

Access to Markets through Long Term Business Partnerships

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Disclaimer

The views in this paper are either the author's or derived from interviews with key informants and stakeholders and are not necessarily endorsed or shared by the International Labour Organisation (ILO) or the British Department For International Development (DFID) as donor.

Foreword

The Business Services Market Development Project Uganda (henceforth BSMD) is addressing the core economic problem of weak business linkages and helping to embed micro and small businesses (MSEs), and smallholder farmers within, rather than be excluded from, markets. To do so, the project is highly responsive and flexible in pro-actively developing market-based solutions to key business constraints at the micro and agro sector level.

The overall goal of the project is to increase market access for MSEs and smallholder farmers through the development and strengthening of supply chains that link the rural poor to urban, national and international markets. The purpose of the project is to promote the adoption of improved business practices that address identified business constraints and in particular constraints to supply chain formation in Uganda. It is envisaged that once strong and stable supply chains are established, MSEs and smallholder farmers can gain access to a wide range of business services, thus allowing them to improve their individual as well as the overall chain's competitiveness.

To achieve its goal, BSMD is undertaking action research activities as well as a number of specific studies to identify constraints that prevent the establishment of supply chains in Uganda; developing alternative mechanisms and “tools” to overcome the identified constraints; and promoting and demonstrating the benefits of effective and focused supply chains. The results of these actions will then also contribute to the overall understanding and development of the commercialisation of business services, their delivery mechanism and to the roles and responsibilities of the donors, development agencies and the government in developing the MSEs and the private sector in general, in Uganda.

The focus of BSMD is thus on acquiring and disseminating expertise that addresses fundamental MSE constraints in a systematic manner, rather than undertaking stand-alone project interventions.

1 Introduction

The guidelines contained in this document have been prepared to assist farmers groups to identify and access a stable market for their produce. They are based on the approach and experiences of the Fruits and Tubers Farmers Group (FTFG) based in Iganga. The farmers group found a market through the identification of a trading partner who had established a steady market and was willing to provide training, extension services and the necessary organic certification. The business partner was "impressed by the way the farmers group was organised and presented the business opportunity".

Chapter two presents the methodology and the basic principles applied in the study. It also provides a concise description of the steps undertaken. Chapter three provides the components of the business proposal and suggestions for the preparation of a cash flow sheet.

These guidelines reflect the approach that was used successfully by the FTFG. This however does not mean that they must be followed strictly but rather should be adapted to the specific situation that they will be applied to.

2 Methodology

The methodology is based on the principle that farmers are responsible for selling their produce. They therefore should be able to identify buyers themselves. Selling directly to the end consumer is often not practical. This is also not necessary as commercial systems do exist that deliver those goods to consumer markets either without or after processing. These systems can be exploited effectively by farmers by building strong and lasting relationships with buyers and other partners in a supply chain. This approach comes with numerous advantages such as reduced transaction costs, access to market information, technology, certification and other business support. It however takes time to build such relationships and requires the establishment of trust between all parties involved. Issues of reliability, integrity, honesty, confidentiality and communication are therefore basic ingredients.

2.1 Steps undertaken

The different steps that were undertaken to identify a trading partner are as follows:

- Development of a work plan for the activities to be undertaken: Who is doing what, when and what the estimated costs are.
- Collection of basic field data that was used for the preparation of the business proposal. The proposal is used to attract potential trading partner and forms the basis for the discussions. The data includes production information, yields, varieties, number of seasons (time of availability) and quantities of produce that will be available.
- Visits to various organisations to collect technical information to verify the field data, especially regarding production: yields, diseases, seasons, organic certification and other production related information. If possible include visits

to farmers involved in the same production in other regions. Use information from local research stations or visit National Agricultural Research Organisation (NARO) in Kawanda. Always verify information, whatever the source.

- Basic market research, which includes information gathering of contact details of traders, processors exporters and if possible importers in other countries, product demand in local, national, regional and export markets, prices, possible production and trade restrictions. It is advisable to start at a local level in doing this. A lot of information can be gathered through referrals, especially within the commercial networks. Other information sources are the fresh fruit and vegetable traders, exports associations, exporters and organisations such as Foodnet. Also visit the Uganda Export Promotion Board (UEPB) for information about export markets. Their library has a lot of useful information.
- Prepare financial forecasts based on the data collected, using conservative figures. The following should be taken into account while preparing the forecasts: quantities of produce that will be retained for consumption by the households; costs related to bulking of produce if bulking is required; and cost of production.
- Draft a concise business proposal: This should include information about the organisational setup, markets available, production capacity and processes, and financial statements.
- Develop criteria for potential trading partner to be used for identification and selection. Be careful to only use realistic and practical criteria and avoid being arrogant and too demanding. Remember that the trading partners will also have their own criteria that they would like to work with.
- List 10 potential partners based on the above criteria. Candidates can be identified during the basic market research and also with the help of organisations such as Uganda Export Promotion Board (UEPB), Uganda Investment Authority (UIA), Enterprise Uganda, National Organic Agricultural Movement of Uganda (NOGAMU), Kulika Trust, Uganda National Farmers Association (UNFA) and Uganda Grain Traders Association (UGTA). Some organisations such as Agricultural Productivity Enhancement Program (APEP) might also have useful information in this area.
- Organise initial meetings with the above 10 companies to present and explain the business opportunity on offer. Use referees if required. These initial meetings provide an opportunity to present the proposal that has been prepared. The meetings should be attended by the Group Leader and other nominated representatives (two are recommended). Ensure that the contact information given to the companies is correct and that telephone numbers given work at all times. If not mention the time during which the numbers can be called.
- Arrange in-depth discussions with only those companies that showed serious interest. Discussion points are to further explain and provide information about the partnership opportunity and to collect information of the potential partner company for further verification. It is advised to attend these meetings well prepared with all information that might be required by the companies.
- Arrange field trips for the potential partner companies for field inspections and to allow discussions with farmers. Ensure that these meetings are attended by a good number of farmers if not by all. This will raise the company's confidence in the groups.

- Verify company information provided and check out references. Company information can be verified at the Registrar of Companies. It is important to meet the referees provided by the company.
- Arrange a formal meeting with the best potential partner company to officially agree on the partnership, discuss legal aspects and contractual arrangements (if possible sign a Memorandum of Understanding pending the final agreement), and prepare an outline for a work plan. Use the help of organisations such as the Centre for Dispute Resolution and Arbitration (CADER) to prepare agreements and contracts.
- Further visits to farm should be carried out by representatives and extension staff of the partner company to arrange and discuss the work plan with the farmers, and also, to provide technical advice and verify production progress and output. Always ensure that these meetings are well attended as this will provide the farmers with information regarding production, planning etc.

2.2 Farmers inputs

- Attend meetings, share information and participate in internal discussion to take common decisions and to meet with potential partners.
- Provide realistic basic information required for preparation of business proposal.
- Allow colleagues, farm leader and potential trading partners to inspect and verify production data.
- Contribute to the preparation of partner identification and trading criteria.
- Contribute towards the cost incurred by the farm leader to organise and implement the activity.

2.3 Farm Leader's inputs

- Preparation of business proposal including basic production, data collection and market information.
- Preparation of partner selection criteria, visits to various organisations for collection of data, verification and identification of potential trading partner.
- Attend meetings with identified potential partners.
- Conduct field visits with selected potential partner.
- Facilitate and coordinate meetings between farmers group, potential partner and other organisations.
- Act as link for communication between farmers' group and companies.
- Provide accountability to groups on expenses incurred.

3 Business proposal

3.1 Content and structure of a business plan

Having considered the purpose of the business plan and done the necessary background preparation, the next step is to consider the actual elements that one will include in the written final document. This should be written from the perspective of the trader or investor who will be reading it. This should contain five types of information as follows:

- The mission of the business and the objectives to be achieved.
- Targeted markets and clients and the products on offer.
- The qualitative and quantitative results one expects to achieve.
- The resources needed to achieve the business goal: human resources, infrastructure, equipment, raw materials and financial.
- The technical, organizational and administrative processes required.

The above information can be conveniently structured into chapters, as follows:

1. Executive summary

This is agreeably the single most important part of the document. It provides an overview of the purpose of the business plan, the main highlights and the financial resources required. It should be concise and should deliver the message clearly.

2. Background

This is the section that provides summarized entity-specific information, describing the business organization (in this case the farmers groups), location and structure, principal products and customers, key data (this could be a brief paragraph about - number of farmer and household members, areas, production, etc.), constitution, ownership and management, history, and business strategy and vision, for example, building a long term relationship. It gives the reader an initial summary of the business before specific details are provided later. It is important to keep the document simple as this will be the tool used to attract a potential trading partner.

3. Product

This section will include information on product description, product varieties, research and development, pricing (current market prices in different regions like Kumi, Jinja, and Kampala), production process, quality assurance and control, production quantities. Information on prices can be sourced from organizations such as Foodnet in Kampala.

4. Primary processing

Primary processing requirements could be a collection point or warehouse and equipment for cleaning, grading and packaging. Rough costs can be included to show level of investment required. This will need to be reflected in the cash flow. Consult with building contractors or masons for construction costs and equipment suppliers for costs of equipment. Regarding processing requirements, talk to traders and maybe the bigger buyers in the nearest town or Kampala about what they might be. This will also enable you to ascertain the kind of equipment required. This could be done during the basic market research.

5. Markets and clients

Current market characteristics, potential markets and clients should be provided in this section. This information will be available from the basic market research that you carry

out. This section will relate to both the export and local markets and provide information such as historical and current prices, varieties required by the two markets in relation to what is being produced, a list of current exporters and traders and information from UEPB or other such bodies regarding export demand.

6. Organization and operations

Information regarding the number of groups, their locations, number of farmers, land area under cultivation of particular product, organizational structure of groups, organization of marketing committees, management, communication systems, and management information and reporting systems. This information will be available once the basic data collection is carried out. One must take care not to repeat background information already provided under chapter 2 as the information required under this chapter will relate to production systems.

7. Human resources

This section will cover information about human resources required to undertake this type of venture. Include costs if possible, as this will reflect in the overhead costs and cash flow. It will also include information regarding the number of persons required to manage and run such an operation and the tasks that each would undertake. Costs can be derived once you know the number of persons required at different levels of the operation.

8. Environmental and social factors

This includes environmental risks, social compliance, development and social benefits. This information may be compiled with the help of the related district authorities. The need for "fair" trade can be highlighted in this section along with the long-term benefits and win-win approach if the proposal is accepted

9. Financial planning

Financial planning involves income projection statements, cash flow projections, important ratios, funding requirements and other financial information. It is advisable to prepare these statements for a period of at least five years because that is often the time required for a business to stabilise and start making profits. Employ the help of an accountant if required. Some basic templates are provided along with this document. Below are some basic guiding principles to preparing income and cash flow projections.

10. Income statement projections

The income statement is also called the profit and loss statement. It shows your revenues from sales, expenses and net profit or loss. The net profit or loss is equal to revenues minus expenses. An income statement for a business plan should be broken down by month or by quarter for the first year. This projection, which is basically your budget, should include seasonal effects. The second year can be broken down quarterly. For the third and following years estimates can be presented on an annual basis.

Analyse the results of the income statement briefly and include this analysis in your business plan. If your business already exists, include income statements for previous years in a separate financial history section.

Many business plans tend to show rapid annual growth projections of 30, 40, 50 per cent or more. If this is the case with your plan, provide the basis for your assumptions. In other words, if you say you expect your business to grow by 30 per cent in the first year and by 40 per cent in the second, you need to document why such growth can be attained. It could be because similar businesses have experienced that growth path; because the industry is growing at a specific rate (indicate the source of figures provided); or based on projections from a specific market researcher, industry association or other source.

3.2 Tips for preparing a cash flow sheet

- **Avoid an unrealistically rapid increase** in sales that generate cash. Most businesses experience a gradual increase in sales. A sudden unexplained spike will stand out and will not project a credible appraisal of your business.
- **Include effects of seasonal variations and business cycles** in all cash flow projections. For example, if you are in the commodity business, your cash flow will show peaking values in the first season when the crop yield is higher than the second season. Seasonal variations are particularly noticeable in the agricultural business, in which farmers harvest, sell and earn revenues only once or twice a year.
- **Do not underestimate cash flow needs:** This can lead to under funding, which means that your funds will prove inadequate for meeting your obligations.
- **Avoid large cash flow categories** that are lumped together without backup information about the components. Always provide backup notes for items in the cash flow.
- **Compare planned and actual figures:** Cash flow plans are living tools and must be constantly modified as you learn new things about your business and your customers. Since you will use the cash flow forecast to compare regularly each month's projected figures with each month's actual figures, it will be useful to have a second column for the actual figures alongside each column of the planned figures. As the true strengths and weaknesses of your business unfold before your eyes, patterns of cash movement emerge. Look for significant discrepancies between "planned" and real figures. For example, if the figures of the business fail to meet your cash revenue projections for three consequent months, this is an unmistakable signal that it is time to revise the year's projections. Never leave cash inflow to chance.
- **Using cash surplus:** A cash surplus is a situation when the cash coming into the business exceeds the cash required for covering the expenses of your day-to-day operations. How you handle your cash surplus is just as important as the management of money going in and out of your cash flow cycle. Two of the most common uses of surplus cash are paying off debt and investing elsewhere. Deciding how to use your cash surplus requires some planning and is also part of the business planning process.

- **Improving your cash flow.** Cash outflows and inflows rarely occur at the same time. More often than not, cash inflows lag behind your cash outflows, leaving your business occasionally short of cash. Think of this money shortage as your *cash flow gap*. The cash flow gap represents an excessive outflow of cash that might not be covered by a cash inflow for some time. Although business, large or small, may experience a cash flow gap from time to time, it does not necessarily mean that the business is in financial trouble. Preparing a cash flow budget is the best way to eliminate cash flow gaps in your business. Improving your cash flow means increasing or accelerating your cash inflows or decreasing or delaying your cash outflows. The most obvious measure is to minimize expenses, for example the amount of operating expenses.

**Template
Production and Income Statement
Years ... - ...**

Year of Planting & Variety	Ha	1st Year Yield (Kg)		2nd Year Yield (Kg)		3rd Year Yield (Kg)		4th Year Yield (Kg)		5th Year Yield (Kg)		6th Year Yield (Kg)		... Year Yield (Kg)	
		per Ha	Total	per Ha	Total	per Ha	Total	per Ha	Total	per Ha	Total	per Ha	Total	per Ha	Total
Planted in year 1															
Product a															
Product b															
Product c															
Product d															
Total Production Grade 1 (Kg)															
Total Production Grade 2 (Kg)															
Income Grade 1 @ US\$/Kg															
Income Grade 2 @ US\$/Kg															
Planted in year 2															
Product a															
Product b															
Product c															
Product d															
Total Production Grade 1 (Kg)															
Total Production Grade 2 (Kg)															
Income Grade 1 @ US\$/Kg															
Income Grade 2 @ US\$/Kg															
Planted in year 3															
Product a															
Product b															
Product c															
Product d															
Total Production Grade 1 (Kg)															
Total Production Grade 2 (Kg)															
Income Grade 1 @ US\$/Kg															
Income Grade 2 @ US\$/Kg															
Planted in year ...															
Product a															
Product b															
Product c															
Product d															
Total Production Grade 1 (Kg)															
Total Production Grade 2 (Kg)															
Income Grade 1 @ US\$/Kg															
Income Grade 2 @ US\$/Kg															
Cumulative Production															
Cumulative Income Grade 1															
Cumulative Income Grade 2															
Cumulative Cultivated Area (Ha)															

**Template
Cash Flow Statement**

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year ...
Inflows							
Investors Contribution							
Capital Loan							
Working Capital - Overdraft							
Cumulative Income Grade 1							
Cumulative Income Grade 2							
Other incomes							
Total Inflows							
Outflows							
Variable Costs							
Cost of planting materials							
Packing Material							
Cost of other inputs							
Annual Organic Inspection Costs							
Post Harvest Treatment							
Labour Wages							
Transportation of Produce							
Utilities							
Transport, Handling & Insurance for Produce							
General transport and allowances							
Staff Welfare, Amenities & Medical							
Tools, implements & protective clothing							
Audit Fees							
Maintenance							
Administrative Expenses							
Communication							
Other variable costs							
Total Variable Costs							
Fixed Costs							
Directors drawings							
Farm Manager Salary							
Other staff Salaries							
Security							
NSSF Contribution							
Stationery							
Other fixed costs							
Total Fixed Costs							
Financial Costs							
Interest on overdraft							
Provision for Income Tax							
Interest on loan							
Repayment of Loan							
Other Financial Costs							
Total Financial Costs							
Capital Expenditure							
Land & Building / Expansion							
Perimeter Fencing							
Plant & Machinery							
Water supply							
Electricity supply							
Effluent Disposal System							
Vehicles							
Office Equipment & Furniture							
Pre operational Costs (Organic Certification)							
Other Capital Expenditures							
Total Capital Expenditure							
Total Outflow							
Total net increase or decrease in cash							
Cash balance begin of the year	-	-	-	-	-	-	-
Cash balance end of the year							

**Template
Profit and Loss Statement**

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year...
Income							
Sale Proceeds (A)							
Expenditure							
Operating Expenses (B)							
Gross Profit (A-B)							
Tax @ 30% on Gross Profit	-						
Net Profit							

Note:

- * Sales proceeds (A) is the cumulative income grade 1 plus 2 stated in the cashflow sheet.
- * Operating expenses (B) is the total of fixed costs, variable costs and financial costs stated in the cashflow sheet.
- * Income from investments in rural areas are exempted from tax in the first year.

**Template
Break Even Analysis**

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year ...
Average Sale Price (A)							
Marginal Cost (B)							
Contribution (A-B)							
Total Fixed Costs (D)							
Break Even Units (E=D/C)							
Break Even Sales (A*E)							

Note:

- * Average sales price (A) is sales proceeds (the cumulative income grade 1 plus 2 stated in the cashflow sheet) divided by the cumulative total production grade 1 plus 2 stated in the Production and Income Statement
- * Marginal cost per kg is calculated by dividing the sum of total variable and fixed costs by the total quantity of produce sold.
- * Total fixed costs are taken from the cash flow.