

## **BDS Market Assessment in the Lenkoran and Massali regions of Azerbaijan**

### **Research Background and Goal**

This multi-service BDS market assessment was initiated and conducted by Mercy Corps (MC) Azerbaijan in November - December 2000 in the Southern part of the country, Lenkoran and Massali regions. The survey aimed to compare and analyze the markets for various BDS and provide information that will help the organization choose on which services to focus the program interventions.

The intermediate information objectives of the research are as follows:

- To understand an overall picture of the BDS markets in the area
- To assess the current usage, including awareness, reach and retention of various business services by MSE
- To describe the main consumer segments for BDS in general and specific business services
- To identify specific demand for services and opportunities for commercial service provision
- To help design market development interventions for one or several BDS markets.

Before the survey design, the MC team talked to some local NGOs providing BDS, international programs, business associations and business people in order to get a preliminary understanding of the status and issues in BDS markets in the target area. Consequently, a list of 12 strategic BDS was developed for the research:

- Veterinarian Services
- Production Technology Advice
- Quality Improvement Advice
- Product Development Advice
- Transportation & Distribution
- Advisory in Business Planning and Management
- Marketing Strategy, Information and New Opportunities
- Advertising
- Bookkeeping & Accounting
- Legal and Tax Services
- Advisory in Financial Analysis
- Information on Credit Sources

All types of businesses that employ not more than 10 people including unpaid family members, in the Lenkoran and Massali regions, were eligible for the survey. Respondents were the owners, who in fact used to manage a business, so that they had a reasonable knowledge of the use and expenditure on business services. The survey was carried out in the selected areas that have been chosen because they are reasonably representative of all areas in Lenkoran and Massali.

As a result, 120 entrepreneurs were surveyed, 59% of whom are engaged in agriculture & livestock and agro goods retailing and another 41% in small-scale production, common goods wholesale and retail businesses. The number of MSEs chosen from each group is proportional to the number from that group in the overall MSE population, thus the sample represents the overall MSE population.

Women representation in the survey comprises 33%. Where 47% of women were engaged in the agriculture, food & livestock production and retail and the remaining women were split evenly between the common goods production, retail and services sector. Approximate 35% of the businesses interviewed rely only on the labor of one or two family members and 60% had one or two non-family employees.

After the survey, the researchers examined the demand for key business services from key consumer segments through focus group discussions. With this tool, the research team better understood the range of ways in which consumers experience the use of business services. The focus group discussions explored how consumers perceive, choose and value BDS.

***Assessment of the Current Usage for Various BDS***

The current tool employs a comparative analysis of the markets for 12 strategic business services and will help Mercy Corps in Azerbaijan choose on which services to focus more in depth survey and further design the program interventions. The research team based upon the following criteria did the services selection:

- How effective the market is for each service including awareness, reach and retention
- What MSEs these types of BDS target
- What providers exist for each service
- What the potential is for expansion of each market.

***Awareness, Reach, and Retention***

Table 1 provides the awareness (full understanding of services), reach, and retention ratios for the 12 business services in the target areas.

**Table 1: Awareness, Reach, and Retention of the 12 BDS in the Lenkoran and Massali.**

<b>Service</b>	<b>Awareness (% Aware of service)</b>	<b>Reach (Of those who are aware, % who have tried service)</b>	<b>Retention (Of those who have tried service, % who used it in the last two years)</b>
Veterinarian Services	68.5	32.5	93.6
Production Technology Advice	44.1	27.5	95.5
Quality Improvement Advice	41.6	25.8	90.1
Product Development Advice	56.6	12.5	93.9
Transportation & Distribution	95	39.1	92.85
Advisory in Business Planning and Management	46.6	16.6	74.3
Marketing Strategy, Information and New Opportunities	60.8	22.5	79.5
Advertising	71.6	29.2	72.1
Bookkeeping & Accounting	70	17.5	67
Advisory in Financial Analysis	80	7.5	66.8
Legal and Tax Services	58	10.8	35.2
Information on Credit Sources	30.8	0	0

This information shows that each of the services has its own marketing challenges.

The markets of veterinarian services, production technology, quality improvement and product development advice, transportation & distribution services are quite effective in terms of repeat usage. The retention rate for these services shows that the design and delivery is good and valued by MSEs. However the low awareness for some of them and low reach rates confirm the fact that service providers need to spend the majority of resources on promotion for convincing MSEs to try them.

Although advisory in business planning and management, marketing strategy/information and new opportunities, advertising, bookkeeping & accounting and advisory in financial analysis services also enjoy reasonably high retention rates there is as well opportunities for service quality improvement and awareness raising and trials inducing.

Contrarily, legal & tax and credit information services fail in both service promotion and delivery, therefore a lot more investment and effort is needed for developing these markets.

### ***Service Providers and Consumer Segments***

Though this assessment dose not offer the number of providers for each service, it gives a picture of types of service providers in the market and their relative popularity among MSEs. Table 2 shows the percent of purchasing consumers that use each service through different delivery mechanisms and provides the idea of the characteristics of supply for each BDS market\*.

**Table 2: Types of BDS providers in Lenkoran and Massali.**

Service	% Of consumers using each service		Delivery mechanisms	
	Agro goods producers & sellers	Non-agro goods producers & sellers	Agro goods producers & sellers	Non-agro goods producers & sellers
Veterinarian Services	100	0	Independent vets and vet drug stores (10,000 – 40,000 AzM** fee or in-kind payment, on a credit term, in rare cases group of users practiced)	Not applicable
Production Technology Advice	87.5	12.5	Independent vets (embedded) Vet drug stores (embedded) Input suppliers (embedded) Retired agriculturists (free or in-kind payment) Competitors (free) Journals (irregularly)	Input suppliers (embedded) Competitors (free) Retired or unemployed experts (free or in-kind payment)
Quality Improvement Advice	89	11	Independent vets (embedded) Vet drug stores (embedded) Input suppliers (embedded) Retired agriculturists (free or in-kind payment)	Input suppliers (embedded) Retired or unemployed experts (free or in-kind payment) Customers (free)

\*Because of the fact that a majority of the population in Lenkoran and Massali are engaged in the agricultural activities, consumers were divided into two segments, agro goods producers & sellers and non-agro goods producers & sellers.

\*\*\$1 = 4,720 AzM (Azerbaijan Manat - local currency)

Product Development Advice	92	8	Independent vets (embedded) Vet drug stores (embedded) Input suppliers (embedded) Retired agriculturists (free or in-kind payment) Resellers (embedded)	Input suppliers (embedded) Retired or unemployed experts (free or in-kind payment) Resellers (embedded) Customers (free)
Transportation & Distribution	96.7	3.3	Truck owners and resellers (embedded in the price of goods, group of users practiced)	Input suppliers (embedded), truck owners (10,000 – 20,000 AzM per 10 km)
Advisory in Business Planning and Management	3	97	International programs (ACDI/VOCA) Local NGOs, Credit Unions (wide range of fees)	Local NGOs, Free-lance accountants (wide range of fees), credit institutions (embedded)
Marketing Strategy, Information and New Opportunities	88.75	11.25	Truck owners and resellers (embedded in the price of goods)	Input suppliers (embedded) Customers (free) TV & advertising (free)
Advertising	62.6	37.4	Word of mouth Truck owners and resellers (embedded in the price of goods)	Input suppliers (embedded) Word of mouth TV & advertising (free) Signboard producers (20,000 – 150,000 AzM)
Bookkeeping & Accounting	7	93	Free-lance accountants (50,000 – 100,000 AzM)	Free-lance accountants (50,000 – 100,000 AzM)
Advisory in Financial Analysis	5	95	Free-lance accountants (embedded)	Free-lance accountants (embedded)
Legal and Tax Services	0	100	Free-lance accountants (embedded)	Free-lance accountants (embedded)
Information on Credit Sources	0	100	Not applicable	Credit institutions (embedded or free)

So the information presented in Table 2 helps us find out the percentage of each market that is fee-for-service, embedded services and free services and this will help determine the type of program that might be useful in each market.

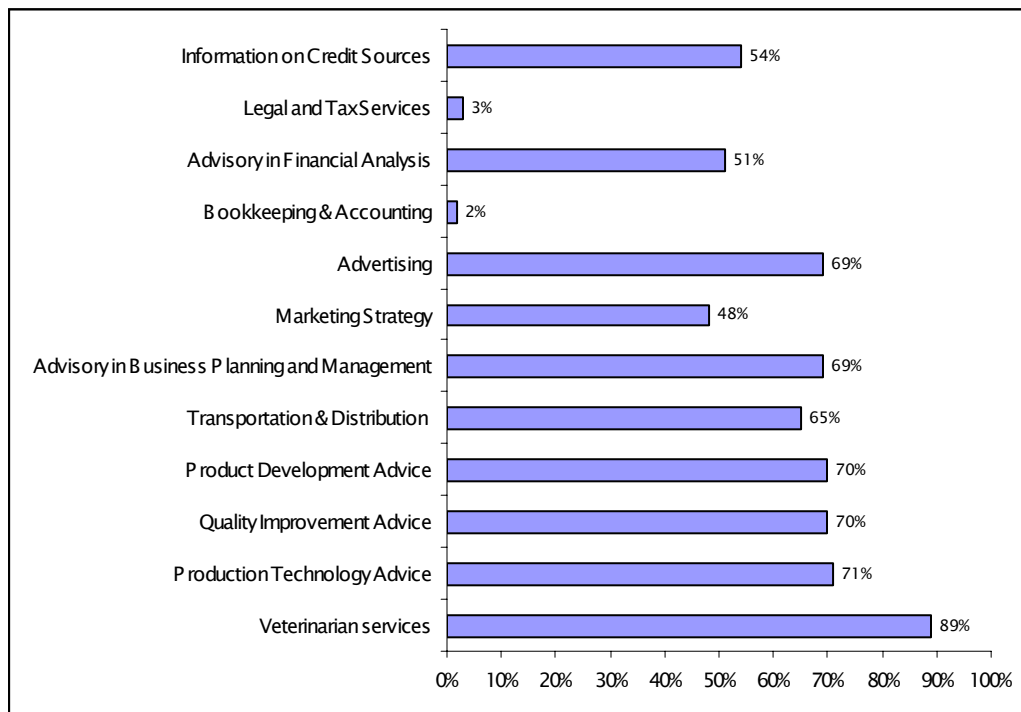
From this table we can see that the embedded service delivery habits are the most popular way for the entrepreneurs to acquire services, so the program may use this strategy to stimulate the supply

of embedded services. In case of the markets for the veterinarian, bookkeeping & accounting, transportation & distribution services, the program may focus on fee-for-service schemes.

### ***Market Potential***

In order to identify which markets have potential to expand the research team relied on the MSEs opinions about service usefulness and the possibility of acquiring them in the future. In this survey, the measure of the potential for market expansion is the percentage of entrepreneurs that said the service is important for their businesses but who have not yet acquired it. Figure 1 shows the results of this analysis.

**Figure 1: Potential for Expansion of BDS Markets in Lenkoran and Massali**



Hence this analysis provides us with a basis for choosing the service markets on which to focus. The analysis indicates that veterinarian, production technology, quality improvement and product development advice, transportation & distribution, advisory in business planning and advertising are the BDS markets with the most potential for expansion in Lenkoran and Massali.

### **Recommendation**

The research team strongly recommends Mercy Corps in Azerbaijan to focus a more in depth survey and design the program interventions around the veterinarian and production advice (embedded with vet service) services market based upon the following reasons:

- The market for this type of service has most potential to expand
- A nature of a vet service allows focusing on the specific growing sectors in the target area, animal husbandry and poultry production, so that not to dilute the program effectiveness
- A nature of a vet service allows by default developing a supply for embedded production technology advice services for animal breeding and poultry businesses.

## **Key Informants Survey on the Use of Veterinarian and Production Advice Services in the Lenkoran and Massali regions**

This key informants survey for the vet and production advice services was initiated in November 2001 based upon the results of the BDS market assessment conducted by MC Azerbaijan in December 2000 and to better understand the market for these two particular services. The market for the vet and production advice services was chosen because of the following reasons:

- The market for this type of services has most potential to expand
- The services target the MSEs constraints that were identified as most important
- A nature of a vet service allows focusing on the specific sectors in the target area, animal husbandry and poultry production that have a potential for growth thus fueling demand for services what will ensure the highest program impact
- A nature of a vet service allows developing a supply for embedded production advice service (breeding and feeding techniques) for animal husbandry and poultry businesses, what ensures effective allocation of the program resources for developing the markets of both related services.

The survey serves as well as a respond to the IGP BDS RFA 2002 issued by the USAID Microenterprise Development Office and is the foundation for a competitive proposal.

The intermediate objectives of this survey were as follows:

- To present a clear picture of the market for the vet and production advice (embedded with vet service) services, including market size, penetration, trends, customer purchase habits and satisfaction, key reasons for purchase and non-purchase
- To pinpoint key weaknesses and opportunities in the market for these services
- To help design program interventions for developing the market for the vet and production advice services.

In parallel with the survey, a rapid subsector assessment was carried out to identify growth potential of the animal husbandry and poultry production activities. During the survey 100 farmers were participating in the group discussions, which employ less than 10 people including unpaid family members.

This sample size of 100 represents approximately 10,025 farmers that do animal husbandry and poultry business for the commercial purposes. For this population, the sample yields a 95% confidence level and a margin of error of +/- 10%. The women representation in the survey makes 45%, which is proportional to the total population.

The survey was also complemented by the focus group discussions with the service providers to reveal a number of players in the market and identify opportunities for the supply-side interventions.

### ***Understanding the Overall Market***

This analysis will provide an overall picture of the market, including the size, penetration and amount spent on the services.

### ***Service Description***

The veterinarian services comprise of animals disease prevention and treatment measures. The disease prevention mostly means appropriate care for animals including vaccination, vitamin and feed nutrition, regular animals examinations, using proper breeding techniques and following basic animal hygiene rules. The treatment services consist of surgery and therapy. A nature of the vet service allows targeting specific industries that are animal breeding and poultry production businesses. The service ensures more productive and quality animal breeding and poultry production at the cost of possible losses from animals' deceases and deaths.

The veterinarian services are also a substantial part of the production technology for animal breeding and poultry. Therefore, all the vet service providers are the very experts in animal breeding and poultry production technology. As a result, most of them by default along with the vet services offer production advice in an embedded manner as a means to build relationships with customers and sell more vet products.

### ***Market Target and Amount Spent on Services***

Lenkoran and Massali have been identified as regions having economic potential, especially in the agricultural sector, according to the USAID Country Strategy. The World Bank Poverty Assessment identifies agriculture as the most important sector of the economy in terms of both output and employment. In the target area industrial production is the lowest in the country, placing a greater emphasis on agricultural activities. Government statistics show that the market for animal products has increased over the last three years and promises to continue growing. The government of Azerbaijan since 1994 has abolished eight kinds of taxes in order to stimulate the agricultural sector.



Over 68% of the target population lives below the national poverty line.<sup>1</sup> While the per capita GNI in Azerbaijan is \$630<sup>2</sup> (\$52 a month), the average income of the proposed clients is just \$34<sup>3</sup> a month, or 54% of the national average. The remote mountainous villages in this area also suffer from the second highest child mortality and morbidity rates in the country. Of the estimated 10,025<sup>4</sup> commercial livestock and poultry producers, 45% are women primarily involved in poultry production according to the regional statistics department. Of this 45%, only 5% are able to access veterinarian services due to cultural restraints regarding women contacting men directly. Based on the survey, more than 7,000 proposed farmers in the area have not accessed appropriate veterinary and production advice services for their animals.

Livestock and poultry producers face significant income loss not only through a high percentage of animal deaths from disease, but because astonishingly high percentages of the meat they produce is rejected as unhealthy by the State Animal Disease Control Department. According to available statistics and site visits, less than 5% of the businesses active in the area qualify as small and medium enterprises, average number of employees for small farmers in these businesses is 6 people including unpaid family members

The targeted economic sectors are considered to be fast growing industries in the area and in the country as well what is confirmed by the government statistics. Table 3 shows the dynamics of the meat (animal and poultry) production sector in Lenkoran and Massali.

<sup>1</sup> World Bank, "Azerbaijan at a Glance," 2000.

<sup>2</sup> Ibid.

<sup>3</sup> This number extrapolated from government annual sales figures for 2000.

<sup>4</sup> Farmers engaged in animal husbandry identified through Mercy Corps' survey, 2000 and 2001.

**Table 3: Annual meat production and sales volumes in Lenkoran and Massali**

Year	Meat production (in slaughtered weight), tons	Meat sales in US\$	Sales trends in percentage (1998 as a base year)
1998	3,302	6,982,165	100%
1999	3,453.4	7,272,966	104%
2000	4,001.3	8,158,157	117%

The survey with the regular service users revealed that the MSEs engaged in the stated sectors spend on average \$5.3 per month on the vet service (not including a cost of medicine) and get embedded production advice when necessary. Comparing the average monthly spending \$5.3 on the service with the average monthly sales \$68 (\$8,158,157 divided by 10,025 and 12 months) we can see that it approximates 7.8%. This figure gives us a clear indication of the service importance to MSE.

#### ***Market Size and Penetration***

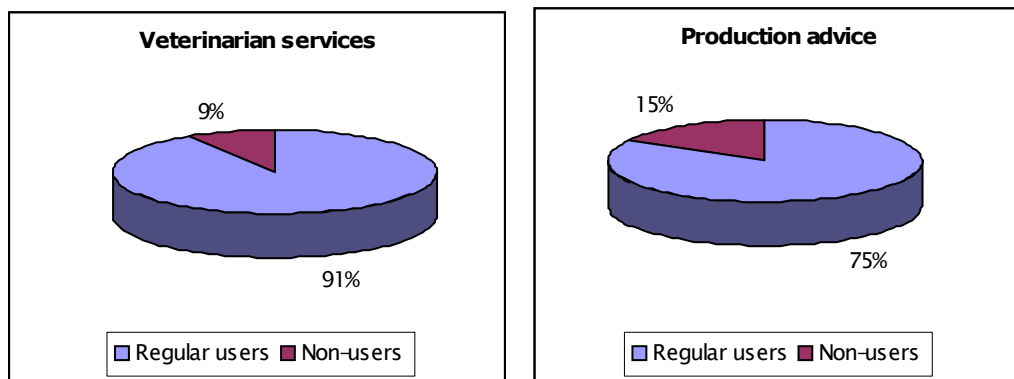
Using the usage data (see below Awareness, Reach and Retention), we can estimate the market size in both monetary terms for the vet service and scale of reach for the embedded production advice. Table 4 displays the estimation of the market size both for the vet and production advice services.

**Table 4: Vet & production advice services current Market Penetration**

Calculation	Veterinarian service	Production advice service
% Of business engaged in animal breeding and poultry	21%	12%
Multiplied by the total number of businesses engaged in animal breeding and poultry	10,025	10,025
Multiplied by average amount spent on service per month	\$5.3	Embedded service
Multiplied by months in a year	12	Not applicable
Estimated market size and scale of reach	\$133,894 overall spending per year	1,203 businesses access production advice services

As the survey included a random sample of all the businesses in animal breeding and poultry employing less than 10 people it is possible to calculate the market penetration. For the vet and production advice services the market penetration makes 21% and 12% accordingly. Taking into account that 89% and 71% of entrepreneurs who have not yet acquired the vet and production advice services accordingly after a bit explanation said the services could be important for their businesses, we can estimate the potential for market expansion. Figure 3 shows the potential market expansion for the vet and production advice services.

**Figure 3: Potential for market expansion of the vet and production advice services in Lenkoran and Massali.**



If we express the potential for market expansion in monetary terms and scale of reach it will make 9,123 businesses purchasing vet services with \$580,222 overall spending per year and 7,518 businesses accessing production advice services on a regular basis.

***Awareness, Reach and Retention***

These analyses reveal the level of demand for the vet and production advice services. Table 6 provides the awareness, reach, and retention ratios for the vet and production advice services in the target areas.

**Table 6: Awareness, Reach, and Retention of the vet and production advice services in the Lenkoran and Massali.**

Service	Awareness (% Aware of service)	Reach (Of those who are aware, % who have tried service)	Retention (Of those who have tried service, % who used it in the last quarter)
Vet Services	68.5	32.5	93.6
Production Advice	44.1	27.5	95.5

Based on the information presented in the table we can see that only 32.5% and 27.5% of those who are aware of the vet and production advice services have tried them accordingly. In addition, the awareness rate shows that not all of the MSEs are familiar with the services, although the retention ratio demonstrates that the services are good because almost all of those MSEs who tried them once became regular users. Also the survey explored that not withstanding the fact that women comprise 45% of the market target only 5% of them access the vet and production advice services.

The focus group discussions with the farmers who have not yet acquired the services shed a light on the reasons for these numbers:

- ⇒ Consumers do not fully understand benefits of the regular vet care for animals
- ⇒ Consumers do not always have capacity to pay for the vet service up front and as a result do not reach the service and lose access to the production advice
- ⇒ Consumers located in the remote areas are not always attractive for the service providers
- ⇒ A culture of the local environment dose not allows women to directly contact the service providers – all the services suppliers in the area are men.

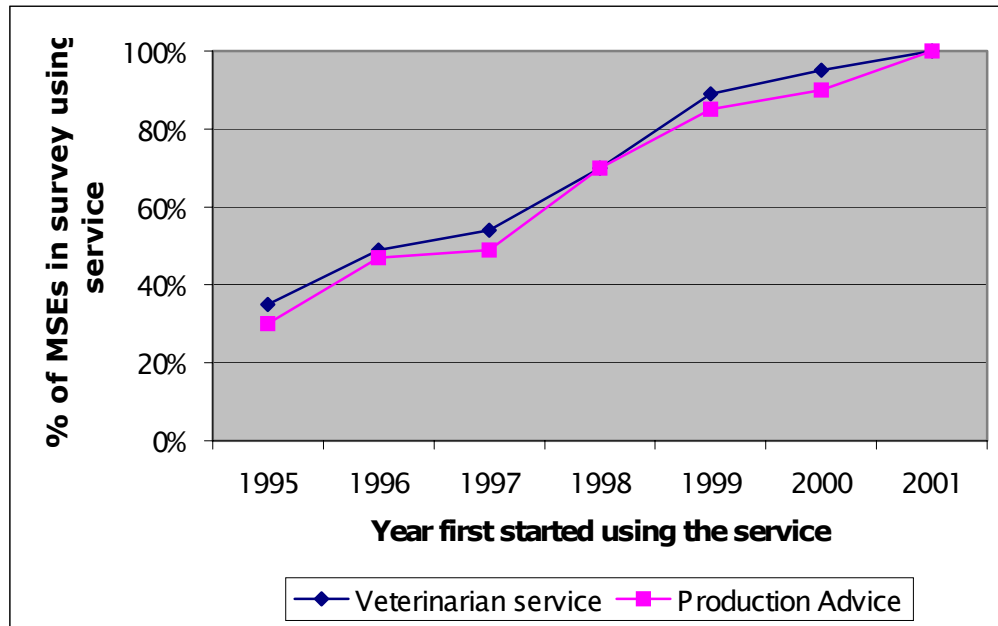
Although a study of the service providers explored that service provision happens on a credit term and sometimes for in-kind payment, the potential consumers are not aware of these payment options. This leads to another constraint, which is on the supply side of the market:

- ⇒ Service providers have poor promotion and marketing strategies.

***Understanding Rates for Consumer Adoption***

During this survey, the research team asked those MSEs who became regular users when they started using the services. Based on the collected answers a graph was developed that plot when users began using the services and demonstrate how fast consumers adopted the services. Figure 4 shows the consumer adoption rate.

**Figure 4: Consumer Adoption for the vet and production advice services in Lenkoran and Massali**



From this graph we can see that it takes a while to adopt the services among the consumers what actually confirms our conclusions from the awareness and reach analysis – an effort should be put into the services promotion to increase demand faster.

**Services Analysis**

This analysis will help understand the level of customers satisfaction, key reasons for purchase and key factors in competition. As well this will provide a clear idea of problems on the supply side of the market and identify opportunities for service providers to increase the sale of services.

**Service Providers**

At present, there are 119 veterinarians in the Lenkoran and Massali regions most of whom used to work for the state centralized agricultural farms and became unemployed after the collapse of the Soviet Union. Currently 101 of them independently provide services to the private animal husbandry and poultry businesses on a fee basis that turned out to be their primary source of income. Together with the vet services they supply advice on the production technology. Another 18 people operate their own vet drug stores providing production and disease prevention advice bundled with the sale of vet medicines, but these service providers do consider their drug stores to be a core business and do not provide any treatment and disease prevention (vaccinations or control examinations) services. In addition, there are State Animal Disease Control Departments in each of the regions mainly controlling quality of the sold meat in the retail outlets and providing state mandatory vaccinations to the area animals.

**Analyzing Service Benefits and Features**

The focus group discussions with the regular service users got exposure to key reasons for purchase and the service features that are determined as most important for benefiting the businesses and level of the consumers’ satisfaction with these features.

Hence the results of the discussions show that the farmers are looking for two business benefits from the vet and production advice services:

- To improve productivity of the businesses (animal breeding and poultry farms)
- To maintain the quality of production output (animals and poultry)

The farmers recognized that the vet and production advice services provided them currently offer an advantage in an increasingly competitive market and meet their requirements. This bit of qualitative information combined with the retention ratios from the awareness survey demonstrates that the existing service providers have sufficient technical capacity to help farmers solve their problems.

The focus group discussions also provided two types of information that help analyze service features. Below is a table that shows how important various features are to them and their satisfaction rating with these features.

**Table 7: Importance and Satisfaction Data on the vet and production advice services' features**

Service Features	Importance, % of users who identified that the features are very important	Satisfaction, % of users who identified that they are satisfied with these features
Payment options	100%	94%
Service package	98%	59%
Consistency	98%	51%
Distance from business	63%	45%
Friendly attendance	49%	45%
Privacy	43%	15%

Payment options	Different payment mechanisms for the services offered by the local providers except up front cash payments, which are on credit and in-kind payment;
Service package	Availability of a wide range of drugs and facilities with the service providers at the moment of service delivery;
Consistency	Accuracy in delivering a service on a timely manner, often agreed upon;
Distance from business	Close proximity to the business;
Privacy	Confidentiality of the information gained as a result of the professional activity;
Friendly Attendance	Nice welcome.

To analyze the data, we will use Table 8 that will plot the features by the level of importance and satisfaction rating in a right sequence.

**Table 8: Analysis of vet and production advice services in meeting customer demand for service features.**

	High Satisfaction	Low Satisfaction
High Importance	Payment options	Service package Consistency
Low Importance	Distance from business Friendly attendance	Privacy

Table 8 represents how the service providers do in satisfying the customers' demands for service features. This shows that the service providers do a good job in offering a wide range of payment options and the entrepreneurs value this feature. At the same time the farmers are not satisfied with the features of package and consistency of service provision that they demand very much. The features of distance from businesses, friendly attendance and privacy are not important to

them thus there is no use of investing into their development. Using this table a single service provider can improve the appeal of his service relative to other competitors. So based on the aforementioned, we found another supply side constraint:

⇒ Service products lack the features that consumers want (Service package and Consistency).

As a final stage of this survey, a focus group discussion with the service providers was held. During this discussion, the service providers were introduced to the survey findings and were invited to provide their ideas with regard to this. As a result, the participants admitted the earlier mentioned constraints and made a point that although they are technically strong and experienced in vet and production technology they lack skills and knowledge to appropriately perform their businesses. This exposure is another problem on the supply side of the market:

⇒ Service providers lack business skills to develop and market the service products.

### **Subsector assessment**

Through the subsector analysis Mercy Corps identified the critical constraints MEs face along the market chain that hinder improved business performance. In Figure 5, the subsector has three sales channels: intermediary sellers, regional bazaars, and local restaurants. They account for 55%, 20% and 25% respectively of sales. Intermediary sellers move the product to the capital Baku to processors or urban bazaars. Mercy Corps identified that one of the constraints lies in the difficulty of selling to regional and local bazaars, a constraint resulting in lower sales prices. In addition, MEs experienced lower profitability due to animal deaths and diseases and poor feeding and breeding practices. The analysis revealed that the veterinary and production advice services had the greatest potential for positively addressing the constraints that will boost all stakeholders in this subsector.

Veterinary and production advice services by nature contribute to the meat production industry including large and small animal breeding and poultry. This industry is considered to be fast growing in both the target area and the country as confirmed by government forecasts.

