Increasingly, buyers are also interested in the way products are produced, for example, without the use of agrochemicals or under fair trade conditions (see topic 3). Generally, this requires stronger coordination from the cooperative and can be quite a challenge.

Changes in the cooperatives environment are also beyond the direct control of the cooperative. These changes might affect the outcome of the strategies in place.

How to respond to a changing environment?

Markets are constantly changing, especially with regard to commodities and staple crop demand and supply fluctuations, which influence marketing strategies. Likewise, the requirements and needs of today's consumers change fast. The wider environment also changes; one only has to think of innovations, price changes in energy or construction of new roads. A cooperative should anticipate changes in the environment.

Changes in policy environment

In some cases, lobbying might help to influence developments, for example

¹³ Royal Tropical Institute, Amsterdam, and International Institute of Rural Reconstruction, Nairobi: *Value chain finance: Beyond microfinance for rural entrepreneurs* (Amsterdam, KIT Publishers, 2010).

in the policy environment. It can also be the other way around with interest groups, for example, lobbying government and buyers of agricultural products for closer attention to labour rights, which can create constraints or opportunities for cooperatives. There can also be changing laws and regulations that discriminate or favour cooperatives. In order to avoid decisions being made to the detriment of cooperatives and without a proper consultation, maintaining relations with the government is considered to be part of cooperative marketing.

Changes in prices

In the case of changes in prices, other steps help cooperatives to cope with or take advantage of this. For example, in the case of a decline in agricultural commodity prices the cooperative could invest in storing their products in a warehouse until market prices have stabilized.

Changes in technology

Technological advances can bring new opportunities for cooperatives to market products and disseminate information, for example by using mobile phone services or the internet. Examples exist of multi-stakeholder platforms that own a website on which cooperatives can post when and how much they have to sell and buyers what they are looking for.

Changes in consumer demand

Consumers are not only increasingly interested in social issues but also in environmental issues. Some consumers do also reject products that are produced under conditions that violate human rights or labour standards, for example, child labour.

Concern for the environment can be seen as providing a marketing advantage. Cooperatives should consider their impact on the environment and how their practices might be used in a marketing programme. Producing organic products opens up access to alternative marketing channels.



TOPIC 3

Certification

Introduction to the topic

Increasingly, standards are put in place to guarantee food safety, product quality and reliability of sourcing. Some of these standards are voluntary, such as fair trade, organic production, responsible trade and sustainable trade. These standards all have their own certification schemes. There are also company standards (such as the C.A.F.E. practices of Starbucks) or sector-wide standards, like the Common Code for the Coffee Community (4C). Private standards are becoming increasingly important for international trade, and are used as strategies to differentiate products and firms.¹⁴

Specialized Markets

Specialized markets refer to those markets which require cooperatives' products to meet certain quality standards before they can be sold. These can either be production standards (e.g. moisture level) or production process standards (e.g. labour conditions).

Certification is a popular way of organizing market requirements. In theory, certification is not an obligation, but in practice it can be if you want to remain in the market. GlobalGap certification, for example, is to some extent compulsory for suppliers of supermarkets in Europe. Although certification is currently mainly attached to export products, it is clear that certification is likely to become an increasingly important prerequisite for the local market as well. Maybe, if your cooperative sells to a local supermarket, there might already be quality or packaging requirements in place.

There is also a tendency for certification to become increasingly important for agricultural cooperatives. Cooperatives therefore need to prepare themselves for certified markets.

But how do you know when to invest in certification, and what type? The different certification schemes all have their advantages and disadvantages. There are also different costs and benefits involved in getting certified. What are the direct costs involved, for example, in compliance? What are the indirect costs of monitoring, for example? What will certification contribute in terms of added value? This topic will elaborate on certification and its dynamics.

14 R. Ruben and S. Verkaart: "Comparing fair and responsible coffee standards in East Africa", in A.H.J. Helmsing and S. Vellema (eds.): *Value chains, social inclusion and economic development: Contrasting theories and realities* (Abingdon, UK, Routledge, 2011) pp. 61–81.

Certification

Certification can be a way to improve farmers' circumstances, by providing them with additional (or at least stable) incomes and other privileges, conditional on their compliance with certain requirements. Such requirements are outlined in documents called standards or codes of conduct, which are used by auditing committees to randomly check farms or companies. The certified product, which eventually finds its way onto the market, informs the consumer of the product's origin by means of a labelling system. As well as providing consumers with information on the quality of the product, and producers with premium prices, certificates also provide marketing opportunities for companies involved in the branding of certified products.¹⁵

Examples of certification schemes are the Rainforest Alliance for nature conservation, Organic for organically produced products, and Fairtrade for social issues. These schemes deliver certified products to highly specialized markets, for which there is relatively little demand. Recently also, conventional markets increased their sustainably-produced goods segments; UTZ is a well-known mainstream certifier, currently of three products (coffee, cocoa and tea), which offers certification programmes for farmer support to large industrial players.

Each of the four abovementioned certifiers focuses on different aspects of sustainability and has its own unique standards and approaches to rewarding farmers. Different labels have a lot in common; for example, for the cocoa sector these four different labels have an 80 per cent overlap in their social and environmental criteria.¹⁶

Certification provides opportunities mainly for formally organized farmers, and not to such an extent for individual farmers. By forming a partnership with a certifier, a cooperative can gain access to a more beneficial market, in terms of price and arrangements. But access to these markets also implies costs for a cooperative: they bear at least part of the costs involved in, for example, internal control of the standard and meeting the quality requirements.

Sometimes certification is presented as the way forward. This is a risky idea, as certification does not always work. Moreover, certification is not a goal in itself, but a means to improve a situation: for example, increasing smallholders' income or protecting the environment.

15 A. Laven and P. Pelders: *Chocolate forever. The Dutch contribution to knowledge on sustainable cocoa* (Amsterdam, Dutch Ministry of EL&I, KIT Publishers, 2010).

16 *ibid.*

Whether to engage or not in certification?

What are the main differences between the different certification schemes? Does one scheme exclude another? In practice, certified producers can sell their products via multiple markets. Multi-certification represents a strategy for diversifying sales to various buyers with different quality and delivery requirements.¹⁷ A cooperative can also decide to sell all its products to one buyer; in this case the benefits should outweigh the risks involved in depending on a single buyer. Let us first look at some of the certification schemes. We will have a closer look at fair trade and organic markets (both niches), and make some comparisons between Fairtrade and the UTZ CERTIFIED scheme (mainstream).

Fair trade

Fair trade was established in the 1960s as an alternative market system. It challenged existing trade relations dominated by large international buyers by offering better trading conditions and securing the rights of marginalized producers and workers – especially in the South.¹⁸ Selling products to the fair trade market offers different opportunities to cooperatives and its members. They can sell their product at predefined and guaranteed minimum floor prices.¹⁹ Generally there is a price premium, paid directly to farmers and a percentage of the profit that goes into a fund for community development projects. An important benefit of access to this market is that it provides a stable market relationship, as it guarantees the cooperative an outlet at a secured price. Stability is an important asset, both for farmers and for a

Fair trade

“Fair trade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. By requiring companies to pay sustainable prices, fair trade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. Fair trade enables them to improve their position and have more control over their lives. Furthermore it makes it possible for farmers to invest in education, healthcare and a better environment.”

Source: http://www.fairtrade.org.uk/what_is_fairtrade/faqs.aspx (accessed 19 Oct. 2011).

17 R. Ruben and S. Verkaart: “Comparing fair and responsible coffee standards in East Africa”, in A.H.J. Helmsing and S. Vellema (eds.): *Value chains, social inclusion and economic development: Contrasting theories and realities* (Abingdon, UK, Routledge, 2011) pp. 61–81.

18 P. Develtere and I. Pollet: *Cooperatives and fair-trade*, Background paper for the COPAC Open Forum on Fairtrade and Cooperatives, Berlin (Leuven, Higher Institute for Labour Studies, and Geneva, Committee for the Promotion and Advancement of Co-operatives, 2005), <http://www.copac.coop/about/2005/cooperatives-and-fair-trade-final.pdf> (accessed 19 Oct. 2011).

19 R. Ruben and S. Verkaart: op. cit., pp. 61–81.

cooperative, so as to be sure of income support investments. In return for these benefits the Fairtrade organization that assigns the Fairtrade label requires the cooperative to meet certain criteria, both on a cooperative level as well as at the level of their individual members.

There are two key requirements for producers to access fair trade markets:

- producers should be smallholders mainly dependent on family labour;
- producers should be organized in cooperatives operating along democratic lines.

Box 3.1: fair trade criteria²⁰

For workers:

- decent wages, good housing, health and safety standards and the right to join trade unions;
- no child or forced labour;
- programmes for environmental sustainability.

For small farmers' cooperatives:

- a democratic structure that allows members to participate in the cooperative's decision-making processes.

Moreover, the trading terms must include:

- a price that covers the cost of production;
- a social premium to improve living and working conditions;
- partial advance payment to prevent small producer organizations falling into debt;
- contracts that allow long-term production planning.

The Fairtrade organization is a partnership in trade. Besides this, the fair trade movement is active on the consumer side, raising awareness of the importance of fair trade and promoting fair trade products. Sales of fair trade products are on the rise around the world, with the US leading. In 2010, overall sales of fair trade products grew by 24 per cent.²¹ Despite this growth pattern, the relative share of fair trade in the world market remains very small.

What could motivate a cooperative to sell to a fair trade market? The table below lists some of the advantages and disadvantages.

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²⁰ Adapted from P. Develtere and I. Pollet: op.cit.

²¹ The Independent: Fairtrade market experiencing explosive growth in UK and US (9 Mar. 2011), <http://www.independent.co.uk/life-style/fairtrade-market-experiencing-explosive-growth-in-uk-and-us-2236449.html> (accessed 19 Oct. 2011).

Table 3.1: Advantages and disadvantages for a cooperative of selling to the fair trade market

| Advantages | Disadvantages |
|---|--|
| <ul style="list-style-type: none"> ● cooperatives meet the two basic requirements; ● fair trade products fetch a minimum price and advanced payment; ● fair trade products fetch a premium price for community development; ● the demand for fair trade products is growing; ● NGOs can support cooperatives in the start-up phase (reducing costs and risks); ● fair trade contributes to more stable trading relations between a cooperative and its buyer, and increases income stability for farmers; ● a wide range of products can be certified. | <ul style="list-style-type: none"> ● very specific and often high quality standards for production and processing; ● requires investment to meet quality standards and to cover costs involved in paperwork, certification fees, etc.; ● relatively small market: normally it cannot absorb all production. |

If you are considering becoming a fair trade producer, the Fairtrade Labelling Organization (FLO) has websites where they elaborate on the steps to follow and on how producers can get support from the fair trade system.²²

Comparing Fairtrade with UTZ CERTIFIED

UTZ CERTIFIED, previously known as UTZ Kapeh, is a market-based certification programme, focusing on improved farm management, input efficiency and traceability, while also demanding good performance on social and environmental issues.²³ There are many different stakeholders involved, such as the food industry, government, and civil society. So far, it offers coffee, tea and cocoa certification programmes and manages traceability for Roundtable on Sustainable Palm Oil (RSPO)-certified palm oil.

UTZ CERTIFIED has developed a code of conduct, an internationally-recognized set of criteria for professional coffee and cocoa growing, which includes socially and environmentally appropriate growing practices, and efficient farm management.

²² Fairtrade International: Becoming a fairtrade producer, http://www.fairtrade.net/becoming_a_fairtrade_producer.0.html; Fairtrade International: Support for producers, http://www.fairtrade.net/support_for_producers.0.html (both accessed 19 Oct. 2011).

²³ R. Ruben and S. Verkaart: op. cit., p. 65.

Cooperatives have to meet these codes of conduct before they can be certified by a Certification Body.²⁴

How does UTZ differ from Fairtrade, for example? The table below outlines the main differences.

Table 3.2: Main differences between Fairtrade and UTZ CERTIFIED

| Fairtrade | UTZ CERTIFIED |
|--|--|
| Only producer organizations can be certified | Also open to large-scale producers. Currently exploring options to certify local traders |
| Minimum price is fixed + FLO premium + pre-finance | Market price + negotiable price premium |
| Niche market | Mainstream market |
| Slowly growing: limited number of producers involved | Growing fast |
| Wide range of products can be certified | Limited number of products can be certified (currently only coffee, cocoa) |

Source: based on R. Ruben and S. Verkaart: “Comparing fair and responsible coffee standards in East Africa”, in A.H.J. Helmsing and S. Vellema (eds.): *Value chains, social inclusion and economic development: Contrasting theories and realities* (Abingdon, UK, Routledge, 2011) p. 65.

Organic Agriculture

In many African countries and elsewhere, large areas under cultivation are not treated with any chemicals. This indicates that there are major opportunities for organic agriculture. But organic agriculture is not about “doing nothing”. Organic agriculture requires active on-farm (pest) management and post-harvest practices, which require relatively more time and labour. Its farm practices are based on the general principles of organic agriculture (Box 3.2). In the case of many pests and diseases, organic agriculture requires alternative and affordable measures and organic inputs. In order to make farmers receptive to organic farming practices, it may be necessary to work on a change in mindset and invest in training and awareness raising.

Organic agriculture creates opportunities, as certified organic products receive a premium on the market. It is especially interesting for farmers who have not been using chemicals on their farm for at least three years (producing “organic by default”). But the high costs of certification can be problematic, especially when volumes of production are low.

Conversion from conventional farming (with the use of chemicals) to certified

²⁴ <http://www.utzcertified.org> (accessed 19 Oct 2011).

organic production entails a cost; before you can access organic marketing channels your farm has to be chemical-free for at least three years. During this transition process you are not allowed to use chemicals, or to sell your product on the organic markets. So, organic agriculture has its costs and conversion to organic production takes time. Before you obtain certification, an internal control system assesses whether or not the product meets the requirements.

Higher prices for organic?

In contrast to fair trade, not all organic products qualify for higher prices than non-organic products. Organic premiums vary with the crop and may differ according to whether you are dealing with a processor, wholesaler, retailer or directly with the consumer. The size of the premium also depends on price fluctuations of conventional products.



Box 3.2: What is organic agriculture?²⁵

Organic agriculture

- Environmentally, socially and economically sound and sustainable, a holistic approach;
- Based on natural and local conditions, situation-specific.

Basic principles

- Soil, water and nature conservation;
- Reduced external inputs;
- Use of locally-available organic materials;
- Nutrient recycling – shade trees;
- Diversity, natural surroundings;
- Natural pest- and disease-management.

No Synthetic Fertilizers, Pesticides or Herbicides

Key-issues in the organic chain

- Quality;
- Traceability;
- Training;
- Marketing;
- Trust;
- Economic incentives;
- Organizational capacity.

So, why would a cooperative opt for organic agriculture? The table below lists some of the advantages and disadvantages of selling to the organic market.

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²⁵ Common Fund for Commodities and International Cocoa Organization: "Agro Eco", in *Agro Eco and Tradin: Feasibility study on organic cocoa production in West Africa* (Amsterdam, KIT Publishers, 2010).

Table 3.3: Advantages and disadvantages for a cooperative of selling to the organic market

| Advantages | Disadvantages |
|---|--|
| <ul style="list-style-type: none"> ● organic agriculture has an intrinsic environmental value and contributes to better health of farmers and their workers; ● organic agriculture can lower your costs (not using inputs); ● organic agriculture fetches a premium on the market; this premium should cover both costs for meeting requirements and fees paid to certification bodies; ● the demand for organically produced products is growing; ● NGOs can support cooperatives in the start-up phase (reducing costs and risks); ● these alternative marketing channels can create more stable trading relationships between a cooperative and its buyer. | <ul style="list-style-type: none"> ● premium is not fixed but negotiable; ● organic agriculture can lower production; ● conversion to organic production requires innovation in the whole farming system and the value chain. This requires coordination and investments; ● certification process takes a long time; ● conversion to organic takes time and only pays off after several (more than 3) years; ● the market for organic products is small; ● requires sound coordination and control. |

Going organic as a cooperative requires sound coordination of members, to ensure that they share the vision and produce according to the set organic farming principles. Farmers will need support to make this transition to certified organic products. The case below on organic tea production in Nepal shows how clear targets and enhanced technical support helped to align the activities of members.





Case 3.1: Upgrading to organic tea production: the need for a common vision

The world of modern supply chains presents a double challenge for agricultural cooperatives: not only must they find and secure buyers for their products, they also have to ensure that all farmer members produce crops of consistent quality. Whilst a lot of attention is paid to the commercialization problem, it is also very difficult to get all the members on board with production standards, especially if they are being upgraded. This is precisely the challenge faced by small-scale tea growers in the eastern Himalayan region of Nepal. Farmers realized that the demand for organic tea is increasing, and that in the not too distant future the majority of demand in Nepal will be for organically produced tea. How to make sure that more than 2000 farmers made the transition to the strict organic standards?

The role of the Tea Sector Service Centre (TEASEC), a second-level cooperative, was crucial in the successful conversion to organic production. TEASEC was established to provide a range of technical services, from production to commercialization. It also began to provide training and support, helping to strengthen the more than 45 member cooperatives. It was clear to many members that conversion to organic production was strategically important, but most farmers lacked the technical know-how to get involved in this lengthy process. In addition, while organic crops were bought at a higher price, it was known that conversion to organic would decrease yields, potentially affecting farmers' income.

TEASEC worked on two fronts to help mobilize the farmers around the productive upgrade. Firstly, starting in 2007, it developed a clear field code of conduct regarding transparency, quality, and environmental and social sustainability that was shared with all farmers. Secondly, it began to provide the technical support that allowed farmers to abide by this code. Three years after the process began, the farmers affiliated to TEASEC's member cooperatives successfully migrated from conventional to organic production. The process has not been without its difficulties. Even though the price per kilo increased from 25 to 55 rupees, the majority of farmers experienced reductions in yields of up to 50 per cent. Still, farmers are convinced about the long-term gains of the conversion to organic, and TEASEC's continued involvement will help increase yields through improved access to organic fertilizers.

Source: based on interviews with members of TEASEC, an Agriterro partner, and on a written report provided by Bertken de Leede, Agriterro liaison officer.



Self-assignment 3.1

What are the different marketing channels for your product? List the differences and requirements. Is the cooperative targeting the most optimal market for its produce?





Key Learning Points

Collective marketing can be a service that a cooperative provides to its members. A cooperative can also limit its role to providing collective marketing services. One of these services is providing market information.

Before a cooperative can market its produce, it needs to know its customers, and how to address their needs. Access to market information helps a cooperative in strategic decision-making. More than information on customers' needs, it is important to understand the (changing) environment in which customers (and the cooperative) are embedded. Knowing the context helps cooperatives in strategic marketing.

The changes in context require constant adaptation of the cooperative's strategies and their members' performance. However, these adaptations are not always favourable for members. For example, it may be that the costs involved are so high that they do not outweigh the benefits.

A constant challenge in collective marketing is to balance the needs of customers and those of members.

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