Module for

"Marketing and Business Development with Producers' Institutions"

Sahjeevan, Kutch Nav Nirman Abhiyan & SJS (KMVS)

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SESSION: 1

INTRODUCTION AND GOAL SETTING

SESSION OBJECTIVES

The main objectives of the session are:

1. Getting to know each other

2. To get familiarized with the training schedule and the manual

3. To come out with views on livelihoods, poverty, collective action and institutions

4. To assess the basic understanding of the participants on institutions and livelihoods

DURATION: 1.5 hours

METHOD: Micro lab Technique

FACILITATION TIP:

Introduce yourself – Name, occupation and purpose of forming this group. Ask participants to form a circle and walk in the circle Tell them to stop and form small groups of 4 each after few rounds and ask them to introduce themselves to each other. The introduction includes personal information, occupation and experience in livelihoods. Then ask them to get into the bigger circle and walk / run for a few minutes. Ask them to stop, form a new group of 5 each and tell others what are the livelihoods that exist in their respective places. Ask them to get in to the bigger circle and walk/run for a few minutes. Ask them to stop, form a new group of 6 members each and tell others about success /failures in community based collective institutions or collective efforts in livelihoods promotion in their respective work areas.

EXERCISE

Ask the participants to fill the baseline form in this manual. This form will help the trainer to understand the present knowledge levels. Also it should help trainer to elicit active participation of participants based on their experience and skill sets. A thorough analysis of the baseline information may sometimes lead to change in the session schedule that a good trainer should be able to accommodate.

SHLOKS SOJOURN

On a trip to his ancestral village Shlok, a convent educated Chennai resident, wrote his observations in to a story. While his observations of rural people and their choices are very sketchy they seem to offer some profound insights on the way consumers make choices. Just from the city he took some time to settle in the village environment. But soon Shlok had his own set of friends. His cousins Lakshmi and Raghu offered themselves to take him around the village. Soon there were a lot of stories to be shared with each other.

As they went around the village Shlok noticed that his own cousins loved to buy local eateries rather than the branded chocolates and biscuits which he buys in the city. While Cadburys and Britannia were available he noticed that only low end products priced low are available at the village. While he tried to explain the products he is familiar with like Celebrations, Fruit & Nut and Crackle little could his cousins understand them. Lakshmi could only say well since my father earns less they could only afford to buy these local eateries which are tastier and fresh rather than those packed and costly items.

While his first day went off in making new friends and getting to know the village, the second day began with full of energy. As he got up to go through the daily chores early in the morning, much earlier than he usually gets up at his home in Chennai, he noticed that his grandfather was brushing his teeth with a neem branch. He thought to himself that his toothpaste which is colourful and tasty is much better. But when he asked his grandfather he said that you youngsters end up having tooth problems only because you use the toothpaste. Neem is a traditional, natural and antiseptic medicine which cleans the tooth better than any of the brushes and tooth paste of Colgate.

Shlok could figure out that what his grandfather says is really true but in the place where he lives he hardly sees neem trees and they are neither sold in the malls where he buys his toothpaste.

Early in the day he gets to eat freshly prepared breakfast which he thought is too heavy. Seeing his cousins eating to their full stomachs he was ashamed at his capacity to eat. Lakshmi who sat next to him could eat 5 Dosas and have one big glass full of fresh cream milk. To his surprise he was hardly able to eat 2 dosas and had requested to reduce the quantity of milk. His aunt was coaxing him to complete the entire thing. He discovered that the milk he drank was tastier and that the milk has been freshly milked from the cow in the morning. He wondered that the packed milk he drinks must be at least 3 days old before it reaches the city.

Lakshmi also shared that from the milk lot of cream comes from which her mother prepares ghee to be used in Dosas. While he also wondered if life was like this in his city but quickly realized that to take care of cows his aunt works very hard while both his parents are working and leave for office along with him and come back late in the evening.

The next day he thought he will go to the village movie hall. His grandfather is well respected individual in the village not only for his wealth but for the fact that he is village elder and he helps a lot of villagers. As his cousins and he entered the theatre the owner recognizes Lakshmi and ensures that they get the best seats in the theatre.

During the interval the owner sends the refreshments to their seats even without asking for it. Shlok realized the importance his grandfather family has in the village. The products he got to eat were served wrapped in newspapers he wondered if the hygiene was maintained in preparing the product.

But Lakshmi asked him to forget about all those attractive packs of snacks in urban areas and rather eat the hot and fresh Bajjis. On his way back home he wondered seeing a movie in Chennai to be a very tough and tiring work. His parents had to book through either internet or through many of those call centres which offer film tickets at premium. To pick those tickets he usually had reach to theatres ahead in time while his parents would join him directly from their respective offices. They are forced to have dinner out at the end of day and reach back home spending at least Rs 1,500 for three of them. At village he noticed that his expense was almost zero and he was pretty comfortable in watching the movie. Of course he was slightly uncomfortable with the seats and the neatness in the theatre.

Few days later there was a mela in the village and his cousins and he went out to see it. He noticed Lakshmi experiments with several things like playing new games in mela, going on horse ride and playing the giant wheels while he was not so keen on all those things. He was more willing to enjoy by seeing what was all happening.

He also noticed that his cousins would bargain the lowest price possible from the shopkeepers while he hardly knew to negotiate with traders. At Chennai he only had the habit of buying the products at fixed prices and at MRPs. On their way back Lakshmi suddenly wanted to go back to mela as she had forgotten to pay the fruit custard fellow after having it. He was happy to note the truthfulness in Lakshmi in paying the money while he would have rather not taken the pain to go back as that would mean travelling back through the busy roads of congested Chennai.

The next day Shlok showed his video games and electronic gadgets he had acquired. His cousins had least knowledge on these products and they were never exposed to these things.

They were surprised at the cost of these games. Lakshmi wondered that may be since Shlok is alone he requires these products to provide company while she lives in a village and has lot many things to play with and friends to go around. Nevertheless once she understood the games she also aspired to buy one such game. But Shlok gifted her some games right away.

She was more than happy. But in the next few days Shlok noticed that Lakshmi and his cousins were hardly interested in these games which are played before screens and rather preferred to go different places across the village. They would prefer to swim in the local pond which Shlok was rather shy and afraid of playing with.

On a ride on his uncles motor bike he noticed that the bike was not stylish and was basic model of Boxer (Bajaj 100CD) while he thought to himself that he dreamt of having Karizma, Hero Honda the stylish and 150 CC bike. He noticed however that the bike he wanted to buy would not run on the roads of village for long and would not be useful to carry the entire load his uncle was carrying on it.

His parents had the latest Santro i10 car and they all these years drop in him in school before going to office and picked him up on their way back home. While he could not notice many cars in the village his grandfather owned a very old white ambassador.

As he left the village he wondered that life in village is as comfortable and luxurious as his life in Chennai city. He also noticed that he has access to fresh vegetables, food products unlike packed stuff of cities. And that his grandfather, uncle and aunt are able to make a living with much lesser money than what his parents spends during the month.

He wondered that Lakshmi life is less of brands, less of colourful packs, less of gadgets and more of utility based things, local products, friends and local games.

Shlok felt that the lifestyle, circumstances, access and many other factors do have a lot to do with the choices we make in life.

SESSION: 2

UNDERSTANDING MARKETING AND MARKETING PROCESSES

THE MARKETING PROCESS

INTRODUCTION

The chairman of one of the world's largest retail groups once said:

"Marketing involves finding out what your customers want and supplying it to them at a profit."

This description stresses the two crucial points that govern marketing:

FIRSTLY, that the whole marketing process has to be customer oriented. Production must supply customers with what they want or need. This is the only reason people spend their money.

SECONDLY, that marketing is a commercial process and is only sustainable if it provides all the participants with a profit.

A more classical definition is:

"The series of services involved in moving a product (or commodity) from the point of production to the point of consumption."

This definition emphasizes that agricultural marketing is achieved by a series of processes. In this we include harvesting techniques, the grading and sorting of crops and the packing, transport, storage, processing, distribution and selling of products. These are the mechanics of marketing.

A broader view of marketing is provided by the following definition:

The series of activities involved in making available services and information which influence the desired level of production relative to market requirements, and the movement of the product (or commodity) from the point of production to the point of consumption.

This definition covers the services which should be covered by the extension officer, such as providing information and advice. This role includes:

1. Finding out what the customer wants
2. Supplying him at a profit
3. collection, evaluation and dissemination of market information;
4. assistance in the planning and scheduling of production;
5. securing the market for producers, e.g. through contracts with buyers;
6. advice on the best practical post-harvest practices;
7. coordination of inputs, transport, storage, credit and post-harvest facilities.

Although this definition is more comprehensive it still only describes the activities involved in marketing. The key activity of an extension officer, or any public servant concerned with improving agricultural marketing, is the commercialization of the rural economy. This involves: finding out what the customer wants and helping to set up the production/marketing system which supplies that demand and maximizes the income of rural areas.

SESSION: 3

BASIC CONCEPTS OF MARKETING

DEFINITION OF MARKETING

Marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others. (Philip Kotler)

Marketing is the analysis, planning, implementation, and control of carefully formulated programs designed to bring about voluntary exchanges of values with target markets for the purpose of achieving organizational objectives. It relies heavily on designing the organization's offering in terms of the target markets' needs and desires, and on using effective pricing, communication, and distribution to inform, motivate, and service the markets. (Philip Kotler)

KEY POINTS

a) Managerial Process involving analysis, planning and control. (The view of marketing as social process is not of interest to us as managers)

b) Carefully formulated programs and not just random actions. (A charity organization sending volunteers out to collect money – this is not marketing, it is selling)

c) Voluntary exchange of values; no use of force or coercion. Offer benefits. (A museum, seeking members, tries to design a set of benefits that are appealing to potential members.)

d) Selection of Target Markets rather than a quixotic attempt to win every market and be all things to all men.

e) Purpose of marketing is to achieve Organizational Objectives. For commercial sector it is profit. For non-commercial sector, the objective is different and must be specified clearly.

What is marketing?

Marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others. (Philip Kotler)

THE MARKETING CONCEPT

The marketing concept proposes that following are the two most important goals.

Attempt to meet consumer needs by delivering that they want

In the process, maximise profit of the business

Thus, the most important principle of marketing is to know your customer.

WHAT IS MARKET-ORIENTED?
"MARKETING...IS THE WHOLE BUSINESS SEEN FROM THE POINT OF VIEW OF ITS FINAL RESULT, THAT IS, FROM THE CUSTOMER'S POINT OF VIEW."

--Peter Drucker

MARKETING FOR SMALLHOLDERS

It is a process whereby smallholders offer their produce for particular market functionaries (who may vary but local trader/ money lender/ commission agent in most of the cases) to get the return to meet their profit expectations. The ultimate reach of the produce is to the final consumers where their consumption needs are met.

In the context, market serves an important institution, the access to and control over of which, influences the livelihood outcomes of smallholders. It spread from the point of local sale to international market. Even if all stages of the value chain i.e. from inputs, production are tied with the marketing process, for specificity, the stages after harvest i.e. processing, value addition, first sale to final sale and price realization can be considered.

MARKETING VS. SELLING

There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy.

All that should be needed then is to make the product or service available.

(Peter Drucker)

	FOCUS	MEANS	ENDS
Selling	Products	Aggressive Selling and Sales Promotion with emphasis on price variations to close the sale. *"I must somehow hook the customer"*	Maximize profits through sales volume
Marketing	Customer Needs	Integrated Marketing Plan encompassing product, price, promotion and distribution, backed up by adequate environmental scanning, consumer research, and opportunity analysis with emphasis on service. "*What can we do that will make us, in the customer's eyes, better than and superior to our competitors.*"	Maximize profits through increased customer satisfaction and hence raise market share.

WHAT WORKS:

ITC'S E-CHOUPAL AND PROFITABLE RURAL TRANSFORMATION

Agriculture is vital to India. It produces 23% of GDP, feeds a billion people, and employs 66% of the workforce. Yet most Indian farmers have remained quite poor. The causes include remnants of scarcity-era regulation and an agricultural system based on small, inefficient landholdings. The agricultural system has traditionally been unfair to primary producers. Soybeans, for example, are an important oilseed crop that has been exempted from India's Small Scale Industries Act to allow for processing in large, modern facilities. Yet 90% of the soybean crop is sold by farmers with small holdings to traders, who act as purchasing agents for buyers at a local, government-mandated marketplace, called a mandi. Farmers have only an approximate idea of price trends and have to accept the price offered them at auctions on the day that they bring their grain to the mandi. As a result, traders are well positioned to exploit both farmers and buyers through practices that sustain system-wide inefficiencies.

ITC is one of India's leading private companies, with annual revenues of US$2 billion. Its International Business Division was created in 1990 as an agricultural trading company; it now generates US$150 million in revenues annually. The company has initiated an e-Choupal effort that places computers with Internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information (choupal means gathering place in Hindi) and an e-commerce hub. What began as an effort to re-engineer the procurement process for soy, tobacco, wheat, shrimp, and other cropping systems in rural India has also created a highly profitable distribution and product design channel for the company—an e-commerce platform that is also a low-cost fulfillment system focused on the needs of rural India. The e-Choupal system has also catalyzed rural transformation that is helping to alleviate rural isolation, create more transparency for farmers, and improve their productivity and incomes.

BUSINESS MODEL

A pure trading model does not require much capital investment. The e-Choupal model, in contrast, has required that ITC make significant investments to create and maintain its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal. The computer, typically housed in the farmer's house, is linked to the Internet via phone lines or, increasingly, by a VSAT connection, and serves an average of 600 farmers in 10 surrounding villages within about a five kilometer radius. Each e-Choupal costs between US$3,000 and US$6,000 to set up and about US$100 per year to maintain.

The farmers can use the computer to access daily closing prices on local mandis, as well as to track global price trends or find information about new farming techniques—either directly or, because many farmers are illiterate, via the sanchalak. They also use the e-Choupal to order seed, fertilizer, and other products such as consumer goods from ITC or its partners, at prices lower than those available from village traders; the sanchalak typically aggregates the village demand for these products and transmits the order to an ITC representative.

At harvest time, ITC offers to buy the crop directly from any farmer at the previous day's closing price; the farmer then transports his crop to an ITC processing center, where the crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee. "Bonus points," which are exchangeable for products that ITC sells, are given for crops with quality above the norm. In this way, the e-Choupal system bypasses the government-mandated trading mandis.

Farmers benefit from more accurate weighing, faster processing time, and prompt payment, and from access to a wide range of information, including accurate market price knowledge, and market trends, which help them decide when, where, and at what price to sell.

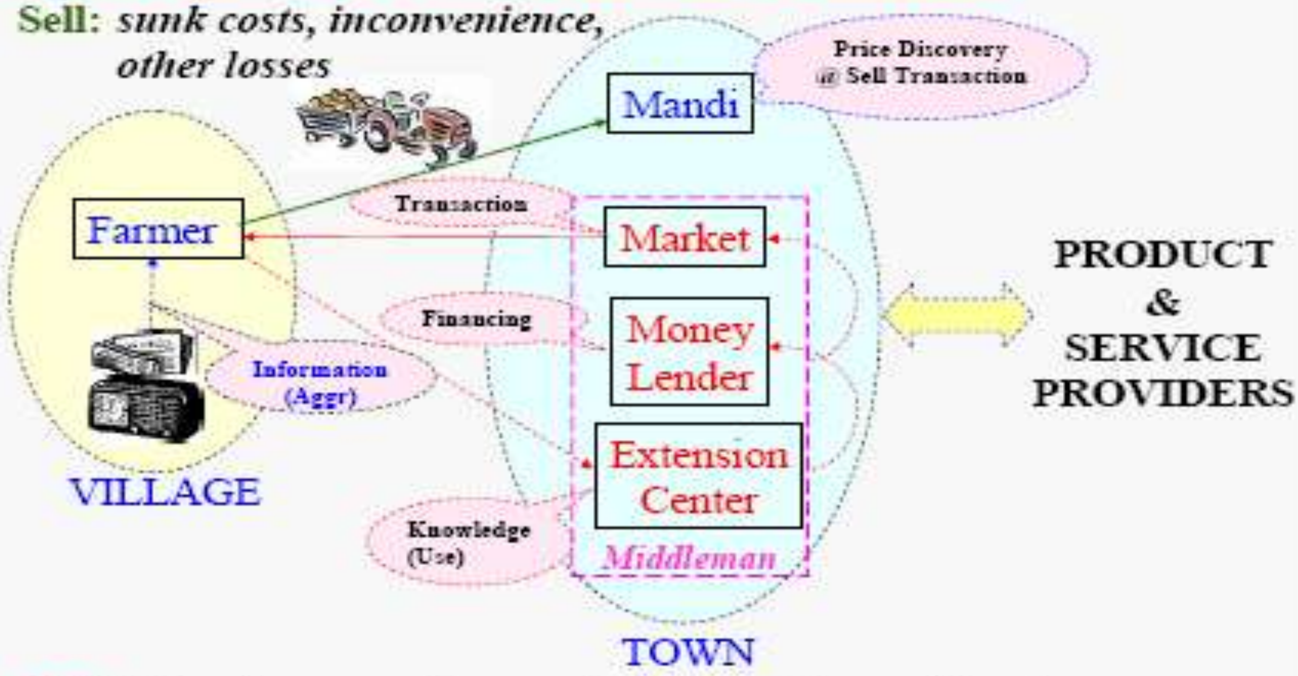
Farmers selling directly to ITC through an e-Choupal typically receive a higher price for their crops than they would receive through the mandi system, on average about 2.5% higher. At the same time, ITC benefits from net procurement costs that are about 2.5% lower (it saves the commission fee and part of the transport costs it would otherwise pay to traders who serve as its buying agents at the mandi) and it has more direct control over the quality of what it buys. The company reports that it recovers its equipment costs from an e-Choupal in the first year of operation and that the venture as a whole is profitable.

In mid-2003, e-Choupal services reached more than 1 million farmers in nearly 11,000 villages, and the system is expanding rapidly. ITC gains additional benefits from using this network as a distribution channel for its products (and those of its partners) and a source of innovation for new products. For example, farmers can buy seeds, fertilizer, and some consumer goods at the ITC processing center, when they bring in their grain. Sanchalaks often aggregate village demand for some products and place a single order, lowering ITC's logistic costs.

The system is also a channel for soil testing services and for educational efforts to help farmers improve crop quality. ITC is also exploring partnering with banks to offer farmers access to credit, insurance, and other services that are not currently offered or are prohibitively expensive. Moreover, farmers are beginning to suggest—and in some cases, demand—that ITC supply new products or services or expand into additional crops, such as onions and potatoes. Thus farmers are becoming a source of product innovation for ITC.

Problems of Rural Indian Farmer

Sell: *sunk costs, inconvenience, other losses*



Buy: *high prices, spurious goods, information not timely*

Root Causes and Implications

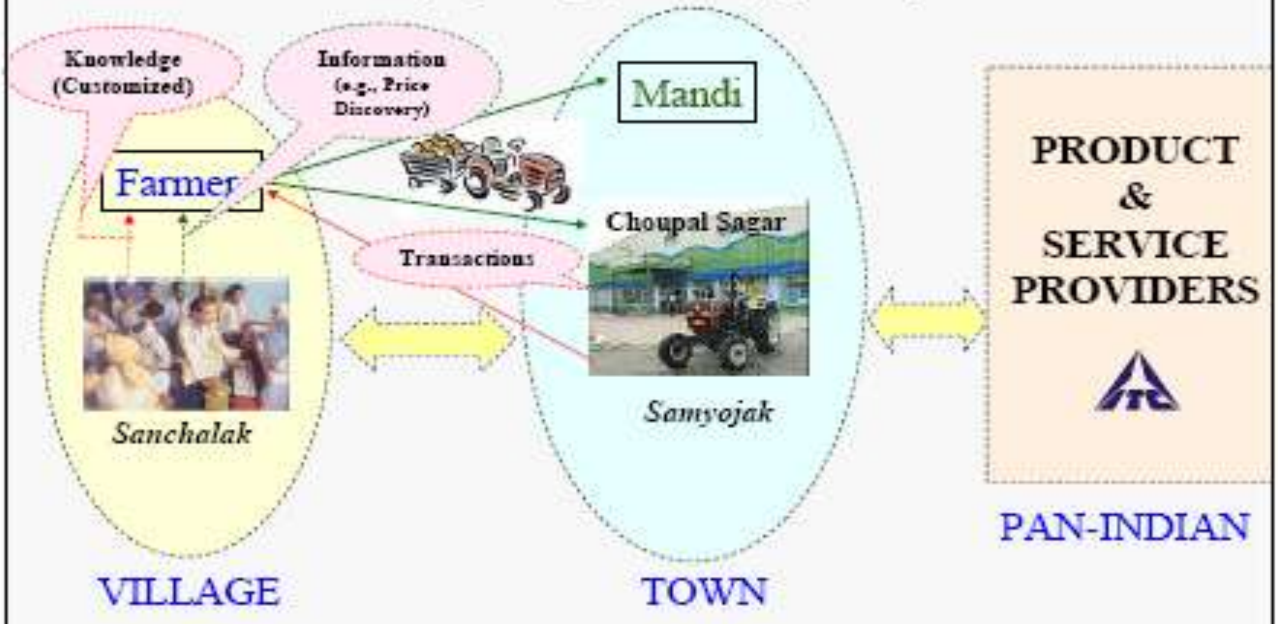
ROOT CAUSES	IMPLICATION
➢ Fragmentation	➢ Weak Bargaining Power
➢ Dispersion	➢ No access to real-time information
➢ Heterogeneity	➢ Need for customized knowledge

CHALLENGE

➢ Weak Infrastructure	➢ Dependence on middlemen (exploitative cycle of dependency)

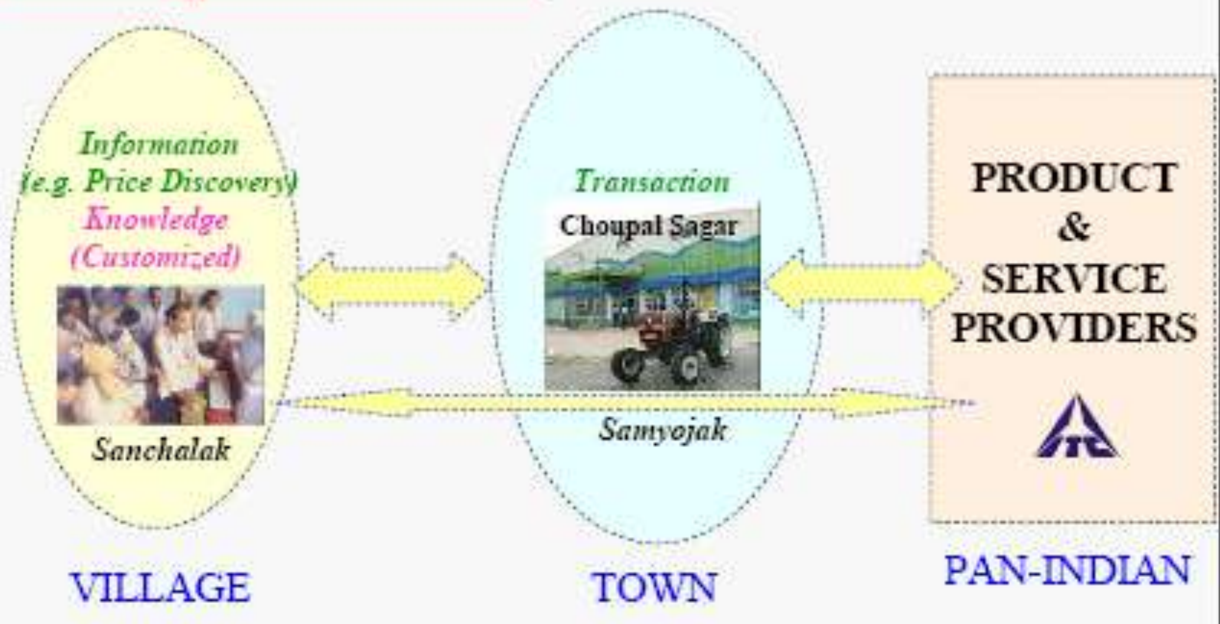
e-Choupal: Rural Indian Farmer

Sell: ***Price discovery @ village, choice, efficiency***



Buy: ***Information + Customized Knowledge @ village, high quality, competitive prices, superior service***

e-Choupal Platform

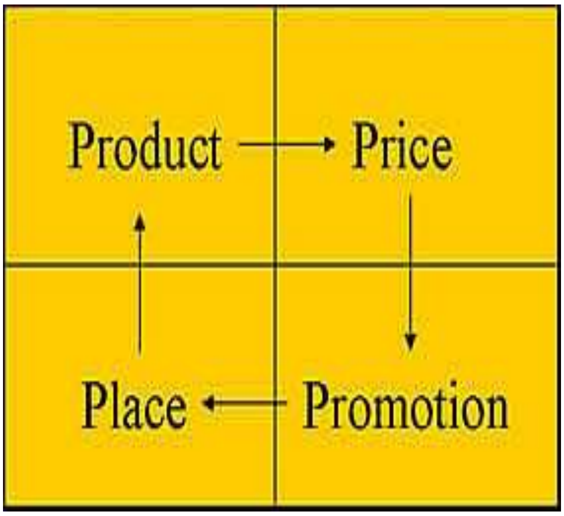


1. Infomation and Knowledge are free
2. Freedom of Choice in Transactions
3. Transaction-based income stream for the ***Sanchalak & Samyojak***

MARKETING P'S

THE MARKETING MIX

As per the discussion and also above mentioned cases, it can be noticed that a marketer mainly come across with four aspects; product, price, place i.e. distribution and promotion. These constitute the core of marketing and traditionally called 4 Ps of marketing.



WHAT IS THE 4 P'S OF MARKETING?

The 4 P's of marketing (also known as the Marketing Mix Model) can be used by marketers as a tool to assist in defining the marketing strategy.

Marketing managers use this method to attempt to generate the optimal response in the target market by blending the variables in an optimal way. It is important to understand that the Marketing Mix principles are controllable variables.

The Marketing Mix can be adjusted on a frequent basis to meet the changing needs of the target group and the other dynamics of the marketing environment.

Product	Historically, the thinking was: a good product will sell itself. However there are no bad products anymore in today's highly competitive markets. Therefore the question on product has become: does the organization create what its intended customers want? Define the characteristics of your product or service that meets the needs of your customers.	Functionality; Quality; Appearance; Packaging; Brand; Service; Support; Warranty.
Price	How much are the intended customers willing to pay? Here we decide on a pricing strategy - do not let it just happen! Even if you decide not to ask (enough) money for a product or service, you must realize that this is a conscious decision and forms part of the pricing strategy. Although competing on price is as old as mankind, the consumer is often still sensitive for price discounts and special offers. Price has also an irrational side: something that is expensive must be good. Permanently competing on price is for many companies not a very sensible approach.	List Price; Discounts; Financing; Leasing Options; Allowances.
Place	Available at the right place, at the right time, in the right quantities? Some of the recent major changes in business have come about by changing Place. Think of the Internet and mobile telephones.	Locations; Logistics; Channel members;; Market Coverage; Service Levels
Promotion	(How) are the chosen target groups informed or educated about the organization and its products? This includes all the weapons in the marketing armory - advertising, selling, sales promotions, Direct Marketing, Public Relations, etc. While the other three P's have lost much of their meanings in today's markets, Promotion has become the most important P to focus on.	Advertising; Public Relations; Message; Direct Sales; Sales; Media.

The function of the Marketing Mix is to help develop a package (mix) that will meet the above-mentioned cardinal goals of satisfying the needs of the customers and maximising the profit of the organization. The concept, strategies and application of these Ps of marketing individually and in an overall manner will be dealt in following sessions.

PRODUCT

WHAT IS A PRODUCT?

CLASS EXERCISE

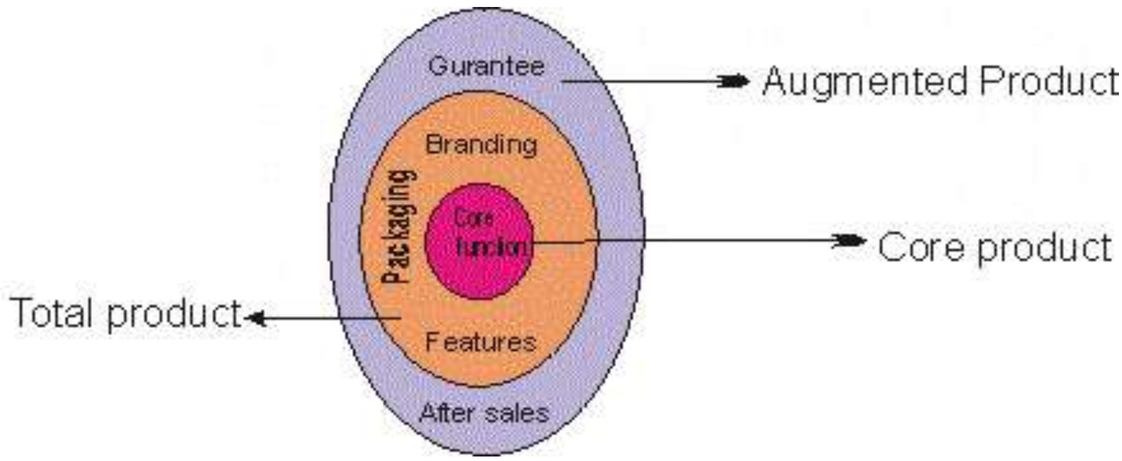
Take an example of a typical village and list different item produced from that village

Paddy	RMP
Maize	Credit by VO
Baskets	Jowar
Mango	Honey
Jaggery	Tomato
Handicrafts	Pickles
Seed	Washing

From the above listing, it is clear that rural producers produce number of items for their livelihood. These items can also be categorized – like into farm based, non-farm based. Some of them are products and some services.

Product is an important mix of marketing and this is something which entrepreneurs need to have to do a business.

A business exists because it has some product, service, or idea to offer consumers, generally in exchange for money. A product is anything that can be marketed and meets needs of customer. For many products strong symbolic features and social and psychological meaning may be more important than functional utility. Advertising plays an important role in developing and maintaining these brands.



Kotler suggested that a product should be viewed in three levels.

***Level 1: Core Product*:** What is the core benefit your product offers? Customers who purchase a camera are buying more than just a camera they are purchasing memories.

***Level 2 Actual Product*:** All cameras capture memories. The aim is to ensure that your potential customers purchase your one. The strategy at this level involves organisation's *branding, adding features* and benefits to ensure that their product offers a differential advantage from their competitors.

Level 3: Augmented product: What additional non-tangible benefits can you offer? Competition at this level is based around after sales service, warranties, delivery and so on. John Lewis a retail departmental store offers free five year guarantee on purchases of their Television sets, this gives their `customers the additional benefit of 'piece of mind' over the five years should their purchase develop a fault.

KEY PRODUCT DECISIONS

When placing a product within a market many factors and decisions have to be taken into consideration. These include:

PRODUCT FEATURES

BRANDING

PACKAGING

LABELING

How will your product or service benefit the customer? Remember that benefits can be intangible as well as tangible; for instance, a processed food, brainstorm as many benefits as possible to begin with, and then choose to emphasize the benefits that your targeted customers will most appreciate in your marketing plan.

BRANDING

Branding is major strategy in a product strategy. A brand is a name, term, sign, symbol, or a design or the combination of them, intended to identify the products or services of one seller or group of sellers and to differentiate them from those of competitors. Thus the brand identifies the seller or marker. Under the trademark law the seller is granted exclusive rights to use the brand name in perpetuity. Brand differs from others assets like patents and copyrights, which have expiration dates. Ultimately the brand resides in the minds of the consumers.

PACKAGING AND LABELING

Packaging implies all the activities of designing and producing the package for a product. Nowadays, many factors are contributing to the growing use of packaging: like Self-service, *company and brand images, innovation for consumers. Apart from branding, products need to be labeled.*

PRODUCT STRATEGIES

When an organisation introduces a product into a market they must ask themselves a number of questions.

Who is the product aimed at?

What benefit will they expect?

How do they plan to position the product within the market?

What differential advantage will the product offer over their competitors?

We must remember that Marketing is fundamentally about providing the correct bundle of benefits to the end user, hence the saying "Marketing is not about providing products or services; it is essentially about providing changing benefits to the changing needs and demands of the customer".

CONCLUSION

Thus product planning involves decision not only about the item itself such as design and quality but also aspects such as service and warranties, brand name and package design. All the above aspects are coordinated to present an image or positioning of the product that extends well beyond its physical attribute. Are not even mentioned most of the times yet the information about the product is communicated effectively.

LIJJAT PAPAD: DELIVERING QUALITY

Following is the quality system in Lijjat Papad as explained by Smt. Jyoti Naik, President, Shri Mahila Griha Udyog Lijjat Papad.

We proudly claim 'consistently good quality' to be our USP. From the moment a new member joins, she is repeatedly told to make quality her mantra. At the training session, BENS are taught to make the 'perfect' Lijjat papad. And every member has absorbed the concept totally.

It is evident in the fact that even without modern machines, every consumer of Lijjat papad, wherever she is, gets the same consistent quality of papad. How? Because every BEN rolls the papad to the same specification and every lot of papad goes through testing.

If we find any BEN becoming careless about quality, we do not tolerate it. We give her a warning, then the option to take up any other work like packaging, testing, etc. and if she still displays a lack of concern for quality, we ask her to leave the organisation.

Out of one kg dough, we must get at least 800 gm (accounting for loss due to moisture, etc), otherwise we cut pay. We get papads for testing from all centres everyday and if we find any deviation from our quality, for example, if the salt is less or more, etc, we immediately intimate that particular centre to destroy the entire lot, even if amounts to a million rupees worth of production.

Out of this strong belief in quality delivered at an affordable price comes our act of ignoring competitors. Lots of companies selling papads have come and gone. We don't consider them, we only do our own thing. We do not take into consideration what the competition is doing.

We know that if our quality is good, consumers will buy. Our quality does not differ whether it is for exports or for the local market. There is just one quality. And that's good quality. Again and again and again!

PRICING

INTRODUCTION

Price, the amount of money that an entrepreneur charges for a product or service, is a very specific P of all marketing Ps for two important reasons. It is the most flexible P of all marketing Ps and it is the only element in marketing mix that produces revenue; all other elements represent costs.

This session addresses following key questions regarding the price.

What is the meaning of price? How to differentiate among price, cost and value

What is the importance of pricing?

How to set price for a particular product/ service? and

What are different pricing strategies?

IMPORTANCE OF PRICING

1. For any enterprise, price is highly important in view of following aspects.
2. Price is a very important determinant of revenue
3. This is generally the first aspect that consumer see in making a buying decision
4. This is also the most important aspect of competitive advantage and dealing with competition.

IMPORTANT ASPECT OF SALES PROMOTION

Even if price is the most important determinant of profit of an enterprise, most entrepreneurs give less attention to it. This happens for the reasons of no clarity on price, cost and value and lack of awareness of different pricing strategies and price fixation methods. Adding to this, generally rural producers get low prices on their products in view of many market imperfections as mentioned in introductory session.

The most common pricing mistakes:
1. Not much cost oriented 2. Not revised often enough to reflect market changes 3. Does not take rest of the Ps into account 4. Not adequately taking competition into consideration 5. No quality consciousness even though it is an important determinant of better price 6. No profit planning for the enterprise 7. Not seen from the view point of value of the consumer

PRICE, COST & VALUE

Along with price, cost and value are the two aspects that an entrepreneur generally comes across. Even these three are interrelated, most of the times, entrepreneurs think one in place for other of these three aspects and not differentiate them. So, it is utmost important that entrepreneurs understand the meaning and differentiate among price, cost and value.

Price, as mentioned above, is what an entrepreneur set to charge from customer. As far as cost is concerned, let's recall the meaning from costing session. Obviously, the price should at least cover all costs (fixed and variable; direct and indirect) i.e. breakeven and start making profits.

CLASS EXERCISE

Consider following example.

For a mango pulp production unit, all fixed costs come to Rs. 3 lakhs and the variable cost per unit (each unit is a 100 gram pack of pulp) is Rs.10. The expected sales are 50,000 units.

In the above case, work out the total cost per unit

Unit cost = VC+FC/unit sales = 16

- In the above example, assuming that the business achieved breakeven volume of sales (i.e. all fixed costs are covered), so as to have a profit margin of 20% and based on competition, the price can be Rs.20.
- This generates an operating profit (profit before taxes, depreciation etc) of Rs.4 per unit sold.
- In fact, price means following for a seller and buyer involved in an exchange:

Buyers' View – price refers to what money must be given up to obtain benefits (of course, to fulfill a particular need)

Sellers' View - price reflects the revenue generated for each unit of product sold and, thus, is an important factor in determining profit (to fulfill the goal of the business).

- So, as far as the value is concerned (which most entrepreneurs are not concerned!), it can be noted that only *price by itself is not the key factor customers consider when purchasing a product*. This is because of the following reasons.
- customers compare the entire marketing offering and not just product's price
- The perceived bundle of benefits that a product offer may also be different from marketer's point of view (refer to customer satisfaction and product utility from previous sessions).
- Even if price is reasonable, the product may not be available in right time and right place
- Advertising and product promotion greatly influence customers buying decisions.
- Remember, value is the perception of the consumer and not necessarily rational and objective. In fact, most of the times, non-price factors like

prestige, psychological, celebrity etc operate. Thus, the perceived value differ from consumer segment to segment, from product to product and from time to time for the same product. Sometimes, customers may value the product less than the set price also. Thus, while making pricing decisions, marketers should also consider the value from customer's point of view.

Thus, value refers to the perception of benefits received for what consumer must give up. Since price often reflects an important part of what someone gives up, a customer's perceived value of a product will be affected by a marketer's pricing decision.

$$\text{Value} = \frac{\text{perceived benefits received}}{\text{perceived price paid}}$$

Just like marketers are profit maximisers, customers are value-maximisers. Particularly, in this era of plethora of offerings, they choose those products, which offer them maximum value.

DISCUSSION QUESTION

Take an example of high quality-high value product (like packed ready-to-eat organic vegetables for elite customers) and discuss on following aspect.

Marketer's profit and customer's value are at trade-off with each other. In the above example, discuss, what vale has to be generated, what profits have to be achieved and how to balance these two so as to achieve the marketing ultimate purpose of *generating customer value profitably*.

PRICE SETTING METHODS

In the above mentioned example of a group involved in mango pulp making, what price they have to set on the product. Is cost the only consideration in setting the price? Like in this case, how to set price for a product or service is an important decision that a marketer has to make. Much of your success in business will depend on how you price your products.

If your prices are too low, you will not cover expenses; too high and you will lose sales volume. In both cases, you will not make a profit.

Before going into this aspect, let's look at what factors determine price of a product.

FACTORS THAT INFLUENCE PRICING OF A PRODUCT

CLASS EXERCISE:

List factors that influence pricing/ need to be taken into consideration while fixing price. Also attempt to prioritise them.

- Cost
- Competition
- value
- Organization goals
- Legal aspects
- Government regulations
- …………
- ……………
- ……………
- ……………

PRICING APPROACHES

The price a business charge will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand.

Low price-No possible profit at this price – product costs – competitors' prices and other external and internal conditions – consumer perceptions of value – high price no possible demand at this price.

Product cost set a floor to the price; consumer perceptions of the product's value set the ceiling. An enterprise must consider competitors prices and other external and internal factors (as listed above) to find the best price between these two extremes.

Thus, as per these considerations (extremes and middle) and also taking the above factors into consideration, **following main approaches evolve for price setting.**

- Cost-based
- Buyer-based (perceived-value pricing) and
- Competition based
- Cost-based Pricing

In this approach, cost is taken as basis for setting price. In this, one simple method is cost-plus pricing i.e. adding standard markup to the cost of the product.

For example, in the above example of mango pulp unit, if producers want 20% profit, then the unit cost has to be marked up by 20%. Thus the price per unit will be

Unit cost/(1-desired return on sales) = 16/1-.2= Rs. 20

VALUE-BASED PRICING

This means setting price based on buyers' perceptions of value rather than on the seller's cost. This is one of the most common methods for setting price, and the one that seems most logical given marketing's focus on satisfying customers.

In the above example, the producers may find by thorough market research that some segments of consumers perceive higher value for the product (by reasons like quality, ready-to-eat, availability etc) and willing to pay Rs. 22 per pack (which is higher than the cost-plus price of Rs.20).

COMPETITION BASED PRICING

Pricing Decisions, how competitors price their products can influence the marketer's pricing decision. Clearly when setting price it makes sense to look at the price of competitive offerings. For some, competitor's price serves as an important reference point from which they set their price. The pricing strategy aim at competitive prices but still allow you to make a reasonable profit.

When basing pricing decisions on how competitors are setting their price, firms may follow one of the following approaches:

Below Competition Pricing - A marketer attempting to reach objectives that require high sales levels (e.g., market share objective) may monitor the market to insure their price remains below competitors.

Above Competition Pricing - Marketers using this approach are likely to be perceived as market leaders in terms of product features, brand image or other characteristics that support a price that is higher than what competitors offer.

Parity Pricing - A simple method for setting the initial price is to price the product at the same level that competitors price their product.

In the above case of mango pulp unit, suppose there are two other similar units in the location, unit A offering Rs. 20 per unit and unit B offering Rs. 21 per unit, then what price this unit sets is an important marketing decision. This also depends on the kind of pricing decision that the marketer adopts which are discussed below.

PRICING STRATEGIES

Another important consideration in pricing part of marketing is what pricing strategy to be adopted. The level of price is also determined by the kind of pricing strategy. The strategies vary as per context, competition, product stage etc. Following are some important strategies regarding pricing.

PRICE-QUALITY STRATEGIES

As depicted in the figure, price-quality relationship is an important aspect in any enterprise. What combination of price and quality is an important marketing decision. One important point to keep in mind is that quality involves cost. The idea is not to offer maximum possible quality for the consumer rather the quality that the consumer can afford and at which the business generate profit.

SEGMENTED PRICING

This strategy involves selling a product or service at two or more prices to different consumer segments, even though the difference in prices is not based on the difference in costs. For example, no charge for the poor (white card holders) and service charge for others in government general hospitals.

PROMOTIONAL PRICING

This is pricing products temporarily below the list price, and sometimes even below the cost, to increase short-run sales.

GROUP ASSIGNMENT

Different groups take different examples of enterprises in different contexts and attempt following exercises. Make and state necessary assumptions relating to production, costs etc.

1. Calculate the unit cost of the product
2. Workout the selling price and justify the method of pricing
3. Workout the relevant pricing strategy
4. Comment on the soundness of the business as far as pricing is concerned

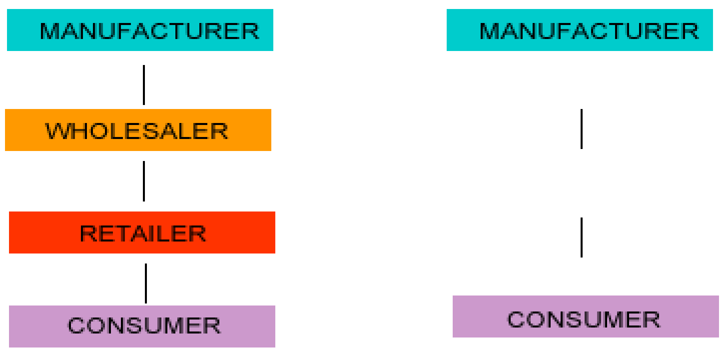
PROMOTION &PLACE

PLACE & PROMOTION STRATEGIES

Refers to how an organisation will distribute the product or service they are offering to the end user. The organisation must distribute the product to the user at the right place at the right time. Efficient and effective distribution is important if the organisation is to meet its overall marketing objectives.

What channel of distribution will they use?

Two types of channel of distribution methods are available. Indirect distribution involves distributing your product by the use of an intermediary. Direct distribution involves distributing direct from a manufacturer to the consumer



Above indirect distribution (left) and direct distribution (right).

LIJJAT PAPAD: DISTRIBUTION CYCLE

Smt. Jyoti Naik, President, Shri Mahila Griha Udyog Lijjat Papad explains how the system works.

The entire cycle starts with a simple recruitment process. Any woman who pledges to adopt the institution's values and who has respect for quality can become a member and co-owner of the organisation.

In addition to that, those involved in the rolling of the papads also need to have a clean house and space to dry the papads they roll every day. Those who do not have this facility can take up any other responsibilities, like kneading dough or packaging or testing for quality.

Packed papads are sealed into a box (each box holds 13.6 kg) and the production from each centre is transported to the depot for that area. Mumbai alone has sixteen branches and six depots. Each depot stocks production from the nearby three to four branches -- roughly about 400 boxes.

In some smaller towns or villages, the branch itself serves as the depot. The depots are our storage areas as well as pick up points for distributors.

Our distributors pick up the quantity of papad they require and pay cash on delivery because we pay our BENS (members are called BENS, or sisters) every day. Since we have an estimate of the quantity each distributor takes, we produce accordingly. This ensures that we neither stock inventory nor pay heavily for storage.

We have about 32 distributors in Mumbai. Each distributor picks up an average of 100 boxes per day from the depot. This is where our job ends. We are not involved in how and where a distributor delivers as long as he stays within the area we have marked for him.

Generally each distributor has his three-wheeler and about eight to ten salesmen to deliver to retail outlets within his territory.

To select a distributor, we first give an advertisement in newspapers for the areas we have marked. Members from our marketing division personally go and check the godown facilities and only on their approval do we appoint distributors.

A distributor pays us Rs150,000 as deposit. We make it clear to them that they must pay on delivery if they want our distributorship. This system is followed all over India and it works well for us.

When we discover that there is demand in a particular place, we open a new branch, like the recently opened one in Jammu and Kashmir. Whether or not we have a centre in an area, our goods reach there.

For example, we do not have any centre in Goa, but we have appointed a distributor for that area to ensure that Lijjat papads reach Goa. Our communication with distributors is regular through monthly meetings where we discuss their problems and also the issues that we may have about quality, price, reach, etc.

We do not have individual door-to-door salesmen or women selling from homes -- only the appointed distributor for the area. The same system is followed for other products, but we may have different distributors and depots for different products.

SELLING IN RURAL INDIA

(P.BALAKRISHNA, B SIDHARTH)

The Indian rural market with its vast size and demand base offers a huge opportunity that MNCs cannot afford to ignore.

TO expand the market by tapping the countryside, more and more MNCs are foraying into India's rural markets. Among those that have made some headway are Hindustan Lever, Coca-Cola, LG Electronics, Britannia, Standard Life, Philips, Colgate Palmolive and the foreign-invested telecom companies.

OPPORTUNITY

The Indian rural market with its vast size and demand base offers a huge opportunity that MNCs cannot afford to ignore. With 128 million households, the rural population is nearly three times the urban.

As a result of the growing affluence, fuelled by good monsoons and the increase in agricultural output to 200 million tonnes from 176 million tonnes in 1991, rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income.

The importance of the rural market for some FMCG and durable marketers is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users and 38 per cent of all two-wheeler purchased.

The rural market accounts for half the total market for TV sets, fans, pressure cookers, bicycles, washing soap, blades, tea, salt and toothpowder, What is more, the rural market for FMCG products is growing much faster than the urban counterpart.

THE 4A APPROACH

The rural market may be alluring but it is not without its problems: Low per capita disposable incomes that is half the urban disposable income; large number of daily wage earners, acute dependence on the vagaries of the monsoon; seasonal consumption linked to harvests and festivals and special occasions; poor roads; power problems; and inaccessibility to conventional advertising media.

However, the rural consumer is not unlike his urban counterpart in many ways. The more daring MNCs are meeting the consequent challenges of **availability, affordability, acceptability and awareness (the so-called 4 As)**

AVAILABILITY

The first challenge is to ensure availability of the product or service. India's 627,000 villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas, finding them is not easy. However, given the poor state of roads, it is an even greater challenge to regularly reach products to the far-flung villages. Any serious marketer must strive to reach at least 13,113 villages with a population of more than 5,000. Marketers must trade off the distribution cost with incremental market penetration. Over the years, India's largest MNC, Hindustan Lever, a subsidiary of Unilever, has built a strong distribution system which helps its brands reach the interiors of the rural market. To service remote village, stockists use autorickshaws, bullock-carts and even boats in the backwaters of Kerala. Coca-Cola, which considers rural India as a future growth driver, has evolved a hub and spoke distribution model to reach the villages. To ensure full loads, the company depot supplies, twice a week, large distributors which who act as hubs. These distributors appoint and supply, once a week, smaller distributors in adjoining areas. LG Electronics defines all cities and towns other than the seven metros cities as rural and semi-urban market. To tap these unexplored country markets, LG has set up 45 area offices and 59 rural/remote area offices.

AFFORDABILITY

The second challenge is to ensure affordability of the product or service. With low disposable incomes, products need to be affordable to the rural consumer, most of whom are on daily wages. Some companies have addressed the affordability problem by introducing small unit packs. Godrej recently introduced three brands of Cinthol, Fair Glow and Godrej in 50-gm packs, priced at Rs 4-5 meant specifically for Madhya Pradesh, Bihar and Uttar Pradesh — the so-called `Bimaru' States.

Hindustan Lever, among the first MNCs to realise the potential of India's rural market, has launched a variant of its largest selling soap brand, Lifebuoy at Rs 2 for 50 gm. The move is mainly targeted at the rural market. Coca-Cola has addressed the affordability issue by introducing the returnable 200-ml glass bottle priced at Rs 5. The initiative has paid off: Eighty per cent of new drinkers now come from the rural markets. Coca-Cola has also introduced Sunfill, a powdered soft-drink concentrate. The instant and ready-to-mix Sunfill is available in a single-serve sachet of 25 gm priced at Rs 2 and mutiserve sachet of 200 gm priced at Rs 15.

ACCEPTABILITY

The third challenge is to gain acceptability for the product or service. Therefore, there is a need to offer products that suit the rural market. One company which has reaped rich dividends by doing so is LG Electronics. In 1998, it developed a customised TV for the rural market and christened it Sampoorna. It was a runway hit selling 100,000 sets in the very first year. Because of the lack of electricity and refrigerators in the rural areas, Coca-Cola provides low-cost ice boxes — a tin box for new outlets and thermocol box for seasonal outlets.

The insurance companies that have tailor-made products for the rural market have performed well. HDFC Standard LIFE topped private insurers by selling policies worth Rs 3.5 crore in total premia. The company tied up with non-governmental organisations and offered reasonably-priced policies in the nature of group insurance covers. With large parts of rural India inaccessible to conventional advertising media — only 41 per cent rural households have access to TV — building awareness is another challenge. Fortunately, however, the rural consumer has the same likes as the urban consumer — movies and music — and for both the urban and rural consumer, the family is the key unit of identity. However, the rural consumer expressions differ from his urban counterpart. Outing for the former is confined to local fairs and festivals and TV viewing is confined to the state-owned Doordarshan. Consumption of branded products is treated as a special treat or indulgence.

Hindustan Lever relies heavily on its own company-organised media. These are promotional events organised by stockists. Godrej Consumer Products, which is trying to push its soap brands into the interior areas, uses radio to reach the local people in their language.

Coca-Cola uses a combination of TV, cinema and radio to reach 53.6 per cent of rural households. It doubled its spend on advertising on Doordarshan, which alone reached 41 per cent of rural households. It has also used banners, posters and tapped all the local forms of entertainment. Since price is a key issue in the rural areas, Coca-Cola advertising stressed its `magical' price point of Rs 5 per bottle in all media. LG Electronics uses vans and road shows to reach rural customers. The company uses local language advertising. Philips India uses wall writing and radio advertising to drive its growth in rural areas.

The key dilemma for MNCs eager to tap the large and fast-growing rural market is whether they can do so without hurting the company's profit margins. Mr. Carlo Donati, Chairman and Managing-Director, Nestle, while admitting that his company's product portfolio is essentially designed for urban consumers, cautions companies from plunging headlong into the rural market as capturing rural consumers can be expensive. "Any generalisation" says Mr Donati, "about rural India could be wrong and one should focus on high GDP growth areas, be it urban, semi-urban or rural."

(P. Balakrishna is a freelance writer and B. Sidharth is a student at IIM, Calcutta.)

COLAS' COUNTRYSIDE CRUSADE

AJITA SHASHIDHAR

The cola majors, Coke and Pepsi, are trying to penetrate deep into the rural markets with innovative pricing and marketing strategies.

APART from the high-decibel price wars and the usual battle over market shares, cola brands Coca-Cola and Pepsi have been in a quiet behind-the-scenes skirmish - to reach the rural masses. After an almost stagnant growth in this segment for the last two years, both Coke and Pepsi have made efforts this year to penetrate deep into the rural markets by substantially increasing their retailer and distribution network and with innovative pricing and marketing strategies.

While the per-capita consumption of carbonated soft drinks in rural areas is just 2.8 litres compared to the 7.4-litre consumption nationally, the cola majors say this renewed effort has helped step up sales in the rural markets considerably. While Pepsi says that the contribution of the rural sales to the overall sales of the company has been in the range of 10 to15 per cent this year, Coke spokesperson's, in a recent interview to Catalyst, has been quoted as saying that the company has increased its rural share from nine per cent two years ago to 25 per cent this year, by penetrating as many as 40,000 villages.

However, both the companies feel that the rural markets are still largely untapped and a lot needs to be done. Both of them feel that there is substantial scope to further increase the contribution of the rural markets to the overall sales.

Speaking to *Catalyst*, on the sidelines of a seminar on rural marketing, organised by Direcway, the global education wing of Hughes, George Kovoor, Executive Vice-President, Traditional Trade, Pepsi Foods Ltd, says: "The major challenge which we face in the rural markets is availability. Since soft drinks are sold in returnable glass bottles, one cannot sell through the conventional FMCG wholesale channel to drive availability in rural markets."

Therefore, the company, says Kovoor, has chosen a `hub and spoke' format of distribution. "The spoke is typically closest to the retail outlets and is serviced by a hub distributor who is supplied directly from the plant or the company's warehouse. This format allows for large loads travelling longer distances and short loads doing short distances, which is cost-effective."

Similarly, Coca-Cola also has a hub and spoke distribution format. "We use all possible means of transport that range from trucks, auto rickshaws, cycle rickshaws and hand carts to even camel carts in Rajasthan and mules in the hilly areas, to cart our products from the nearest hub," says a Coke spokesperson.

Once available, the focus is then on getting the consumer to try the product by giving him a reason to buy. This also means making the product available in a chilled form at the neighbourhood store, getting the pricing and packaging right.

According to the Coke spokesperson, due to the poor and erratic power supply in villages, the company has invested in non-electric chilling equipment to ensure the availability of chilled products to the consumers. Also he says, "We have doubled the number of refrigerators in the market to five lakh in the last one year."

With the rural market being extremely price sensitive, the soft drink companies have to make sure that they strike the right balance as far as pricing is concerned. "We try and make our products affordable in terms of unit price point. We also take into consideration the price of the `alternate beverage' options that the consumer has in these areas," says Kovoor.

However, considering the price-sensitive nature of the consumers in these areas, it is only the glass bottles that allow the price to be as low as Rs 5, says Kovoor.

"If the same bottle was non-returnable, the end price would have been more than double because of the cost of the package and that is not a great price offering for the rural consumer," he says. "However glass bottles are tougher to distribute and sell since they have to be brought back and the outlets have to deposit glass and crates to sell our products," he adds.

Apart from pricing, reworking the pack size was also necessary. "The introduction of 200 ml packs at highly affordable prices provided us with a strong product offering, as our international quality products are made available at affordable prices. This has helped us compete and increase our share and presence in this market," points out the Coke spokesperson.

In fact, a powerful driver for both the companies in the rural markets has been the 200 ml packs.

But attractive pricing and convenient packaging is not enough to sell the brand in these markets. The greatest challenge is to convince the consumer the need to buy this product. Says Kovoor, "The issue in the rural markets is not spending power. In fact, most rural consumers have the spending power, but they have to be given a tangible reason to buy a soft drink when they have other options to quench their thirst, such as water or a homemade *sherbet*."

Therefore, while marketing the product, it is also important for these companies to do something, which is of relevance to the consumers. In fact, Kovoor feels that operating rural vans with Pepsi campaigns painted on them is not a very effective idea to connect with the consumers. "We instead try to participate in various rural activities such as *melas*, undertake display drives in *mandi* stalls, run on-pack promos and focus a lot on price communication."

Apart from associating in the various *mela* and *haat* activities Kovoor points out that the rural consumers relate a lot to celebrities. "Celebrities have worked out like a dream for us," he says. A poster of Bollywood star such as Amitabh Bachchan or cricketer Sachin Tendulkar in a *mandi* or a *mela* for instance, says Kovoor, heightens the aspirational association of their products.

"In fact the Amitabh and Sachin campaign of Pepsi in which the two stars are engaged in a kite fight or the Sachin campaign in which he is in the midst of a group of children is focused on our rural audience and have done wonders for us," he says.

Similarly, Coke's *Thanda Matlab* campaign as well as the *Chota* Coke campaign, points out the Coke spokesperson, also targets the rural masses. "Apart from this, all our outdoor and indoor communications are also integrated to capture the `consumer connect' that is established through our TV ads," he says.

Therefore it's not just right pricing and packaging, but it is the ability to establish the right connect with the consumers which helps a brand to make it big in rural India.

SESSION: 4

POLICIES/ INSTITUTIONS INFLUENCING MARKETING

POLICIES, SCHEMES AND SERVICES

The government initiated many schemes to extend marketing services for farmers. Some of such important major schemes are elaborated below.

Scheme for development /strengthening of agricultural marketing infrastructure, grading and standardization

Objectives of the Scheme

- To induce private and cooperative sector investments in market infrastructure development projects
- To strengthen existing agricultural markets, wholesale and rural periodic, to enhance efficiency
- To promote grading, standardization and quality certification of agricultural produce at farm/ market level

COMPONENTS OF THE SCHEME

- Functional Infrastructure
- Market user common facilities
- Shortening the Value Chain
- Direct Marketing
- Contract Farming
- E-Trading Infrastructure
- Market extension and market oriented production planning
- Input Supply
- Linking of farm/ village to market

This scheme is started by marketing department of government of AP. It is intended to provide storage space, drying plat form, weighing machines, moisture meters and grading equipment including bagging/ packing facilities at the village(s) level to benefit farmers of Panchayat or group of villages locally as a viable unit. The entire scheme will be managed by community based organizations like the VOs. This is a prospective option for smallholders to get linked to market.

Market Intervention Schemes

Minimum Support Price

The Economic Survey 2005-06 states "Market for farm output continues to depend heavily on expensive government procurement and distribution systems. A shift from the current MSP and public procurement system and developing alternative product markets are essential for crop diversification and broad-based agricultural development".

MSP: The background perspective

The system of minimum support prices (MSPs) was started in India in the mid-1960s to create a favourable incentive environment for the adoption of high-yielding varieties (HYV) of wheat and rice. It is an important means of market intervention by the government by offering administered prices.

Ensuring a remunerative and stable price environment is of paramount importance for agricultural produce given the fact that most of the cultivation in dry land areas by small and marginal producers and the markets for agricultural products are beset with many imperfections. Towards this end, minimum support prices (MSP) for major agricultural products (25 now) are fixed by the government, each year, after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP).

The minimum guaranteed prices are fixed to set a floor below which the market prices can not fall. Procurement Price is the price at which the products are procured domestically by public agencies like FCI for release through PDS. Normally, procurement prices are lower than open market price and higher than MSP. Wheat and Paddy are the crops for which the government has the obligation to procure all the times i.e. even when the open market price is higher than MSP. For other crops, government procures only when the market prices crash below the MSP.

De-centralised procurement operations of Maize under MSP on pilot basis have raised hopes to decentralize market activities at farm or village level involving women-self-help groups as procurement agents locally for the purpose. However, in view of many restrictive provisions of MSP like the time of procurement, quality standards, payment etc and inadequate support systems, smallholders are generally not able to avail these services.

Procurement services

APMARKFED can procure commodities of specific quantity and quality from various agricultural market yards to different parties at minimal charges. APMARKFED can procure commodities of specific quantity and quality from various agricultural market yards to different parties at minimal charges. APMARKFED also procures agricultural commodities on behalf of other interested parties by investing on its finances on the following terms. Order should be in bulk quantities 25% security for the party with at least 10% in the form of cash Maximum lifting period is 6 months Billing includes actual costs, interest, expenditure, manpower and service charges.

Party should be present in any of the regulated market. Nodal agencies designated for the purpose of procurement of paddy, coarse grain, maize, cotton and oilseeds under MSP and MIS such as A.P. Civil Supplies Corporation, A.P. Markfed, A.P. Oil Federation on behalf of FCI/NAFED/CCI could be largely encouraged under the proposed Concept to step-up their operations locally.

Grading and Standardisation

The Agricultural Produce (Grading and Marking) Act, 1937 empowers the central government to fix quality standards, known as 'AGMARK' standards, and, to prescribe terms and conditions for using the seal of AGMARK.

To promote organic farming and export of organic products Department of Commerce, Ministry of Commerce and Industry, Government of India, New Delhi has already launched a "National Programme for Organic Production" in May 2001. Under this programme a regulatory mechanism is established which covers fixing of standards for organic cultivation, accreditation of certification agencies and inspection etc. At present APEDA and five commodity boards are serving as accreditation agencies.

The Certification System is central to world organic trade. Every farmer who wishes to sell her/his produce in the organic market must have the produce certified as organic by an approved accreditation agency. The certification is a cumbersome, time consuming process which subjects farmers to endless record keeping, filling in reams of forms and endless wait for the inspectors to visit their farms and issue certificates. The current expenses for getting an Organic Certificate in India work out to a whopping Rs.22,000 for a small farmer. This would virtually mean that a small farmer would have to completely invest twice her/his annual earnings just to get a certificate that she/he is an organic farmer.

The Community Certification is a promising alternative and it involves the communities taking charge of the certification processes themselves and working on a non-profit basis.

Indian National Standards for Organic Products (NSOP)

In 2000, the Government of India released the National Standards for Organic Products (NSOP) under the National Programme for Organic Production (NPOP). It stipulates that inspection and certification by a nationally accredited certification body is mandatory for labeling and selling products as “organic.”

IFOAM Basic Standards

Being the 'mother of organic standards,' IFOAM Basic Standards are not standards for certification but standards for standard setting on the national and international levels.

Codex Alimentarius Commission, a joint body of FAO/WHO framed certain guidelines for the production, processing, labelling and marketing of organically produced foods which are also widely in application.

SMALL FARMER COOPERATIVE GROUPS

Most certification agencies allow Group Certification for small holders in accordance with the provisions in ISO 65 and EN 45011. These guidelines describe the requirements for the evaluation and certification of groups of farmers under a single certificate - a process referred to as 'group certification.' The guidelines distinguish between two levels in a group certification scheme - the 'group' level and the 'member' level.

Related excerpts from National Policy for Farmers 2007

Agricultural Prices, Marketing and Trade

Efforts will be made to develop a single national market by relaxing internal restrictions. All controls and regulations hindering increase in farmers' income will be reviewed and abolished.

Terminal markets for agriculture would be developed in public private partnership mode to provide better market access to farmers with better price realisation in a transparent trading environment with suitable backward linkages to give technical backstopping services needed for quality and demand driven production.

The role of the Agriculture Produce Market Committees and State Agriculture Marketing Boards would be transformed from mere regulatory focus to promotion of grading, branding, packaging and development of markets for local produce.

Integration with Processing and Value Chain

It is well recognised that value addition to agricultural produce increases income levels of the farmers. Therefore, it is necessary to integrate their production with processing and other value chain activities.

ORGANIC FARMING

The organic farming movement in India suffers from a lack of adequate institutional support in the areas of research, extension, certification and marketing.

Food safety and quality specifications should conform to the Codex Alimentarius standards. Farmers engaged in organic farming should be linked to niche markets where they will obtain a premium price.

COOPERATIVE FARMING AND SERVICE COOPERATIVES

Marketing cooperatives are successful since members cooperate on the basis of enlightened self-interest. Small farmers' cooperatives would, therefore, be encouraged and supported to take up activities such as processing, value addition and marketing of agro products.

SMALL HOLDERS' ESTATES

The formation of small holders' estates, for example, in cotton, horticulture, medicinal plants, poultry and aquaculture will help promote group cooperation among farmers living in a village or watershed, or the command areas of irrigation projects. Improving productivity, reducing the cost of production and entering into marketing contracts with textile mills, food processing industries, pharmaceutical companies, and fish marketing agencies will be some of the advantages. Such small holders' estates can also manufacture products under brand names and enhance income security so that group insurance becomes feasible.

CONTRACT FARMING

Symbiotic contracts which confer benefits to both producers and purchasers would be encouraged for ensuring assured and remunerative marketing opportunities to the farmers. Contract cultivation based on a well-defined code of conduct will be helpful to small producers in getting good quality inputs, fair prices and prompt payment for their produce.

A code of conduct for contract farming or a model contract will be developed to meet the commodity specific requirements. Farmers will not be alienated from their land under any circumstances under contract farming. State governments may set up a monitoring committee involving farmers to encourage a farmer-friendly contract farming system.

FARMERS' COMPANIES

Private limited companies, registered under the Companies (Amendment) Act, 2002, are now coming into existence in the area of seed production, the production of biofertilizers, bio-pesticides and other forms of biological software essential for sustainable agriculture. Small farmers and the SHGs would be associated in such companies as stakeholders and not just as shareholders.

VARIOUS REFORM MEASURES INITIATED

As a requisite of the economic reforms and for overcoming different constraints the government at centre initiated many reforms in the marketing of agricultural produce since 2000. This was also necessitated by the changing global trends like growing niche markets, quality consciousness, certification etc. Many states followed the suit and Andhra Pradesh is one of the leading states in these reforms. These reforms have been impacting the marketing process and practices of smallholders in different ways.

Functional needs for market reforms

- Large investments required for development of post harvest infrastructure
- Major portion of investment expected from private sector
- Appropriate regulatory and policy environment necessary for private investment

Various reforms measures initiated

- Development of alternative marketing systems – private/ cooperative markets, model terminal markets, direct purchase, contract farming etc
- Progressive dismantling of controls and regulations under EC Act
- Law for implementing Negotiable Warehouse Receipt System
- Permission of futures trading in agricultural commodities
- Facilitation of common facilities for aggregation and value addition of produce in production areas
- Marketing Information System (AGMARKNET) to facilitate market intelligence services
- Initiation of e-trading/ e-auctioning in market yards

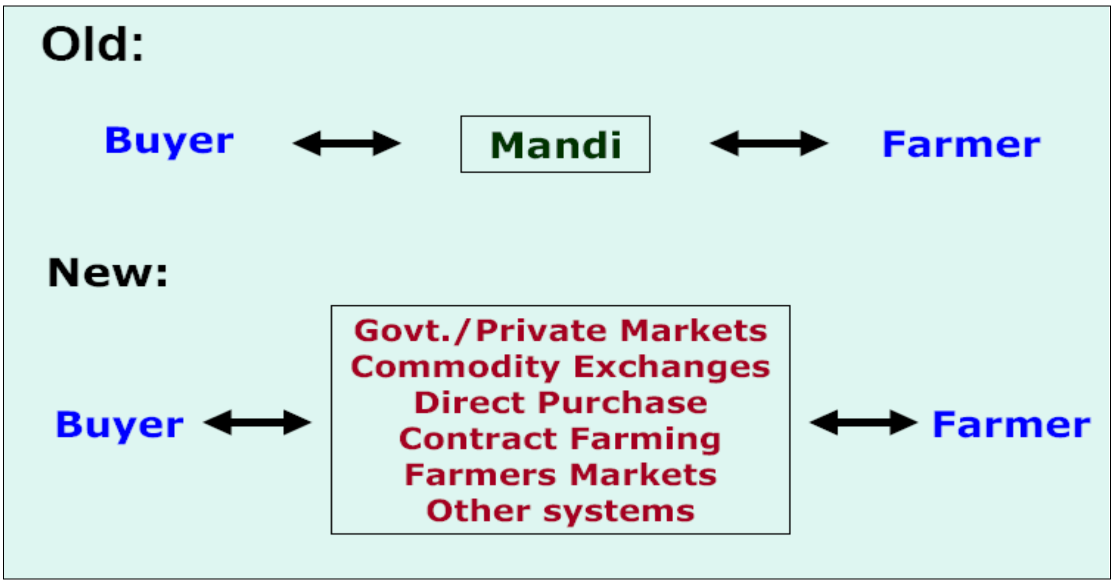
The important Acts reformed are APMC Act and Essential Commodities Act. The major reforms in these Acts are briefed below.

APMC ACT

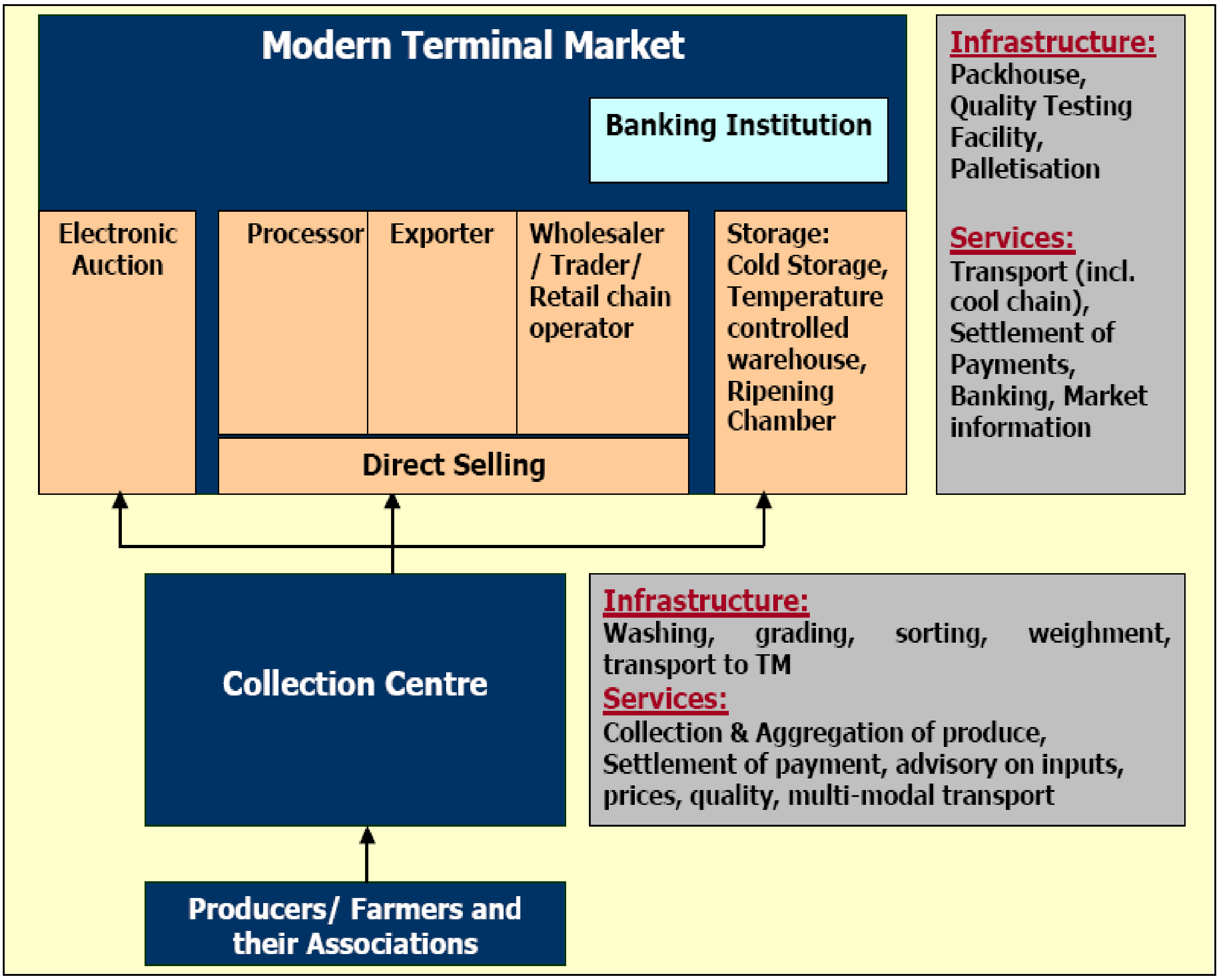
The main reforms in the APMC Act are

- Private / Cooperative Markets
- Direct Marketing and
- Contract Farming Programs
- Grading/Standardisation/Quality
- Establish Effective Linkages Between Farm Production And Retail Chains
- Public–Private-Partnership to Promote Professionalism in Existing Markets
- Stepping-Up of Pledge Financing and Marketing Credit
- Introduction of Negotiable Warehouse Receipt System
- Link Commodity Exchange with Market Yards for Price and Risk Management
- Information Technology to Promote Trade/ Market Led Extension Services
- Facilitate Investments

APMC Reforms: Old to new system



Terminal Markets: The government has taken the initiative to promote modern terminal markets for fruits, vegetables and other perishables in important urban centres in India. The terminal markets would be built, owned and operated by a corporate/private/co-operative entity. This is an effort to shorten the value chain but not sure whether it brings more share of the value to the producer. And also the reach of such markets for smallholders is very distant as they mostly operate at primary levels in the value chain and not able to integrate along the chain. Direct handling of distant markets is not always necessary and not so easy for individual smallholders as it involve incremental investment, risks, high scale etc.



ESSENTIAL COMMODITIES ACT

Amendment to the Act became necessary to promote investment in building agricultural marketing infrastructure, motivating corporate sector and processing units to undertake direct marketing of agricultural produce and to facilitate an integrated market. Facilitating free trade and movement of agricultural commodities would enable farmers to get best prices for their produce, achieve price stability and ensure availability at reasonable prices in deficit areas.

The Central Government issued an Order under Section 3 of the Essential Commodities Act called the Removal of (Licensing requirements, stock limits and Movement Restrictions) on Specified Foodstuffs Order, 2002 in 2002. It removes all restrictions on purchase, stocking, transport, etc of specified commodities and also the requirement of licensing of dealers in respect of the specified commodities.

SESSION:5

CASE STUDIES

CASELET1: AGROCEL SERVICE CENTRE, MANDVI, KUTCH[1]

CONTEXT

Agrocel even though a registered, for-profit company, has made it into a Livelihood Promoting Organization because of its unique design and philosophy. All the activities of Agrocel are driven by the twin motives of profitability and farmer service. And unlike other market led interventions, it does not receive subsidy or grant for its capacity building or farmer empowerment activities. Instead it has often implemented development activities for a fee, while helping the farmer with free guidance and education in using latest technology. It also provides them quality seeds, helps them take to organic farming; which provides a premium market, undertakes exports of certified products, absorbs risks and offers many other such services.

INTRODUCTION AND BACKGROUND

Agrocel Service Centre, referred to as "Agrocel", is a division of Agrocel Industries Limited. Agrocel Industries earlier was Agrocel Pesticides Limited, a joint venture company of Excel Industries Limited and Gujarat Agro Industries Corporation Limited of the Government of Gujarat. The company revolves around the magnetic personality and philosophy of the late C.C.Shroff, founder of Excel and Kantisen Shroff more popularly known as "Kaka".

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[1] Case study is modified from the original prepared jointly by Rekha Mehra, Dr. Sankar Datta and Mihir Sahana as a part of the LLG activities of ISLP, BASIX, Hyderabad. Financial support by the Ford Foundation is gratefully acknowledged. This Case study is prepared to serve as a basis of discussion on diverse issues and dimensions connected with the task of using market access for promoting livelihoods.

SETTING UP AGROCEL SERVICE CENTRES

"Kaka" together with the secretary, Government of Gujarat, came up with a formula, which could achieve a major breakthrough in farming. It was of providing the right kind of inputs, at the right time along with education on their use to the farmers. Towards this, the joint venture company agreed to start Agrocel with a small service centre at Koday Char Rasta, near Mandvi in Kutch in 1988. (Presently the centre caters to a farming community spread over an area of 20,000 hectares).

Today it has grown to 15 centres in different parts of Gujarat, Orissa, Haryana and Uttaranchal. About 20,000 small and marginal farmers directly and indirectly have benefited from the services of Agrocel.

ACTIVITIES OF AGROCEL

Agrocel undertakes a range of activities with service centre as their base unit. Agrocel in Gujarat is mainly working for organic cotton and groundnuts; a centre in Haryana is mainly for Basmati rice, a centre in J & K is for walnut, and one centre in Maharashtra is for cashew nut. The other centre in Maharashtra works on a special project on soil reclamation in Sangli district with a NGO "REWARD". It gets financial assistance from the Government of Maharashtra.

Agrocel offers advice and services in the following areas:

- *Crop Improvement*
- *Land and Water Management*
- *Nutrient Management*
- *Pest and Disease Management*
- *Marketing and exporting quality produce to other countries as per demand*

AGROCEL'S MARKETING INTERVENTION

Agrocel's marketing intervention starts with setting up agriculture extension service and thereby developing relationship with the farming community. Agrocel's extension and other services have helped them earn farming community's goodwill by selling them good quality seeds, fertilizers, pesticides and agri-implements. While providing extension and input services, Agrocel guides farmers on proper crop management practices. Agrocel adds value to the crop produce by processing and /or packaging and helps market these products nationally and internationally. To cover a large number of farmers, Agrocel offers a wide range of products to the buyers, other than organic products. The main focus is however organic cotton and food, including dry fruits. The table below gives a distribution of Agrocel Products in Conventional, Fair Trade and Organic Channels.

Agrocel also helps farmers access credit by linking them with commercial banks (like the ICICI) or get subsidy from government scheme (like in drip irrigation) for their input purchase. This intervention contributes to about 50% of Agrocel's turnover. Typical percentage contribution of input sales in a centre in Mundra is: Sales of fertiliser –50%, Seeds-20%, Pesticides-17%, Agri-implements (drip, sprayers etc.) –9%, Bio fertilizers-3%, and rest through sale of oil mills, neem naturals, etc. The output marketing (especially all exports) is done mainly from the Agrocel head office at Koday. So the sale of Koday centre is higher than the other centres.

Large Domestic Market

Though Agrocel was able to get better price from exports, 75% of the output sales still come from the domestic market, which is through whole sellers and other exporters. The contribution of output marketing of Agrocel shows: cotton-20%, rice-10%, and sesame-40%, cashew nut–4%, walnut-4% and rest others. Certain percentage of organic cotton, cashew nut and walnut is mainly exported through the fair trade channel and rest is sold in the domestic market.

The marketing intervention by Agrocel can be said to be multi-dimensional, it has built collaborative linkages with both input suppliers and buyers of produces from the villages. They have also built linkages with variety of other agencies working in the rural areas, which include other NGOs and development agencies, producers and sellers of other consumer goods required by their customer groups.

AGROCEL FINANCIALS

The Agrocel team comprising of Hasmukhbhai Patel, Sailesh bhai Patel, Kamalbhai and many others whose entrepreneurial ability and commitment to farming community has seen Agrocel service division raise its turnover in agri business from around Rs.18 lakhs in 1988 to Rs.374 lakhs in 2000-01, to a whopping Rs.12.3crores in 2003-04, with a revenue surplus of Rs.80 lakhs. The growth of the service division in the last three years can be seen from the table given below.

FACTORS CONTRIBUTING TO ORGANISATIONAL SUCCESS

1) Entrepreneurial Character -Agrocel team is encouraged to be creative and to look out for opportunities that can be converted into a profitable business. Agrocel has always entered a new location with a special programme.
2) Sharing Knowledge -Lots of new ideas and cross learning takes place during the monthly meetings when all centre heads meet and share their work and ideas.
3) Pragmatic Hiring -Agrocel management is quite pragmatic in hiring; they emphasise on ability rather than on formal qualifications.
4) Inculcating Values -Agrocel management gives great importance to orientation and induction of new comers to the organisation. A Fresher is trained under an employee for more than six months where he /she observes and learns his /her job from the seniors. All employees shared the view that "*profit is the by-product of our services*".

5) Decentralization -Institutionally, there seemed a strong commitment to decentralization and non-hierarchical management structures.
6) Multi-tasking -The employees revealed that though everyone is assigned a specific task, all were trained in multi- tasking and undertook any job that required to be done to fulfil the organisation objectives.
7) Homely Work Environment -Another striking feature is the homely environment in the Agrocel office.
8) Man-making -Another thing unique to Agrocel is the art of man-making. Some describe it as making men out of zeros.
9) Minimum Attrition -Due to encouragement and a chance to grow, attrition rate at Agrocel is minimal. They have organizational information at their fingertips, are knowledgeable about their business and keen to learn more as they explore other enterprises for output marketing.

NETWORKING WITH OTHER AGENCIES

Agrocel recognises the fact that, though they have made an impact on the livelihoods of a large number of farmers, it could not have been done on their own. They needed other agencies to complement their work. Agrocel besides intervening at various points in the sub sector, has made linkages with other NGO's like VRTI, which help the farmers in water harvesting and other techniques for assured irrigation for the crops, with specialised input from companies like Excel, Bayers, Netafim. The credit needs of farmers are met by linking the farmers with banks like ICICI. The output like cotton is ginned washed and spun at specialised mills (not part of Agrocel) Similarly organisations like Srujan, who specialise in handicrafts, are brought in to make designer clothes. Agrocel also uses the services of research organisations, which makes its intervention in livelihoods effective.

RISK MITIGATION STRATEGY

Keeping Agrocel Service Division and the Marine Chemicals Division under the Agrocel Industries Limited is strategic, one division acts as a backup, when the other division makes a loss. When there are good rains, the profits of Agrocel Service division go up and the marine division does not fare well, and vice versa. For instance when the marine division made a loss, dividend was given from the Agrocel service division account and vice versa.

IMPACT OF INTERVENTIONS ON FARMERS AND MARKET

Agrocel has been able to reduce the cost of inputs, huge expenditure on chemical fertiliser and pesticides by providing inputs at a fair price and adoption of IPM and ICM techniques.

Agrocel provides free skill training, and education in improved agriculture, which has helped the farmers increase their productivity and quality, and thereby get a better price.

Agrocel's efforts to link the farmers with credit institutions like ICICI and its assurance of buyback of the fair trade food crops at a premium price and introduction of organic cotton has encouraged farmers to go in for more acreage of crops, which means more number of days of employment and at the same time reduction in price fluctuation.

Agrocel directly provides all these services to more than 4,000 farmers, besides making available limited services to more than 20,000 farmers every year.

Agrocel's effort has made the farmers aware of the advantage of organic farming and protecting it from turning into a wasteland. Also it has made the customers aware of the advantage of organic cotton and organic food by building a strong brand. Customers and farmers both are realising the importance of growing and consuming organic products, which is environmental friendly.

Thus Agrocel is helping the farmers economically by providing gainful employment with dignity, and at the same time ensuring sustainability of the assets and returns from the markets.

COTTON INTERVENTION

The above sections have discussed the broad contours of Agrocel operations, finance and impact. This section provides an in-depth look at the cotton intervention to get an understanding of the processes followed.

Agrocel initially entered the organic and fair trade activities in 1998 through a project titled 'Straight from the Cotton Fields'. The project was a collaborative venture with Vericott Limited, a company based in UK. It was part of a larger program sponsored by MdM Oxfam and Oxfam Solidarity of Belgium to improve returns to cotton producers by reducing the role of intermediaries in cotton apparel production. The project was started with a group of 38 ethical farmers and has now grown to 1200. These farmers were trained in Integrated Crop Management Practise (ICMP) and in organic farming. During the growing season, field officers of Agrocel provided guidance at the farmer's doorstep.

To capture the international markets, farmers for example were advised to grow cotton in the fields following ICM and /or organic practices. Agrocel works on Integrated Crop Management (ICM) and Integrated Pest Management (IPM) practices with a pre-identified group of farmers (at present about 4,000 in its 15 locations) with crops like organic cotton (branded and registered as Agrocel cotton), sesame, and basmati rice. The raw cotton is purchased from the farmers at a fair price (usually 8% more than the market price of cotton) to give them a stable income and protect them from price fluctuations in the international commodity market. It liaises with the organic certification agencies on behalf of the farmer and undertakes exports of the certified organic produce. It absorbs the risks arising out of the complexities of export (such as risk of rejection and fluctuating foreign exchange rates) and hence charges a margin on the prices received by the farmers.

After purchase, the cotton is ginned, spun, knitted and fabric stitched into T-Shirts. The first consignment of T-Shirts was sold through the fair trade cannel to

OXFAM, Belgium and it turned out to be a success. Since then Agrocel has been consciously making efforts to gain their market share in the fair trade channel. Agrocel is now exporting fabrics, yarn and other garments on order. It has established a market chain nationally and internationally through the fair trade channel.

Much of the credit of Agrocel's intervention in organic products goes to Abigail Garner of Traidcraft plc who came to India and stayed over for 18 months (1997-1999) to train Agrocel team in different areas of cotton processing. During this period, Thomas Petit, a Frenchman having expertise in textile production joined her.

Initially Agrocel faced major problem in fabric washing, which used chemicals for bleaching or dying. Garner and Petit designed a new eco-friendly washing unit, which used only hot water and no chemicals. The water obtained after washing was eco-friendly as it contained only natural wax and could be used for irrigation purpose. This was practiced in the Agrocel demonstration plots. This unit is the only one of its kind in India.

Garner and Petit left India in 1999 and are selling organic cotton T-shirts, and have set up a company named as Vericott India limited in UK to market its cotton products/brand. Agrocel cotton is branded and sold under the brand of "Farmers art" in U.K. Agrocel also obtained organic certification for its products to be sold under the fair trade channel by IRFT, Mumbai.

BUSINESS MANAGEMENT PRACTICES

Procurement Price

The cotton thus grown is then procured from the farmer who gets 8% more over the prevailing market price. The procurement price is fixed based on the market feedback (from mandis + farmers on the price other traders are buying their produce and then add 8% on the agreed price).

But, before purchasing, Agrocel team does a rigorous exercise to project their sales for the coming year (based on orders + present customers + likely new customers + projections based on last year sales) and then calculates the number of acres required to be serviced to fulfil this demand, which is then distributed among the different service centres and farmers. Agrocel follows an open fair trade standard with all the farmers they work with, which is monitored from time to time.

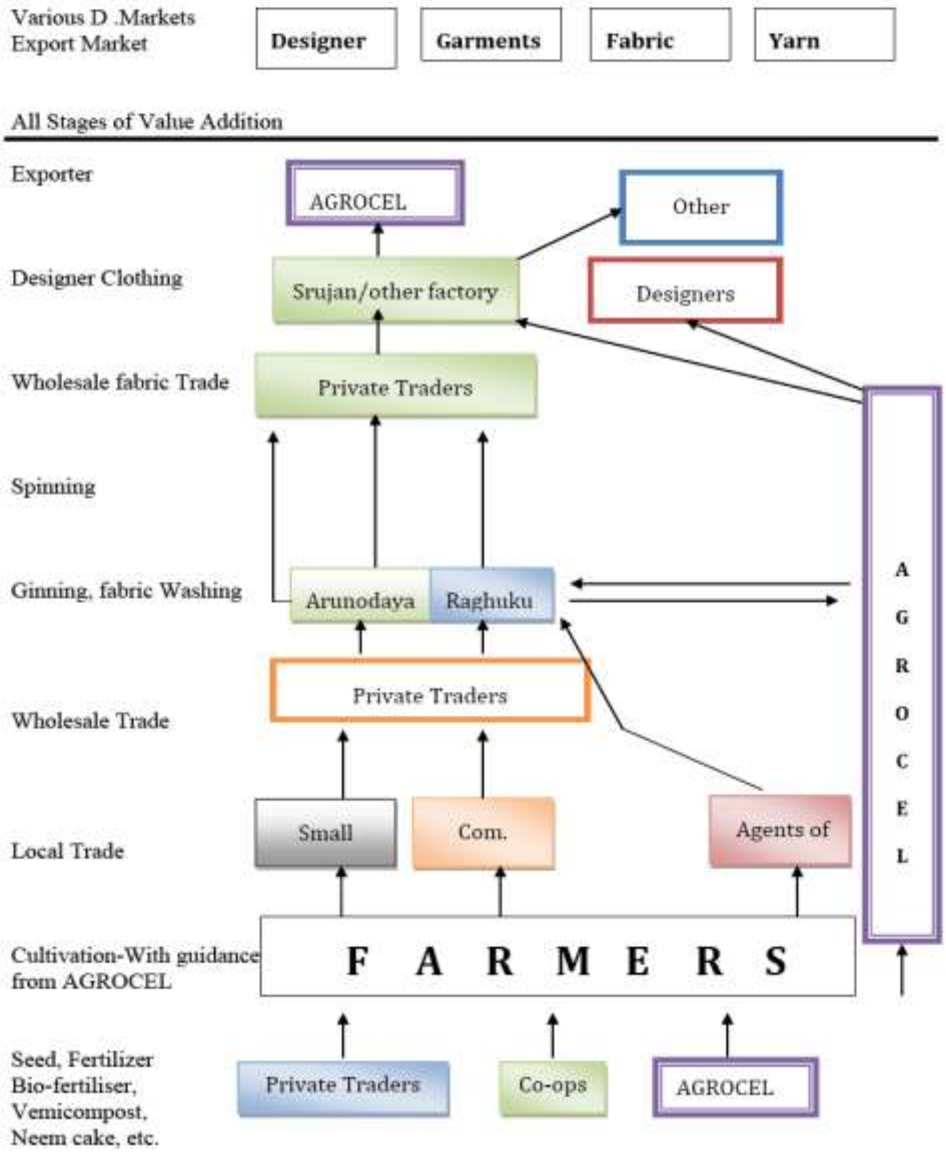
CONCLUSION AND LEARNINGS

It is clear that agriculture will continue to be the most important source of livelihood for the rural poor. It is also clear that with increasing population and consequent pressure on land, farmers have to manage their resources judiciously, to give them high returns as well as protect the future generations. Therefore adopting modern agricultural practices is inevitable and which needs educating the farmers in scientific practices.

The role of Agrocel seems clearly in line with this requirement; they are acting as a private extension services agency, educating the farmers to use their resources judiciously. It is important that the farmers get all their inputs, education and can sell outputs under one roof; this reduces their risk and transaction cost. Numerous studies have shown that the market is usually not farmer friendly; therefore it is important that the farmers get an assured return for their produce. Agrocel by educating the farmers to grow organic products is helping the farmer get a better return on his produce, as it is a niche market where people are willing to pay premium prices.

The unique feature of Agrocel is its commitment to work for "progressive, regenerative and yet sustainable agriculture for mutual benefit of the company as well as the farmer. Agrocel servers the small farmers at the same time generating profit to keep the operations profitable without any external funding. Their service is based on the philosophy and culture "profit is the by-product of our services".

Diagram 1: VALUE CHAIN ACROSS THE ORGANIC COTTON MARKET:



Agrocel has adopted a holistic livelihood model (The Livelihood Triad), and unlike other organisations, has also been able to generate sufficient profits due to its sound management practices, making the programme sustainable and not donor driven. The Agrocel model has a large livelihood implication in our country where 60% of the population is dependent on agriculture with poor or no extension service. Agrocel has selected the difficult route to make its unit sustainable by developing multi skills among employees, reducing wasteful expenses, yet making the employees feel committed to the mission.

CASELET2

MARKET-LED INTERVENTION DHRUVA[2]

CONTEXT

Dhruva, the tribal rehabilitation project was aimed at eventually reducing migration and bring in comprehensive development of the tribals. It initiated the well-known wadi programmes. Of direct relevance is the successful effort of sustaining tribals on the wadis by engaging in the market for horticultural produce and its downstream products. The marketing intervention has opened up a huge local market while at the same time promoting tribal livelihoods. While developing a market and maximizing returns for the local produce was the commercial objective, the social objective of the program was to convert wastelands into viable orchards. The program supports more than 20,000 wadis and has a turnover of Rs. two crores from selling processed mango in the form of pulp and pickle, and graded cashew. Some revenue is earned from direct sales of mango, small quantities of mixed pickle and tomato sauce.

INTRODUCTION AND BACKGROUND

Vansda in Maharashtra was a place with huge tracts of wastelands. However the irony was, despite good rainfall, water was scarce in non-monsoon months due to undulating nature of land; the tribal farmers though owning land, migrated to nearby mango orchards for work as nothing grew on their lands. To address these issues. Arvind Mafatlal invited Manibhai Desai, a renowned livelihood interventionist to the Vansda area.

Manibhai Desai, a Gandhian with a firm belief in peoples' ability to make choices, started Bharatiya Agro Industries Foundation, BAIF, in 1967 in Pune.

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[2] Modified from the original case study prepared jointly by Dr. Sankar Datta, Annapurna and Mihir Sahana a part of the LLG activities of ISLP, BASIX, Hyderabad.

He was determined that technocrats and managers would run BAIF as a profitable, self-sustaining business. He conceptualized delivery system for services by taking up door to door service, and encouraged local youth to take up management of the processes.

Drawing on his Urulikanchan experience in soil conservation, production optimization and co-operative management, Manibhai Desai took up the task of formulating a multi-pronged approach to 'Market-led Livelihood Intervention' for the Vansda area under the banner of Dhruva. The Dhruva banner was based on the *wadi* [orchard] model for promotion of community-based organizations, which succeeded in linking individual tribal farmers to the market. As developing orchards required high investment, it was supported with grants, whereas marketing, a commercial activity, was carried out with the help of technocrats and management professionals. Both required the tribal farmers to achieve the goal of self-sufficiency. Dhruva envisages a local economy based approach that aids production of goods that can be marketed locally as well as in the outside markets. It saw its work as building a local market network, interlinking groups of producers such as farmers, vermi-compost suppliers, sapling growers, and technical expertise with other service providers for their mutual benefit.

Evolving from the individual *wadi* for the farmers to the management and marketing of the product of 20,000 *wadi*s has been the achievement of Dhruva. The *wadi* idea, which converts locally owned wasteland into orchards making them a permanent asset for tribal farmers, illustrates this process. Today Dhruva constantly engages with the design of its intervention in order to build capacities and structures that carry the work forward without centralizing or creating dependence on the promoting agency.

PRODUCTION-MARKETING SYSTEM

The complete production-marketing system of Dhruva has three elements:

- *Wadi*: the production system

- *Ayojan Semite*: Procurement and primary processing system and
- *VASUNDHARA:* Marketing system

Wadi-Production

The production unit is the individual owned wadi, the one-acre land with 20 mango and 40 cashew plant orchard. An individual tribal farmer or family cultivates the wadi.

Ayojan Samiti- Procurement

Dhruva convinced the wadi owners to form informal village organizations called Ayojan Samitis that could take up the activity of procurement and trading of the produce of the wadis. Usually five wadi owners select a representative to the Ayojan Samiti. An Ayojan Samiti typically represents 80 wadis, with 16 wadi owner/members. The Samiti provides technical and managerial inputs to the wadis. The Ayojan Samiti, members included wadi members with organizational capability.

The *Ayojan Samiti*s act as agents of the co-operative in the village, procuring and semi-processing mango and cashew. They hire local women and men; preferably landless, to cut and pre-process mango in readiness for finishing by the VASUNDHARA co-operative, which in turn does further processing. The *Ayojan Samiti* charges a commission of one rupee per kilo of produce for procurement and pre-processing. These *Ayojan Samiti*s also employ barefoot accountants, technical staff and health guides; local youth are trained by Dhruva to provide support to the *wadi*s at a cost.

Ayojan Samitis decide and implement most of the relevant matters in Dhruva, giving the community a great sense of participation and ownership, a fact not seen in a purely commercial venture.

VASUNDHARA- Marketing

Ten *Ayojan Samiti*s federate to form a co-operative such as VASUNDHARA that processes and market the produce. The *Ayojan Samiti* acts as an agent of the co-operative at the village level for procuring and processing the produce. There are a total of eleven tribal co-operatives, each a federation of ten-village level *Ayojan Samiti*s. A tribal co-operative employs one accountant for procurement, food technicians and staff for processing or marketing, depending on the activity it takes up. The marketing organization VASUNDHARA, was originally conceived as a co-operative of *wadi* members for promoting forestry and irrigation, but took up marketing to meet the need. The fluctuating prices of mango persuaded Dhruva to take up value addition activities through pulping and pickling in the case of mango, and grading in the case of cashew to stabilize the marketing of the produce. Thus while VASUNDHARA provided marketing services for the entire produce of the *wadi*s, it also had to organize the value addition chain for processing the produce.

The co-operative could take up processing and marketing or create agencies like Kaprada cashew processing unit. All products are marketed under the brand of VRINDAVAN, which is promoted by VASUNDHARA. While the tiers appear hierarchic, control by primary producers is maintained by giving clear roles to each tier, and adequate representation in decision-making.

PRODUCTION PROCESS

The production process involves the following steps:

- Wadi Production
- Collection by Ayojan Samiti
- Decentralized primary processing centers
- Finishing unit in the co-operative –VASUNDHARA, Kaprada
- Federated marketing team.

- Marketing Intervention

MARKETS

The market identified by Dhruva has two distinct components:

1. W*adi* as a market for inputs
2. Market for the *Wadi* produce

Wadi - A Market for Inputs

When aggregated, the *wadis*' buying power was strong enough to support several local input supply agents. Local nurseries took up the commercial supply of grafted saplings, creating employment for landless. Women formed themselves into SHGs, whose income generating activities included manufacture and sale of vermi-compost to the *wadis*, as well as marketing services. The local processing and finishing units generated employment both during the procurement season, as well as on a regular basis for different activities such as accounting. The marketing activity provided employment to staff of VASUNDHARA, as well as others such as tribal youth and SHGs who took up the activity all year round.

Market for Wadi Produce

The wadi's marketable produce consists of mango as well as cashew. Processed cashew is sold directly to traders who buy on cash basis, and the rates generally are remunerative to the producer, due to added value of processing and grading. Overall three different varieties of mango are grown, two of which are made into pulp, and a third into pickle, a strategic use of multiple products instead of only one.

MARKET STRATEGY

As this program is conceived as a self-sustainable profit-making commercial enterprise marketing of produce achieves significant importance. Thus VASUNDHARA had to devise a strategy that is produce specific, locale specific and targeted to particular segments of buyers.

- The local market is reached through the one-rupee sachets of pickle, which are sold through different channels such as urban distributors; and SHGs and tribal youth in rural areas
- Larger quantities are sold directly by VASUNDHARA during the marriage season, as well to hotels at wholesale rates
- Retail marketing of pickle and pulp under the brand name of Vrindavan is taken up through distributors-local people who have been associated with VASUNDHARA almost since inception
- Processed cashew is sold directly in the market to wholesalers at 60% more than the production cost, making the value addition profitable for VASUNDHARA.
- Semi-processed product, unsweetened mango pulp, is sold to larger brands such as AMUL, and Bedekars' and reaches national markets

Direct Marketing

The initial foray into marketing was through marketing pulp. The initial year when the mango was processed into pulp was a very bad year, with most of the product perishing before it could be sold. This was because of pulping different mango varieties into a single mixture, which the market did not buy. In order to make good this loss it was decided that a strategic shift would be made into pickle making. This was also facilitated by the demand from Apna Bazaar, a local supermarket chain. VASUNDHARA entered into direct marketing, as Apna Bazaar could not pick up the entire production. Looking at the character of the limited individual buying power in the local market, a strategy of selling pickle in one-rupee sachets was made. Dhruva continued its approach of building local capacities to take up the necessary services; in this case marketing.

Appointing Distributors

A shift from selling one rupee packets themselves to using a distributor happened when a local entrepreneur who ran a guesthouse approached them for the distribution rights. A six-month trial where the entrepreneur doubled the sale convinced the organization of the usefulness of the strategy. Subsequently the pickle was sold through distributors who approached VASUNDHARA and proved to be more efficient in reaching customers.

PACKAGING

Plastic pouches and metal tins are used in combination with glass bottles to distribute along the different channels. Being a perishable product, packaging mango pulp in sealed tins provided longevity, allowing for sales up to a year after manufacture.

BRANDING

The brand of Vrindavan was selected early on, and promoted, using different strategies; glow signs, wall painted signs, calendars and through visiting government officials were a few of them.

Impact on People, Policy, Market

LOCAL ECONOMY APPROACH

The local economy approach which creates a local supply-demand chain interlinking communities of people who provide input and services to the *wadi*, and the processing units- form the backbone of Dhruva. Understanding the limitation of local market, Dhruva has achieved a position of strength in the open market through a judicious use of network and information, keeping customer and producer interests closely linked. The result is a quality product driven by customers' feedback, and a production process that is in the control of the primary producer.

MULTIPLIER EFFECT

The program has succeeded in linking the profit from the *Wadi* to different suppliers of goods and services locally, reducing costs of networking and transport; while leveraging local capability and buying power. Linking their income to a common goal ensures that the entire community is working towards increasing the returns from the *Wadi*, creating a multiplier effect.

RISK MITIGATION

The overall risk of the business has been managed by offsetting the different varieties of mango, combination of mango and cashew and the product mix of pulp and pickle. Combining cashew and mango plantations reduces the risk of crop failure. The price risk is mitigated by the marketing organization's presence in the APMC yards, ensuring a minimum floor price. There is constant interaction between the producer and the market mechanism, making it competitive. Dhruva encourages variety in products, which reduces the risk of concentration in any one-product line. The risk mitigation measures of Dhruva, guaranteed price support and off take in times of difficulty have made the model stable and reliable.

FLEXIBILITY

Dhruva, through VASUNDHARA distributes the product via wholesale and retail chains. Product distribution through multiple channels minimizes risk. There is a constant follow up on quality and product improvement, which helps it remain contemporary. While cashew is based on the open market price, mango pickle and pulp cater to a highly subjective local taste.

Finally and most important, there is a fair distribution of value in the value chain and every constituent realizes a portion of this value, which keeps his input sustainable. Value addition stages include production, management, technical and clerical services, processing, distribution and marketing.

Factors Affecting Outcome

Choice of Intervention Strategy

Design of Organization

Creating a System of Interdependence

Developing Appropriate Human Resources

Responsiveness to Local Conditions

Today, over 23,000 families from 400 villages have adapted the model. Along with an integrated approach of health, awareness raising and capacity building Dhruva has created a model that can successfully be scaled up and replicated in other areas. It is now to be implemented in Maharashtra and Rajasthan to cover an additional 20,000 families.

CASELET 3

ITC'S E-CHOUPAL AND PROFITABLE RURAL TRANSFORMATION

ITC is one of India's leading private companies, with annual revenues of US$2 billion. Its International Business Division was created in 1990 as an agricultural trading company; it now generates US$150 million in revenues annually. The company has initiated an e-Choupal effort that places computers with Internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information (*choupal* means gathering place in Hindi) and an e-commerce hub.

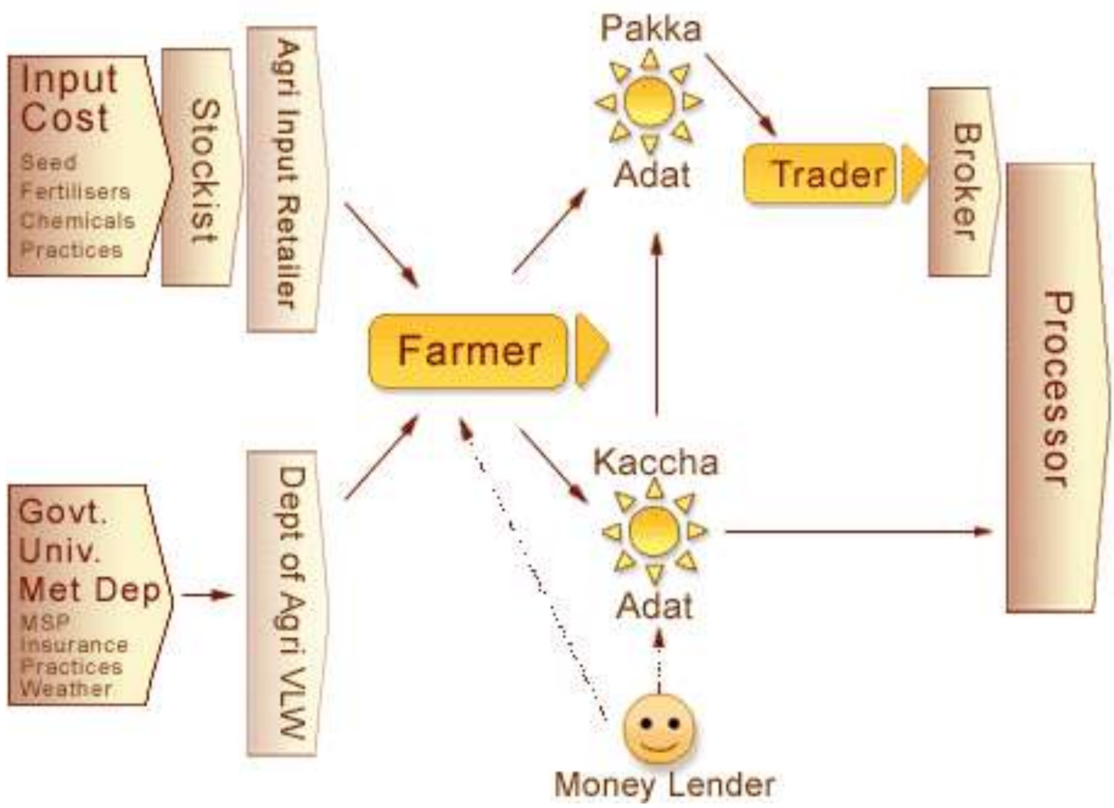
What began as an effort to re-engineer the procurement process for soy, tobacco, wheat, shrimp, and other cropping systems in rural India has also created a highly profitable distribution and product design channel for the company—an e-commerce platform that is also a low-cost fulfillment system focused on the needs of rural India. The e-Choupal system has also catalyzed rural transformation that is helping to alleviate rural isolation, create more transparency for farmers, and improve their productivity and incomes.

THE BIG PICTURE:

ITC's International Business Division, one of India's largest exporters of agricultural commodities, has conceived e-Choupal as a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis.

The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterised by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others.

The Value Chain - Farm to Factory Gate:



E-

Choupal unshackles the potential of farmer who has been trapped in a vicious cycle of –

low risk taking ability > low investment > low productivity > weak market orientation > low value addition > low margin > low risk taking ability.

Such a market-led business model can enhance the competitiveness of Indian agriculture and trigger a virtuous cycle of higher productivity, higher incomes, enhanced capacity for farmer risk management, larger investments and higher quality and productivity.

Further, a growth in rural incomes will also unleash the latent demand for industrial goods so necessary for the continued growth of the Indian economy. This will create another virtuous cycle propelling the economy into a higher growth trajectory.

ITC TO EXPAND RURAL MARKETING NETWORK

By Our Staff Reporter

KOLKATA, SEPT. 14. The e-choupals, primarily set as a part of the company's agri-business initiative, are going to be an important vehicle of ITC's business. The company will be launching financial and FMCG products through the choupals on revenue sharing basis. A plan has also been drawn up to expand the choupal network in four more States apart from the existing four. Overall the agri business volume is expected to increase from Rs. 1,000 crores last year to Rs. 1,600 crores.

Talking to media persons on the sidelines of the AIMA National Management Convention, here on Friday, S Shivakumar, chief executive, agri-business, said the company would launch life insurance products through the e-choupals in 50 villages, before the forthcoming kharif season. The products will be launched on a revenue sharing basis with the local `sanchalaks' of choupals each of which will have four of them. "The products will later be launched in other under-privileged villages," he said and added that the company had plans to launch other financial products including general insurance products soon.

While FMCG products are generally available, the company is now conducting market research on launching these products through the choupals. "To begin with we will launch vegetable oils followed by salt and sugar". Keeping in tune with its ambitious rural marketing plans, the company has decided to increase the spread of choupals in Uttar Pradesh, Andhra Pradesh, Madhya Pradesh and Karnataka in the first phase.

The choupal network will be extended to Kerala, Maharashtra, Tamil Nadu and West Bengal in the second phase.

CASELET 4

COKE USES ART TO REACH OUT TO RURAL FOLKS

PURVITA CHATTERJEE

COCA-COLA India has embarked on a plan to cater to the rural population through its rural marketing initiative in Maharashtra. As a part of this initiative, a co-branded musical activity - the `Thums Up Chowfulla' - was recently organised in several districts and villages all over Maharashtra.

The Thums Up Chowfulla seeks to provide wholesome family entertainment. The Chowfulla is largely based on the concept of the folk dance - Lavni - and has already taken place in several villages of Maharashtra.

The Lavni is a traditional folk dance, and brings forth the enthusiastic spirit of the people of the State. Recently, Laxmikanth Berde, Marathi film star, was the primary attraction of the`Thums Up Chowfulla' in Bhawaninagar (a village in the Baramati district of Maharashtra) and entertained the crowd with many of his quirky anecdotes and enactments. This promotional scheme entails one to buy a 600 ml bottle of any of the Coca-Cola products and get a free ticket to the Thums Up Chowfulla.

The programme in Bhawaninagar drew nearly 35,000 people from all the neighbouring villages and was attended by Coca-Cola's Mr Jaideep Kibe, General Manager (Regional Marketing), and Mr M.V. Natarajan, Area General Manager.

Speaking about the rural marketing initiative, Mr Natarajan said: "Over the years we have realised the huge potential that rural India has to offer. Keeping this in mind we have initiated some very innovative rural marketing initiatives such as the `Thums Up Chowfulla' and `Thums Up Gumbat Gari (mobile van)' in the last two months."

Mr Kibe said: "In-depth knowledge of the rural psyche, strong distribution channels and awareness are the prerequisites for making a dent into the rural market.

We have now embarked on a new initiative. From product innovation like the Rs 5 bottle - `Chotta Coke' - to pro-rural advertising campaigns with catch lines such as the - `Thanda Matlab Coca Cola' - we have been exploring rural marketing in depth. With these two initiatives, we have now started to experiment with events that have mass appeal. We are confident that these initiatives will help us reach remote corners of the nation and facilitate volume-driven growth as well."

The Thums Up `Gumbat Gari' is another marketing campaign that spans over 154 villages all over Maharashtra. As a part of this initiative, a mobile van with complete Thums Up branding tours villages and invites people to buy any Coca-Cola product and play a game free. The van comes complete with a magician, speakers/promoters, and invites all consumers to participate in various games.

The promotion was kick-started from November 14 and ends on December 9.

SESSION: 6

STRATEGIC MARKET PLANNING

MARKETING PLAN

Market is the starting point for any enterprise, Market is one single most important determinant for success of any enterprise. A well-designed marketing proposal along with financial plan appeals well the financiers.

Following are the components of marketing plan.

1. SET MARKETING OBJECTIVES

Objectives should be:

- clear
- measurable, and
- have a stated time frame for achievement.

<u>Examples of marketing objectives:</u>

-Increase product awareness among the target audience by 30 percent in one year.

-Inform target audience about features and benefits of our product and its competitive advantage, leading to a 10 percent increase in sales in one year.

2. DEFINE YOUR BUSINESS

- Your product or service; its features, positioning
- Geographic marketing area
- Competition

3. DEFINE YOUR CUSTOMERS

- The customer base: social status, education, age, sex, income etc
- Patterns or habits your customers - where they shop, what they prefer
- Qualities your customers value most about your product or service
- Demand: volume, fluctuations
- Market segmentation

4. COMPETITOR ANALYSIS

- Competitors' strengths and weaknesses
- Competitors' strategies and objectives
- Your competitive advantage

5. SWOT ANALYSIS

- Threats and Opportunities (from Outside)
- Strengths and Weaknesses (inside)

A tool used by organisations to help the firm establish its Strengths, Weaknesses, Opportunities and Threats (SWOT). A SWOT analysis is used as a framework to help the firm develop its overall corporate, marketing, or product strategies.

Note: Strengths and Weaknesses are internal factors which are controllable by the organisation. Opportunities & threats are external factors which are uncontrollable by the organisation.

Strengths could include:

- A strong brand name.
- Market share.
- Good reputation.
- Expertise and skill.

Weaknesses could include:

- Low or no market share.
- No brand loyalty.
  Lack of experience.

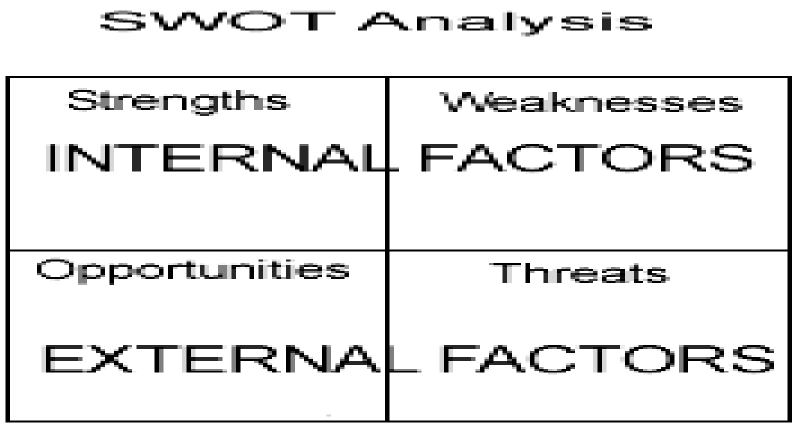
Opportunities could include:

- A growing market.
- Increased consumer spending.
- Selling internationally.
- Changes in society beneficial to your company.

Threats could include:

- Competitors
- Government policy e.g. taxation, laws.
- Changes in society not beneficial to your company.

A SWOT analysis is an excellent tool to use if the organisation wants to take a step back and assess the situation they are in. Issues raised from the analysis are then used to assist the organisation in developing their marketing mix strategy. A SWOT analysis must form the part of any prudent marketing strategy.



6. MARKETING STRATEGIES

- Product - your product(s)and services, quality
- Price - what you'll charge customers for products and services
- Promotion - how you will promote or create awareness of your product in the marketplace
- Place (distribution) - how you will bring your product(s) together with your customers

SESSION: 7

MARKETING ORGANIC PRODUCTS

(ORGANIC LIVESTOCK PRODUCTS)

(Extracted from COG's Organic Livestock Handbook)

IS THERE A MARKET OR ISN'T THERE? Many producers are frustrated when they hear that demand for 'organic' meat, eggs and dairy products is high and apparently increasing dramatically, but they still do not seem to be able to sell their products for a good price.

If that applies to you, it is time to look seriously at the question of marketing. Remember that there is a big difference between marketing and just selling a product. If you want to be one of the success stories, a well thought-out marketing plan is essential.

Cooperation and commitment, rather than competition, seems to be one of the keys to success and is a fact worth remembering when trying to determine the marketing options for your enterprise.

CONSTRAINTS TO BE OVERCOME

1. Regulations: Quota restrictions for the poultry and dairy industries and tight regulations about how meat is slaughtered and handled currently limit production and marketing options in Canada. A willingness to persevere to get through all the hoops seems to be essential. Regulations vary from province to province so make sure you are informed about the current situation.
2. Immature markets: Unless you are one of the lucky ones where there are already established marketing cooperatives looking for more members, you will have to do some basic market research.

3. Consumer lack of understanding of 'organic': Many consumers assume that 'natural' means animals have been raised without growth hormones or routine antibiotic use. This makes it difficult to differentiate 'organic' in the marketplace. Use of terms such as 'grass fed', 'free range' or 'humanely raised' adds to the confusion. Major changes can be expected now that the USDA has removed the prohibition on the use of the word 'organic' on retail meat labels (as of January 1999). More aggressive marketing of the organic label in the U.S. will likely benefit producers on both sides of the border.
4. Distance from large urban centres and lack of infrastructure: Local markets can be very limited, which means distribution infrastructure is important. Lack of slaughter and processing facilities registered or suitable for organic livestock.

MARKETING YOUR PRODUCTS

1. Plan carefully and well in advance; do not assume that the marketing will take care of itself just because you have an organic product to sell. Establish goals and understand the steps that must be taken to reach those goals before you embark on a new enterprise. Be prepared to develop your market slowly and carefully.

2. Make sure you can produce a consistent quality product — if the meat is tough you will not get repeat customers even if it is organic. If you are producing for the retail or mainstream food store market, uniformity of product and the ability to maintain supply are important factors.

Your product must justify the premium. Adding value to low end cuts by producing sausages or meat pies, for example, may be critical to success.

3. Beware of charging excessive premiums or expecting large premiums just because your product is 'organic', but do not underprice and try to compete with supermarket prices. Many livestock products are already expensive and additional markups may limit your market, requiring extra effort to find the

customers that appreciate the value. You should aim for a fair price for a quality product. Figure out your cost of production, adding in trucking, storage, marketing and certification costs.

You cannot assume that any additional costs associated with organic production will be offset by premium prices, for it may not necessarily be the case.

But had these farms been buying large amounts of expensive feed grains for their livestock instead of growing it themselves, the economic picture would have been very different.

4. Educate the consumer. Informative labelling, point of purchase literature, recipe cards, free samples or tasting sessions, and articles in the newspaper are all tools for reaching potential customers.

Look for opportunities to explain to consumers the benefits of supporting organic farmers with their purchases. Respond to consumers who have environmental and ethical concerns. Explain to them they can become part of the solution by buying organic products that come from a humane and non-polluting environment, and that animals are raised without the use of synthetic chemicals, antibiotics and growth hormones.

5. Consider all the options — direct marketing to consumers, retail outlets or restaurants, cooperative marketing ventures, through distributors and so on.

LOCAL MARKETING

Direct marketing can add value with limited capital input.

Marketing direct to consumers- Sometimes called relationship marketing, this method is usually based on word-of-mouth recommendations and developing customer loyalty. It offers advantages to both the farmer and the consumer. You, not the livestock markets, determine the prices and it provides an opportunity to educate consumers and to sell to those who really appreciate the product.

Via local delivery programs or CSA (Community Shared Agriculture) type operations-There may be an opportunity to offer additional product lines such as meat and eggs to consumers already involved in a vegetable box delivery system. Consider the possibility of working with other organic farmers in your area to develop such a program if one does not exist already.

Local retail through butchers and specialty stores- If you want to market the product as 'organic' certification is recommended. It provides the guarantee in place of the trust established in the direct consumer-producer relationship.

Supplying the restaurant trade- With meat it is usually only high-end cuts that are in demand so more than one market will have to be developed.

MORE DISTANT MARKETS

Cooperative marketing of organic meat and dairy products has proven to be a good way to reach larger, more distant markets and to overcome marketing board constraints.

The pooling of resources and production allows for the hiring of consultants to help with market research and development, and makes applying for grants easier. It also improves consistency of supply and provides the volumes necessary for the larger markets while maintaining family farm quality and control.

A growing interest in processing facilities for specialized meats could help the organic industry. Currently there are discussions between a cooperative of producer groups and a European investor on the feasibility of establishing a multi-species plant in Manitoba for processing specialty types of livestock such as ratites (emu, ostrich), deer, wild boar or bison.

A stated goal is to have, within five years, every animal that goes through the plant certified organic. Most of the product from the plant would be exported to Europe but it could also serve the domestic market.

Participatory Guarantee Systems – Shared Vision, Shared Ideals

INTRODUCTION

There are dozens of Participatory Guarantee Systems serving farmers and consumers around the world. Although details of methodology and process vary, the consistency of core principles across countries and continents is remarkable. The elements and characteristics outlined here demonstrate our shared vision but are not meant to concretely direct existing or future PGS programs towards conformity or "normalization." The very life-blood of these programs lies in the fact that they are created by the very farmers and consumers that they serve. As such, they are adopted and specific to the individual communities, geographies, politics and markets of their origin. This document of Key Elements_and Key Characteristics is then respectfully presented only to highlight those elements that do remain consistent across PGS systems –the Shared Vision and Shared Ideals that have brought them together.

PGS PHILOSOPHY GROWS FROM ORGANIC PHILOSOPHY

Participatory Guarantee Systems subscribe to the same ideals that guided yesterday's pioneering organic farmers. PGS programs require a fundamentally ecological approach to agriculture that uses no synthetic chemical pesticides, fertilizers or GMO's, and further sustains farmers and workers in a cradle of long-term economic sustainability and social justice. The primarily local and direct market focus of PGS programs encourages community building, environmental protection and support to local economies in general.

FUNDAMENTAL VALUES

Participatory Guarantee Systems share a common goal with third-party certification systems in providing a credible guarantee for consumers seeking organic produce. The difference is in approach. As the name suggests, direct participation of farmers and even consumers in the guarantee process, is not only encouraged but may be required. Such involvement is entirely realistic in the context of the small farms and local, direct markets that PGS systems are most likely to serve. Active participation on the part of the stakeholders results in greater empowerment but also greater responsibility. This requires PGS programs to place a high priority on knowledge and capacity building –not only for producers but for consumers as well. This direct involvement allows PGS programs to be less onerous in terms of paperwork and record-keeping requirements –an important element, since PGS systems seek to be absolutely inclusive in bringing small farmers into an organic system of production. In stark contrast to existing certification programs that start with the idea that farmers must prove they are in compliance to be certified, PGS programs use an integrity based approach that starts with a foundation of trust. It builds from there with an unparalleled transparency and openness, maintained in an environment that minimizes hierarchies and administrative levels.

BASIC ELEMENTS

1. Shared Vision

A fundamental strength of the Participatory Guarantee System lies in the conscious shared vision that farmers and consumers have in the core principles guiding the program. While PGS programs may vary in the level of actual participation, they thrive because of the active awareness of why, how, and not least of all WHO is being served.

2. Participatory

Participatory guarantee systems are based on a methodology presupposing intense involvement by those interested in the production and consumption of these products. Principles and rules for organic production are conceived and applied with the contribution of all stakeholders – producers, consultants and consumers. The credibility of the production quality is a consequence of participation.

3. Transparency

All stakeholders, including farmers, must be aware of exactly how the guarantee mechanism generally works, the process and how decisions are made. This does not mean that every detail is known by everyone but rather a basic understanding of how the system functions. People should be aware about the criteria of how decision on organic status is made, especially the reason why some farm cannot be considered organic for the time being. This implies that there must be some written documents available about the PGS and the documents are made available to all interested parties.

Privacy and commercially sensitive information of producers gathered during the operation of PGS must be treated with confidentiality. But such confidentiality should not be used to compromise the transparency principle. This may seem in conflict with transparency but a line must be drawn between privacy and commercially sensitive information, on the one hand, and access to information for the purpose of transparency.

4. Trust - "integrity based approach"

The advocates of PGS hold to the idea that farmers can be trusted and the organic certification system should be an expression of this trust. It should reflect a community's capacity to demonstrate this trust through the application of their different social and cultural control mechanisms, providing the necessary oversight to ensure the organic integrity of their organic farmers. Thus, a variety of culturally specific (local) quantitative and qualitative mechanisms for demonstrating and measuring organic integrity are recognized and celebrated. These are integral to the guarantee process.

5. Learning Process

The intent of most PGS has been to provide more than a certificate, also aiming to provide the tools and mechanisms for supporting sustainable community and organic development where the livelihoods and status of farmers can be enhanced.

It is important that the process of guarantee contributes to the construction of knowledge nets that are built by all the actors involved in the production and consumption of the organic product. The effective involvement of farmers, consultants and consumers on the elaboration and verification of the principles and rules not only leads to the generation of credibility of the organic product, but also to a permanent process of learning which develops capacities in the communities involved.

6. Horizontality

Horizontality means sharing of power. The verification of the organic quality of a product or process is not concentrated in the hands of few. Ideally, all involved in the participatory guarantee process have the same level of responsibility and capacity to establish the organic quality of a product or process.

KEY FEATURES

Norms conceived by the stakeholders through a democratic and participatory process, but always in accordance with the commonly understood sense of what constitutes an organic product. The norms should stimulate creativity, which is a characteristic of organic farmers, instead of inhibit it.

1. **Grassroots Organization:** The organic integrity should be perceived as a result of a social dynamic, based on an active organization of all stakeholders.

2. **Suitable to smallholder agriculture:** The participatory nature and horizontal structure of the systems allow for more appropriate and less costly mechanisms to generate credibility. It actually highlights, celebrates and encourages consumers to seek out smallholders.

3. **Principles and values** that enhance the livelihoods and well being of farming families and promote organic agriculture.
4. **Documented management systems and procedures** – There may be minimal paperwork required of farmers but there will be ways in which they are expected to demonstrate their organic commitment and integrity, these ways should be documented by the PGS.
5. **Mechanisms to verify farmer's compliance** to the established norms, which are able to stimulate participation, organization, and which allow a learning process for all the stakeholders.
6. **Mechanisms for supporting farmers** to produce organic products and be recognized as organic farmers, to include field advisors, newsletters, farm visits, web sites etc.
7. A bottom-line document, for example a **farmer's pledge** stating his/her agreement with the established norms.
8. **Seals or labels** providing evidence of organic status.
9. **Clear and previously defined consequences** for farmers not complying with standards, actions recorded in a data base or made public in some way.

SESSION:8

CASE STUDY ON ORGANIC PRODUCTS MARKETING

CASELET1: ORGANIC FARMING INTERVENTIONS BY TIMBAKTU COLLECTIVE

INTRODUCTION

Timbuktu Organic is the brain-child of Timbuktu Collective, a well-known NGO based near Chennekothapalli village in Anantapur District. It is a collaboration of Adisakthi Thrift Society, Chennekothapalli and the Timbaktu Collective. Timbaktu Organic started in 2005 with 27 farmers covering 80 acres in 1 village. In 2006, Timbaktu Organic is working with 160 farmers, covering 480 acres in 8 villages.

PROGRAM PURPOSE

Timbaktu Organic's overall purpose is to enhance the income and food security of dry land smallholder farmers of Anantapur district over 3.5 years and in the long term, improve their livelihood security through sustainable agriculture methods.

Timbaktu Organic would adopt the following strategies to achieve this purpose –

- Promote diversification of the groundnut–monocropping pattern through millets and pulses
- Promote eco-friendly organic farming methods that build on the traditional knowledge base of the farmers and utilise locally available resources such as biomass, livestock and labour
- Organise marketing support for the farmer's organic produce in both rural and urban markets

INTERVENTION

The federation of the three MATC Societies, "Mahasakthi", has come forward to initiate a three-year project – "Timbaktu Organic".

ACTIVITIES

In brief, the activities that are required to be undertaken to implement such a program are explained below using the context of Timbaktu Organic:

PRODUCT RANGE

At present Timbaktu Organic's product range includes rice, both raw and parboiled; semolina, flour of millets such as foxtail or korra; little or saama; kodo or arika; pearl or sadda; great or jonna; finger or ragi; peanuts; cold pressed peanut oil, redgram lentils or tuvar dal, baked food stuffs, cooked organic food, groundnut de-oiled cake.

ORGANIC CERTIFICATION

Organic certification of the sangha members' farms and crops is organised through the Participatory Guarantee System which is being promoted by the Organic Farming Association of India - Goa and the Food and Agriculture Organisation.

In essence, on the ground, this certification system involves the following:

- Forming a small group of farmers and organising their subgroups on the basis of the location of their lands
- Signing of an agreement with each farmer about the commitments to be fulfilled by the organisation and the farmer regarding the program activities
- Signing of a pledge by the farmer, that he/she will follow farming practices in line with the PGS National Organic Standards
- 2 meetings in a month throughout the whole season, in which the use of chemicals by any farmer is discussed and verified by the village volunteer

and respective brindam members and recorded in the sangha minutes. At the time of purchase, the farmer's record of chemicals use is checked.

- A diary is maintained for every farmer by the village volunteer, which records all details of the work done by the farmer on his/her farm, including use of chemicals if any. This record is checked in every sangha meeting.

PROCESSING AND STORAGE

A storage and processing unit of the capacity to store about 60 tons of produce at any point of time was constructed. This included space for sundrying, space of grading and other labour-based operations and machine processing units for turning oilseeds into seeds and oil form, millets into rice, rava and flour form and pulses to its split form. In all, Redgram, Cow Pea, Horsegram, Groundnut, Castor, Sunflower and 6 varieties of Millets are the different commodities handled.

BUILDING MARKET LINKAGES IN RURAL AND URBAN AREAS

The basic business model of the program is to improve income of the farmers by transforming production processes to organic with the focus to reduce input costs and improve yields for the farmers, and to organise primary processing of the produce into basic commodities such as rice, rava, flour, oil, nuts and dal, and market in branded retail packets to individual and small rural and urban customer groups such as retail stores, consumer networks, organic food processors, restaurants, trade fairs/exhibitions, rural self-help groups etc.

CASELET 2

FABINDIA - THE SUCCESS STORY

AN OVERVIEW

In May 2008, India-based exporter and retailer of textiles and home accessories, Fabindia Overseas Pvt Ltd (Fabindia), announced that by the end of the year, about 20,000 weavers from backward communities would become shareholders in about 35 of its subsidiary companies. Commenting on the development, Managing Director of Fabindia, William Bissell (Bissell), said, "Weavers now have a sense of ownership of the company. They now understand when we tell them not to raise their labor costs as the higher profits will come back to them as dividend as well as capital appreciation."

Fabindia was founded by John Bissell, who had worked as a consultant for Ford Foundation. In 1958, he traveled to several small villages across India where he interacted with weavers and craftsmen and discovered the rich heritage of Indian fabrics and textiles.

With the aim of showcasing Indian handloom and textiles in the international market and providing employment to traditional artisans, he founded Fabindia in 1960 as an export house.

With the growing acceptance of handlooms and handicrafts by urban Indian consumers in the 1970s, Fabindia turned the focus from exports to the domestic market. Its retail operations began in 1976, when it opened its first retail outlet in New Delhi.

Fabindia sources its products from over 15000 craft persons and artisans across India. They support the craft traditions of India by providing a market and thereby encourage and sustain rural employment. By 2008, Fabindia had emerged as a retailer selling a wide range of products from Indian handicrafts to organic foods, with 85 stores in India and in addition to international stores in Rome, Italy; Dubai, UAE and Guangzhou, China. Fabindia had a turnover of Rs.4.5 billion in 2007.

Analysts attributed its success to its unique marketing practices. Fabindia procured products from different corners of India and sold them across the world. The products were priced reasonably and were sold through its exclusive stores. It did not advertise much. Fabindia operated in a niche market and did not try to compete with mainstream manufacturers or retailers.

Fabindia worked closely with artisans and villagers located across India, and provided inputs related to design, color, production techniques, and raw materials, in order to obtain high quality products. Fabindia's product range comprised textiles and non-textile items.

PHILOSOPHY:

Fabindia was founded with the strong belief that there was a need for a vehicle for marketing the vast and diverse craft traditions of India and thereby help fulfill the need to provide and sustain rural employment. They blended indigenous craft techniques with contemporary designs to bring aesthetic and affordable products to today's consumers.
Their endeavor is to provide customers with hand crafted products which help support and encourage good craftsmanship.

Their products are sourced from villages all over India. Fabindia works closely with artisans by providing various inputs including design, quality control, access to raw materials and production coordination. The vision continues to be to maximize the handmade element in their products, whether it is handwoven textiles, hand block printing, hand embroidery or handcrafting home products.

PRODUCTS:

The major portion of Fabindia's product range is textile based. Non- textile introductions to this range are Home Products (introduced in October 2000), Organic Food Products (introduced in July 2004) & Fabindia Sana – Fabindia's range of authentic bodycare products (introduced in March 2006).

The textile-based product range includes ready-to-wear garments and accessories for men, women, teenagers and children; bed, bath, table and kitchen linen; floor coverings, upholstery fabric and curtains. Cotton, silk, wool, grass, linen and jute are the basic fibres used.

The Home Products range carries furniture, lighting, stationery, tableware, cane baskets and a selection of handcrafted utility items.

Fabindia Organics carries several types of cereals, grains, pulses, spices, sugar, tea, coffee, honey, fruit preserves and herbs.

Fabindia Sana, Fabindia's range of authentic bodycare products includes soaps, shampoos, hair oils, pure oils, moisturisers, body scrubs, face packs, hair conditioners & special skin care products.

Holding these major product lines together is the company's commitment to the rural and crafts sectors of India.

RETAIL STRATEGY

Fabindia's products were priced in the medium range, reflecting its 'affordable chic' positioning. Its stores were located in up market areas in all the major cities across India. The stores were spacious, simple, devoid of extravagance or loud displays.

The interiors had soft lighting, signifying a chic ambience. The stores were divided into different sections, each displaying a different range of products - women's wear, men's wear, furnishings, organic foods, beauty products, etc.

The employees in the stores were friendly and helped the customers and even educated them about the way the products were made and procured.

The store employees did not resort to pressure selling and allowed the customers to move around the stores and get a feel of the products.

The merchandise in the stores was constantly updated depending on the requirements of the market and seasonal changes. Fabindia also sold its products through its website.

Fabindia did not rely too much on advertising. Instead of traditional advertising channels, it relied more on word of mouth publicity. Every month, it carried out interactive sessions known as 'Coffee Mornings' at some of its stores, to which customers were invited.

During these sessions, artisans, people who worked with the artisans, and researchers who had studied about Indian textiles interacted with the customers and talked about textiles, fabrics, handicrafts, etc.

Four things that Fabindia did right, right from the very beginning:

Create an exquisite and exclusive product

A price point that defines that exclusiveness yet not out of reach of common man

Operate at a niche market with limited accessibility that builds an aura

Never advertise but make people talk about the product and shopping experience

Their strategy paid off. A lesson on branding that I learnt as a planner. The solution does not always lie in advertising or the communication. Innovation can be at any level, you need an eye to identify what that innovation would be and how easily that can be en-cashed upon in the most interesting yet engaging manner.

WAY AHEAD

Analysts felt that Fabindia was able to build a sustainable business model by bringing several rural artisans and weavers together and providing them with a retail platform to showcase their products across the country and around the world.

Not only was the company successful in growing its market but it also provided the weavers and artisans who supplied the products with gainful employment. In several cases, these artisans provided employment to other small craftsmen in their villages. Fabindia also ran schools in rural Rajasthan, where it provided affordable education in English.

Fabindia planned to increase its range of activities and take in more suppliers from around the country. Bissell said, "Of the 611 administrative districts in India, 350 have the potential to be our suppliers, but currently we have a presence in about 150 of them. We are in the process of strengthening it,".

It also planned to increase the number of stores to 250 by 2010. By then, it also planned to increase the number of rural artisans it collaborated with to 100,000. However, analysts also felt that Fabindia would face significant challenges in achieving its growth objective.

CHALLENGES

One of the main challenges for Fabindia was low priced fake handlooms, which were flooding the market. This, the company was trying to address by constantly educating its customers about how to recognize duplicate handloom products.

Experts were of the view that the spiraling real estate prices might slow down Fabindia's expansion, especially in tier I and tier II cities. Fabindia was also in for competition from mainstream retailers, which were also stocking handloom items, they said.

SESSION: 9

SUPPLY CHAIN MANAGEMENT

VALUE CHAIN AND MARKET ANALYSIS OF RAGI

In this study, the Ragi value chain and sub-sector was analysed to gain understanding of its production processes, market (from local to international) for commodity as well as its products. The study has covered 5 districts of Andhra Pradesh – Srikakulam, Vizianagaram, Visakhapatanam, East Godavary and Chittoor. 85 % of the total area under this crop is grown in Srikakulam, Vizianagaram, Visakhapatnam, Anantapur, Chittoor and Mahabubnagar districts.

The analysis of Ragi value chain shows that Ragi is grown on dry, peripheral and marginal land with no irrigation facilities. This type of land cannot be used to grow any other crop with small scale of financial investments. Ragi cultivation is still done in traditional way, evolved over generations. It is not at all technology intensive and tune to modern cultural practices. Farmers are using own local variety seeds in all the districts. Use of improved or hybrid varieties, inorganic fertilizers and pesticides are negligible. Ragi cultivation is also observed to have minimum cultural practices. Except for plough and manure application before sowing Ragi, no other cultural practices are followed but for one weeding in case of broadcasting. Family members, particularly female members, contribute most of the labour, required for crop.

Only 15-20% of Ragi food surplus enters into the commercial marketing system, remaining is kept for own consumption for a year. The surplus Ragi is exchanged for other items of household consumption through barter system. Most of this exchange takes place in the villages between either villagers for other agriculture produces or petty traders for household consumption items.

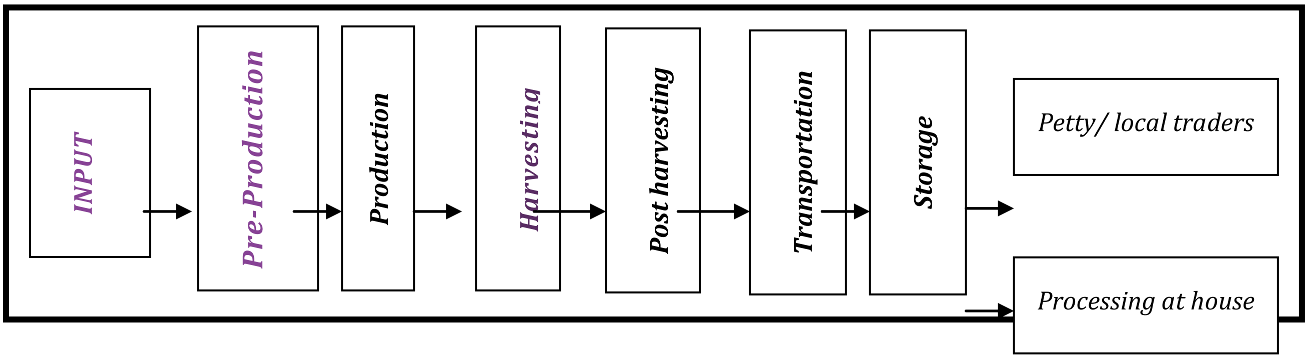
The petty traders exchange 3 Kgs of Ragi with items worth Rs. 8 to 10 and sells to local trader at the rate of Rs. 3.50 to 4.50 per kg. These local traders, in turn sell, Ragi at the rate of Rs 5 per Kg to other wholesale traders, who sell Ragi in state level markets. The major state level markets are in Srikakulam, Parvatipuram, Ankapalli, Vijayawada, Madanpalli and Kurnool. Here, Ragi is sold at Rs 7 or 8 per Kg.

The national market for Ragi is in Yashwantpur, Kolar, Banglore and Hassan in Karnataka. These centers supply Ragi to Rajasthan, Delhi, Uttar Pradesh, Maharashtra, Chattisgarh, West Bengal and Madhya Pradesh, mainly. The peak season for Ragi trade is from February to June and it is available in 4 grades in the market - Poultry feed, Local, Graded and Medium.

Ragi marketing channels are not well developed. The main reasons for this are limited demand in urban areas, lower prices of Ragi, lower margins in Ragi trade, scattered and irregular supplies on account of only food surplus being sold and large distances between producing areas and the main urban centers. However, Value chain, from local market to final consumer, clearly shows that there is significant value addition in terms of place and form within Andhra Pradesh itself. Selling of Ragi as raw commodity after grading and flour at super market offers huge margins, which are kept by supermarkets and middlemen. For example, around 50% of total margin from consumers' money goes to supermarket and only 22% comes in the hands of producer, when graded Ragi is sold by supermarket.

Niche market for Ragi malt and other products in urban area is increasing. It is difficult to project the size of niche market, but it is expected to grow in near future as health consciousness among average Indian, particularly working middle class, is increasing. This coupled with their increased disposable income and willingness to pay for healthy food ensures high demand for Ragi based food in future. To indicate the size of market, the total Ragi trade is around 2.7 lakh quintals per year in Andhra Pradesh and around 48 lakh quintals per year in India.

VALUE CHAIN OF RAGI



STAGE: TRANSPORTATION

Ragi is carried to home from field manually in baskets or gunny bags. Both men and women carry it back to home. Majority of Ragi trade takes place in the village either in between villagers, where they exchange other crops and Ragi or in between petty traders and Ragi farmers. Hardily, farmer takes Ragi to shandy or local markets. In required, they carry only very small amount, ranging from 3-5 Kgs, to buy the items of other household in barter system. In such a case, Ragi is carried manually again.

STAGE: STORAGE FOR CONSUMPTION

Generally, Ragi is stored in the special big baskets made of Bamboo or other straw in Orissa. Same basket may also be used to store other grains. These are stored in baskets or gunny bags Andhra Pradesh.

STAGE: PROCESSING AT HOUSEHOLD

Ragi grains are grinded to flour by women with the help of stone grinder or at local flour or rice mill. No specific technology is used. Although Ragi grain can be stored for longer period, the Ragi flour cannot be kept for long, not even for days. Its taste changes very fast. Therefore, it has to be grinded very frequently. It takes around 2 hours to grind one kg of flour, which is consumed in a day by a family of four members.

MARKET STUDY OF GROUNDNUT

Karnataka, Andhra Pradesh, Gujarat, Tamil Nadu and Maharashtra are the important States in the country in terms of production and market arrivals of groundnut.

The following are the major assembling markets for Groundnut in the state.

Karim Nagar, Jogityal, Jannikunta, Nizamabad, Warangal, Kesanudrah, Nahaboobagad, Suryapet, Miryalaguda, Kadapa, Prodductor, Markapur, Kandokor, Tandur, Vikarabad, Pargi, Pondur, Rajan, Srikakulam, Mahaboobnagar, Badepally, Gadwal, Narayanapet, Kurnool, Adoni, Dhone, Anantapur, Hindupur, Kadiri, Kalyandurgh, Tadipatri.

DISTRIBUTION

Assembling and distribution system of marketing are closely related. The producer makes the movement of Groundnut from the farm to the assembling centers, while a number of market functionaries can be involved in the distribution dealing with its subsequent movement to the final consumer. The purchase of Groundnut for processing units is mainly done by the commission agents in all major assembling markets. As such, commission agents are the important distributing agency for Groundnut. In the assembling markets, processing units also purchase and dispatch Groundnut to their own units. The distribution for retail sale in the non-producing states is mainly done by wholesalers. The Groundnut is distributed through different ways i.e. wholesale distribution, retail distribution, direct marketing to miller etc.

The following agencies are engaged in the distribution of Groundnut at various stages of marketing.

- Producers
- Village traders
- Itinerant traders
- Retailers

- Wholesale merchants
- Commission agents
- Groundnut millers/processors
- Co-operative organisations
- Government organisations
- Exporters and importers
- Marketing constraints

Processing	There is a need of improved technologies for Groundnut processing. At present, age-old techniques were used in processing, which reduces the out put.
Technology	Producers were not using improved Technologies in producing Groundnut right from the selection of improved high yielding seeds to use of improved equipments and post-harvest operational techniques.
Aflatoxin	Groundnut is vulnerable to attack by Aspergillus flavus fungus, which produces Aflatoxin. An Aflatoxin level up to certain limit is acceptable but beyond that the produce is not suitable for consumption.
Information	Due to lack of market information regarding prevailing prices, arrivals etc., most of the producers market the Groundnut in the village itself, which deprives them of getting remunerative returns.
Adoption of grading	Grading of Groundnut at producers' level ensures better prices to producers and better quality to consumers. However, most of the markets are lagging behind in providing grading service at producers' level.
Storage facilities	To avoid the distress sale, storage facilities in villages are found to be inadequate. Due to lack of storage facilities at rural stage, substantial quantity is lost.
Facilities	Due to inadequate facilities of transportation at village level, in most of the states, producers are forced to sell Groundnut in the village itself to itinerant merchants or traders directly at low prices.
Training of producer	The farmers are not trained in marketing system. Training shall improve their skill for better marketing of their produce.

Malpractices	Many malpractices prevail in the markets of Groundnut i.e. excess weighment, delay in payment, high commission charges, delay in weighing and auction, different kinds of arbitrary deductions for religious and charitable purposes etc.
Problem	Lack of market finance is one of the major marketing problems in the smooth running of marketing chain.
Facilities	Due to inadequate marketing infra-structural facilities with producers, traders, millers and at market level, the marketing efficiency is affected adversely.
Middlemen	The existence of a long chain of middlemen reduces the producer's share in consumer's rupee.

MARKETING CHANNELS

The following are the important marketing channels existing in the marketing of Groundnut

Producer - Merchant – Commission Agent- Wholesaler – Oil Miller

Producer – Merchant – Commission Agent – Oil Miller – Wholesaler – Retailer – Consumer

Producer – Oil Miller – Wholesaler – Retailer – Consumer

Producer – Merchant – Commission Agent – Oil Miller – Retailer – Consumer

Producer – Merchant – Commission Agent – Oil Miller – Wholesaler – Retailer (for Kernels)

COMMON INSTITUTIONAL CHANNELS:

Groundnut is also purchased by the public and co-operative sector agencies. It plays a very significant role in the procurement and distribution of Groundnut. National Agricultural Co-operative Marketing Federation of India Limited (NAFED) is the nodal agency for procurement of Groundnut. The main institutional marketing channel for Groundnut is as under;

Producer- Village Co-operative Society – Processing Units of Co-operatives, State Co-operative Federation – Co-operative Retail Stores – consumers.

State Co-operative Marketing - Oil Miller (Private/Co-operative) - Co-operative Retail Store/ Fair Price Shop - Consumer.

Producer – Village Co-operative Society – Oil Miller – Oil Wholesaler – Retailer – Consumer.

Producer - NDDB - NDDB Processing Unit – Retailer – Consumer.

MARKETING COSTS

A study carried out by Directorate of Marketing and Inspection (DMI) and published in their report on "Marketing of Groundnut in India" on the marketing costs, margins and price spread for Groundnut, it was revealed that the producers' share in consumer rupee was on an average 71.56 percent, marketing costs 16.21 percent and marketing margins on an average 12.23 percent.

Particulars	Andhra Pradesh
A. Producer's Share in consumers rupee	79.40
B. Marketing Costs	13.23
C. Marketing Margins	7.37

Supply chain development: Major Constraints		
#	***Issues***	***Action needed***
1	Predominantly marginal or small farmers – small quantities of marketable surplus & limited bargaining power	Aggregation of produce needed for value addition & bargaining power - farmers to have better market access through SHGs, Cooperatives, Farmers' Companies etc. – Aggregation/ Collection/ Value Addition Centres to be set up near farm gate.
2	Poor availability of markets & monopolistic tendencies of APMCs	Amendments in State APMR Acts to allow & facilitate alternate channels of marketing with a open choice to farmers – direct purchasing, farmers' markets, contract farming, private markets, modern terminal markets, e-trading etc.
3	Inadequate infrastructure in wholesale markets/ rural primary markets	Modernization of existing markets with public investment or through PPP & facilitating setting up of modern private markets
4	Multiple and exploitative intermediaries – low returns	Encouragement to shortening of supply chain/ vertical integration through direct marketing, organized retail chain, incentives to integrated cold chain infrastructure with an end to end approach (TMC).
5	Lack of cleaning, grading, packaging & quality certification facilities	Promotion of aggregation/ consolidation in various ways, incentive to grading & quality assurance infrastructure and creation of awareness about quality & food safety standards.
6	Multiple agencies involved in quality confirmation & regulation of exports	Creation of single window quality confirmation (Food Safety & Standards Law already in place) & export clearance systems.
7	Limited access to market information and marketing opportunities available	Enriching Marketing Information Network, strengthen market intelligence delivery under PPP & activation of Common Service Centres (CSCs) in villages for easy access to information.

COLLECTIVE MARKETING

COLLECTIVE MARKETING MODEL

Leveraging CBOs to Enrich the Marginalized

Context and Opportunity

Maximizing returns to marginal agricultural effort and NTFP collection is a fundamental component of the poverty alleviation effort. Of the over 700 million Indian's dependent upon agriculture for sustenance, a predominant majority are marginal producers or dependent upon NTFPs for livelihood. They constitute a large proportion of India's poor. Their poverty leaves them with very few productive assets. For them to make the journey out of poverty, it is therefore vital that they maximize the returns on the little they can produce. But far from maximizing their returns, the socio-economic context of marginal producers places them in an exploitative traditional system which siphons off value from their outputs. From the point of harvest, produce typically goes through a series of steps each of which require increasing levels of capital and knowledge.

Thus the produce that leaves the field has risen significantly in value by the time it is consumed. More interestingly, the price obtainable for the produce has risen between 15 and 25% even before the produce has left the block1 in which it originated. Moreover, this value is added by fairly simple activities and investments. This value is however not captured by the producer. Marketing and intermediation services for village produce are primarily provided by a cartel of traders. However a combination of factors creates barriers that keep the CBOs from providing alternatives to exploitative traditional systems.

• The poor producers do not have the wherewithal to take on the trader who has assets, knowledge, experience and social standing that far exceeds their own.

• Lack of production scale and therefore limited leverage vis-à-vis the purchaser

• Lack of access to capital creates a perpetual dependency on middlemen for financing their agricultural enterprise.

• Dependency on the middlemen for capital results in further social subjugation of the producers. This leads to myriad other sources of exploitation such as fraudulent practices at the time of weighing, measuring the moisture content etc.

• Marginal producers carry a very limited understanding of how to conceive and run a marketing operation.

• They lack basic of market knowledge such as information of the big traders, millers, prices in different market, logistics, market fluctuation, etc. They also lack insight into the means of value addition to the basic produce.

MART developed a comprehensive system of marketing at the village level which addresses the above factors.

The Collective Marketing Initiative

The Collective Marketing Model was developed under the aegis of the Western Orissa Rural Livelihoods Promotion (WORLP) project. From a modest beginning in 20 villages the model was expanded to 100 villages in WORLP. Subsequently the approach is being replicated in the IFAD funded Orissa Tribal Empowerment and Livelihoods Program (OTELP) where Collective Marketing operations are being established in another 400 villages spanning 6 districts2. Communities have used the Collective Marketing methodology to drive efficiency in the supply chains of more than 15 commodities of both the agricultural and non-timber forest produce (NTFP) variety.

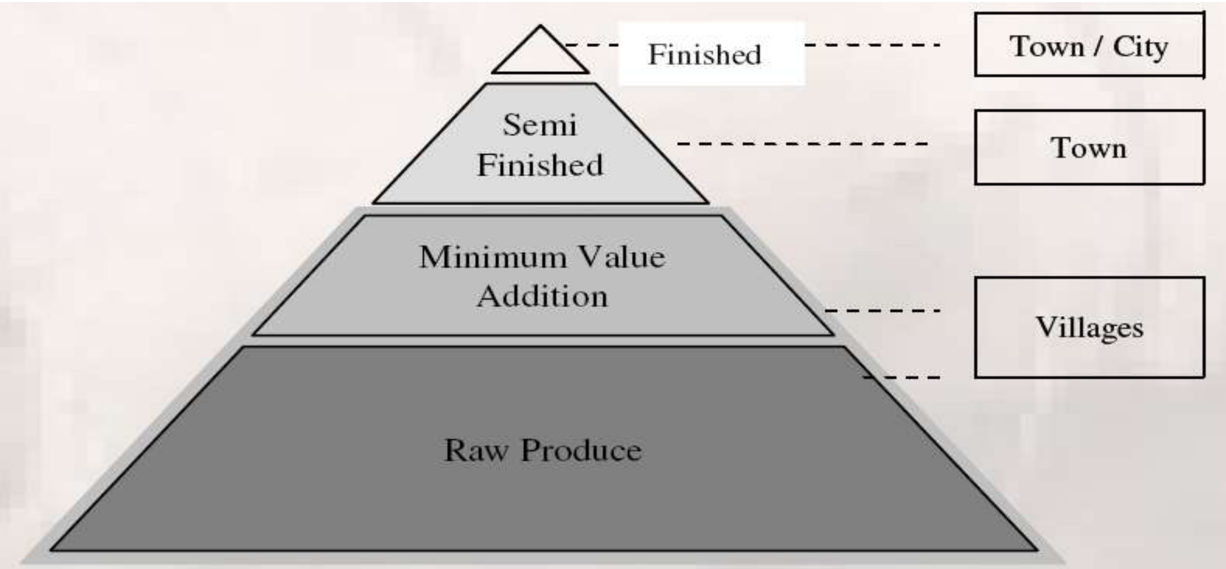
Collective Marketing has armed Community Based Organizations (CBOs) primarily SHGs and CIGs with the knowledge, confidence and processes to operate as a non-exploitative channel for the marketing of products. These CBOs have captured value by conducting a range of local-level activities including drying, sorting, grading, weighing and packaging, for which a range of marketing infrastructures have been created in villages. The total value of products marketed through Collective Marketing channels is in excess of Rs 3 crores. Using a conservative estimate of 10% margins in this operation, the turnover represents additional income to the tune of Rs 1000 for each of the 3000 people involved in the operation.

Status till April 2008

	Started with	Expanded to
No of districts Coverage	2	6
Name of districts	Balangir, Nuapada	+ Kalahandi, Koraput, Gajapati, Kandhamal
No of Villages	20	500
No of SHG members	200	3000
No of CIG members	150	800
Turn over (INR)	0.5 million	20 Million
Products	Minor Millet, Cotton, Onion, Mahua flower, Char	Cotton, Mahua flower, Onion, Niger, Cow pea, Cashew, Tamarind, Mango jelly 9local variety), Vegetables, Hill broom

Collective Marketing is therefore tested and proven set of methodologies, tools and process which can be used in a variety of contexts to enrich marginal producers through participation in marketing channels.

Collective Marketing: The MART Solution Philosophy



<u>MART's approach to Collective Marketing is built upon five core ideas;</u>

• ***Truly inclusive and sustainable results can be achieved by marking trading the basis for community involvement -*** The Collective Marketing approach emphasizes building entrepreneurship in the village through trading of raw produce on which the maximum number of families in a village depend. This is a conscious departure from the erstwhile approach of promoting manufacturing activities. The rationale for this is that manufacturing based activity is a niche enterprise which involves very few members of the community and mostly done at town and city level.

• ***Productivity increases alone will not achieve poverty alleviation, rather a market led approach is necessary -*** Approaches that focus on productivity alone result in increased outputs, but without commensurate improvement in marketing, there is limited increase in producer compensation. Poverty alleviation requires a comprehensive approach that focuses on conservation, productivity enhancement and commercialization. Since no strategy can increase incomes if followed isolation any approach must intertwine all three into a holistic development paradigm. Collective marketing is a streamlined effort where community in order to get better prices for the produces works on the entire value chain i.e. on the pre-production, production, collection, harvesting, marketing aspects of the produce.

• ***Empowered Communities are the best agents of poverty alleviation -*** The goal of Collective Marketing is to *empower community based organizations* with the insights required for them to *drive the poverty alleviation agenda*. This implies a focus on the *empowering* with the exclusion of *building* community organizations. This reflects a belief that building community institutions and empowering them with know-how are essentially different skill sets. Collective Marketing assumes the existence of the CBO maintains focus on the process empowering them with the insights needed for them to capitalize upon their collective capabilities. The objective of Collective Marketing is to maximize the leadership and managerial abilities that pre-exist within the community, not to construct external institutions to serve the poor.

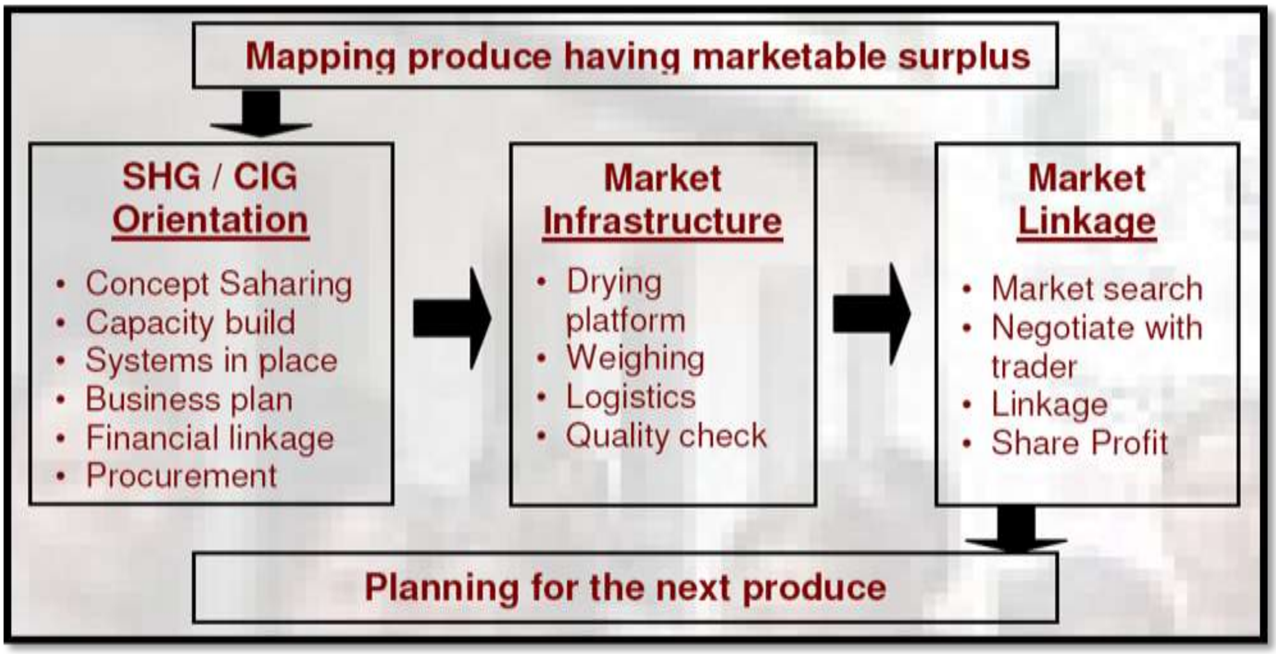
• ***Simple, sustainable interventions will yield better long-term results than complex, high-margin interventions -*** As discussed; there is a significant gap between the compensation achieved at the farm gate and the price paid by the end consumer. The further the community is able to integrate into the process of value addition, the greater the remuneration to the producer. However, this forward integration comes with a price. It requires increasing levels of capital, expertise and organization complexity. These increasing demands require advanced levels of management and may not be within the aspirations or capabilities of the community. Interventions that go beyond the aspirations and capabilities of the communities are unsustainable without committed ownership from an institution external to the community. The complexity of such organizations and the potential for politicization, rent-seeking and subversion of the community agenda actually presents a risk to community based organization. Collective Marketing therefore limits itself to the value addition that can be conceived, led and executed by a CBO with the injection of only a onetime infusion of know-how. Collective Marketing therefore favors sustainability over scale.

• ***Capacity building is most valuable when it focuses on process rather than*** **product –** The form and nature of outputs vary vastly across communities and even within the same community as it develops. Collective Marketing focuses on produce-agnostic fundamentals that adapt to diverse locations and circumstance.

The Collective Marketing Approach

In helping community based organizations extract the most out of their produce, MART has developed a systematic and comprehensive toolkit and methodology that can be applied with limited customization. The Collective Marketing engagement with a community last several months and systematically transforms a CBO. A diagrammatic representation of the activities conducted with the community is shown below:

The Approach



MART's Collective Marketing approach is delivered to a community by a facilitator using standardized processes and toolkits. The key features of the Collective Marketing engagement with a community are as follows:

• Mapping the marketable produce - Rural supply chains are socially and economically complex. At the same time, it is vital to succeed in the first enterprise undertaken by the CBOs. The Collective Marketing process thus begins with a detailed market survey of the products grown in the community, the sources of value addition, marketing channels and opportunities for efficiency.

• The change-ready CBO – The key requirement is that the CBO be stable, strong and ready to make the transition to advanced economic activities. The characteristics of such a CBO include good leadership; understand the value of investment, functional for more than one year etc. It is Important to recognize the interdependency of Collective Marketing and the CBOs stability. Collective marketing contributes to ongoing stability of CBOs as much as it depends upon it.

• The Latent Leader – Although the Collective Management engagement is delivered to the CBO, the motive force of change are the small subset of influential individuals who are the thought leaders of the CBO. These are the champions that carry the community through the transformation required to become a Community Based Enterprise. Identifying these individuals and targeting them for development as effective leader is a critical element of the Collective Management Process.

• Experiential Capacity Building – Since the constraint to community enterprise is as much a function of self-belief as it is a result of ignorance, the process of revealing opportunity must be accompanied by the process of developing aspiration. The educative components of Collective Marketing lay a high emphasis upon experiential and action based activities such as market visits, stakeholder conversations and marketing audits.

• Facilitated but Participative – Developing the community's capacity to take up enterprise is as much of a goal of Collective Marketing as creating channels for more efficient marketing. This implies that the CBO emerge as a Community Based Entrepreneur, not just a Community Based Manager. Such an outcome requires that the community's ability to identify and construct enterprises progress alongside its ability to manage them. Thus facilitators in the Collective Marketing framework have to maintain a delicate balance between assisting a community to develop its agenda and creating an agenda for the community.

Collective Outcomes and Opportunities

Collective Marketing is now a mature effort. It has been tested in 6 districts and touched communities in nearly 500 villages. The process has been used with 15 commodities in supply chain steps that range from farm-gate collection to market speculation. The following are the key outcomes that have been achieved in the targeted communities:

• ***Involvement of poor in value chain development* -** Participation of the marginalized in the marketing effort like aggregate to achieve scale, participate in value addition and engage with markets as an equal participant, This outcome has significant implications for wealth creation and empowerment among the poorest.

• ***Marketing Efficiency –*** Collective Marketing has created community driven solutions for a wide range of products. Some of the outcomes have been listed in the adjacent table.

• ***Equity of Access to Entrepreneurial Opportunity –*** The compelling and enduring impact of Collective Marketing is that it has allowed the emergence of CBO's as Community Based Enterprises. Marginal producers who fatalistically accepted exploitative remuneration have awoken to the idea that it is within their right and capability to maximize their wealth. This experience within the immediate context of their produce has had a deeper impact on the social fabric of the community. Opportunities for enterprise which were limited in their access to small pockets of the rural community are now being actively pursued by a larger proportion of the village population.

• ***Better utilization of institutional support to the poor –*** In the communities where it has been implemented, Collective Marketing has also acted as a cause towards which development resources such as the revolving fund can be directed. Thus in addition to developmental outcomes of its own, Collective Marketing is also allowing other developmental inputs to maximize their impact upon the community.

November 07 to April 08

- 8 products (Niger, *Kandula*, Tamarind, *Kating*, *Karanja*, Cowpea, Cashew and Castor) are linked to 11 buyers
- Total turnover of Rs 30.9 lacs resulted in 69 villages in 4 districts
- 3.19 lacs (10.32%) of additional income generated (Over base price)
- 24.27% increment on procurement price

Collective Marketing has now been established as a credible step in the journey out of poverty. The future of Collective Marketing lies in taking this tool to the millions who need it and expanding the impact this tool has on the lives of the poor. As the Self Help Group movement gains momentum in India's 600,000 villages, the basic social construct required for Collective Marketing is coming into existence. As these groups attain social stability and access developmental funds, introducing a module such as Collective Marketing to the community becomes a necessity to maintain the momentum of the developmental agenda. Once communities experience the power of their entrepreneurial abilities, they will seek to expand the activities undertaken by their enterprises. At this point, the Collective Marketing methodology as it currently stands will be incapable of managing the risks and operational sophistication required by the enhanced ambitions of the community. A vision for Collective Marketing therefore is to expand to create an advanced level of intervention which will take established Collective Marketing groups and transform them into full-fledged, professionally managed producer companies.

CASE STUDY

MARKETING INTERVENTIONS BY VOS OF IKP

The collective procurement and marketing of agriculture, horticulture and Non Timber Forest Produce by establishing Procurement Centers under the aegis of Village Organizations and Mandal Samakhyas is being promoted in the project mainly to eliminate unfair trade practices, to enhance the incomes, remunerative prices and bargaining power of poor women producers, and to generate profits. The management of Centers will help women enter into commodity trading by collectivization and through enhanced knowledge of the trade. So far 232 VOs have been identified as STAR centers (with marketing turnover above Rs.50 Lakhs during 2005-06).

Different activities taken up by each procurement centre are as follows.

1. Direct marketing
2. MSP Operations
3. Agri. Inputs.
4. Food security.
5. Non Pesticide Management.

It is also planned that in next 3 years each star center will be equipped with own building, Godown (1000MT Cap.), 100MT drying platform, all physical infrastructure, processing units (Mini dall mill/Mini Rice Mill/ Oil mill etc).

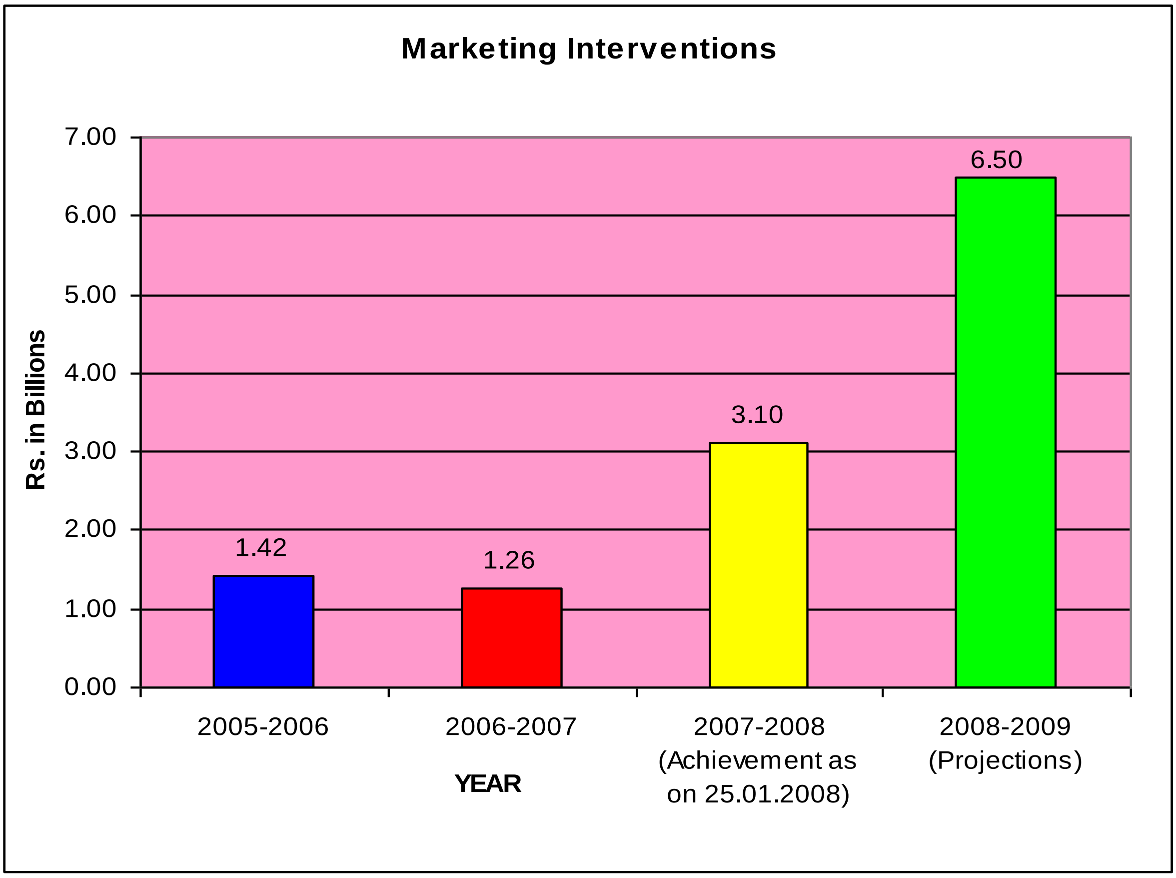
The ultimate objective of marketing is "every VO should work as a mini Market yard and every farmer and NTFP collector should not carry their produce beyond 5 Kms."

PROGRESS

VOs started Marketing activity from May 2001 as pilot intervention in one commodity (Neem Fruit) one Mandal, one district (1000 Producers).

Encouragement from farmers, enthusiasm from VOs Marketing activities scaled up from one district to 19 districts (300,000 producers in 2007-2008).

Different commodities dealt so far are Paddy, Maize, Redgram, Soya, and Neem.



IMPACTS OF THE INTERVENTIONS:

Weighing Benefits:

Usage of proper certified weighment scales is a key intervention area which eliminates traders' unfair practices of depriving the poor in the total quantities, as well as ensures that VOs procure by weight instead of volumes where producers loose as much as 30%.

Saving on Driage Loss and other deductions:

VOs levy driage loss charges on a realistic basis, often using moisture meters, which ensures higher remuneration for producers. Earlier traders levied the charges in kind by taking additional 3-5 kgs per quintal, or in cash.

Enhanced price:

The marketing interventions by VOs reduced the gap between the nearest market price and farm gate price paid to producers.

Cash payment:

VOs pay the producers the entire amounts in cash at the time of purchase itself. This practice totally eliminates the prevalent practice of payment in small instalments by traders where value on sales is lost by the producers.

Saving on Transportation:

The Producers save on transportation costs and other personal expenses when selling at nearby markets.

Saving wage labour:

As the Procurement centers are in villages, the day's wages are saved by the producers, as they now sell their produce at a time convenient to them.

Information dissemination:

The VO centers are run in a transparent manner with market price information and quality parameters etc. made known to all the villagers.

Change in trade practices:

The biggest impact of the VO/MS procurement centers is perceived in the fact that Private traders are now compelled to change their terms of trade. The transparent and fare trade practices followed by the VOs have forced the local traders to adapt similar tactics to retain their business interest, in terms of pricing etc., which enhances the bargaining power of producers.

FUTURE PLANS

The project aims to increase the number of beneficiaries of marketing interventions to more than 10.50 lakh from the current 2.91lakh members. It is also expected that the cumulative turnover of Village Organizations from marketing will reach Rs.750 Crores, a steep rise from the current 310.72 Crores achieved in 07-08.

ROAD MAP AHEAD

- 7000 procurement centers (including 1000 NTFP centers in ITDA areas.)
- Setting up retail chain at every town to sell commodities procured like rice, other cereals, pulses, spices, edible oil etc.
- Provide adequate infrastructure – storage, drying, value addition facilities to each procurement center.
- Taking up value addition activities at the appropriate level of aggregation.
- Developing market linkages with exporters, processors and service providers.
- All NPM villages shall take up marketing activities and procurement centers will propagate NPM.

Case Study

Poultry by women through Self Help Groups & Cooperative in Lohardaga – A Success STORY

BACKGROUND

Chicken is one of the major and most readily available protein sources to our diet. Before the introduction of broilers in India, poultry meat was restricted to villages only and was believed to be luxurious food items. Rearing of birds is one of the oldest professions of the tribal. The people in India accepted broiler and some of the farming class shifted their focus from crop farming to poultry farming. Initially, good agriculture farmers started broiler farming. The consumers started accepting it in all corners of India and farmers as well as all sorts of people involved in the activity started getting handsome benefits, as the breed is a fast growing one. The growth of the breed is more than 5 times faster than the indigenous one. People who were landless and small land holdings took broiler farming as their major livelihood source. As the commercialization of this activity increased, its attraction did not stop big farmers and multinational companies to enter into this activity. Soon broiler farming took the shape of an industry.

Requirement of various inputs, fluctuation in market and smaller unit size has forced the smaller farmers withdraw from this activity.

POULTRY IN LOHARDAGA:

Just like all other parts of India, some farmers in Lohardaga also started poultry farming with support from government and bank under different schemes. They were getting good profit and the farm size was 1000 birds' capacity. There were 5 to 6 such farms in and around Lohardaga. At present, hardly there is such farm operating. Most of them are closed. Although the climatic condition of Lohardaga is very much suitable for broiler farming as the climate here is neither very hot nor very cold.

There are some practical reasons for it:

- Cost of production is high as compared to other nearby states due to lack of quality input[3] at reasonable price and small unit size.
- Fluctuation of price and demand in market.
- Lack of proper knowledge and information about day-to-day changes in technology and management in broiler farming.
- Lack of proper marketing facility and institution.

[3] Inputs like feed; chicks and medicine are being supplied at higher rate from other states.

ADDRESSING THESE ISSUES THROUGH COOPERATIVE:

- Reduces the cost of production by integrating smaller farms into a big one and purchasing and supplying of inputs at reasonable price.
- Finishes the loss made by farmers due to fluctuation of prices in market by offering them fix price round the year.
- Proper training to the farmers for their skill building and taking the services of common veterinarian, which reduces the cost per farmer.
- Establishing a common marketing facility and providing regular supply of birds in market by staggering the production.

POULTRY AS A LIVELIHOOD ALTERNATIVE FOR RURAL WOMEN:

Market study by Peter Rebero and Nishant Kurup, interns from Goa Institute of Management in May 2002 showed that the whole Jharkhand particularly Ranchi is a huge deficit market. The daily sell in Ranchi is 20 tons of live bird but the average daily production is only 5 tons. 15 tons of live poultry birds are being purchased from West Bengal. The annual growth of poultry market is estimated to be 20%. Seeing this immense potential, Self Help Groups of Lohardaga with support from PRADAN[4], decided to take poultry activity as a livelihood option.

EVOLUTION OF LOHARDAGA GRAMEEN POULTRY COOPERTAIVE SOCIETY

In February 2001, Self Help groups of Lohardaga promoted by PRADAN started backyard poultry by taking loan from their groups. They started with a cross breed called Dibyan Red which was developed by Ram Krisna mission crossing Desi breed with Rhode Island Red. Growth of this breed was faster than Desi. Women were using it as buffer. Later they shifted to another faster cross- breed called Kuroilor. Seeing this lucrative activity, more members of different SHGs joined and suddenly number of birds reared by the members

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[4] An NGO working in seven states of India for livelihood generation of rural poor.

went up to 8,000 to 10,000 a month and marketing was becoming a problem for them. The SHG members after discussions with PRADAN professionals decided to form poultry cooperative Society. The framework of the cooperative was discussed and hence, Lohardaga Grameen Poultry Cooperative Society Ltd came in existence in November 2002. It was registered under Jharkhand Self supporting act 1997. PRADAN has its experience of such type of a successful cooperative in Kesla block of Hosangabad district of Madhya Pradesh for the last 12 years.

OBJECTIVE OF THE COOPERATIVE:

The basic objective of the cooperative is to purchase raw materials in bulk and marketing of birds collectively. The raw material is sold to the members at a fixed price round the year, which is lower than the prevailing market price. The ready birds are picked from the sheds of the members at a fixed price round the year and sold in the market at prevailing market price. In this way the members are neither getting affected with the price fluctuation of input nor ready birds. They get almost a fixed income every batch. The income will fluctuate only with skill, manual input and management of the individual farmer.

PROFILE OF THE MEMBERS:

All the members of the cooperative are women from Schedule Cast and Schedule Tribe belonging to different Self Help Groups. Presently there are 161 members.

Project cost for one unit (300 birds size)	
Poultry shed 300 sq. ft. @ Rs 80 per sq ft	Rs 24,000
Equipment for 300 chicks @ Rs 6 per chick	Rs 1,800
Cost of Day Old Chicks @ Rs 15/ chick	Rs 4,500

Cost of feed for 300 chicks 3.5 kg/ chick @ Rs 9/ kg	Rs 8,775
Overhead for 300 chicks @ Rs 4/ chick	Rs 1,200
Total for one unit of 300 chicks	**Rs 40,275**

FEED UNIT UNDER RSVY: To sustain in the market, it was essential to reduce the cost of production. Since feed alone consists of 65% of the cost of production, the district administration decided to construct a feed plant, the first of its kind in Jharkhand, from RSVY. Before construction of the unit, feed for the co-operative were being purchased from Kolkata and Indore, which was costly as well as not so fresh. Poultry feed consists of 60% of maize. Most of the feed mills in India depend on the maize produced in Bihar and Jharkhand. It was decided to procure concentrate from other places and purchase maize locally. The total cost was Rs 4 lakh, out of which Rs 2 lakh was subsidy under RSVY and rest were contributed by co-operative society. After the plant started producing feed, it has reduced the cost of production by Rs 2 per kg and the profit has increased by Rs 500 to 600 per month per member. The unit produces 9 to 10 tonnes feed per day. 8 rural youths are earning their livelihood from this unit. At present, this unit has gone one step ahead. Soya De- oiled cake is being procured from Indore. This has improved the feed quality further.

SUPPORT DRAWN FROM GOVERNMENT AND BANK:

After the cooperative was registered, department of cooperation, government of Jharkhand released an amount of Rs 28.35 lac. Out of this Rs 10 lac was for working capital, Rupees 2 lac for office cum training center and the rest Rs 16.35 lakh for subsidy to 161 members for shed construction. The amount sanctioned by government was not sufficient for shed construction. Members contributed another Rs 5.5 lac in form of labor and kind. They also took Rs 12.5 from different banks through SHGs. The working capital needed for cooperative was Rs 17 lac. So, Cooperative took a cash credit limit of Rs 7 lac from Bank of India to meet its working capital requirement. The cooperative is bearing its overhead cost except for the salary of CEO and Manager (production). Presently, PRADAN has deputed its professionals to work for the cooperative without any charge. It is expected that cooperative will bear the cost after increasing its members to 500.

STRUCTURE OF THE COOPERATIVE:

The members have selected 11 representatives from different area to govern the board. From these 11 Governing board members, one President and another Vice- President were elected. The governing board members meet every month to take the stock of the business. The board is passing each and every operational decision. The board has appointed a C.E.O. (Chief Executive Officer), who looks after the day-to-day activities of the society. A veterinary doctor at the post of Manager (Production) has been appointed. He is responsible for the production and under him village level service providers operates. It has also appointed a manager (marketing), who takes care of marketing part. Two central supervisors support him in marketing. President, vice-president and C.E.O operate the bank account.

PROGRESS SO FAR:

The cooperative has sold birds worth Rs 1.2 crore. It has its installed capacity of 3.38 lakh chicks per annum. The members are earning an average of Rs 12,000 per annum. Apart of benefiting 161 families directly, another 12 rural educated youths are also employed as service providers. They also earn around Rs 3000 per month. The cooperative has started preparing its own feed. The feed unit needs to be upgraded.

STRUGGLING BIRD FLU:

Within a year, cooperative had established itself and business was doing well. Members were quit enthusiastic and were satisfied with this activity. They were earning handsomely and the cooperative had a profit of Rs 2.45 lakh as well. A dreaded virus created havoc in poultry industries in other Asian countries and the consumption of chicken in India decreased to 5%. Almost all small farmers and most of the medium farmers were whipped out from this activity. Many farmers fell in debt trap. This cooperative also had to bear a heavy loss. From a profit of rupees 2.45 lakhs in January 2004 its loss reached to rupees 4.27 lakhs in March 2004. Not a single farmer of this cooperative went on loss. All of them had a normal profit because the cooperative was purchasing chicken from the members at the price fixed by them earlier (Rs 40/ kg) though it was selling at half the purchase price (Rs 20/kg). The cooperative kept on placing chicks and suddenly in April, the market started picking up. The market showed unexpected improvement and now at the end of the first quarter of this financial year (2004-05), the profit after recovering the loss encored during the previous year is around four lakh and profit distributed to members is Rupees 3.22 lakh in this quarter (April- June 2004).

IMPACT OF THE ACTIVITY:

There is a great demand from the community in the existing as well as from nearby area. The women are doing this activity, and the profit earned directly goes to them, which helps them utilize this income in a better way. The family has regular cash flow, which helps them invest in agriculture, health and education of their children. This activity has proved to be a boon for the families whose food sufficiency from agriculture is less than 12 months due to small land holding and less productive land. This has also helped some families migrating seasonally to settle down.

PLAN FOR EXPANSION:

At present, the production of chicken by co-operative is more than the consumption in Lohardaga but too less for Ranchi. Still 70% of the produce is being sold in Ranchi and the rest is marketed in Lohardaga, Gumla, Chandwa, Kuru and Khalari market. The production in respect to market is in vulnerable stage. Full-fledged marketing in Ranchi cannot be started, as production is very low. Therefore, it has planned to increase its membership so that the production gets increased. District administration had sanctioned another 400 unit under Rashtriya Sam Vikas Yojna (RSVY). The membership of co-operative will increase to 561, its installed capacity will be 98,175 [5]chicks per month and it would be the biggest poultry unit in Jharkhand.

[5] 500 producers will place 300 chicks and would take 7 batches a year.

SESSION: 10

MARKETING PLAN

With this framework in mind, now let's look at an example of a marketing plan for terracotta dishware and handicrafts.

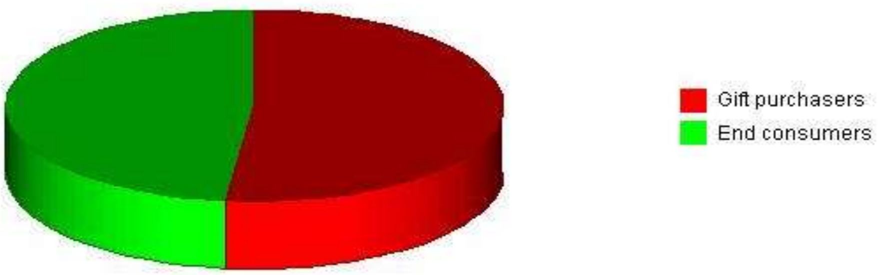
MARKETING PLAN FOR TERRACOTTA DISHWARE AND HANDICRAFTS

INTRODUCTION

A company is into the business of production and marketing of terracotta dishware and handicrafts. It is a start-up company located in Hyderabad with marketing area spread in 10 towns of AP. The company leverages the creative artistic skills to create innovative and attractive designs that will generate a strong demand. Additionally, by offering custom designs, it will win over customers. This business model makes the customer's satisfaction the highest priority.

MARKET SUMMARY

TARGET MARKETS



Market Analysis							
Potential Customers		2004	2005	2006	2007	2008	
Gift purchasers		21,455	23,171	25,025	27,027	29,189	
End consumers		19,886	21,676	23,627	25,753	28,071	
Total		41,341	44,847	48,652	52,780	57,260	

CUSTOMER BASE

The company's customer consists of the following geographic, demographic, and behavior factors:

The marketing area is 10 towns of AP with a population of 90,00,000

The total target customers is estimated at 40,000

Demographics

FEMALE.

MARRIED.

AGES 28-55.

AN INCOME OVER RS. 40,000.

HAVE AT LEAST A COLLEGE DEGREE.

Behavior Factors

APPRECIATES AND COLLECTS ARTS AND CRAFTS.

IS WILLING TO PAY EXTRA FOR THINGS THAT ARE AESTHETICALLY APPEALING.

HAVE AN ARTISTIC FLAIR.

VALUES HANDMADE ITEMS RELATIVE TO MASS PRODUCED GOODS.

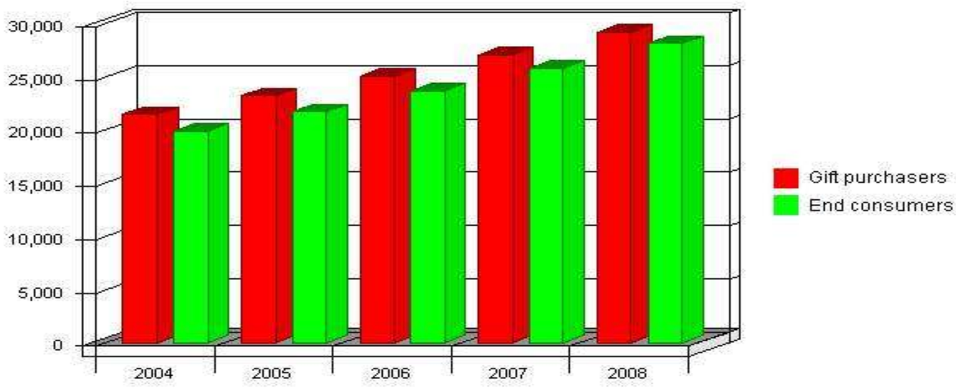
MARKET NEEDS

- A wide range of choices for styles and finishes.
- Accessibility.
- Competitive pricing

MARKET TRENDS

The market trend for is an increased demand for creative and artistic designs as well as custom design work. This trend can be explained in part by the fact that during the mid-nineties, the market was flooded with mass production artsy dishware. The market was soon overwhelmed with tons of similar dishware that tries to appear artsy, but because of the large scale of production, was just routine designs. After the market was flooded with so many similar, common designs, demand was generated for custom artists to produce dishware and other handicrafts that had unique artful designs and were not mass produced.

MARKET FORECAST



SWOT ANALYSIS

The following SWOT analysis captures the key strengths and weaknesses within the company, and describes the opportunities and threats facing the company.

Strengths	**Weaknesses**
o Strong relationships with raw material vendors. o Familiarity with upcoming styles. o Low the labor costs per piece. o High customer loyalty and referral rate.	o The company lacks brand equity. o A limited marketing budget to develop brand awareness. o The struggle to grow the business while at the same time attending to all of the day-to-day activities.
Opportunities	**Threats**
o Market niche that is growing at a faster rate. o Increased sales opportunities through referrals.	o Competition from a large number of manufacturers who might steal some of the company's designs. o Quality control problems with the

o The ability to increase the profit margin as variable costs are decreased due to operating efficiencies.	raw materials that could render an entire batch of products ruined. o The continued decrease in the price of products.

COMPETITION

The competition consists of different sources.

Commercial dishware manufacturers: This competitor mass manufactures a wide range of dishware. These companies appeal to someone that is looking for general dishware. These competitors serve people that are more interested in function instead of aesthetics.

Other potters: This group is the most direct competitor in terms of business activities, but not necessarily the most vigorous. The reason they are not the most vigorous competitors is because most potters that sell their products make cups and vases.

MARKETING OBJECTIVES

- Grow total sales by 10% annually.
- Build customer loyalty through innovative designs, attention to detail, and a customer-centric approach.
- Increase the customer base by 15% per year.

MARKETING STRATEGY

- Becoming visible at the regional arts and crafts fairs.
- Tie up with big super markets

TARGET MARKETS & POSITIONING

The market can be segmented into two different groups:

People that are purchasing the pottery for other people

This segment is looking for a gift for someone and they are looking for something that is unique, something that stands out

People that are buying pottery for themselves

MARKETING MIX

Pricing: is designed to track both material costs as well as time spent in creating the product.

Distribution: through the booth at art and craft fairs, and select stores.

Advertising and promotion: through an active presence at fairs, utilization of sales force and visibility at select stores.

CONTINGENCY PLANNING

Difficulties and risks:

Problems generating brand awareness.

Difficulty meeting demand due to the nature of handmade crafts

Difficulty managing all aspects of the business without slacking in any one area

SESSION: 11

INSTITUTIONAL STRUCTURE- BYLAWS AND BUSINESS RULES

INSTITUTIONAL ARRANGEMENT[6]

Institution is the base that supports the production and marketing interventions. Many of the well-designed livelihood interventions have also promoted community based institutions for the sustainability of the livelihood. The appropriate institutional arrangement has a positive relation with the success of livelihood intervention. While designing institutions for livelihood promotion, the following aspects have to be kept in mind:

- Need/Objective : Economic or social or capacity building, only marketing, basket of activities
- Scale : Individual or collective enterprise
- Ownership : Community owned
- Capital intensive : Small investment with major community contribution or technology intensive requiring external mobilization of resources

When we talk about the institutions in livelihoods, at one level it refers to support institutions – promoting organization, capacity building institutions and formal institutions like banks. On the other level, it also includes the institutions of the poor – Self-help groups, cooperatives, producer companies and others. Hence, in the institutional arrangements include arrangement with the external institution as well as the enterprises, community based institution promoted for the livelihood interventions.

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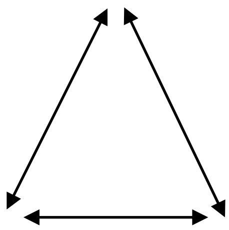
[6] Abstract from the reading material for SERP's training programme "Induction Programme for Livelihoods associate", prepared by Prof. K.V. Raju, Associate Professor in Institute of Rural Management, Anand. The original article is written by Tussar Shah.

Any form of institution, consists of three inter-connected entities: Members, Operating system and Governance structure. An ideal design is the match and coordination between governance system, members and operating system. The institutions functions well, when three of them compliment each other.

GOVERNING-OPERATING STRUCTURE TRIANGLE

Governance Structure (Governing Body)



Members Operating System

(Managers/Executives)

(Ref: Tushaar Shah)

Operating system is the device organizations evolve and use to achieve purpose important to their members. It includes business enterprise of the institution, systems, structures, rules and norms. The operating system provides the range of services members need; in turn, it receives member business and capital from the members to build it. Since members are too numerous to hold the operating system accountable to itself, they use an elected board as their governance structure. Governance structure refers to the board and the chairman of the institution. Its primary function is to aggregate and represent the member interest in formulating goals, policies and plans.

Robust design of the institution follows the following three important principles

1. Core purpose central to member – Well-designed institution aims at purposes, which are central to the members and not to the government, donor agencies or supporting organisation.

2. Responsive operating system – The operating system is the device institutions evolve and use to achieve their purposes; it includes business enterprises, systems, structures, rules, norms that governs its working. The design – concept of an institution aiming at purposes central to its members will be robust only to the extent that its operating system is able to find, develop and sustain the distinctive competitive advantages so as to out perform its competitors. They typically do so by finding the new users of their services/ products for members outputs, by modifying the technology used at intermediate stages, and, in general, by finding innovative ways to address anomalies in the operations.

3. Patronage cohesive governance structure – The robust design concept overcome the weakness of their governance structure by promoting design features that enhance the patronage cohesiveness of their governance structure and processes. It means that the supreme policy forming authorities lies with the elected board of members to whom the managers are fully accountable. This also ensures that the purpose central to the members remain important to the governing structure as well.

4. Securing and retaining member allegiance – As time changes, the priority and needs of the members change. With this change, the organisation may not remain relevant to them; therefore they may desert the institution for other institutions. Robust design concept build and sustain member allegiance by progressively evolving new services intone with the changing needs of the members.

Therefore, the institutions promoted to implement livelihood interventions must follow above principles for it to be relevant to the members. However, the various forms or models of the institution can be adopted based on the objective and activities of the livelihood intervention. The possible models or forms of the institutions are Society, Trust, Cooperative, Producer's company. The comparative analysis of these institutions is given below:

#	Dimension	Enterprise	SHG	Cooperative	Producer's Co.	Society/Trust
1	Legal Recognition	Can be registered or not	Informal Association	MACS Act, 1995	Companies Act	Societies Act
2	Ownership	Entrepreneur	Promoting Agencies	Members	Members	Promoting Agencies
3	Suitability		Savings and Credit	Economic, social, cultural Activities	Economic, Activities	Social Activities, charity
4	Functions/Services	Benefits to the entrepreneurs	Savings, credit, insurance	Marketing, linkages, capacity building and every service required by the members	Marketing, linkages and every service required by the members	Marketing, linkages, capacity building and every service required by the members
5	Member Allegiance	High	Medium	High	High	Low
6	Economic Functions	Private economic activity	No	Yes	Yes	Depends on the capacity of the organization
7	Scale					
8	Income	For an	For a	For the	For the	For the

	Enhancement	individual	group	members	shareholders	beneficiaries
9	Profit Distribution	Individual benefit	No	Profit according to the patronage	Profit according to the patronage	Profit distribution depends solely on the discretion of the promoting agency
10	Governing Structure	No	No	Board of directors elected by the members. Board comprises predominantly of members	Board of directors elected by the members.	Board selected by the promoting agency with members having no say in it

LEGAL FORMS AND POSSIBILITIES

One way in which collectives can be classified is the type of institutional and legal form for the collective. Within livelihoods, the following have been the major institutional forms that have emerged in India. A mention of another institutional form- the New Generation Cooperatives has also been included though it is limited to only the Western Countries:

1. COOPERATIVES

A. Pure Cooperatives-producers' cooperatives, service cooperatives, marketing cooperatives
B. SHG Federations/ Village Organizations
C. Water Users' Associations
D. Joint Forest Management Groups/ Cooperatives/Committees

2. SELF-HELP GROUPS (SHGS)

3. TRADE UNIONS

4. PRODUCERS' COMPANIES

5. NEW GENERATION COOPERATIVES

COOPERATIVES

The Cooperatives are the oldest and the most common form of collective institutions across all themes in livelihoods. Thus they include not only the institutional forms registered as cooperatives, even other forms of collectives which have emerged within specific livelihood areas such as forests (under the Joint Forest Management), water and irrigation (the Water Users' Associations formed under Participatory Irrigation Management). So far there has been no legal structure/provision developed or specified exclusively for the Self Help Groups.

Majority of these SHGs are not registered legally. However, the SHGs have now evolved

standard regulations and norms for their day to day operations and overall management. But SHG Federations engaged in livelihood activities such as procurement and marketing of produce are now being registered under the cooperatives act.

MAJOR CHARACTERISTICS

- Firstly, the objective is to provide the returns to the members in proportion to their transaction with the cooperative or in other words in proportion to the utilization of services of the cooperative

- Secondly, the objective is to provide these returns in the form of higher price for products or in the form of subsidized services rather than in the form of dividends10
- Thirdly, the cooperatives are based on principles of democracy, wherein all the members have equal say in decision making (i.e. one member one vote)11.The design of

GOVERNMENT CONTROLLED AND NEW EMERGING COOPERATIVES

Within cooperatives also, it is essential to differentiate between the cooperatives promoted under the old cooperative societies' act of the respective states and those promoted under the relatively new, more progressive and liberal acts (known as the parallel cooperative societies act). Initially promoted by the government as instruments of rural development, these cooperatives across different sectors received considerable government patronage in the form of share capital, grants, loans and subsidies. Simultaneously government control was high in the form of government representatives on the board and crucial role and control of the registrar. Over a period of time, the situation deteriorated with cooperatives becoming highly politicized institutions, marred by inefficiencies and large bureaucratic structures. Governance and management problems led to many cooperative failures.

Identified as one of the key factors that contradicted the very basic principles of cooperation, namely democratic control, autonomy and independence of the cooperative as an entity. In response to long debate about the restrictive nature of the cooperative laws and the overbearing role of RCS, and the long struggle of genuine cooperative promoters and well-wishers, a policy response in the form of 'Parallel Cooperative Acts' surfaced. The Andhra Pradesh Mutually Aided Cooperative Societies Act, Bihar Parallel Cooperative Societies Act and Self-Reliant

Cooperative Societies Act Uttaranchal falls in the second category of liberal, more progressive acts. Successful cooperatives under the new act have been promoted by one such organization Cooperative Development Foundation in Andhra Pradesh. The new series of acts provide for minimal control of the registrar and have enabling provisions with respect to member control over the management of the cooperative. At the same time, these acts also increase the onus of the members in running the cooperatives successfully.

SELF HELP GROUPS

Based on the concept of self and mutual help, SHGs as collectives of poor especially women were introduced to the world by the successful micro finance intervention of Bangladesh namely, Grameen Bank. Simultaneously in India, organizations such as MYRADA and SEWA experimented with such collective groups, with minor differences for mainly savings and credit activity. Even government schemes such as DWCRA which had groups of 15 to 20 women as the unit for delivery of funds fro income generating activities. In the following years, the concept got government recognition as the new instruments for channelling development assistance. This recognition was mainly in the area of rural finance, though later the large scale poverty alleviation programmes such as the District Poverty Initiatives Project (DPIP), running in Andhra Pradesh have taken SHGs as units for various livelihood interventions such as marketing of agricultural produce. In finance, the National Bank for Agricultural and Rural Development (NABARD) became the key agency for the implementation of the SHG Bank Linkage programme. Over the years, all developmental approaches of the government and now even international development agencies such as the cluster approach of UNIDO are now centred on SHGs. The SHG based interventions in finance and other livelihood activities and issues related to SHGs are dealt with in subsequent chapters.

MAJOR CHARACTERISTICS

- Formed around principle of mutual self-help
- Mostly formed around savings and credit
- Membership is mostly socio-economically homogeneous
- Mutual collateral, joint liability and mutual monitoring to compensate for individual Collateral

TRADE UNIONS

A Trade Union is a temporary or permanent combination formed primarily for the purpose of regulating the relations between workmen and employers, or between workmen and workmen or between employers and employers. Thus even employers can form and register trade unions.

Any federation of two or more trade unions is also a trade union. There are almost ten major central union organizations of workers based on different political ideologies. Almost every union is affiliated to one of these. These central organizations have state branches, committees, and councils from where its organization works down to the local level. The first central trade union organization in India was the All India Trade Union Congress (AITUC) in 1920 - almost three decades before India won independence. The Trade Union Act 1926 facilitates unionization both in the organized and the unorganized sectors. It is through this law that the freedom of association that is a fundamental right under the Constitution of India is realized. The right to register a trade union however does not mean that the employer must recognize the union – there is in fact no law which provides for recognition of trade unions by the employers and consequently no legal compulsion for employers, even in the organized sector, to enter into collective bargaining. Yet in reality because of the strength of particular trade unions there is fairly widespread collective bargaining, especially in the organized sector.

MAJOR CHARACTERISTICS

- Mostly used for rights based activities and agitations for workers across sectors- such as farmers, agricultural workers, factory workers
- Provides for protection for members against law during protests
- Most suitable for collectivisations of large number of members.

PRODUCER COMPANIES

The failure of the cooperatives to deliver the expected benefits to their members, and the growing dependence on government support, along with the concerns of such institutions passing into the hands of self-serving local politicians and the growth of government like bureaucracy and corruption led to demands for reforms in the cooperative legislation. This resulted in the formulation and enactment of progressive cooperative laws such as the Multi Sate Cooperative Societies Act, Mutually Aided Cooperative Societies Act (AP). In the same line of thought, to further provide an enabling environment for producer or member owned collective institutions, especially in the changing economic environment of the globe, wherein they have to compete against other players including big private corporations, a new act was envisaged that would combine the unique elements of cooperative businesses within a regulatory framework similar to that of a private limited company. The Act known as the Producers' Companies Act came into force in 2003. Only producers can be the members of the organization. The act provides for greater control over the affairs of the company by the members and minimal interference of registrar and government agencies. Being a relatively new act, the effectiveness as a legal form for collective institution is not clear till date. The context and the provisions of the Act are discussed in detail in the subsequent chapters.

MAJOR CHARACTERISTICS

- Provides for conversion of cooperatives into producer companies

- Ownership of the company in the hands of the members is ensured by restricting share transfer and sale only within members (i.e., producers) of the company
- Raising outside capital in the form of equity is thus not possible

New Generation Cooperatives (NGCs)

A number of writers have suggested that the lack of adequate access to capital is one of the greatest challenges facing traditional cooperatives. This led to the concept of new generation cooperatives in the Western Countries. These types of legal forms have the distinguishing feature of proportional linkage of equity shares and delivery rights. The nearest example in the Indian context is of sugar cooperatives where shares and sugarcane supply are proportionately linked. While there are a number of similarities between traditional cooperatives and NGCs, there are also a number of fundamental differences which make NGCs a unique business model. New Generation Cooperatives retain some key cooperative principles. Although the 'one member, one vote' principle is retained, the NGCs have the ability to give investors voting rights and some control over the activities of the cooperative (discussed in more detail below). NGCs also permit distribution of excess earnings to members as patronage returns.

Another unique feature of the New Generation Cooperatives is the delivery rights. Members generally receive the right (as well as the obligation) to deliver product to, or acquire services from, the cooperative, often in proportion to the number of shares held or the units of investment contributed. A delivery rights contract may be entered into between the member and the cooperative which may provide for the quantity, quality and delivery of the product to the cooperative; the price to be paid to the producer for the product and remedies in the event of non performance by either the producer/member or the cooperative.

The main drawback of the NGC model is the issue of control and whether control should be lodged in the members or investors. The issue may be influenced by the need for capital and which model is best suited to raise the capital required.

Summarization of Collective Forms

The following table integrates both types of classification of collective institutions along with their main features:

Form	Sectors	Governing Acts/Guidelines	Major Characteristics
Cooperatives	-Farm & Non-farm production and marketing collectives, -Credit Collectives -SHG Federations -Water Users' Associations -Joint Forest Management Groups	-Respective State Cooperative Societies Act -Parallel Cooperative Societies Act (of respective states) -Water/Irrigation policy guidelines of centre/state -Forestry policy guidelines of centre/state	-One member one vote -Surplus distribution in proportion to transaction with cooperative -User charges based on usage of services or as per policy guidelines in water & forestry -High government control & politics in cooperatives under old acts -High member control and responsibility in cooperatives under new acts
Trade Unions	-Agriculture -Factory workers (organized) -Workers in unorganized sectors -Pursuing livelihood activities -Social Movements	-Trade Union Act 1926 (Central Act)	-Suitable for large membership associations -Provides protection to members against legal action during protests -Can receive grants from external agencies including foreign donors -More than 50 percent members have to be workers -Used mostly for agitations, rights based, policy advocacy activities
Self-Help Groups (not a legal form)	-Savings, credit and microfinance -Cottage level enterprises	-No legal act governing SHGs -NABARD guidelines followed by Banks for transaction purpose	-Formed around mutual self-help -Mutual monitoring, joint liability substituting for individual collateral -Mostly formed around credit or cottage enterprises with local reach
Producer Companies	- Farm & Non-farm production and marketing collectives	-Producer Companies Act 2003 (Central Act)	-Member owned companies, protection against overtake by non-members -Less control of government and more control of members

FORMS OF NON-GOVERNMENTAL ORGANISATIONS (NGOS)

Any organisation working for a social, cultural, economic, educational or religious cause is termed as an NGO. NGOs have made favourable indents to needy sections of Indian society at par with a constantly changing socio-economic climate. NGOs have reached out to all sections of society including women, children, pavement dwellers, unorganised workers, youth, slum-dwellers and landless labourers. NGOs are viewed as vehicles of legitimization of civil society.

An NGO can be formed under various legal identities:

(i) **Society** registered under Societies Registration Act, 1860.

(ii) **Trust** (Formed under the Trust deed and registered with Income Tax Authority.)

(iii) **Limited company** incorporated under section 25 of the Companies Act, 1956

SOCIETY

The most common form of non-profit organisations in India is a Society. A Society is formed when people come together to do something with some common purpose, which is legal and useful for others. A society should generally not get into profit making activities.

FORMATION OF A SOCIETY

1. Seven persons enjoin for a common purpose

The first step in forming a society requires the coming together of seven (or more) persons who have agreed to pursue a common objective. Please note that the seven members or more may be comprised of one or all foreigners, a limited company, a partnership firm or another registered society.

2. Society's Objective to be literary, scientific or charitable

Section 20 enumerates the purposes for which a society may be registered under the Act.

3. Naming the society

The members can arrive a suitable name which gives a clue as to the character of the society, which does not amount to an improper use of any name, emblem, official seal specified in the Emblems and Names (Prevention of Misuse) Act, 1950, does not offend or mislead people, which is not the name of a society already existing. The registrar will object to names containing words like government, ministry, bank, suggesting involvement with the government, which is not allowed. The name of a society can also end with the word "Trust".

4. Drafting the Memorandum of Association and enrolment of members

The Memorandum of Association ("MOA") is perhaps the most important document of a registered Society since it contains the conditions of association of the members and its Objects Clause dictates what can and cannot be done by the members of the Society. As a Charter of the Society, it should ideally include name, objects, details of Governing Body and signatures of subscribers.

5. Registration of Society

The registration of a society is important to give the society a legitimate identity and a legal status and particularly more so when viewed from the consequences and benefits which flow from such fulfilling the legal formality of registration of society.

TRUST

The three parties (settlor, trustee and beneficiary of trust) are linked by a trust deed which documents the relationship inter se and vis-a-vis the trust property. Trusts are commonly classified as private/family and public trusts. The main difference between a private and public trust is that while the beneficiary of a private trust is one or a few individual (mostly family members of the donor); the beneficiary of a public trust is the general public. For the purposes of forming an NGO ensuring public benefit a public trust can be formed.

There are two statutes relevant to functioning of Trusts in India: The Indian Trusts Act, 1882; and Charitable and Religious Trusts Act, 1920. Public trusts are however governed by general law, though the principles forming the basis of the Indian Trusts Act can be applied in the case

FEATURES OF A TRUST

A Trust is created when a donor attaches a legal obligation to the ownership of certain property based on his confidence placed in and accepted by the donee or trustee, for the benefit of another.

The persons who intends to create the trust with regard to certain property for a specified beneficiary and who places his confidence in another for this arrangement is called the Author of the Trust; the person who accepts the confidence is called the Trustee; the person whose benefit the confidence is accepted is called the Beneficiary; the subject matter of the trust is called Trust Property.

Charity is a matter for State control, so different States of India have their own legislation in the form of Trusts or Endowment Acts to govern and regulate public charitable NGOs. Endowment is the dedication of property by gift or devise to religious or charitable uses and in a generalized context trusts include endowments also. A religious endowment or trust is one that has for its object the establishment, maintenance or worship, of an idol or deity, or any object or purpose subservient to religion.

The Trustees control the trust's assets and decide how the income (and capital) of the trust is to be distributed, and ensure that it is in line with the charitable purposes of the trust.

A trust must be created for a lawful purpose. The author of the trust must indicate with reasonable certainty the following:

- Intention to create trust
- Purpose of the trust
- Beneficiaries of the trust, and
- The trust property

A public trust is of permanent and indefinite character. A public trust benefits the public at large or at least a section of the community. The property forming subject matter of the trust must be capable of being transferable to the beneficiary - thus property that is inalienable by virtue of public policy or statute does not form valid subject matter for a trust. In terms of section 8 of the Indian Trusts Act, there cannot be as a trust of a beneficial interest under a trust i.e. there cannot be a trust upon a trust.

FLEXIBILITY IN NAMING TRUST

Trust can be named as family name, or name of an honorable person. The organisation can also be called a "foundation" or "charity" or any similar terms as these words are practically interchangeable in a legal sense.

The comparative table for three forms of registration for NGOs in India

Description	Society	Trust	Company
Act under which it is registered	The Societies Registration Act, 1860	The Registration Act 1908	The Companies Act, 1956
Ease of Formation	Relatively simple, it may take 1-2 months.	Very simple, it may take a week	Relatively complicated, it may take 3-6 months.
Authority with whom to be registered	Registrar of Societies of the concerned State	Sub-registrar of Registration at District level	Registrar of Company of the concerned state
Approval of Name	Seprate application not required. Name is generally granted if available	Not required	Separate application is required to be made. There are strict guideline for approval of name.
Minimum no. of subscribers/ trustees required	Seven	Two	Two
Cost of Registration	Less than Rs. 10,000/-	Less than Rs. 10,00/-	Less than Rs. 25,000/-
Governing Structure	Two tier structure a) General Body b) Board of Directors	Single tier structure the Trustees are the ultimate authority	Two tier structure a) General Body b) Board of Directors

The 1995 ICA Statement on the Cooperative Identity

A. DEFINITION- A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

B. VALUES- Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

C. PRINCIPLES- The cooperative principles are guidelines by which cooperatives put their values into practice.

1st Principle: VOLUNTARY AND OPEN MEMBERSHIP

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote), and cooperatives at other levels are also organised in a democratic manner.

3rd Principle: MEMBER ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation,………..cont.

………..cont..

if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: AUTONOMY AND INDEPENDENCE

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: EDUCATION, TRAINING AND INFORMATION

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

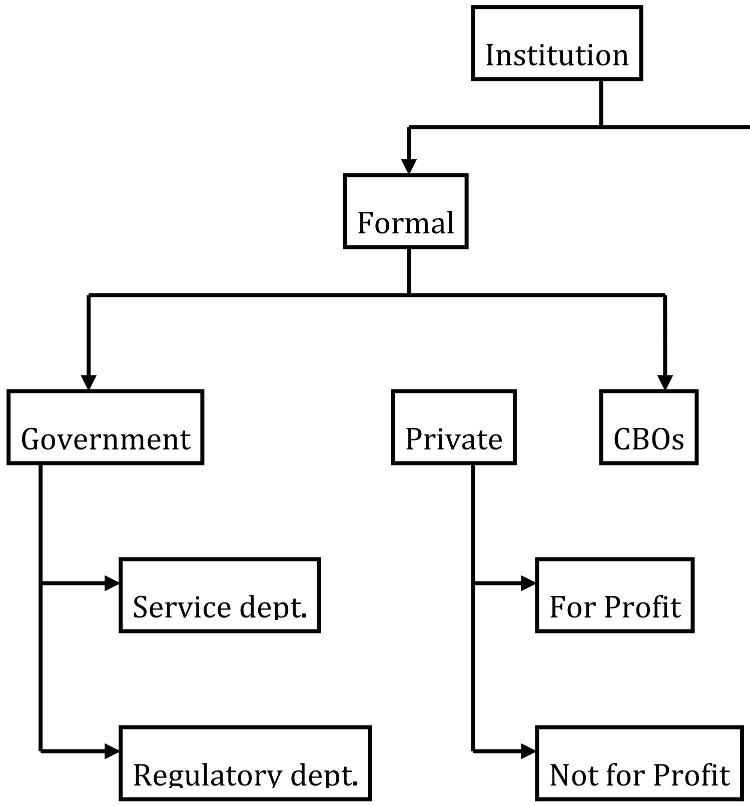
6th Principle: COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7th Principle: CONCERN FOR COMMUNITY

Cooperatives work for the sustainable development of their communities through policies approved by their members.

TYPE OF INSTITUTIONS



Formal Organisation

- Registered under some Act (or)
- Recognised by the Government
- Established by the Government

Examples of registered organisations:

a) ____________________________

b) ____________________________

c) ____________________________

d) ____________________________

Examples of organisations recognised by the Government:

a) SHGs

b) Water Users Associations

c) School Education Committees

Examples of organisations established by the Government

a) SERP

b) Primary Health Care Centres

c) Police Stations

d) MRO Office

Organisations established by the Constitution are inevitably formal organisations.

Examples of Informal Organisations

a) Collective actions that come up temporarily to undertake some actions

b) Caste panchayats

Formal organisation can interact with other organisations on its own name. Thus, it can open the bank account in its name, approach the government for permissions to do various types of business, etc.

Other characteristics that differentiate formal organisations from informal organisations are:

- Membership in the organisation is definite.

The organisation has a register of members. To be eligible for entry into the register, a person should have done a specific activity to become a member. Examples of specific activity are taking shares, paying membership fee, signing a request form.

- Goals are agreed and written

The goals towards which the organisation would work are agreed and are in a written form. The organisation could be restrained if deviating from the written goals.

- Organisation structure is clearly defined.

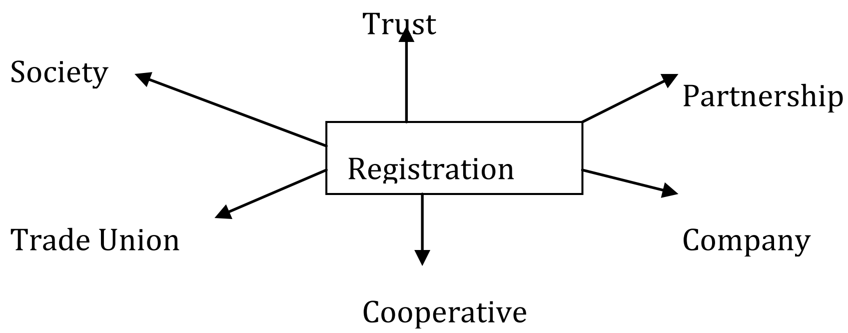
Leadership, roles and responsibilities of people and chain of command are clearly defined.

- Appropriate systems exist in the organisation.

Systems that promote transparency (like proper accounts for the money received, giving proper receipts, maintaining minutes of meetings, accountability systems) are present.

To be able to command faith among the neighbourhood, the organisation should not only be registered but also possess the above characteristics of formal organisation.

Fig: Different Legal Forms



Terms Introduced

Two sets of rules exist in registered organisations. The first set of rules governs the interaction between the organisation and other entities. This set of rules is generally labelled as '**memorandum of association**'. The second set of rules governs the relations between the organisation and its members. While this set of rules is called '**articles of association**' in case of company, they are called '**bye-laws**' in others.

The rules contain: procedure for enrolment and removal of members, membership rights, procedure for constituting the governing body/board/executives and their functioning, procedure for general body meeting/special meetings, etc.

The liability of the members of an organisation could be limited to the extent of their share (or other agreed amount) (**limited liability**) or could be to the full extent of the liability of the organisation (**unlimited liability**). In situations where the organisation is not registered but unlimited liability is enforced, then the liability is also called **joint and several liability**.

EMERGING FORMS OF COLLECTIVES: PRODUCER COMPANIES

We have already discussed that the choice of the legal form in itself would be determined by external factors such as permitted legal forms, merits and demerits of each in light of enabling or discouraging the objectives of the collective. Apart from all of these, another factor that would influence the choice of a legal form in the coming times is the process of changes in the economic environment at the macro levels. In this chapter we would discuss the context for the origin and followed by the concept and main features of the producer company. The last section gives an update on the usage of the producer company form across the country for people's collectives.

CONTEXT/ NEED FOR NEW INSTITUTIONAL FORMS

Limitations of Older Institutional Forms In order to make use of the opportunities brought with these changes and also to tackle the challenges emerging from the changing face of the markets, new institutional forms that are more flexible and responsive to these changes and are professionally managed are required. Especially with regard to the existing types of community based collective institutions mainly the cooperatives, the problems of bureaucratic control, lack of professional management and poor capital formation constrain the ability of the collective institution to survive and compete effectively in the fast liberalizing market place. But at the same time, there is a need to preserve the values and principles of the old institutions. In this context, the demand for new legal framework for governing cooperatives emerged. This resulted in the enactment of new more liberalized parallel cooperative societies acts in various states. This has already been discussed in the previous chapters.

CONCEPT OF PRODUCER COMPANY

In this context, the Government of India appointed a High Powered Committee headed by noted economist Dr. YK Alagh to come up with a legislation that enabled incorporation of cooperatives as companies and conversion of existing cooperatives into companies and at the same time ensured that the proposed legislation accommodates the unique elements of cooperative businesses within a regulatory framework similar to that of a private limited company. The new act, thus proposed came in to force on February 6 2003, and is known as the Producer Companies Act.

The report of the commission also reiterates the need for a new legislative framework in the following manner:

The Companies Act offers a statutory and regulatory framework that allows for competition on an equal footing with other forms of enterprise. If the Companies Act is suitably adapted to serve producer-owned enterprises, *their registration as companies will go a long way to advance the interests of producers. Provisions already exist for the formation of diverse types of Companies: private limited, public limited and trusteeship companies as well as nidhis. Further, it may be noted that in many parts of the world where cooperatives play a major economic role as successful, producer-owned businesses, they operate within the same legal framework as companies. The Government of India has recognized that, in a market economy, rural producers are at a potential disadvantage given their generally limited assets, resources, education and access to advanced technology. In the present competitive scenario, if cooperative enterprises are to continue to serve rural producers, they require an alternative to the institutional forms presently available under Law. The best way of achieving the same, in our view, is to adopt the provisions contained in the draft Bill for the creation of specially-devised Companies called "Producer Companies". These Companies would blend many of the features of a limited company with the principles and practices of mutual assistance, or cooperation.*

MAIN FEATURES OF PRODUCER COMPANY ACT

As mentioned in its report, the following considerations were kept in mind by the Committee to form the new legislation:

• To provide producer companies with equality of treatment with both private limited and

public limited companies;

• To retain the principles of mutual assistance that emphasize voluntary Membership, democratic decision-making, patronage rather than capital, distribution of surplus based on patronage, education of Members;

• To enable rather than prescribe;

To encourage professionalisation and modern management,

• To remain fundamentally consistent with the other provisions of the Companies Act

The Producers' Companies legislation enables the registration and operation of producer companies, wholly-owned and self-regulated by users, managed by professionals in the users' interest, in a manner consistent with the principles of mutual assistance : voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation with similar enterprise; and concern for the community. The main provisions from the legislation are discussed briefly below:

DEFINITION OF PRODUCER COMPANY

The term `Producer Company', is meant to indicate that only certain categories of persons can participate in the ownership of such companies. The members have necessarily to be `primary producers,' that is, persons engaged in an activity connected with, or related to, primary produce.

Principles of Mutual Assistance52

The Producer Company must operate in consonance with the Principles of Mutual Assistance which include:

i. Voluntary Membership;

ii. Democratic governance;

iii. No privilege to Capital;

iv. Equitable distribution of surplus;

v. Education of Members, leaders, employees and the general public;

vi. Cooperation with similar organizations.

FORMATION

Ten or more individuals may form a Producer Company and get it registered. In the case of Producer Institutions however, two or more would suffice.

MEMBERSHIP, VOTING RIGHTS & TRANSFER OF SHARES

In a case where membership consists solely of individual members, the voting rights shall be based on a single vote for every Member, irrespective of his shareholding or patronage of the Producer Company. In a case where the membership consists of Producer Institutions only, the voting rights of such Producer Institutions shall be determined on the basis of their participation in the business of the Producer Company in the previous years. In a case where the membership comprises of both individuals and Producer Institutions, the voting rights shall be computed on the basis of a single vote for every member. Only members may purchase voting equity in the Company. Member equity is not tradeable but may be transferred, with Board approval, to another active Member who meets the conditions specified in the Articles.

BENEFITS TO MEMBERS

Every member shall on the share capital contributed, receive only a limited return. The surplus, if any remaining after making provision for payment of limited returns and reserves may be disbursed as patronage bonus, amongst the Members, in proportion to their participation in the business of the Producer Company.

OPTIONS TO INTER-STATE COOPERATIVE SOCIETIES TO BECOME PRODUCER COMPANIES

Any inter-state cooperative society with objects not confined to one state may make an application to the Registrar for registration as Producer Company.

Governance

In general, the **Board** is responsible for formulating, supervising, and monitoring of the performance of the producer Company. The Board may make recommendations in the case of those matters reserved for decision of the General Body.

The **Chief Executive** is responsible for the direction of the day-to-day management of the business including operation of bank accounts, approving expenditures, signing documents, ensuring maintenance of books and records, convening meetings of Members and the Board, appointment, supervision and termination of employees. In addition, the Chief Executive should assist the Board in the formulation of plans and policies and advise on legal and regulatory matters.

SESSION: 12

INSTITUTIONAL PLANNING AND DEVELOPMENT

WHAT IS INSTITUTIONAL DEVELOPMENT?[7]

Institutional development is here defined as the process by which individuals, organisations and social systems increase their capacities and performance in relation to goals, resources and environment.

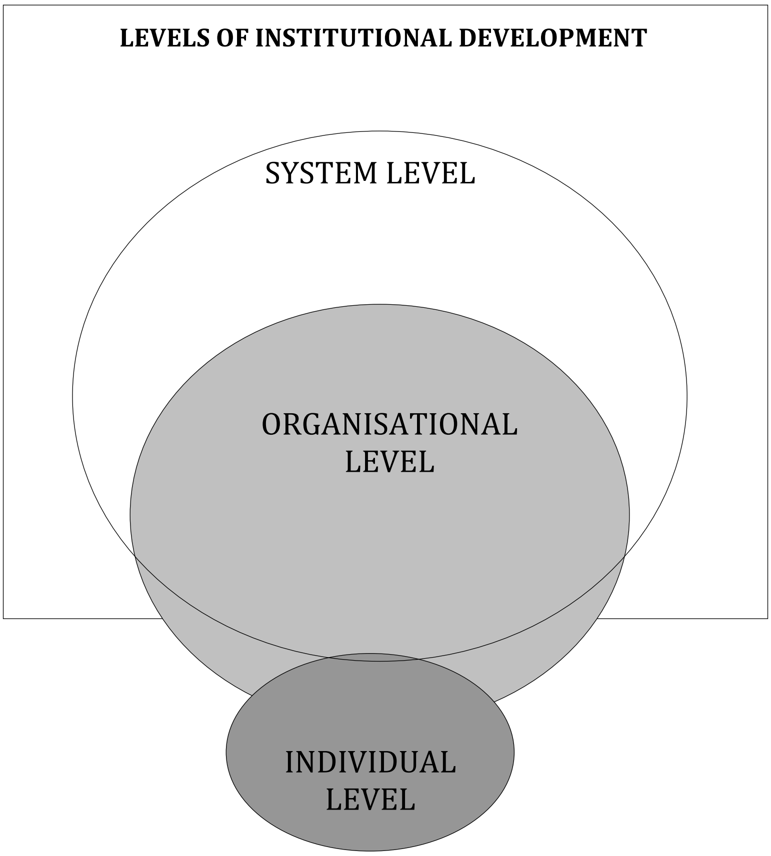
Other terms have also been used to define the same process. Some agencies use "capacity development" interchangeably with institutional development, or as an even broader process.

"Capacity" may be defined as the ability of individuals, organisations and broader systems to perform their functions effectively, efficiently and in a sustainable way. Capacity is then the power or energy which determines performance and sustainability and becomes as such the target for institutional development efforts.

LEVELS OF INSTITUTION DEVELOPMENT

It is important to keep in mind that institutional development consists of, but goes beyond, human resources and organisational development. It also involves change in and transformation of social systems. As illustrated by the diagram below, institutional development embraces three levels: individual actors, organisations, and social systems, and consists of a broad range of activities at each of these levels.

-Drawn from NORAD



It should also be emphasised that the concepts of institution and organisation are related, but not identical. Institutions refer mostly to the system level and the norms, values and regulations which guide and constrain the behaviour of individuals and organisations in a society ("the rules of the game"), while organisations are the actors or "players" within a system. This distinction has become very important in new sector-wide approaches. A country's health sector, for example, may be regarded as an institution made up of many interrelated organisations and ruled by a set of joint formal and informal norms and regulations.

The failure of many development projects can often be attributed to a narrow view of institutional development when defined in terms of individual skills and organisational characteristics. Often missed are important dimensions at the policy or legislative levels, or in supporting processes and frameworks. If all levels and dimensions of institutional development are not addressed, the potential of sustainable development might not be realised to its fullest extent.

A major dimension of institutional development is at the **individual level**. It is at this level that we find people and actors, including small networks and groups – participants in and managers of projects. They are the smallest and often most basic building blocks serving the requirements for individual competence, and representing conditions for any project or organisation to function efficiently and effectively.

There are further dimensions of institutional development that need to be developed at the **organisational level** whether the organisation is a government, a private sector firm or a community-based organisation. These relate to the organisation's strategy, management, finances, administration, culture, etc.

The **system level** is the level extending beyond the organisation. System-level aspects include overall policies, rules and norms governing the mandates, priorities, modes of operation, etc. within and across the respective sectors.

All three levels are necessary for improving institutional performance.

GROUP EXERCISE

UNDERSTANDING NUANCES OF INSTITUTION DEVELOPMENT PROCESS

Given below are group of questions, which raises institutional design or process issues in promotion of Community Based Endogenous Tourism models in villages. Please read them carefully, discuss in your group the reasons and also potential solutions so as to make a presentation at the plenary.

Nepura in Bihar is a village where UNDP has decided to promote Endogenous Tourism. It is one of the villages which fall in the Buddhist circuit comprising of Nalanda – Rajgir – Bodh Gaya. The village once upon a time had vibrant weaving enterprises. But over period of time due to a variety of problems the profession has become weak. As part of the project design to attract tourist to the location it was thought that the weaving cluster has to be revived. It was planned that as tourist arrival increases weavers income will improve. Almost 2.5 years have passed and the local NGO despite several rounds of discussions with weavers is unable to motivate weavers to organize and initiate improved production. What could be the reasons for the weavers' lack of interest and what potentially can be done to address the issue systematically in institution development process?

Hodka in Kutch, Gujarat is located right in the famous grasslands. The ecological significance of the location and the diversity of species both fodder and animals is a wonder to be seen and cherished. As part of the Endogenous Tourism Promotion, UNDP along with GOI had invested nearly Rs 10 million in constructing an aesthetically designed small holiday resort. The construction rightly depicts the traditional housing structures and local layouts. Local communities have been entrusted the responsibility of managing the resort. The promoting NGO had taken sufficient steps to advertise the location and attract tourist. The resort was showing steady and significant tourist occupation. The community was able to charge premium rates for the experience. 4 years have passed by and the community is realizing that they are losing money every day. What could be the reasons and how do you think these issues would have been addressed during the initial stages itself?

Samode near Jaipur in Rajasthan is located near one of the famous forts of constructed during the Rajputs era. Under the Endogenous Tourism promotion process the village was chosen due to its proximity to the fort and vibrant crafts groups. Unlike other villages this village has at least 5 groups of artisans working together. There are communities earning livelihoods by producing toys, bangles, footwear, metal works and hand woven fabrics. The promoting organization thought that a steady inflow of tourist will provide sufficient income for these groups. Also these groups can be attractive locations for tourist interested in understanding and getting educated about crafts group. The program has allocated Rs 2 million as software component to promote institutions and develop communities. The project coordinator at the end of project discovers that none of the crafts groups are vibrant. One major reason is insufficient funds and resources. What could be done while developing the institutions?

1. Tarangambadi, Nagapattinam District, Tamil Nadu is one of the fishing community village. As most other fishing villages it is located right at the coast. For the tourist the attractions are many – it has beautiful churches, old Portuguese fort, attractive wooden houses constructed in traditional way and clean and silent beach. When endogenous tourism was promoted it really improved the local communities' livelihoods. The village is quiet popular and has seen rapid influx of tourists. Slowly a variety of restaurants serving international cuisine and providing stay facilities emerged. What could be the potential negative effects of flourishing tourism industry? How could these be avoided through systematic development process?
2. Ethikopakka, Vizag District, Andhra Pradesh is one of the few wood toy clusters in the country. Located very near to a perennial river tributary and dense forest it offers the right opportunities to for adventure, educational and culture tourism. Located almost 60 kms away from the nearest town the village is really interior. When the location was selected many thought that it would never develop as a tourist attraction. However, due to its inherent potential sizable tourist travelled to the location to experience the country side. During the early stages two incidents shocked the local community – one when a foreign tourist in the middle of the night suffered heart stroke and passed away and second when a gang of robbers

simply took away all the possessions of tourist in the local resort. What are the implications in the development and design of institutions for Endogenous Tourism?

3. Jyotisar, Kurukshetra District, Haryana has religious significance. It is said that Lord Krishna had preached Bhagvat Gita to Arjuna here. Since it is religious village caste (functional) hierarchies still strongly persist. A corporate foundation, the local endogenous tourism promoting organization, with strong pro – poor orientation worked only with the lower and backward castes of the village. It attempted to develop home stay facilities and develop enterprises like restaurants, small resorts and garmenting unit. Soon it realized that the intervention is plagued with insufficient facilities, lack of literate youth and community unwilling to take enterprise risk. What are the implications on the design of the interventions and institutions?
4. Dommkar, Ladakh is famous for its pristine beauty, Buddhist stupas and monastery, scenic view points and local arts and crafts. It is inaccessible for almost seven to eight months of the year due to heavy snow fall on the roads leading to the region. Tourist inflows are seasonal and local groups are not ready to invest in learning new skills and designs to produce products of high quality for sale to the tourist. What are the implications in the design of the intervention and handholding support?
5. Promotion of the livelihoods groups of crafts is one of the major components to strengthen the community based endogenous tourism approach. Raghurajpur, Puri District, Orissa is the traditional village famous for its beautiful painting and other crafts. For the promoting organization the village community was difficult to motivate and form groups/collectives of artisans. Finally after almost 1.5 years of work the first seeds of the cooperative have been done. The supporting organization realized that it is left with hardly any time (another 18 months) to strengthen the cooperative and make them self managed and sufficient institutions. What are views on the duration of time required in promoting

sustainable institutions around livelihoods? What are the implications in the design of such development projects?

6. District Magistrate Nepura village planned to develop a remarkable interpretation centre to facilitate tourist visit to the villages. The interpretation centre is the central infrastructure planned out of the allocations made for hardware done by the MoT, GOI. The district almost ended up spending Rs. 8 Million on the construction of the centre. The Village Tourism Development Committee a registered public society was entrusted the responsibility of management of the centre and also promote tourism within the village. The Committee incurred the following expenditure in a year –

#	Expenditure Components	Units	Amount Rs
Fixed Cost Components			
1.	Tourism Advertisements	Per Year	50,000.00
2.	Electricity Bill	Per Year	15,000.00
3.	Building Maintenance	Per Year	10,000.00
4.	Salaries (Watchmen & Accountant)	Per Year	24,000.00
5.	Salaries of Workers	Per Year	2,400.00
6.	Meeting Expenditure	Per Year	3,600.00
7.	Annual General Body	Per Year	2,500.00
8.	Annual Report	Per Year	3,750.00
9.	Audit & Legal Compliances	Per Year	2,000.00
10.	Miscellaneous	Per Year	5,000.00
11.	Interest on Capital (Working Capital)	Per Year	10,000.00
	Total Fixed Costs	Per Year	126,250.00

Notional Costs			
A.	Machinery & Electrical Equipment Depreciation	Per Year	25,000.00
B.	Building Depreciation	Per Year	800,000.00
	Total Costs (Fixed + Notional Costs)	**Per Year**	**951,250.00**

The interpretation centre has a workshop central hall, space for 4 shops, 2 rooms for offering stay facilities and a small restaurant. Now the VTDC has the task to plan the revenue sources to meet these costs. Can you help them do the planning and do you really think that they can run a viable interpretation centre and VTDC? Can you also reflect on at what stage of intervention or hardware construction should the community institution of VTDC be involved?

1. Chitrakote is called the Indian Niagara and is located in Bastar District of Chattisgarh State. Predominant tribal population has its own culture and life in this place which seems to be at least a few decades behind the outside world. This was considered to be the unique selling proposition for the Endogenous Tourism location. The program was initiated 5 years back and was closed 2 years back. UNDP Program Coordinator Mr RK Anil on his personal visit was inquisitive to figure out how the project was considering Chitrakote was projected as major success in end of evaluation reports. On his interaction with the villagers he was disappointed to figure out that the locals had nothing to do with the flourishing tourism business. Private players whom the project invited as part of institutional partnerships had thrown out the local tribals from the project and had got staff from rural villages of Andhra Pradesh. Apparently the youth of South India are ready to work at cheaper rates, are more educated and do not leave the job frequently. Similarly the agents of marketing of crafts group have grown

wealthier and seem to own lots of property including a local film hall while the crafts groups are in the same state of desperate living dependent on agents for daily wages and subsistence. Chitrakote was hailed as model for community – state – private partnerships. Years have gone but the poverty situation has not changed and RK Anil was left aghast. What are the reasons for such failure? Implications on institutional design and handholding support?

2. Mana in Chamoli District, Uttarakhand is considered to be the gateway for heaven. It has religious significance for Hindus, the last village in the Indian soil in that region and trekkers paradise. Amazingly due to its natural advantages the Tourists visiting this place during the season are sizable and the local institutions developed during the endogenous tourisms project are functioning viably, self sufficiently and with great enthusiasm. What do you think are the reasons for such a success? What factors in handholding would have made the difference in the work? Can you imagine the road map that the promoting organization would have followed to achieve the tremendous success?
3. Neemrana, Alwar District is famous for the Neemrana Fort restored as heritage resort by the Nimrana Group of Hotels. It is also has historical significance and the Endogenous Tourism project promoted home stay facilities in the village. Each household invested nearly Rs 50 to 100 thousand to improve the stay facilities and provide clean and enjoyable stay. Since the project did not have provision for the funds the promoting organization arranged for bank loans to these households. Alwar is just 30 kms away and it falls on the Jaipur – Delhi Highway famous for its farm houses, rest houses and other facilities to stay. After few years of the project the bank approached the villagers to pay back their defaults in loan. But the Bank Manager is surprised to see poor state of borrowers. What could be the reason? What are the implication on planning and handholding?

4. The village Panchayat on Anegondi, Koppal District, Karnataka is in logger heads with the VTDC (registered society) on the ownership rights of the interpretation centre constructed during the Endogenous Tourism Project. Initially the Gram Panchayat represented by the Sarpanch never showed interest in the project. But since the tourist inflow has increased and the VTDC is running with sufficient profits and funds it now wants a share on the earnings. Also the Gram Panchayat claims that since GOI funds have been used in construction of interpretation centre it has the first right of ownership. Who owns the interpretation centre? How do these issues get resolved?
5. Nagarnar is a tribal village in Bastar District, Chattisgarh State. Famous for its variety of crafts groups – tussar weavers, natural dye experts, medicinal plant extractors, potters and bell metal artisans. These artisans are famous across the World. During the Endogenous Tourism Project period the promoting organization developed nascent groups of livelihoods and could not sustain the efforts post project period. The groups are suffering multiple problems now –
   a) The District Magistrate has closed the interpretation centre as few tourists have reported food poisoning after eating food in the restaurant. A case has been registered on the entire village community as the District Magistrate could not figure out whom to hold responsible.
   b) The crafts groups which were selling some articles to the foreign tourist have got a notice from the sales tax department to pay a huge sum of Rs 1 Million (calculated as the total tax due, interest for default and fine amounts) for failing to file tax return all these years.
   c) The groups figured out that each of the craft group, tourist guide group, interpretation centre entrepreneurs are incurring almost unviable costs for advertisement and marketing.

d) While the Tourist were visiting the place no repeat or word of mouth recommendation of the place was being done by previous visitors due to lack of hygiene and sanitation facilities in the village surroundings.
e) And finally recently one of their tourist guide a local youth who was enterprising (picked up English, local knowledge etc) has been jailed by Forest Authorities in the case of poaching endangered species in the forests adjoining.

What could be the reasons for these multiple problems? What are the implications on the design and handholding process?

UNDP along with Ministry of Tourism invested nearly Rs. 40 Million in developing the website for Endogenous Tourism (interlinked with Incredible India Website), developing common Brand (Explore Rural India), promoting the brand and advertising the entire stream. At the end of this effort and UNDP project it was found that there is a steady decrease the number of tourists using the website and also the bookings obtained. The complaints from the users are – most sites contact details are dysfunctional, nothing new appearing in the site, inaccessible places, outdated tariff rates being shown, mismatch in projected site and actual experience, outdated photographs, no testimonials from the sites, no new anecdotes of tourist experience in the site added and many others. What are the implications on the institutional systems? How do such sites survive after the project? What infrastructure and capacities have to be built at the village level to sustain such websites? In an era where latest information is available at the click of mouse what do outdated and non – dynamic data reflect?

SESSION: 13

VIDEO PRESENTATION ON INSTITUTIONAL PLANNING AND DEVELOPMENT

Duration: **1.5 HOURS**

SESSION: 14

CASE STUDY ON INSTITUTIONAL PLANNING AND DEVELOPMENT

CASE OF MULKANOOR DAIRY COOPERATIVES

The following section describes the process of promotion of the Mulukanoor Women's Dairy Cooperative in Karimnagar-Warangal area of Andhra Pradesh. An NGO, Sahavikasa known as Cooperative Development Foundation has promoted more than XXXX women's T&C CC and has been working in this area for over II years. The organization has also been one of the instrumental agencies in the enactment of the liberal and progressive Andhra Pradesh Mutually Aided Cooperative Societies Act in 1995.

Identifying Opportunity for a New Livelihood Activity

In CDF fieldwork area, by the year 1999, women who joined a thrift cooperative (TC) at its start got the eligibility to take the loan up to Rs 10,000 from the TC. To utilize this loan facility for income generating activities, very few organized opportunities were available for them locally. Rural women shared this concern with CDF. Secondly, excess funds were available with the thrift cooperatives and their associations. The cooperative members were also looking for ways to utilize these excess funds. Keeping the experience of rural women in informal dairy farming, CDF conducted a survey56 to know potential of milk available in Mulukanoor Area on Warangal- Siddipet Highway, in Narsampet Area on Warangal-Mehabubabad Highway, and in Wardhannapet Area on Warangal-Khammam Highway. It conducted a survey of milk consumption potential in Warangal City and other peripheral urban areas. Based on the favourable results of the surveys, CDF decided, initially, to assist women in Mulukanoor Area in promotion and development of a cooperative milk procuring, processing, and marketing system. It was also decided to extend this work, subsequently, to Narsampet and Wardhannapet Area.

Planning for the Intervention

The aim of this milk marketing system was defined as 'to enhance the economic and social standards of rural women by procuring, processing, and marketing quality milk and, in turn, giving reasonable rate to the milk producers'. In Mulukanoor area, Sahavikasa planned 71 WDCs, of which 67 were promoted by 2001. To promote these women's dairy cooperatives (WDCs) and their associations (AWDCs), CDF has set up the Dairy Cooperatives Network Division (DCND). With its assistance, women of Mulukanoor Area formed WDCs and their association.

Community Mobilization: Exposure of Potential Members to Dairy Activity

To promote WDCs and expose potential members, women representatives, study visits were organized to Guntur Dairy Union, Kheda District Dairy union in Gujarat, AMUL plant, Sangam Dairy, Vishaka Dairy, Wanaparthy Chilling Centre, Jersy Creamline, Bangalore Dairy and Karimnagar Milk Union. The study visits helped them to gain firsthand experience on the management of dairy cooperatives, understand the tasks of various divisions in the milk union, appointment of suitable staff and their role

Mobilization of Resources for Dairy Plant

CDF invested Rs 331 lakhs as fixed deposits in the Mulukanoor Women's Cooperative Dairy for its establishment. After the completion of formation of WDCs and their AWDC and construction of the dairy plant, the responsibility of its management was handed over to the board of directors of the AWDC, Mulukanoor, in August 2002. The AWDC took Rs 185 lakhs from CDF as call deposits towards the working capital and repaid the total amount. Out of Rs 331 lakhs of fixed deposits, the dairy has repaid Rs 290 lakhs and on 31.03.2006 the outstanding fixed deposits amount with the dairy is Rs 41 lakhs. The AWDC, Mulukanoor, obtained an amount of Rs 168 lakhs towards the working capital from 18 associations of women's thrift cooperatives (AWTCs) and 8 associations of men's thrift cooperatives (AMTCs) of Swakrushi

Movement and repaid Rs 166 lakhs to ATCs. As on 31.03.2006, Rs 2 lakhs of ATCs are still with Diary. This first all women cooperative dairy is now working with a milk union, 100 village level milk societies, and 10,000 milk producers.

Operations of the Cooperative

With 8,000 women dairy farmers as members in 67 village-level milk producers cooperatives, the Mulukanoor Women's Mutually Aided Milk Producers Cooperative, Union started functioning in mid August 2002. Initially, the milk collection was, on an average, 5,000 litres per day (LPD). In December, it became 15,000 LPD. In flush seasons for milk production, the new dairy faced quite a few problems in marketing of milk. MWCD has also been registered under the Macs Act. The processing capacity of the dairy plant is 25,000 LPD, expandable to 50,000 LPD with marginal additional investment.

Capacity Building of Members, Board and Field Functionaries

Apart from the initial exposure visits, CDF has conducted 9 training programmes to WDC residents to create awareness on Swakrushi cooperative movement. The WDC presidents participated in these programmes. To create good understanding of milk societies among WDC functionaries, exposure visits were conducted to successful milk societies. The board of directors elected by the general body was familiarized with their roles and responsibilities, before the elections and registration of MWCD.

Training programme like artificial insemination of milch cattle for veterinary helpers are conducted regularly with the help of Guntur Dairy Union, training centre. After completion of training, reorientation and field experience were also provided. Sahavikasa is trying to collaborate with state Animal Husbandry Department for building the reporting and monitoring systems for the Mulukanoor Women’s Cooperative Dairy (MWCD) veterinary and cattle management services. On the other hand the milk producers are happy with measurement of milk & testing of its quality in their presence and with regular fortnightly payments of their bills.

Linkages for Provision of Technical Support

The National Dairy Development Board (NDDB) installed the plant, on turnkey basis providing the technical support in the construction of the dairy plant. In view of power cuts, sanction of permission for continuous electricity supply was obtained from the department of electricity. Effluent treatment plant to meet the full capacity of the dairy plant has also been erected.

Replication in Other Areas

While the construction of Mulukanoor Dairy was still in progress, CDF started planning to assist women in promotion and development of women's dairy cooperatives in Wardhannapet Area and Narsampet Area, both of Warangal District. In the late 2004, the construction of the second all-women cooperative dairy was started in Illanda Village of Wardhannapet Area. As on 31.03.2006, 84 WDCs with 2040 members were formed. Wardhannapet Women's Cooperative Dairy will start its milk procurement, processing and marketing in mid-2006.

Recently, land was purchased in Laknepally Village in Narsampet Area of Warangal District to start the construction of third all-women cooperative dairy in CDF fieldwork area.

SESSION: 15

INSTITUTIONAL DESIGN ISSUES

Institution Building and Organisation Building are often used synonymously but the processes involved are very distinctive from one another. The following picture sets the differences and the complementarities clearly.

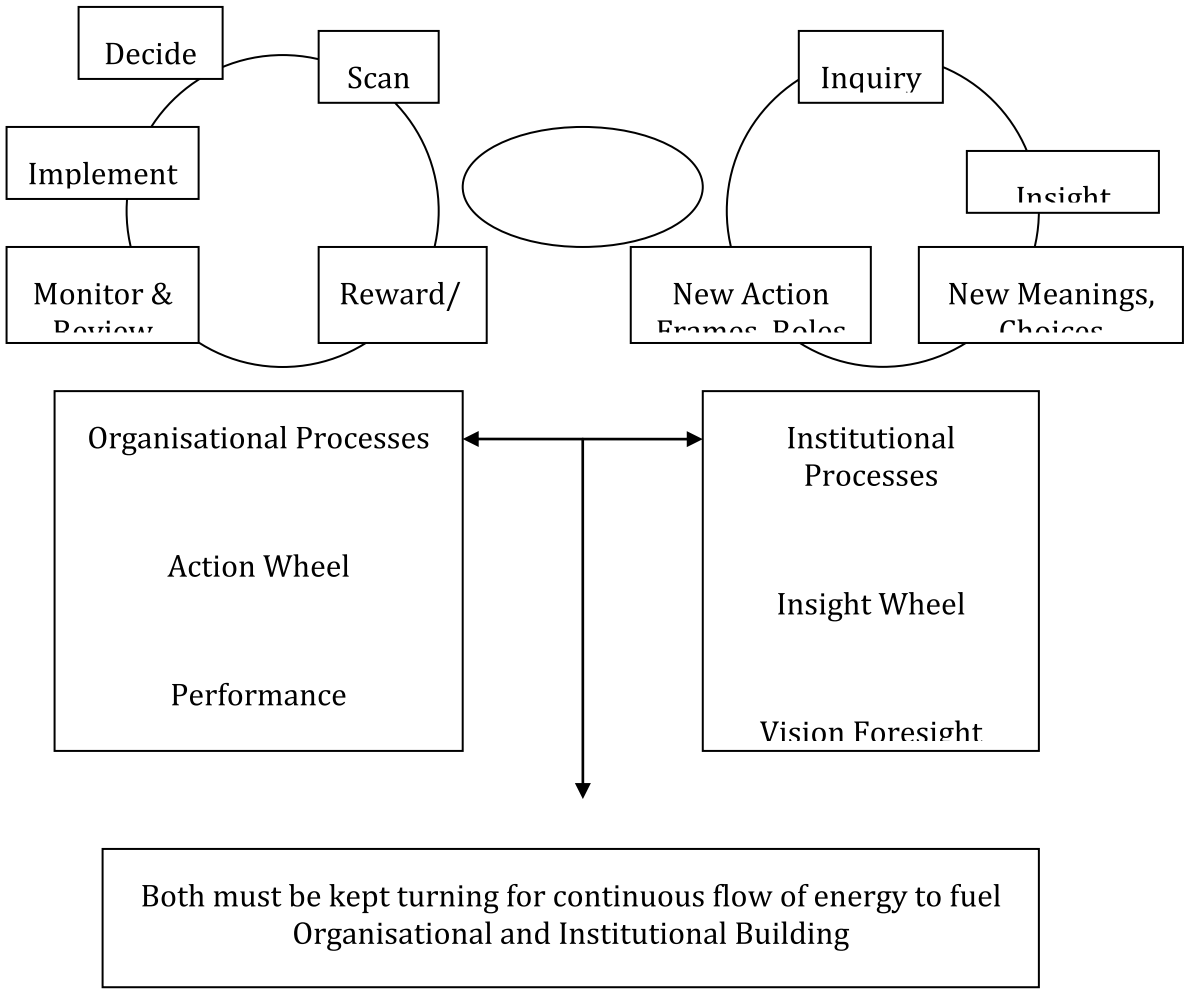


Fig: Building Blocks for Organising and Institution Building

(Adapted from Prof Raghav Rajagopalan)

We will address some of the key issues and the processes related to both institution building and organisation building. For doing this we will consider a simple model of the Collective using Design Concept.

DESIGN CONCEPT OF A COLLECTIVE[8]

How do we define `design-concept' of a successful Collective? Or if we come across a lone example of a successful experiment, how do we figure out whether it offers potential for a robust design concept or not? Design-concept of an organization can be viewed as its central architecture or configuration, particularly as it affects the relationships amongst its members, employees and leaders. It subsumes a testable theory of why this particular method of organizing has greater chances of success than several alternative ones.

Design-concepts vary in the demands they make on domain conditions. Robust design concepts – such as of chit fund groups – are likely to survive and work in hostile domain conditions; in contrast fragile design-concepts require highly favourable domain conditions to work. Robust design-concepts differ from fragile ones in the effectiveness with which they serve purposes important to their members better than existing or alternative organizations do. The proof of this is that organizations based on robust design-concepts come up "swayambhoo" or with little external nudge, continuously propagate and improve themselves, and resist, adapt or mutate when threatened with external assault on their design. Fragile design-concepts do none of these.

In evolving the idea of the design-concept, it is useful to view a Collective as consisting of three inter-connected entities as shown in figure: membership – with clearly articulated criteria for inclusion and exclusion based on the patronage of goods and services and capital or other contributions; the

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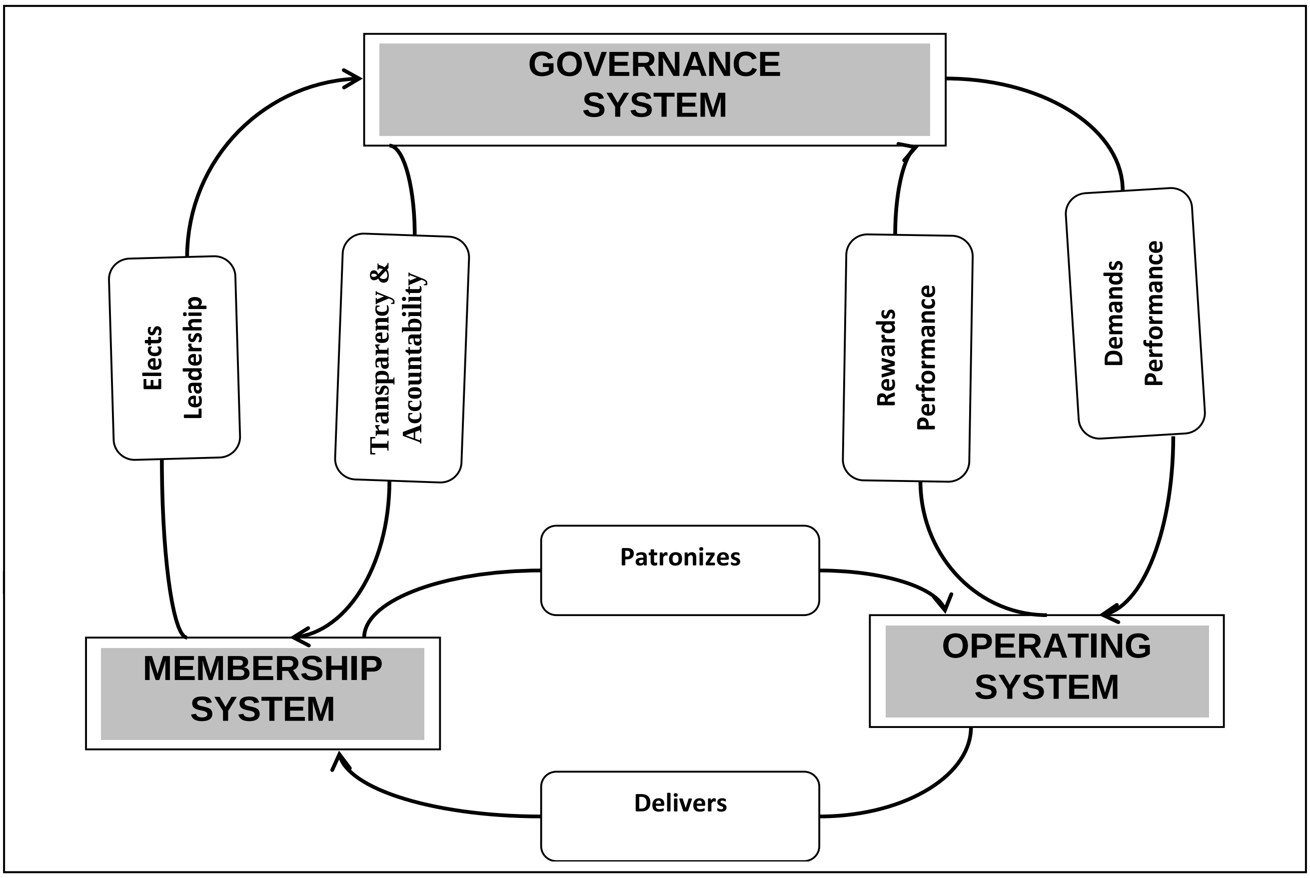
[8] Adapted from Tushaar Shah' note on Design of Energetic Farmer Cooperatives

`operating system' – that performs different assigned functions, and the governance system - that represents the collective will of members through elected members. The operating system delivers a range of products – goods and services – that the members patronize. Members also are obliged to pool the necessary capital either from among themselves or work out arrangements for mobilizing requisite capital for provisioning of goods and services.

Members set out the rules by which they would like to govern themselves individually and collectively; terms of exchange for mobilising and utilising material, capital and other resources required from members and others; terms for offering goods and services to members and others; roles, rights, powers and responsibilities of members, office bearers, employees and others individually and collectively; and extent of dependence on internal (reliance on members) and external resources (reliance on others). A collective, a self-help group, a community organization and a host of other people's collectives are styled on this general format.



The experiences of collectives corroborates the general view that the recognition for collective action often gets triggered among the individually weak or marginalized by being subjected to actual exploitation or by apprehensions about the scope being exploited. The objective of collective is to protect themselves from such exploitation and achieve their own economic development.

Formation of certain social conditions may facilitate or hinder but cannot determine the performance of collectives. The determining factor is emergence of collective will to secure potential benefits that were not possible for the individual through combined effort. This collective will scouts the opportunities, coordinates action to overcome difficulties, channels small individual efforts in a coherent and concerted manner to achieve results and ensures equitable sharing of benefits accrued because of combined effort. Thus the collective will guides the efforts in finding the way or path to traverse to realize development exemplified in the maxim – Where there is a will there is a way.

Adverse social and political conditions may inhibit by thwarting the operation of collective will and likewise the divisive tendencies within the collective. But strong collective will not only offers the binding force for cohesion but also helps overcome disruptive forces both from within and outside. Lack of such effort is a consequence of weak collective will rather than the other way round.

The endurance of a collective is due to continuous and successful efforts of its members with high stakes to shape its malleable design (internal governance and management systems) and in rare cases the very purpose of their collective to strengthen their individual economies. Design elements in this respect evolve more dynamically in the context rather than static and neutral to context and hence less amenable to replicate than usually perceived to be and hence are less amenable for replication.

Design Proposition 1: Core Purpose of the Collective Central to Members

Robust design-concept of a collective aims at purposes, which are central to its members and not to others – including government, donor agencies or implementing organizations. In understanding a collective that has failed, the first question one can profitably ask is: whose purpose was it meant to serve? Canal irrigation collectives in many regions exemplify this: most often, the purpose they are designed to serve is of the irrigation bureaucracy rather than of members; it is therefore not surprising that they have not taken off.

For a design-concept to be robust, it is not enough that the purpose it serves be relevant and significant to members; it must be central, and it should be achievable through some form of collective action.

Design Proposition 2: Get the Right Operating System

The `operating system' is the device organizations evolve and use to achieve purposes important to their members; it includes the business enterprise of the collective, and systems, structures, rules, norms that govern its working. Everything of significance we find in a collective -- other than members and their elected leaders --would generally be part of the `operating system'. In a marketing collective, it will include office, storage and processing facilities, managers, employees, and norms of pooling and for wholesaling, grading facilities and routines.

The design-concept of a collective aiming at purposes central to its members will be robust only to the extent that its operating system is able to find, develop and sustain distinctive competitive advantages so as to out-perform its competitors and/or alternative organizations.

Design Proposition 3: Patronage Cohesive Governance

Patronage cohesive governance implies, in the first place, that supreme policy making authority for the collective is vested in the elected board of members to whom operating system managers are fully accountable. The board functions to ensure achieving purposes for which members patronize the collective remains the touchstone in decision making at all levels in the collective. Patronage cohesiveness thus ensures the double accountability crucial to success: of `operating system' to the governance structure, and of the governance structure to the membership and also rests on ensuring the integrity of transactions.

Design Proposition 4: Securing and Retaining Member Allegiance

Shaping and managing member expectations and behaviour vis-à-vis the collective is the constant and trickiest challenge that faces collective governance structures. Collectives sustain member allegiance over a long period only to the extent that purposes important to their members cannot be served better through other means. The moment new and attractive options become available; the collective should expect to lose its patronage base unless it is able to surpass its new competitors through innovation and improvement.

In the long run, thus, there is nothing as member-loyalty. Functional allegiance of members depends strongly and directly on the extent of `private' benefits but weakly on the collective benefits conferred by the collective on its members. Robust design-concepts build and sustain member allegiance by progressively evolving and enforcing a structure of rights of the members on the collective and of the collective on its members by directly and proportionately linking private benefits with patronage.

Design Proposition 5: Democratic governance system can be strengthened by smaller electoral groups, defining eligibility criteria for membership, criteria for conferring rights to vote, contest and continue in positions of power and share benefits. Right to recall of representatives will strengthen democratic governance.

Eligibility criteria for membership, criteria for conferring rights to vote and right to share in benefits are evolved mostly in terms of duration of membership and minimum patronage in many well functioning collectives. These can be fulfilled only if the collective is able to mobilise the capital for the required facilities. At present, the capital contributions from members are not significant and are not stressed. So the general expectation of members is that the requisite capital comes from others - government, promotional agencies and financial institutions. This erodes autonomy.

Shah (1995: 66) suggests patronage linked voting rights. Under such a structure, people representing greater patronage interests are more likely to occupy positions of power. Many are afraid that then collectives will be dominated by large members. They also often mistakenly believe that equal rights conferred on fulfilling prescribed criteria adequately protects against such domination. These can be checked by defining a permissible ratio between the minimum and the maximum weight that can be attached to a vote backed by patronage and or by stratification of members on the basis of patronage. Such measures recognise the legitimate differences in interests while limiting the possibilities of a few large patrons ignoring the interests of other members.

Both the arguments fail to recognise that positions demand certain knowledge and skills coupled with the right kind of motivation. These are neither equally distributed nor necessarily associated with greater patronage interests. While such knowledge and skills can be supplemented with professional management, the right motivation is inherent to the persons. Thus, the eligibility criteria need to be more in terms of altruistic motivation, high standards of morality, ethical behaviour and devotion to discharge of responsibilities. Many of these go along with the Gandhian concept of trusteeship. Outstanding collectives are built by leaders with such attributes, rather than by people motivated by their patronage or capital interests.

Very few collectives have worked out eligibility criteria to contest and hold office. The underlying assumption is that all the members equally possess the requisite skills and knowledge to assume the responsibilities. This could be valid when the business is simple and small. It is certainly not valid for many collectives. Separation of representative responsibilities from management of operations and entrusting the same to competent professional who are fully accountable to them is perhaps more desirable.

Design Proposition 6: Significant internal funds raised from members will pave way to leadership accountable to members

Insistence on raising significant amount of capital form members will result in several salutary outcomes that include improvement in the quality of leaders. Unless members have reasonable confidence in the integrity and capability of the leaders, they will not part with substantial amounts of capital. This minimises the possibility of self-serving leaders looking at promotion of collectives as an instrument to gain control over the resources flowing in from external sources. Unless members are also convinced of the viability of the enterprise, they will not support it. This, if not ruling out, minimises the possibility of ill-conceived, impractical enterprises without adequate backing from members, attracting resources.

IMPORTANCE OF MEMBERS' CAPITAL STAKES

The main cause for failure of cooperatives is the inadequate member stake in capital funds, resulting in inadequate member control on decisions and performance of cooperatives and making them less member oriented. There have been isolated instances of innovative methods to get member contribution to capital funds and these could show the way for the future.

The argument here is that a close positive relationship exists between the degree of member resources commitment to their organization, the level and quality of member participation in decision-making and improved cooperative business performance. One of our contentions is that the greater the amount of member `financial stake at risk' in their cooperative, the more they will tend to feel themselves its owners and the more they will ensure that the organization is properly managed.

This thesis has two important implications: (1) that increasing member ownership stake in cooperatives will generally improve rates of member participation in cooperative decision-making; and (2) that increased member participation will cause cooperative managers to give higher priority to the pursuit of member identified objectives rather than those defined by themselves or outsiders

An important corollary of this thesis is that externally driven cooperative financing strategies which give high priority to the mobilization of local cooperative member capital as the primary source of funds, for cooperative investment will achieve better results in building sustainable farmers' cooperatives than those which give greater emphasis to the use of external funding sources. This is equally true of collectives as well.

***Capital Stakes Proposition 1:* Financial participation beyond a critical minimum level in proportion to patronage in case of each member seems crucial for internal generation of demand for efficient performance, transparency and accountability**

The critical minimum level (threshold level) of financial involvement in proportion to patronage may vary from member to member for generating interest in more active participation. When the capital stakes of an individual member crosses the threshold level, they generate an internal pressure in the individual consciousness to protect the stakes and to benefit from them. The resultant anxiety gets reflected in the individual behaviour as demanding of transparent accountability (to satisfy oneself that capital stakes are protected adequately) and demanding of efficient performance (to satisfy oneself that capital stakes are yielding adequate flow benefits).

The threshold level of capital was achieved gradually in Mulukanoor (as members could not make one time contribution) by regular deduction from loan extended towards a deposit that can be withdrawn only on cessation of membership. A majority of members being small and marginal in Mulukanoor, the threshold level of investment in their case is low and that is attained quickly and the stakes are ever rising subsequently to make them increasingly vigilant about accountability and performance. Response to this in

Mulukanoor is reflected in its transparent practices like pass books to members, regular conduct of general body meetings with printed annual report and audited account, secret ballot voting and system of internal auditing.

Gradually decreasing level of external dependence through increasing internal dependence on all active members in an equitable manner gradually promotes responsible member behaviour (compliance) as contrary behaviour harms the stakes and thus provides an in built check against irresponsible member behaviour. Others also exert pressure on non-complying (deviant) members, as they perceive deviance as a threat to their stakes as well. Where the resources raised from among them falls short of requirement they might borrow from those willing to lend. Even if the collective is borrowing, the liability must be devolved on to the individuals. Members must keep in their mind that ultimately they have to raise resources on their own to the required level.

Capital Stakes Proposition 2: **High capital stakes of members generates internal drive for performance and tends to keep the locus of control within the collective and high dependence on external funds invariably shifts the locus of control outside the collective.**

With high stakes, members start making forceful demands on their collective leading to activities, which are more relevant to their needs. This in turn increases the members' intensity of affiliation. They also demand for performance and accountability from management and staff to ensure that capital and other resources secured are utilized more prudently and economically and the services provided are more efficient and satisfactory.

Members' effort would be visible and indicated by robust internal governance and management operating systems within the collective and concerted efforts to mould the socio-political environment in its favour outside the collective. The strength of the collective will is partially determined by the quantum and significance of benefits vis-à-vis the individual contributions; partially by how well the individual contributions are harnessed and deployed and how well the contributions are equitably related to the benefits conferred. Contributions to capital by members in a collective can be construed as their commitment to patronise continuously in future and as a measure of their risk in case the collective effort fails. Higher the quantum and proportion of member funds higher their risk and higher their effort to succeed and avert failure.

Capital Stakes Proposition 3: **Without members' active participation in `each controlling other's behaviour' (mutually reciprocal influencing in promoting responsible behaviour and curbing irresponsible behaviour) and in the absence of recognising mutuality of their obligations to the collective in ensuring their patronage (supply produce or repay loans or purchase goods and supply or arrange adequate capital), the benefits that collective can secure for them cannot become real.**

It is inadequate to view members as controlling their collective as an enterprise. The performance of this collective is so strongly dependent on member actions (such as supplying paddy or repaying loans on time and agreeing to supply adequate capital) that members themselves are the primary focus of control. By withholding their contributions, for whatever reasons, they either make its success or make its failure.

Ensuring of consistent and enduring support from members (patronage) cannot possibly be achieved in the absence of more members with high stakes of everyone. The high stakes prompt each one of them to comply and ensure compliance by others to make success possible or avert failure. The members must ensure patronizing the services of their collective to reduce its vulnerability because of fluctuating demand or supply, only then the collective can secure benefits of regular and adequate supply of quality goods or enhanced returns for their produce.

Capital Stakes Proposition 4: ***Low financial stakes of members in their collective can be construed as their weak commitment to future patronage***

and as a measure of their low risk in case if the combined effort fails. Lower the quantum and proportion of member funds lower their risk and lower their effort to succeed and avert failure. Members effort, to be more precise the lack of it or weak effort, is indicated by their gross indifference even in case of denial of rights and use of collective by vested interested from within or outside.

If the level of financial involvement of a member or more members in a collective is below the critical minimum level, then their attitude towards the collective is characterised by apathy except for their share when significant benefits are channeled through the collective. The members' attitude towards the management and staff is characterised by studied irreverence and indifference.

Excessive external dependence results in loss of autonomy and forces compliance to the wishes of resource providers. Internal dependence on only a few members might not promote responsible member behaviour (manner of behaving as if consequences are of concern) or curb irresponsible member behaviour (manner of behaving as if consequences are of no concern). These might lead to authoritarian behaviour by those who provided capital contributions. As stakes of other members are low, they tend to put up with such authoritarian behaviour. These situations are undesirable as they denote critical deviation from the purpose of the collective and are clear distortions.

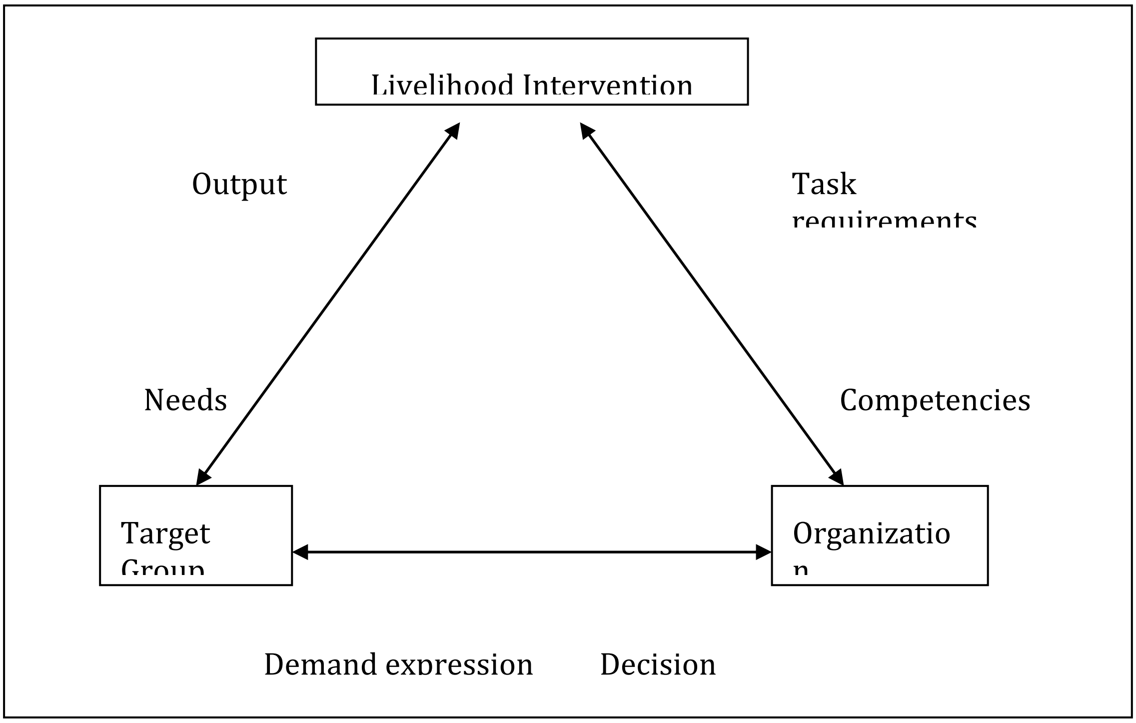
The attitude of operating system management and staff in such a collective is characterised by mutual quarrel and/or accommodation to corner or enhance advantages (may or may not be pecuniary) for themselves. The tendency is also to split members by deflecting gains that flow through the collective appropriately to win and sustain support for themselves. This undermines the legitimacy of the collective in the eyes of members as well as general public and worth of its activities.

Session: 16

Introduction of business planning

INTERVENTION PLAN DEVELOPMENT

From the opportunities and gaps identified through the livelihood analysis, a livelihood intervention plan has to be prepared for the learning to take form into an intervention. However, there is a need to understand, in the beginning itself, that the success of livelihood intervention depends on the fit achieved between families, livelihood plan and supporting organization. This means that livelihood intervention will fail in promoting the livelihoods of the poor unless there is a close relationship between: target group needs and livelihoods intervention output, livelihoods intervention task requirements and the competencies of the supporting organization; and the mechanisms for family demand expression and the decision processes of the supporting organization.



The target group and the organization staff need to share their knowledge and resources to create a fit between needs, actions and the capacities of the assisting organisations. Both, families and staff need to spend time on an idea on pilot basis, try it, get the result and correct its errors. Organization staff/ team leader needs to spend time in the village on that idea. In the learning process approach, the ideas need to be tried, tested, modified and scaled-up.

The learning process approach[9] has three main stages for successful implementation of intervention plan

STAGE 1: LEARNING TO BE EFFECTIVE

ONE OR TWO STAFF SPENDS TIME WITH FAMILIES TO UNDERSTAND THE PROBLEM AND DEVELOP AN IDEA WITH THEM. THE IDEA IS TRIED AND MODIFIED/CORRECTED BASED ON THE ERRORS AND SUCCESSES; THUS A FINAL IDEA EMERGES.

STEP 2: LEARNING TO BE EFFICIENT

EFFORTS ARE FOCUSED ON ELIMINATING ACTIVITIES WHICH ARE NON-PRODUCTIVE AND WORKING OUT SIMPLIFIED PROBLEM SOLVING ROUTINES FOR HANDLING CRITICAL ACTIVITIES FOR A LAYMAN OR LESS QUALIFIED STAFF.

STEP 3: LEARNING TO EXPAND

EFFORTS ARE TO BUILD THE SKILLS, MANAGEMENT SYSTEMS, STRUCTURES AND VALUES IN THE ASSISTING ORGANIZATION TO CARRY OUT THE PRESCRIBED ACTIVITIES ON A LARGE SCALE.

Hence, on the one hand there should be a fit between the needs of the community, the organizational capacity and the livelihood intervention. And

[9] Abstract from the reading material for SERP's training programme "Induction Programme for Livelihoods associate", prepared by Prof. K.V. Raju, Assistant Professor in Institute of Rural Management, Anand. The original article is written by David C Korten.

on the other hand the livelihood intervention should follow the steps outline above.

ELEMENTS OF LIVELIHOODS INTERVENTION PLAN (LIP)/ BUSINESS PLAN (BP)

Livelihood Intervention Plan – This involves systematic planning of objectives, activities, institutional framework, timeframe, responsibilities and budget.

Business Plan – Business plan is prepared for micro-enterprises or business activity. This mainly involves planning for activities, timeframe, responsibilities, budget, forecasting costs, inputs, outputs, sales, profits and cash flows.

DIFFERENCE BETWEEN LIVELIHOOD INTERVENTION PLAN AND BUSINESS PLAN

Business plan is part of Livelihood Intervention Plan. Business plan is mainly related to economic - estimation of production, cost and profits, finances. However, the livelihood intervention plan deals with social and economical aspect of the intervention.

Livelihood Intervention Plan	Business Plan
LIP helps in assessing 1. Number of families to be supported 2. Activities to be undertaken and resources required 3. Financial support required 4. Various sources to arrange resources and methods to raise it. 5. Make a stepwise progress in developing systems, arranging resources, establish infrastructure, initiate intervention, monitoring the activities and take corrective action. 6. Responsibilities, assign them to right persons and monitor it	BP is mainly prepared • To show the creditors so that the credit can be ascertain on the basis of soundness of the business. • To assess the potential of micro-enterprise to make profit in future. • To assess the financial support required **It also helps in assessing** 1. Activities to be undertaken and resources required 2. Various sources to arrange resources and methods to raise it. 3. Shortcomings of micro-enterprise

7. Timeframe and deadlines to start the work on time. 8. Training need for families and staff.	need to be improved. 4. The requirement of money on certain point of time during production

The Livelihoods Intervention Plan, clearly, consists of –

Idea
Number of families to be covered
Institutional Framework

↓

Productivity, Equity and Sustainability
Feasibility and Viability

↓

Objectives
Outputs
Impact

↓

Activities
Sub activities
Time frame
Responsibilities

↓

Resources required to undertake above activities
Budget

The Business Plan consist of –

↓

Number of families

Activities,

Timeframe,

Responsibilities,

↓

Budget,

↓

Inputs

Fixed costs

STEPS IN LIVELIHOODS INTERVENTION PLAN

1. *Idea* – As we have fair understanding of livelihoods analysis tools and its uses for livelihoods analysis from previous chapter, livelihoods system of a village is analyzed at micro and macro level to identify potential activity in existing or new livelihoods to improve the incomes of a family or group of families. That potential activity is an idea for suitable livelihood intervention. Before selecting this idea for further work, one should ensure that it meets the requirement of the family/group of families as well as the competency of the supporting organization. Once it is ensured, the idea should be selected for further work with the concerned family or group of

families. This idea would be central for livelihood intervention and the entire livelihood Intervention Plan would be woven around it.

2. *List of families and their expected business under that idea* – Once the idea is identified, discussions with all the families, whose needs for livelihood promotion will meet from it, need to be conducted to finalize the list of the families. Based on this list, assess the quantum of livelihood activity for each of the family to arrive at a total quantum of activity. This will be the input for selecting the appropriate institutional form to undertake the livelihood activity, plan for activities, assess the resources required and finalize the budget.

3. *Institutional framework required implementing this idea* – based on the idea, number of families and quantum of the livelihood activity, the appropriate institutional form should be selected. It can be an enterprise or collective action. If one or small number of families are coming together, micro or small enterprise would be suitable, however for large number of families, collective is a better idea. Collective can also be of various institutional form – society, trust, cooperative, producer's company, etc.

4. Before moving further and doing any more work, it is essential to ascertain that *the idea qualifies for productivity, equity, sustainability, feasibility and Viability*. Although, this will be undertaken in-depth and with rigorously during the appraisal of the plan, the rapid assessment of plan with regard to this is essential at this stage. This will save time, energies and resources from being wasted in detailed planning, if the idea would fail on these parameters later. The details with regards to assessment of plan on these parameters are discussed in detail in the next chapter. The method for assessment would be same here, but for the intensity and rigor.

5. *Main objective of livelihood intervention, its outputs and impact on poor families* – once the idea passes the rapid assessment with regard to above parameters, the main objectives of undertaking the idea should be clearly

spelt out in a joint meeting with all the families. This is very important, as it will help in refining the choice of institutional model further and finalizing the activities and sub activities that will further affect the resource requirement and budget. While defining the objective, output of each objective and impact of overall idea should also be defined. This will be helpful for monitoring as well as evaluation of the project later on.

6. *Defining the activities and sub activities* – For achieving the main objectives of the idea, activities and sub activities need to be defined. For this, identify the activities to each objective separately and break these activities down into sub activities.

7. *Specify time frame (starting and end date) for each activity and sub activities* -This will be helpful in preparing for the upcoming activities, arranging and coordinating the resource, implementing the activities smoothly and accomplishing the task on time.

8. Along with planning for activities, sub activities and timeframe, *assign the responsibility of each activity* to families and concern staff of supporting organisation. This will help in reducing the confusion, make people accountable, and smoothly carry out the activities without hassles. This will also hasten the process.

This should be prepared in the form of following table for the convenience and presentation of entire activity sub activity plan, time frame and responsibility at a glance.

Activity Plan

#	Activity	Sub activity	Timeframe	Responsibility

9. The next step is to assess the *requirement of resources and external support*. The resources include human, financial, physical, infrastructure, assets, technology, skills, knowledge, etc. The external support means support from out of the community, either from supporting organisation or from other institutions/individuals. The assessment is important for making arrangement for it, sourcing it and coordinating the resources (as they are usually limited). This also has implications on the budget, therefore on the finance required.

10. *Detailed budget* should include unit, unit description, unit cost, total cost, year wise and source wise distribution for each activity and sub activity.

DETAILED BUDGET

#	Activity/ sub activity	Unit description	Unit	Unit cost	Total	Year			Source		
						1	2	3	1	2	3
	Total										

11. If livelihood intervention is for income generating activity like micro enterprise, marketing, shop, a *detailed business plan* also needs to be made. The business plan is discussed in detail below.

SESSION: 17, 18, 19

STEPS FOR DEVELOPING BUSINESS PLAN FOR MICRO ENTERPRISE, FINANCIAL AND INSTITUTIONAL PLANNING

The business plan also includes a brief mention of number of families, activities, sub activities, timeframe, responsibilities and budget. These are same as discussed above in livelihood investment plan. In addition to this, the main and important parts of Business Plan are –

I) PRODUCTION COST

All the cost related to the enterprises must be considered. Even the long-term expenses related to equipments, annual depreciation, should be worked out so that the entrepreneur knows the full costs before venturing into the business. The steps for this are

- Identify all the items needed to produce or sell
- Calculate the quantities of all these items – total production
- Calculate the cost of getting them for the production of a specific quantities
- Identify Production inputs:
    - Raw material: these are required to produce a product.
    - Equipment: These are the tools, machineries or implements required to produce a product.
    - Labour
    - Transport
    - Other expenses: utilities like water, fuel, repairs, interest on loan
    - Wastage/Defects
- Calculate the total production cost - Total production cost will arrive at by adding the above costs

- Costs per unit – total cost divide by number of units produced.

II) TOTAL SALES VALUE AND PROFIT

The total sales value is the function of total units sold and the per unit price. It is important to notice that the total sales value should cover all the production costs, labour expenses, and maintenance and replacement costs for tools, equipments, implements and machinery. The difference between the sale revenue/ total sale value and total costs is profit. For estimating costs and sales, following formats can be used:

	Month **Item**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
1	Sales									
	Quantity									
	Price									
	Total value									
2	Cost of Sales									
a.	Raw Material									
	Quantity									
	Price									
	Total Cost									
b.	Labour									
	Number Employed									
	Wages									
	Total Cost									
c.	Power									
	Quantity									
	Cost									
d.	Other Production Cost									
e.	Depreciation*									

	Total Cost of sales									
3	Operating Profit (1-2)									
4	Less:									
a.	Interest									
b.	Selling, general, administrative Expenses									
5	Profit before taxation (3-4)									
6	Provision for income tax									
7	Net Profit (5-6)									

Depreciation is the reduction in the value of assets.

III) CASH FLOW

Cash flow refers to the amount of cash being received and spent by an enterprise during a defined period. A cash flow plan is a forecast which shows how much cash is expected to come into and go out of the enterprise in a given period. The cash flow plan helps the entrepreneur to make sure that the enterprise/institution does not run out of the cash at any time and has enough cash to pay its costs. An institution can make a profit in a year but can still run out of the cost. But adverse cash flows or shortage affects profits. There are several reasons why an institution runs out of cash:

- The business has to buy raw material before it makes finished goods and sells. This means that cash goes out before cash comes in
- If the business gives credit to its customers, repayment may not happen regularly in stipulated time. But business has to run before these credit customers pay
- Business needs cash to invest in infrastructure, equipment the benefits of some of which are not immediate but have long-term

implications. But still business has to incur these expenses before any cash flow through sales.

The cash flows are of three types:

- Operational Cash Flows: Cash received or expended as a result of the company's core business activities
- Investment Cash Flows: Cash received or expended by making capital expenditures (i.e. the purchase of new machinery), the making investments or acquisitions
- Financing Cash Flows: Cash received or expended as a result of financial activities such as receiving or paying loans, issuing stock, and paying dividends

A cash flow statement is the financial report showing the cash inflows and outflows and used in understanding the short-term viability of an enterprise, especially its ability to meet its costs. It helps an entrepreneur to make sure that the enterprise does not run out of cash at any time. In other words, this can be used to make sure that the enterprise always has enough cash to pay its costs. The cash flow plan 1) gives a warning in advance about the future cash shortage, 2) facilitate more control over the flow of cash, 3) prepare to solve or avoid the problems before they happen and in 4) managing the working capital. To make cash flow plan, one needs to forecast the amount of cash, which will come in and go out. For this, use the following table.

Months	1	2	3	4	5	6	7	8	9	10	11	12
In flow:												
Cash at the start of the month												
Cash in from sales												
Any other cash in												
Total cash in												
Out flow:												
Cash out for direct material cost												

Cash out for direct labour cost												
Planned investment in equipment												
Cash out for paying loans, dividends, issue of stocks, etc												
Any other cash out												
Total cash out												
Net in and out												
Cash at the end of the month												

IV) TOTAL WORKING CAPITAL REQUIREMENT

Working capital also known as operational capital refers to the amount required to run the day to day operations of the business. In this context, we are talking about the net working capital which is the difference between current assets and current liabilities.

In estimating the working capital requirement, operating expenses directly or indirectly related to the production and sales operations are taken into account. Inventory, work-in-progress, receivables, creditors and contingency are the main components of working capital. Working capital requirement is calculated for a business cycle, which is the time period between purchase of raw material to realization of the money from sales. While estimating the working capital requirement sometimes, the interest on working capital is not included. This happens because in the case of a sound business enterprise, the financers believe that the interest on working capital should be generated from the business activities and should not be borrowed as a loan.

Working Capital = Current Assets – Current Liabilities

Terms
Current Assets: Current assets include cash, cash equivalents, accounts receivable (debtors), inventory, which will be used within a year and can be

easily converted into cash when required.

Current Liabilities: Accounts payable for goods (Creditors), services or supplies that were purchased for use in the operation of the business and payable within one year would be current liabilities.

Inventory: Raw material, Finished goods and Work-in-Progress (semi-finished goods)

Debtors: Are the people/institutions who owe money to the enterprise

Creditors: Are the people/institutions to whom the enterprise owes money

Liquidity: In this context, liquidity means the possibility of converting into cash quickly

Format for working capital estimation

WORKING CAPITAL ESTIMATES							
		Norm in months	**M-01**	**M-02**	**M-03**	**M-04**	**M-05**
1	Raw materials						
2	Work-in-progress						
3	Finished Goods						
4	Book Debts						
	Total current assets						
1	Working capital margin @ 25% of total current assets						
2	Trade credit						
3	Bank credit for working capital						

	Total current liabilities						
1	*Interest rate on Working Capital Loan (%)*						
	TOTAL WORKING CAPITAL						

V) BREAK-EVEN

The **breakeven point** for a product is the point where total revenue received equals total operating costs associated with the sale of the product. Break-even analysis is a tool to calculate at which point of sales volume the variable and fixed costs of producing your product will be recovered. Another way to look at it is that the break-even point is the point at which the product stops costing you money to produce and sell, and starts to generate a profit for your company. The breakeven point helps in:

- Setting the price levels
- Optimal fixed and variable costs combination
- Products to be manufactured or dropped

Break even quantity = Total Fixed cost / (Unit selling price – Unit variable cost)

Terms:
***Fixed Cost*:** It does not change with the change in the production and long-term in nature. It varies only when there is additional capital investment. It has to be incurred even when the production is not happening ***Variable Cost*:** Variable cost varies directly with the production and is incurred only when the production happens. Unit variable cost is the variable cost of the single unit of the product/service

***Unit Selling Price*:** It is the sales price of a single unit of product/service

Unit selling price – Unit Variable cost is called the contribution margin. It explains the relationship between the variable cost and the selling price. Estimation of break-even helps in determining the sales per day, per month and per year. Knowing the required time and quantity of break-even will give an idea whether to start the business or not.

PROJECT SELECTION METHODS

The projects are selected based the time period to get back the investment. Higher the profits, it is easier to get back the investment in short period. Apart from the financial benefits, risk, environmental concerns, distribution of the benefits (equity) and regularity of income are some of the other criteria used. The following methods for project selection based on financial soundness are detailed below:

COST BENEFIT ANALYSIS

In simple words, cost benefit analysis compares the cost of the project and returns from the projects for a period and reflects whether the total benefits from the project would be higher or lower than the total cost of the project in the long run. For a project to be taken-up, the benefits should be more than the costs. Here the cost includes not only the monetary costs but also the social and environmental costs.

Cost Benefit Analysis include –

Cash Flow Analysis	Year 1	Year 2	Year 3	Year 4	Year 5
Total Cash Inflow (A)					
Total cash Outflow (B)					
Net Cash Flow (A-B)					

Cumulative Cash Flow					
Payback Period	Year				
IRR					
NPV					

METHODS TO JUDGE THE MERITS OF INVESTMENT

The most commonly used method of appraisal for the viability of the project is looking at the rate of return i.e. the money generated by the project. It indicates the overall financial viability of the project/intervention. The three important measures used are: 1) Payback method, 2) Net Present Value Method and 3) Internal Rate of Return Method.

A. <u>PAYBACK PERIOD:</u>

The best way to judge the investment is to calculate the amount of time it takes to recover the investment. According to this criterion, the shorter the duration of the recovery of initial investment, the more desirable the project is. Longer the payback period, the greater is the risk associated with the project. For example –

#		Year 1	Year 2	Year 3	Year 4	Year 5
1	Net Cash Flows	-18005	12470	12470	12470	21803
2	Cumulative Cash Flows	-18005	-5535	6935	19405	41208
3	**Pay Back Period**	3rd Year				

In this case, the payback period is less than 3 years. The only shortcoming of this method is that it does not account the time value of money as it just adds the cash flows and does not look at the timing of the cash flows. Also, in the case of few projects, the cash flows may continue even after covering the initial investments. For example, two projects with initial investment of Rs.1,00,000 each, will recover the initial investment in 2 years. One project may cover the initial costs faster and provide no cash flows at all after 2 years, whereas the other project may continue to provide inflows even after 2 years.

Hence, to overcome this problem, Net Present Value (NPV) & Internal rate of return (IRR) method is used for sub project selection.

B. NET PRESENT VALUE (NPV):

The NPV method estimates the projected earnings from an intervention for the entire life of the intervention and also the residual/salvage value that can be obtained at the end of the project. Thereafter, the earnings are discounted at an appropriate interest rate to bring the earnings of all the years to a common comparable date, which is the state of the project. This is done because the value of money that is hand is more than that is anticipated in the future. Hence, the future value of money is discounted.

The process of discounting is the reverse of compounding of interest rate. For example, Rs.1000 in a safe investment will yield Rs.1100 in the next year and Rs. 1210 in the second year and so on at an interest rate of 10%. Discounting reverses the process and finds out the present value of Rs. 1220 that we will get after two years. The current value of future money that we get after discounting is called the present value and is calculated by:

$$\text{Present Value} = \frac{\text{Future Sum}}{(1+i)^n}$$

Where "*i*" is the rate of interest and *n* is the number of periods or years.

The NPV of a business plan is the sum of the present value of net cash flows (Positive/negative) of each year that is expected to occur over the business plan period. In this method year wise net cash flows are converted in to their present values (PV) by multiplying with suitable discounting factors. It is the most accurate and theoretically correct method. If NPV is positive, accept the business plan. If it is negative, reject the business plan.

Example:

Two projects A and B's earnings over 5 years are discounted with an interest rate 10%. The initial investment available is Rs.1000.

	Project A		**Project B**	
	Earnings	Present value	Earnings	Present Value
Year 1	200	181.80	500	454.50
Year 2	300	247.80	400	330.40
Year 3	500	375.50	100	75.10
Year 4	200	136. 60	200	136.60
Year 5	200	124.20	200	124.20
Total		1065.90		1120.80

By deducting the initial investment from Project A, the surplus is Rs. 65.90 (1065.90-1000) and from Project B is Rs.120.80 (1120.90-1000). From Project B, the institution is able to pay back the loan in 5 years and also able to make a surplus more than the Project A. Hence, Project B should be taken up.

C. INTERNAL RATE OF RETURN (IRR)

IRR method is the modification of NPV method. NPV method does not furnish exact rate of return. IRR is that rate at which the sum of discounted cash flows is equal to the original investment. It makes the present value of earnings equal to the investment or makes the NPV zero. The calculation of discount rate (IRR) involves a trial and error. Accept the sub project if the IRR is greater than the cost of capital (interest rate of loan amount). Reject the business plan, if it is less than the cost of capital.

CASE STUDY: POTATO WAFER UNIT – A NEW START

A group of Ismailis at Bhavnagar are involved in the business of vegetables for more than twenty-five years. At present this business is facing a huge competition due to the entry of number of unskilled labour from cotton mills after its closure. This situation has adversely affected the volume of business being done by each retailer of the *mand*i. With the growing members in the family coupled with the limited capacity of their business, is posing a great threat for the future of their upcoming generation. So in anticipation of the likely problems, the local council of Bhavnagar feels that there is a need to identify some business activities, which can consume the younger generation of the community who will otherwise become a part of the vegetable business after few years. It is against this backdrop that "Enterprise Support Program" launched by Aga Khan Economic Planning Board-India took up the promotion of a potato wafer unit for a group of three young people of the community.

PLANNING FOR THE BUSINESS

Identification of the entrepreneurs: The head of the community was entrusted with the task of identifying the potential entrepreneurs as it a first crucial task for starting an enterprise. Willingness to participate in the programme was made the main criterion to select the youth in the age group of 20-25 years, as the professional inputs can yield result only when the entrepreneur is desirous to give the input a chance to be experimented. This broadly the selection was done on the basis of the following criteria:

- Willingness of the entrepreneur to participate and seek support of the programme
- They should have the mandate of their family members
- They should not be the sole earners of their family

Based on it nine entrepreneurs were selected. Out of which three most compatible were selected for the first phase.

IDENTIFICATION OF THE ACTIVITY

There are two major tasks before taking a final decision into the activity:

- Checking the suitability of the entrepreneurs for the activity: This was done through holding four to five sessions with the entrepreneurs to have a comprehensive understanding of their backgrounds. After assessing the skills of the entrepreneurs, various activities necessary like production, marketing, financial management and procurement were identified. The activities were further categorized into skilled, semi-skilled and unskilled activities. Based on this, attempt was made to judge the suitability of each entrepreneur vis-à-vis each activity using the following format.

Suitability Activity	**Very Fit**	**Fit**	**Misfit**
Production			
Marketing and Sales			
Procurement			
Financial Management and Planning			

Based on the above table, trainings were conducted to strengthen the strong areas of each entrepreneur.

- Environmental assessment of the potato wafer business: Key informant and physical market survey were two methods adopted to assess the environment. EDA along with the entrepreneurs visited number of shops to see the brand preferences of the customers as well as the retailers, margin available with the retailers, the level of competition in the business and appropriate distribution channel for the product.

FORMULATING BUSINESS PLAN

MARKETING PLAN

After the environmental assessment a detailed marketing and sales plan was drawn up by diving the whole Bhavnagar city into five zones and plan was made to penetrate each zone in a phased manner. In each zone, suitable location, preferably near schools or circles were identified to sell the product directly to the customers at a price lower than the competitors. A marketing plan with the following elements was drawn-up:

- Product: plain potato wafer in small packs of 50 gms was decided upon on the grounds of affordability, ease of buying and preference of the customers. Depending on the feedback after the first phase, the products will be diversified into new flavours like masala wafers and similar snacks and different pack sizes.
- Price: Based on the customers' willingness to pay and to maintain the quality of the product in the customers' eyes, lowest price strategy was not adopted. OS it was decided that the price would be Rs.5 per 50 gms and Rs.60 per kg.
- Position: The product was positioned as "fun food snacks" item targeted at people spending relaxing moments with friends at cinema halls, parks, etc
- Place: Based on the above positioning, the distribution channel was supposed to be the general stores, paan shops near theaters, schools, parks and temples.
- Promotion: Due to limited funds, promotion was done with posters and banners to be place at prominent places. Point of purchase materials were prepared to be pasted on the retail counters to create awareness among customers.

FINANCIAL PLAN

To judge the project from financial angle, information on the following aspects were collected:

- Costs of the project: The cost of the project includes fixed assets, pre-operative expenses and provision for contingencies. All of this amounted to Rs.60, 000. (See the annexure for detailed cost sheet)
- Means of financing: Since the formal source have declined to finance the project, the entrepreneurs borrowed from the private people at nominal rate of interest of 1.5% per month
- Estimation of sales and production: For practical purposes it was assumed that the production would be equal to sales as under utilization of the capacity of the plant was not going to give all three of them an expected income.
- Cost of production: The major components of cost of production are material cost and utilities cost.
- Working capital requirement and its financing: In estimating the working capital requirement, operating expenses directly or indirectly related to the production, procurement and sales operations were taken into account.
- Profitability projections: Based on sales revenues and cost of production, the next step followed was preparation of profitability projections

IMPLEMENTATION AND MONITORING OF THE PLAN

Initial problems were faced in getting the finances from the formal sources. Next, there were problems in production to produce what was fit for the market and resulted in wastage of raw material as well as the end product. This problem was solved after consulting with the expert in the field. Due to the lack of salesmanship, dynamism and understanding of the logic behind various interventions, the entrepreneurs were unable to take up the tasks assigned to them in initial phase. So they were constantly being sensitized about all these facts of marketing.

LESSONS FOR OTHERS

Promoters of the micro-enterprise will have to address the following issues while counseling the entrepreneurs:

- Suggest the name of the business that will give assured and high returns for a very long duration of time
- Suggest business that will enjoy monopoly for a long duration
- Suggest ways to make quick money
- How the support provided by the promoting organization will be useful to the business
- How much is the support duration to yield the desired results
- What will happen if the support fail to yield the desired result

Firstly, the above list clearly brings out the element of risk attached with any business activity and the risk absorbing capacity of the small entrepreneurs is limited. Also the expectation of the entrepreneurs from the promoting organization is high and hence the main consultant should act as a counselor.

Secondly, the entrepreneurs will not be able to visualize the logic behind the projects that do not give them immediate benefit and will participate in it half-heartedly.

Thirdly, it is important to monitor the implementation of the plan to get regular feedback and bring changes accordingly

Fourthly, it is important for the promoter to impress upon the credit-disbursing agency about the potential of the project rather than securing credit on the basis of the past record of the organization.

Fifthly, the business plan should have a long-term vision. Enough attention has to be paid to the financial management

Most importantly, business plan should be made with the involvement of the entrepreneurs

TABLE 1: COST OF THE PROJECT				
#	**Plant and Machinery**	**Unit No**	**Rate (Rs.)**	**Total (in Rs.)**
1	LPG Oven	1	850	850
2	Packing Machine	1	900	900
3	Weighing Machine	1	325	325
4	Peeling Machine	1	160	160
5	Knife	1	70	70
6	Can	1	400	400
7	Disks for slicing, drying and storing	4	100	400
	Total A			**3105**
	Miscellaneous Fixed Assets			
1	Electrical Equipments			300
	Total B			**300**
	Pre-Operative expenses			
1	Interest on borrowing		1.5% per month	150
2	Travelling expenses			200
3	Rent on building		600 per month	600
4	Miscellaneous			200
	Total C			**1150**
	Consultancy fee (D)			**600**
	Provisions for contigencies (E)		5% of the est. cost	**310**
	Total (A+B+C+D+E)			**5465**

TABLE 2: ESTIMATION OF SALES AND PRODUCTION						
#	Items	1st Month	2nd Month	3rd Month	4th Month	5th Month
1	Installed Capacity (qty. per month in kg)	300	300	300	300	300
2	No. of working days	30	30	30	30	30
3	Estimated production (in kg)	75	150	200	250	270
4	Capacity utilization (in %)	25	50	66	84	90
5	Sales (in kg)	75	150	200	250	270
6	Value of sales (in Rs)	4500	9000	12000	18750	20250

Note: From fourth month onwards, the pack size will be reduced to 40 gms in the place of existing 50 gms. This will increase the selling price of potato wafers from Rs.50 per kg to Rs.75 per kg.

TABLE 3: COST OF PRODUCTION (PER 10 KG OF POTATO WAFER)				
	Mineral Cost			
#	**Items**	**Total Cost (Rs.)**	**Qty. (kg)**	**Rate (per kg)**
1	Potato	180	30	6
2	Oil	120	4-4.25	25-30
3	Salt	5	1	5
	Total (A)	305		
	Utilities			
1	LPG	100		
	Total (B)	100		
	Total (A+B)	**405**		

TABLE 4: SALES EXPENSES

		(Figures in Rs.)				
#	**Expenses**	**1st Month**	**2nd Month**	**3rd Month**	**4th Month**	**5th Month**
1	Sales Promotion and Advt.	500	200	200	0	0
2	Plastic bags and baskets	100	150	200	225	250
3	Travelling expenses	500	750	1000	1250	1500
4	Packaging material	680	1360	1820	2045	1534
	Total	**1780**	**2460**	**3220**	**3520**	**3284**

TABLE 5: WORKING CAPITAL REQUIREMENT

#	**Items**	**1st Month**	**2nd Month**	**3rd Month**	**4th Month**	**5th Month**
1	Raw Material	2250	4500	6000	7500	8100
2	Rent	600	600	600	600	600
3	Printing and stationery	100	100	50	50	50
4	Op. Sales expenses	1100	1100	1400	1475	1750
5	Utilities	750	1500	2000	2500	2700
6	Misc. Expenses	100	100	100	100	100
	Total	**4900**	**7900**	**10150**	**12225**	**13300**

TABLE 6: PROFITABILITY PROJECTION

#	**Items**	**1st Month**	**2nd Month**	**3rd Month**	**4th Month**	**5th Month**
1	Installed Capacity	18000	18000	18000	22500	22500
2	Capacity Utilization	4500	9000	12000	18750	20250
3	**Sales Realization (A)**	4500	9000	12000	18750	20250
4	Cost of Production	3000	6000	8000	10000	10800

5	Operating Cost	800	800	750	750	750
6	Sales Expenses	1780	2460	3220	3520	3284
	Total Expenses (B)	**5580**	**9260**	**11970**	**14270**	**14834**
	Gross Profit (A-B)	**-1080**	**-260**	**30**	**4480**	**5416**

Having discussed an example of livelihood planning, we need to notice that preparation of livelihood intervention plan or business plan is not sufficient. These plans need to be appraised before implementing the planned activities. The objective of appraisal is to approve or modify or reject the proposal if it is deviating from the basic principles of the livelihood promotion - that is, equity, and sustainability.

APPRAISAL

Third party, who is not going to be affected through this intervention in any way, should appraise the Livelihood intervention plan/ business plan. This is to eliminate the biases and getting the fair idea about the plan. The appraisal of livelihoods intervention plan into:-

I) SOCIAL APPRAISAL - EQUITY

The livelihood intervention should ensure gender as well as social equity. This means that the intervention should not increase the burden on vulnerable sections, provide control to them, involve them in decision-making and management, and ensure equal wages to women and equal benefits to women. For ensuring the social equity, the intervention should not negatively affect women, the poorest, socially backward, vulnerable, destitute, minorities and disabled; to a greater extent include them in the project.

II) PRODUCTIVITY

The productivity is viewed with regard to the resources and/or an enabling environment. The livelihoods intervention will be considered productive if it increases the production, yield, quality and/or income. Decrease in the expenditure on livelihood or non-livelihoods activities would also be considered productive. The productive livelihood intervention would also help in creating assets, building the skills of the families and providing enabling environment so as to increase the productivity.

III) TECHNICAL FEASIBILITY

The livelihood intervention plan should include the use of such a technology, which is appropriate to the local conditions, consistent with best-practice standards, cost-effective in resource utilisation, simple in use and maintenance. Technical feasibility pertains to the process to be adopted and the suitable machinery to be employed. The important aspects that are examined under technical feasibility are:

- Manufacturing process/technology to be employed
- Size of the plant
- Location of the plant
- Technical arrangements – collaboration with others

IV) FINANCIAL VIABILITY FOR INFRASTRUCTURE AND ECONOMIC ACTIVITIES

An enterprise/ livelihood activity, if it can survive, is considered as viable. Financial viability is related to economic activities and small-scale infrastructure. To simplify financial viability assessment benchmarks for infrastructure, investment costs per unit (e.g., costs per benefiting household for roads, drinking water and sanitation, etc., or costs per hectare for irrigation infrastructure, horticulture etc) could be used and need to be developed. For micro enterprises a full cash flow analysis, cost-benefit analysis, Return of Investment and IRR/ NPV is conducted to ensure the financial viability.

V) PROFILE OF FAMILIES/ INDIVIDUAL BENEFICIARIES

For appraisal of the project proposal, one should look at the profile of the families. The main aspects that need to be looked into are:

- Match with the livelihood requirement of the family and the objectives and outputs of the activities.
- Match with the programme criteria. For example, if project is planned to address the need of tribal, families should be tribal only.
- Skill, knowledge and experience to take up the activity. If not available, what is the provision in the project proposal.
- Credit worthiness of family, if loans are provided under the programme. For this, look at their previous track record – loan repayment status in respective SHGs, banks, local moneylenders, previous government programmes, etc.

VI) COMMUNITY PARTICIPATION

The livelihood intervention plan should be developed with community through their participation at every stage of planning. They should also participate in budgeting and identifying the sources of finance. In addition to this they should be financing the project, sharing ownership and responsibilities etc. All of these are required to be checked during the appraisal.

VII) PRODUCTION FACTORS

To ensure continuous production, the production factors – availability of input, labour, cost, natural conditions, and weather need to be assessed. This has to be crosschecked during appraisal. While appraising the production factors, raw material, power and labour are the broad aspects that will be covered.

VIII) MARKETABILITY

Detailed market study for the product/ service needs to be undertaken to assess the marketability of the product/ service. For this, demand trends, willingness to pay price and quality need to be thoroughly checked. The following aspects are covered under marketability:

- Identification of the project
- Nature of the product and government intervention, if any
- Overall market potential
- The market prospects for the particular unit
- Selling arrangements
- Assessment of price

IX) ECONOMIC VIABILITY

In addition to financial viability, a separate economic assessment would be undertaken only when major inputs and / or outputs with distorted financial prices are crucial in the livelihoods investment plans. The economic appraisal is directed towards determining whether the sub project is likely to contribute significantly to the development of the economy as a whole and if the contribution of the sub project is likely to be sufficient enough to justify the use of scarce resources. In other words, it is the comparison of quantifiable costs and benefits accruing to society as a whole and not to the immediate beneficiaries. An example would be water pumping using subsidized electricity.

X) APPROPRIATENESS OF INSTITUTIONAL FRAMEWORK - GOVERNANCE

The institutional framework should be able to undertake the activities to achieve its objectives. For example, if the intervention is in milk marketing in local area, SHG can handle it. However, the intervention is in milk marketing at state or national markets, proper set up for handling all the required for distant marketing is required, in this case either cooperative or producer's company would be appropriate. Similarly, the governance in the institution, profit sharing, cost sharing, responsibility sharing and legal framework should also be looked critically.

XI) OPERATIONS AND MANAGEMENT

A detailed plan for firm commitments for the Operations and management responsibilities and arrangements is required. Only if the proposed plan convincingly demonstrates the O & M arrangement and planning, it should be approved. The management appraisal includes the competence and professionalism of the staff of the promoting organization as well as the community trained professionals.

XII) HUMAN RESOURCE REQUIREMENT, MECHANISMS TO BUILD THEIR SKILLS AND CAPABILITIES

The good plan should incorporate the human resource requirement – kind of human resources required, method for sourcing it, retaining it and building their skills and capabilities from time to time to undertake the desired activities. The appraisal should look for this to ensure the robust plan and its successful execution.

XIII) TIME SCHEDULE

The time to start and finish the activities should be realistic and achievable. The time frame should be in accordance to the requirements of the project – setting-up time, recruitment and training of the human resources and establishment of infrastructure, all of which have implications on the promotion/preliminary costs. Hence, the time frame has direct relation to the cost and need to be appraised for the time frame to be in tune with the requirements and the implications on the cost.

XIV) SOURCES OF FINANCES

The appraisal should also look into the sources of finance. The sources of funds can be broadly classified into:

- Owned
    - Share capital – equity, preference
- Debt
    - Term loans
    - Debentures
    - Leases
    - Unsecured loans
- Central or state government subsidies
    - Grants
    - Interest free loans

Each of these sources has to be examined and should incorporate anticipated escalation costs. Each of the sources mentioned above has its own merits and demerits and its suitability varies from industry to industry. The sources of finance appraisal should focus of the percentage of money sourced from various sources, chances of getting fund from them, their terms and conditions and its implications on all the stakeholders.

XV) ENVIRONMENTAL IMPACT

While major environmental impacts are unlikely due to the small nature of the individual sub-project, an environmental checklist would be part of the appraisal process including impact on natural resources, safety for people, health risks etc. Certain livelihoods or practices within a livelihood have adverse impact on the environment – use of chemicals in agriculture, unsustainable fishing practices, food processing, leather production brick making, and ceramics. Extra care needs to be taken while appraising these livelihoods and have to check if suitable measures are taken either to reduce or mitigate the impact on environment.

These are the main parameters of the appraisal, however the detailed checklist of appraisal is given in the following page.

APPRAISAL CHECKLIST[10]

STAKEHOLDERS' PARTICIPATION AND SUB-PROJECT MANAGEMENT

i. The process of the sub-project evolution (community involvement - poorest/ vulnerable groups and women)

ii. Community's involvement in budgeting

iii. Sub-project's significance in bettering the conditions of these groups

iv. Community contributions (down payment and phased contributions in cash, kind labour etc.)

v. Mechanisms for implementation, operations, maintenance, post-project aspects, fund management, record-keeping etc.

vi. Manpower requirements

vii. Institutional capacity to manage the sub-project and fund management capacity

viii. Sub-project as understood by the community groups/SPA

PRO-POOR AND GENDER ASPECTS

i. Effect on poorest (negative, if any)

ii. Effect on women and children

iii. Extra burden on women and the poorest

iv. Decision-making aspects

v. Control on Assets

vi. Wage rates

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[10] Taken from Operation Manual of APRPRP.

vii. Employment Generated (for the poor)

viii. Expected results/incomes (women vis-à-vis men and poorest vis-à-vis less poor; and number)

ix. Number (and list) crossing the poverty line

x. Expected changes in men-women interactions/relationships and Poorest-less poor relationships

TECHNICAL ASPECTS

i. Technical feasibility

ii. Technology availability/acceptability/adoptability to local situation (appropriateness)

iii. Technical Standards (quality)

iv. Cost-effectiveness

v. Skills required/upgradation aspects

vi. Process appreciation

vii. Producer ----->----->----->---- Consumer chain aspects

viii. Raw material aspects

ix. Demand aspects

x. Backward-forward linkages

ECONOMIC AND FINANCIAL ASPECTS

i. Infrastructure availability aspects
ii. Convergence aspects (other sources of funds; schemes); Institutional linkages
iii. Unit costs; per capita costs
iv. Cash flow (for mica-enterprises)
v. Viability aspects (IRR, NPV or Pay back period)
vi. Repayment schedules
vii. Costs and Benefits
viii. Post-project incomes and costs

EXERCISE: FARMER'S COOPERATIVE PROJECT

A Producer's cooperative has been set up in a city to procure and market, a wide range of agriculture produce of the farmers in the neighbouring areas. The procured produce would be brought to a central storage (CS) to set up in the city and sold through 200 retail shops both belonging to the cooperatives. The CS would be a sophisticated facility consisting of sorting and grading line and cold stores with temperature and humidity controls. The cooperative has made estimates of project costs, likely activity levels, sales and revenues which are shown below:

#	Head	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
1	Cost of CS and Associate facilities	30 Crores					
2	Cost of retails shops	6 Crores					
3	Projected Activity Levels						
(i)	Quantity of Agro Produce to be sold (Tons)		80000	100000	110000	121000	121000
(ii)	Weighted Average variable cost/ton (Rs.) excluding interest		7000	7000	7000	7000	7000
(iii)	Weighted Average selling price/ton (Rs.)		8500	8500	8500	8500	8500
(iv)	Fixed Cost (Rs.) other than interest and depreciation		2 Crores	2 Crores	2 Crores	2 Crores	2 Crores

Working Capital Requirement: It has been found that the working capital requirement for each year consisting of a minimum (permanent component) and a fluctuating part. Both the minimum component and the fluctuating part increase directly in proportion to the quantity being sold in the year. Management has decided to meet the investment through short term bank borrowings at an interest rate of 12% per annum. The month wise working capital computation for the first year is as follows:

April	Rs. 3 Crores	October	Rs. 5 Crores	
May	Rs. 3 Crores	November	Rs. 4 Crores	
June	Rs. 4 Crores	December	Rs. 4 Crores	
July	Rs. 5 Crores	January	Rs. 3 Crores	
August	Rs. 6 Crores	February	Rs. 3 Crores	
September	Rs. 5 Crores	March	Rs. 3 Crores	

Depreciation for tax purposes : 25% Written Down Value Method

Tax Rate : 50%

Prepare Cash flows and evaluate the project on NPV Basis.

POINTS TO PONDER

- What are the implications of high administrative cost on the intervention?
- Calculate the administrative cost of your project, the benefit to the target group in terms of increased income and the time-period of realization of the investment
- How costs can be minimized?
- Are there any frameworks for appraisal?
- Sit with a small entrepreneur and enquire what are the factors he/she would look at before taking up an enterprise and how appraisal is done?

EXERCISES

1. A cooperative society purchased a handloom on 1st January 2006. Calculate Depreciation by written down value method at 5% rate as on 31st March 2007

2. The price of a product is Rs.2, the variable cost per unit is Rs.1 and the fixed costs are Rs.5000. What is the break-even point and comment on the profitability?

3.Calculate the Net present value

	Project A	
	Earnings	Present value
Year 1	500	
Year 2	600	
Year 3	700	
Year 4	300	
Year 5	200	
Total		

4.According to the projected total investment of Weavers Promotion Society for the next five years for reaching 5000 weaver households is Rs. 2 crores. The conservative estimate of increase in income per household is 20% of the current income (20% of Rs.1500 per month per artisan household) i.e. Rs. 300. Assuming that only 50% of the collectives survive and servicing only 2500 artisans as against the targeted 5000 artisans, calculate the following.

a. What is the investment per household?
b. What is the payback period of the investment?
c. The return on investment at 10% discount rate – in figure and in percentage

5.Identify fixed and variable costs

a. Office Rent

b. Repair to the spare parts of the machine
c. Raw material
d. Taxes
e. Wastage of yarn
f. Polishing of the finished product
g. Auditing charges
h. Market survey to estimate the demand
i. Salary of the marketing executive
j. Construction of the office building
k. Pilot production cost
l. Fuel
m. Electricity expenses of the factory

SESSION: 20

LAKSHMI TEASHOP[1] BUSINESS PLAN

Meet Lakshmi. She came to Ramnagar, when she got married. Ramnagar is a small sleepy town. Her husband Ramesh works as a daily wage labour. Ramesh works in Ramnagar and nearby places. After few days of married life Lakshmi realized that she should contribute to the family income. So she started to work in the nearby colony as part time maid. She has three children. It was still difficult to run their family with their meager income, as Ramesh was not getting work all days throughout the year. A new hospital has been set up in Ramnagar. People from the town and surrounding areas like the treatment there. The hospital although small is quite busy as there was no hospital in Ramnagar. People had to depend on private practitioners or had to go nearest big town for any emergency. Lakshmi feels that she could set up a small teashop next to the hospital. The patients, and the families of the patients, would be happy for such a service. Ramesh, too, thinks this is a good idea. They both discuss it. If you were Lakshmi, would be your major concerns before you set up such a business?

Use the blank space provided below to note down your concerns if you were to set up a teashop in your locality.

XXX

Let us now turn to what Lakshmi thought about before she decided to set up her teashop.

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[1] Modified from the original case study written by Ms. Shashi Rajagopalan

Size of business

Lakshmi and Ramesh first speak to Rajamma, the helper at the hospital. They ask her roughly how many patients come each day to the hospital, and how many persons accompany them. They then ask Rajamma how many patients, on average, stayed overnight in the hospital. They also want to know how many people come from within Ramnagar and how many come from neighboring areas. Both Lakshmi and Ramesh feel that many people will be glad to have a teashop near the hospital. However, they know that not everyone can afford tea. They also feel that not every visitor to the hospital will want a cup of tea. Lakshmi agrees that people from neighbouring villages were more likely to want tea. She feels that the accompanying family members of patients admitted to the hospital would want tea. Ramesh and Lakshmi both feel that, on average, 75 cups of tea could be sold each day.

Shop timings

Lakshmi feels that it would be a waste of her time to sit the whole day at the teashop. She has so many other jobs to do at home and in others houses for some extra income. She finds out that the doctor comes every day at 11 am in the morning, and at 5pm in the evening. Patients come in large numbers around these hours Lakshmi, therefore, feels that she would like to keep the teashop open from 10am till 1pm, and from 4 pm till 6 pm, everyday. However, Wednesdays are market days in Ramnagar. Ramesh feels that on market days, the shop should be open from 10am right through till 6 pm. Lakshmi, too agrees that this would be a sensible thing to do.

Location of the teashop

Lakshmi speaks to the local councillor and other elders about her desire to set up the teashop. They advise her to set up a small hut near the hospital. Narasaiah owns a small vacant plot near the hospital. Lakshmi and Ramesh meet Narsaiah. He is willing to let Lakshmi sets up a small temporary hut there. He asks Lakshmi to pay him Rs 1000 every month as rent. Lakshmi and Ramesh are very excited about the plot. They are, however, worried about the rent. They say they will think about it, and come home.

Cost of setting up teashop

Lakshmi wants to build a small hut on Narasaiah's plot, to set up her teashop. She needs to buy one or two benches, so that people have place to sit if they want to. Lakshmi needs to buy a stove, a kettle, a pan for boiling milk, some glasses to serve tea in, a pot for keeping drinking water, and containers for keeping tea leaves and sugar. She may also need a table for the stove and the containers. Lakshmi knows that she has to spend on these items even before she can make and sell her first cup of tea. Of these items, most are such that they do not have a resale value. Yet, without these things, she cannot make or hope to sell tea near the. Lakshmi and Ramesh work out the costs of setting up the teashop, and their list is given below. Look at it, and see whether you would like to make any changes in the items or the costs.

Remember, these are only the costs of setting up, not of running, the teashop. We will come to the running costs later

#	ITEM	Rs
1	Thatch, nails, bamboo, matting, rope for hut	1500
2	Stove	200
3	Kettle, frying pan, milk pan, drinking water Pot, containers, spoons, etc	300
4	Glasses	100
5	Table	200
6	Benches	200
TOTAL INITIAL INVESTMENT		**2500**

Cost of running the teashop

Lakshmi knows that apart from the Rs 100 each month for the plot, and this amount of Rs 2500, she also needs money to run the shop each day. She feels that some of the expenses will have to be met on a daily basis. Some will be met on weekly or monthly basis.

Lakshmi and Ramesh do not own any cows. They will need to buy milk everyday. Once a month, perhaps, they will need to buy kerosene for the stove, tea, sugar, some biscuits, and other items, from Peddapalli market, 5 kms away. There will be costs on the bus fares, too, because some items can be bought only in Peddapalli. Ramesh feels that they should make a list of all such costs.

The list they prepare of costs for running the shop for one month is given below. Have they forgotten anything? Are their estimates reasonable? See if you would like to suggest any improvements.

XXX

Ramesh and Lakshmi feel that the teashop is worth opening only if they can sell more than 1500 cups of tea each month. They also realise that for every cup they sell over and above 1500 cups, the net gain will significantly increase.

What will Lakshmi's net gain be from selling 1500 cups of tea each month? Use the space provided below to do your calculations. Then check your answer with those of your friends.

It does seem very important doesn't it, for Lakshmi to be able to make a good guess of how many cups of tea she can sell each day? Most small and big businesses are like this. Below a certain amount of sale, they run into losses. At a particular quantity of sale, they break even- that is, they cover all their costs. Above that level, they earn profits. These profits can rise quite significantly for small increases in sales, as in Lakshmi's case.

What if

Lakshmi now begins to feel that she should think more carefully about all that could go wrong with her tea business, before she makes up her mind.

Read each of the questions given below, which seem to be bothering her. Think of what you would do if u were in Lakshmi's position. Discuss with your friends and you will be surprised at the number of ways to deal with each of these.

- What if her children want to have some biscuits every time they come to the shop?
- What if the summer months of April and May, the milk spoils on some days?
- What if, in the months of July and August, the rains keep people indoors?
- What if the rains are so heavy, that she has to repair the roof of the hut?
- What if the cost of tea leaves goes up? What if the cost of kerosene goes up?
- What if her stove needs repair?
- Where should she leave the benches, the utensils, and the stove each night?
- What if on some day, there is an unexpected number of visitors to her teashop?

These were some of the questions that Lakshmi thought of. Are there any more questions that you would like to add? Any more that you would like to discuss with your friends?

Well, Lakshmi and Ramesh feel that they can manage all these problems. They decide that it is worth their while setting up the teashop.

Where will the money come from?

Lakshmi now needs Rs 2500 for the initial investment on the hut, the utensils, the stove, and the furniture. She needs Rs1200 for the first month's working expenses- for tea leaves, sugar, rent, and so on. Of the committed costs of Rs 1100, she needs at least Rs 100 to pay as advance rent for the plot. Lakshmi is confident that her thrift cooperative will help her. She has been a good member for 6 years now. Her savings in the cooperative are regular, as are her loan repayments. She now has Rs 1100 saved as thrift in her cooperative.

Her cooperative lets her borrow 3 times of her savings. That is, she can borrow up to Rs3300. She needs Rs 3800 in all. She wonders how to manage with Rs 500 less than she has. Would you like to look at the two lists she first made, to see whether she can manage with Rs 500 less?

Use the space provided below to make your notes on how you feel Lakshmi can manage with Rs 400 less than she needs to set the shop, and run it for one month. Later, we will see what Lakshmi's ideas were.

Lakshmi's solution for the managing the shortfall of Rs 500 follows.

#	**Particulars**	**Rs**
1	Lakshmi will not buy any biscuits the first month. This way, her initial expenses will reduce by	90
2	She requests the milkman to take only a weekly advance, instead of a monthly advance, for the first month. She, therefore, needs to give him only Rs 90 to start with. This way, her initial expenses which would have been Rs 360 for the milk advance, will reduce by	270
3	She does not expect any repairs at the start. Therefore, at the time of starting, her initial financial need will further reduce by	40
4	She will need to pay local tax, either at the end of the month, or once a year. This again reduces her requirement by	20
5	Her thrift cooperative will expect interest on her total loan only at	70

	the end of the first month. This further reduces her requirement by	
TOTAL REDUCTION IN REQUIREMENT		**490**

Of the Rs 500 shortfall, Lakshmi feels she can easily make up for Rs 490. Finding the remaining Rs 10 should not be such a problem for her, should it?

A dream comes true

Lakshmi tells Ramesh that she would very much like to set up the teashop. Ramesh knows that she can give less time to their children. She is a very good mother. All the same, Ramesh also knows that the teashop will give the family income throughout the year. After all, their income is scanty and irregular. He suggests that at the very next meeting of the thrift cooperative, Lakshmi should take the loan needed to set up the shop. Lakshmi applies for a loan. All her friends tease her and say that she is now going to become a businesswoman. Lakshmi laughs with them. She is very happy. She is a little afraid, but she feels she is doing the right thing. The thrift cooperative considers her loan application. Her request for a Rs 3300 loan is approved. After fulfilling all the conditions, Lakshmi takes the loan amount, and goes home. Ramesh and Lakshmi work hard, and within 10 days of getting the loan, the teashop is ready. They invite the Councillor, the doctors and other friends for the puja. Lakshmi is all in smiles. So are Ramesh and the children. Their dream of a more regular and steady income now seems to be in sight.

Cash flows

Lakshmi now comes in every day to her teashop. She makes good tea. The people who drop in like the tea. Soon the doctor starts asking her to send tea over when visitors come to see him. The local bank, too, asks her to send tea for their visitors. Each day, she gets Rs 105 more from sales. There are school fees to be paid for the children. There are food items and clothes to be bought for the family. The family is very happy. They think they can buy whatever they need when they need it. Lakshmi, however, does not feel the same. She knows that she has to be careful. She can only spend from the net income for her family. She has to make sure that she does not ever spend from money needed for the shop. In fact if her business does well, she may have to expand it. She might start making idlis in the morning for those going work in nearby industries early in the morning. This will mean that she will need to spend more money on the shop. Also, she knows that she and Ramesh have no savings for their old age.

Cash Management

Lakshmi makes a rough calculation of how much she can afford to spend on the family from her daily sales. From sales she gets at the least Rs105. The 70 cups of tea cost her roughly Rs 35 to make. Those 35 rupees will be needed again to buy more tealeaves, kerosene, and so on. The committed cost per month was Rs 1100. This committed cost, however, included Rs 900 which she would have earned as a part-time maid. Lakshmi reduces this amount and notes that she has to set aside Rs 200 per month towards committed costs. This means that she has set aside Rs7 per day towards these costs. Her thrift cooperative expects her to pay monthly instalments of Rs 150 along with interest. That is, each day she will need to set aside Rs 5 towards this. She also saves Rs 30 each month as thrift with her cooperative. For this she has to keep Re. 1 aside each day. She then decides that everyday she will save Rs 5 additionally for old age, and another Rs 5 for expanding her business at a later date.

Let us see what she now has left for the family.

Particulars	**Rs**
Set aside to buy tea, sugar, milk, kerosene, etc =	35
Set aside for committed costs =	7
Set aside for loan instalment =	5
Set aside for thrift =	1

Set aside for old age savings =	5
Set aside for business expansion =	5
Total to be set aside each day =	58
Receive from sales each day =	105
Therefore, amount which can be sent on family each day =	47

With this calculation, Lakshmi puts into a little piggy bank Rs 68 everyday for all these other needs. The rest, she puts in the little cash box at home from which the family spends.

On most days this amount is much more than Rs 47. She is able to sell as much as 100 cups of tea on several days.

From the amount that she puts into the cash box, the maid who has taken her place is paid Rs 30 for the day. This means that the family still has to at least Rs 17 additionally, each day, for their expenses.

Bad business

Ramesh and the children tease her saying that she is stingy. She laughs and says that when we are all older, all of you will be glad that I was so strict with the money. Ramesh says he was only teasing her. He tells the children of Yadaiah who had set up a small bangle shop in the Peddapalli market. He had taken a loan from the moneylender, to start his business. He was very happy to see so much money coming in each day from the sales. Yadaiah's wife and daughters tried out new bangles all the time. Some broke. Some looked old when Yadaiah later tried to sell them. They lost money in this way. He and his family spent on clothes, on the house, on relatives, on festivals. Soon he ran out of money. He could not buy first set of bangles that were to be sold out. This business was of course wound up. The moneylender was annoyed. He took away the small piece of land they owned, since Yadaiah could not repay the loan.

What about you?

SESSION: 21

STRATEGIC BUSINESS PLANNING

WHAT IS STRATEGIC PLANNING?

Overview

Strategic planning is a management tool, period. As with any management tool, it is used for one purpose only: to help an organization do a better job - to focus its energy, to ensure that members of the organization are working toward the same goals, to assess and adjust the organization's direction in response to a changing environment. In short, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future.

A word by word dissection of this definition provides the key elements that underlie the meaning and success of a strategic planning process:

The process is strategic because it involves preparing the best way to respond to the circumstances of the organization's environment, whether or not its circumstances are known in advance; nonprofits often must respond to dynamic and even hostile environments. Being strategic, then, means being clear about the organization's objectives, being aware of the organization's resources, and incorporating both into being consciously responsive to a dynamic environment.

The process is about planning because it involves intentionally setting goals (i.e., choosing a desired future) and developing an approach to achieving those goals.

The process is disciplined in that it calls for a certain order and pattern to keep it focused and productive. The process raises a sequence of questions that helps planners examine experience, test assumptions, gather and incorporate information about the present, and anticipate the environment in which the organization will be working in the future.

Finally, the process is about fundamental decisions and actions because choices must be made in order to answer the sequence of questions mentioned above. The plan is ultimately no more, and no less, than a set of decisions about what to do, why to do it, and how to do it. Because it is impossible to do everything that needs to be done in this world, strategic planning implies that some organizational decisions and actions are more important than others - and that much of the strategy lies in making the tough decisions about what is most important to achieving organizational success.

The strategic planning can be complex, challenging, and even messy, but it is always defined by the basic ideas outlined above - and you can always return to these basics for insight into your own strategic planning process.

STRATEGIC PLANNING AND LONG-RANGE PLANNING

Although many use these terms interchangeably, strategic planning and long-range planning differ in their emphasis on the "assumed" environment. Long-range planning is generally considered to mean the development of a plan for accomplishing a goal or set of goals over a period of several years, with the assumption that current knowledge about future conditions is sufficiently reliable to ensure the plan's reliability over the duration of its implementation. In the late fifties and early sixties, for example, the US. economy was relatively stable and somewhat predictable, and, therefore, long-range planning was both fashionable and useful.

On the other hand, strategic planning assumes that an organization must be responsive to a dynamic, changing environment (not the more stable environment assumed for long-range planning). Certainly a common assumption has emerged in the nonprofit sector that the environment is indeed changeable, often in unpredictable ways. Strategic planning, then, stresses the importance of making decisions that will ensure the organization's ability to successfully respond to changes in the environment.

STRATEGIC THINKING AND STRATEGIC MANAGEMENT

Strategic planning is only useful if it supports strategic thinking and leads to strategic management - the basis for an effective organization. Strategic thinking means asking, "Are we doing the right thing?" Perhaps, more precisely, it means making that assessment using three key requirements about strategic thinking: a definite purpose in mind; an understanding of the environment, particularly of the forces that affect or impede the fulfillment of that purpose; and creativity in developing effective responses to those forces.

It follows, then, that strategic management is the application of strategic thinking to the job of leading an organization. Dr. Jagdish Sheth, a respected authority on marketing and strategic planning, provides the following framework for understanding strategic management: continually asking the question, "Are we doing the right thing?" It entails attention to the "big picture" and the willingness to adapt to changing circumstances, and consists of the following three elements:

- Formulation of the organization's future mission in light of changing external factors such as regulation, competition, technology, and customers
- development of a competitive strategy to achieve the mission
- Creation of an organizational structure which will deploy resources to successfully carry out its competitive strategy.

Strategic management is adaptive and keeps an organization relevant. In these dynamic times it is more likely to succeed than the traditional approach of "if it ain't broke, don't fix it."

What Strategic Planning Is Not

Everything said above to describe what strategic planning is can also provide an understanding of what it is not. For example, it is about fundamental decisions and actions, but it does not attempt to make future decisions (Steiner, 1979). Strategic planning involves anticipating the future environment, but the decisions are made in the present. This means that over time, the organization must stay abreast of changes in order to make the best decisions it can at any given point - it must manage, as well as plan, strategically.

Strategic planning has also been described as a tool - but it is not a substitute for the exercise of judgment by leadership. Ultimately, the leaders of any enterprise need to sit back and ask, and answer, "What are the most important issues to respond to?" and "How shall we respond?" Just as the hammer does not create the bookshelf, so the data analysis and decision-making tools of strategic planning do not make the organization work - they can only support the intuition, reasoning skills, and judgment that people bring to their organization.

Finally, strategic planning, though described as disciplined, does not typically flow smoothly from one step to the next. It is a creative process, and the fresh insight arrived at today might very well alter the decision made yesterday. Inevitably the process moves forward and back several times before arriving at the final set of decisions. Therefore, no one should be surprised if the process feels less like a comfortable trip on a commuter train, but rather like a ride on a roller coaster. But even roller coaster cars arrive at their destination, as long as they stay on track!

VALUES THAT SUPPORT SUCCESSFUL STRATEGIC PLANNING

The Support Centers of America has adopted the following guiding principles to support its consulting practice in strategic planning. These are self-explanatory and are offered as one way to approach this work.

Successful strategic planning:

- LEADS TO ACTION
- BUILDS A SHARED VISION THAT IS VALUES-BASED
- IS AN INCLUSIVE, PARTICIPATORY PROCESS IN WHICH BOARD AND STAFF TAKE ON A SHARED OWNERSHIP
- ACCEPTS ACCOUNTABILITY TO THE COMMUNITY
- IS EXTERNALLY FOCUSED AND SENSITIVE TO THE ORGANIZATION'S ENVIRONMENT
- IS BASED ON QUALITY DATA
- REQUIRES AN OPENNESS TO QUESTIONING THE STATUS QUO
- IS A KEY PART OF EFFECTIVE MANAGEMENT.

What is the difference between strategic planning and long range planning?

The major difference between strategic planning and long range planning is in emphasis. Long range planning is generally considered to mean the development of a plan of action to accomplish a goal or set of goals over a period of several years. The major assumption in long range planning is that current knowledge about future conditions is sufficiently reliable to enable the development of these plans. For example, in the late fifties and early sixties, the American economy was relatively stable and therefore predictable. Long range planning was very much in fashion, and it was a useful exercise. Because the environment is assumed to be predictable, the emphasis is on the articulation of internally focused plans to accomplish agreed upon goals.

The major assumption in strategic planning, however, is that an organization must be responsive to a dynamic, changing environment. Some would argue that this was always the case. Nonetheless, in the nonprofit sector a wide agreement has emerged that the environment is indeed changing in dynamic, and often unpredictable ways. Thus, the emphasis in strategic planning is on understanding how the environment is changing and will change, and in developing organizational decisions which are responsive to these changes.

Difference between purpose, mission, and vision

There is a lot of confusion about these three words in the nonprofit planning literature. For the sake of clarity, the following definitions are used consistently throughout this series of response sheets.

A purpose is an end result, a goal which an organization is seeking to accomplish. Purpose is the answer to the question, "Why does this organization exist?" The answer is to achieve the purpose.

Mission is typically understood as a broader concept. Mission is synonymous with mission statement and includes three major concepts: the purpose (as above), the "business" an organization engages in to achieve this purpose, and a statement of values guiding the accomplishment of the mission.

Finally, vision is the most global concept. A vision is quite literally a mental image of the successful accomplishment of the mission, and thus the purpose of the organization.

What is strategic thinking?

Strategic thinking means asking, "Are we doing the right thing?" It requires three things:

- purpose or end--a strategic thinker is trying to do something
- understanding the environment, particularly of the opponent, or opposing forces, affecting and/or blocking achievement of these ends
- creativity in developing effective responses to the opponent or opposing forces.

What is strategic management?

As you might guess, strategic management is the application of strategic thinking to the job of leading an organization.

Dr. Jagdish Sheth, an expert on marketing and strategic planning suggests that strategic management means continually asking the question, "Are we doing the right thing?" Strategic management is focused on the future within a context of a changing, but relatively predictable environment. Strategic management consists of the following three activities and decisions:

- formulation of the future mission of the organization in light of changing external factors such as regulation, competition, technology and customers;
- development of a competitive strategy to achieve the mission; and
- creation of an organization structure which will deploy resources to successfully carry out its competitive strategy.

It requires attention to the "big picture" and a willingness to adapt to changing circumstances.
Dr. Sheth distinguishes strategic management from two other approaches to management, a tradition-driven approach and an operations-driven approach. A tradition-driven approach is characterized by the saying "if it ain't broke, don't fix it," and is focused on past practices. The tradition-driven approach works best in a non-changing environment. An operations-driven approach asks, "Did we do things right?" It is focused on current practices and works best in a highly volatile environment.

KEY DEFINITIONS

STRATEGIC

In the dictionary, the word strategy has to do with war and deception of an enemy. In nonprofit management, strategy has to do with responding to a dynamic and often hostile environment in pursuit of a public service mission. Thinking strategically thus means being informed and consciously responsive to this dynamic environment.

Planning

Strategic planning is planning because it involves intentionally setting goals (choosing a desired future) and developing an approach to achieving those goals.

Fundamental

Because it is impossible to do everything, strategic planning implies that some decisions and actions are more important than others. The most important decisions have to do with what an organization is and why it exists; the most important actions have to do with what it does. On the other hand, strategic thinking is deciding on and carrying out the fundamental, or most important actions.

Disciplined

Discipline highlights the relationship between the different steps in strategic planning. Mission depends on environment; which actions are most important are determined by assessing strengths and weaknesses, opportunities and threats. Strategic planning is also disciplined in that there is a sequence of questions typically raised to examine experience and test assumptions, gather and make use of information about the present, and try to anticipate the future environment the organization will be working in.

Decision Making

Strategic planning is based on decision making because in order to answer the questions raised in the structured planning process, choices must be made. The plan ultimately is no more, and no less, than a set of decisions about what to do, how to do it and why to do it.

Long Range Plan

Long range is the longest time period for which it makes sense to make plans. The time period varies from organization to organization: the Social Security Administration must plan for the retirement of today's babies sixty five years from now; high tech computer companies are putting out new products every six months. For most nonprofit organizations, a 3-5 year timeframe is appropriate for meaningful long range planning. Three year plans work well for most nonprofits, taking into consideration the fast pace of change (technology, political and economic environment, internal realities, and community conditions). Five year plans may be more appropriate for those organizations with extensive physical plant or very large service constituencies, such as schools, colleges, universities and hospitals.

Operating Plan

Operating plans are the detailed action plans to accomplish the strategic goals laid out in the strategic plan. An organization should have operating plans for each major organizational unit and correspond to its fiscal year. In addition, an organization may need operating plans which correspond to grant cycles or longer, or cycles that differ from the fiscal year. Each is important.

Strategic Management

The concept of strategic planning implies managing, day to day and month to month, in a way that focuses on the most important decisions and actions. This requires the kind of longer term perspective and priorities which result from a strategic plan. This concept also incorporates the assumption that the environment is always changing: thus, strategic management requires ongoing reassessment of current plans in light of long term priorities.

Inclusive Process

An inclusive process means that people who have a stake in the work of your organization participate in the planning process in an appropriate way. This does not mean that every client, funder, volunteer and staff member must come to a joint consensus about what to do. It does mean that these interested individuals have a chance to be heard by the decision makers.

WHAT ARE THE BASIC STEPS IN A STRATEGIC PLANNING PROCESS?

Strategic Planning Model

Many books and articles describe how best to do strategic planning, and many go to much greater lengths than this planning response sheet, but our purpose here is to present the fundamental steps that must be taken in the strategic planning process. Below is a brief description of the five steps in the process. These steps are a recommendation, but not the only recipe for creating a strategic plan; other sources may recommend entirely different steps or variations of these steps. However, the steps outlined below describe the basic work that needs to be done and the typical products of the process. Thoughtful and creative planners will add spice to the mix or elegance to the presentation in order to develop a strategic plan that best suits their organization!

STEP ONE - GETTING READY

To get ready for strategic planning, an organization must first assess if it is ready. While a number of issues must be addressed in assessing readiness, the determination essentially comes down to whether an organization's leaders are truly committed to the effort, and whether they are able to devote the necessary attention to the "big picture". For example, if a funding crisis looms, the founder is about to depart, or the environment is turbulent, then it does not make sense to take time out for strategic planning effort at that time.

An organization that determines it is indeed ready to begin strategic planning must perform five tasks to pave the way for an organized process:

- identify specific issues or choices that the planning process should address
- clarify roles (who does what in the process)
- create a Planning Committee
- develop an organizational profile
- identify the information that must be collected to help make sound decisions.

The product developed at the end of the Step One is a Workplan.

STEP TWO - ARTICULATING MISSION AND VISION

A mission statement is like an introductory paragraph: it lets the reader know where the writer is going, and it also shows that the writer knows where he or she is going. Likewise, a mission statement must communicate the essence of an organization to the reader. An organization's ability to articulate its mission indicates its focus and purposefulness. A mission statement typically describes an organization in terms of its:

- Purpose - why the organization exists, and what it seeks to accomplish
- Business - the main method or activity through which the organization tries it fulfill this purpose
- Values - the principles or beliefs that guide an organization's members as they pursue the organization's purpose

Whereas the mission statement summarizes the what, how, and why of an organization's work, a vision statement presents an image of what success will look like. For example, the mission statement of the Support Centers of America is as follows:

The mission of the Support Centers of America is to increase the effectiveness of the nonprofit sector by providing management consulting, training and research. Our guiding principles are: promote client independence, expand cultural proficiency, collaborate with others, ensure our own competence, act as one organization.

We envision an ever increasing global movement to restore and revitalize the quality of life in local communities. The Support Centers of America will be a recognized contributor and leader in that movement.

With mission and vision statements in hand, an organization has taken an important step towards creating a shared, coherent idea of what it is strategically planning for.

At the end of Step Two, a draft mission statement and a draft vision statement is developed.

STEP THREE - ASSESSING THE SITUATION

Once an organization has committed to why it exists and what it does, it must take a clear-eyed look at its current situation. Remember, that part of strategic planning, thinking, and management is an awareness of resources and an eye to the future environment, so that an organization can successfully respond to changes in the environment. Situation assessment, therefore, means obtaining current information about the organization's strengths, weaknesses, and performance - information that will highlight the critical issues that the organization faces and that its strategic plan must address. These could include a variety of primary concerns, such as funding issues, new program opportunities, changing regulations or changing needs in the client population, and so on. The point is to choose the most important issues to address. The Planning Committee should agree on no more than five to ten critical issues around which to organize the strategic plan.

The products of Step Three include: a data base of quality information that can be used to make decisions; and a list of critical issues which demand a response from the organization - the most important issues the organization needs to deal with.

STEP FOUR - DEVELOPING STRATEGIES, GOALS, AND OBJECTIVES

Once an organization's mission has been affirmed and its critical issues identified, it is time to figure out what to do about them: the broad approaches to be taken (strategies), and the general and specific results to be sought (the goals and objectives). Strategies, goals, and objectives may come from individual inspiration, group discussion, formal decision-making techniques, and so on - but the bottom line is that, in the end, the leadership agrees on how to address the critical issues.

This can take considerable time and flexibility: discussions at this stage frequently will require additional information or a reevaluation of conclusions reached during the situation assessment. It is even possible that new insights will emerge which change the thrust of the mission statement. It is important that planners are not afraid to go back to an earlier step in the process and take advantage of available information to create the best possible plan.

The product of Step Four is an outline of the organization's strategic directions - the general strategies, long-range goals, and specific objectives of its response to critical issues.

STEP FIVE - COMPLETING THE WRITTEN PLAN

The mission has been articulated, the critical issues identified, and the goals and strategies agreed upon. This step essentially involves putting all that down on paper. Usually one member of the Planning Committee, the executive director, or even a planning consultant will draft a final planning document and submit it for review to all key decision makers (usually the board and senior staff). This is also the time to consult with senior staff to determine whether the document can be translated into operating plans (the subsequent detailed action plans for accomplishing the goals proposed by the strategic plan) and to ensure that the plan answers key questions about priorities and directions in sufficient detail to serve as a guide. Revisions should not be dragged out for months, but action should be taken to answer any important questions that are raised at this step. It would certainly be a mistake to bury conflict at this step just to wrap up the process more quickly, because the conflict, if serious, will inevitably undermine the potency of the strategic directions chosen by the planning committee.

THE PRODUCT OF STEP FIVE IS A STRATEGIC PLAN!

PRE-PLANNING STAGE

The following addresses the concerns of the pre-planning stage. This stage is divided into three phases, each addressing different issues and questions. They are:

A. To plan or not to plan
B. The level of planning
C. Once the decision to plan has been made

A) TO PLAN OR NOT TO PLAN

The Benefits of Planning

Planning consumes resources, a precious commodity for all nonprofits. As a process that eventually defines the direction and activities of the organization, it can be an overwhelming and daunting task. Despite the overwhelming nature of the process, the benefits of planning can far outweigh the hardships.

There are benefits to be gained from the actual planning process, as well as from the final planning document. The very activities that nonprofit staff and boards conduct as part of the planning process empower them to be more effective in their roles-more informed leaders, managers, and decision makers. In addition, the final planning document becomes a tool that can be used to effectively and efficiently manage the organization.

The time devoted to the planning process varies from organization to organization and depends on the resources available to devote to the process. Whether you decide to devote only a two day retreat to the process or engage in a twelve month process, your organization will begin to realize the benefits from the start. Some of the fundamental benefits to the planning process and the development of the final plan include:

- a framework and a clearly defined direction that guides and supports the governance and management of the organization
- a uniform vision and purpose that is shared among all constituencies
- an increased level of commitment to the organization and its goals
- improved quality of services for clients and a means of measuring the service
- a foundation for fund raising and board development
- the ability to set priorities and to match resources to opportunities
- the ability to deal with risks from the external environment and
- a process to help with crisis management

Prerequisites for Planning: Key Factors that Must be in Place Before Beginning the Planning Process

As with any major effort, a planning process has its proper time and place in the organization. There are certain organizational elements that must be in place in order to ensure that the planning process will provide the maximum benefit to the organization. It is important to be candid when assessing the organization's readiness to engage in the planning process. Even if you get half way through the planning process before you realize that the organization is not ready, stop and remedy the situation before continuing with the process. Unfortunately, many organizations plan when the organization is not ready. They always have an unsatisfactory planning process and subsequent results. Make sure the following elements are addressed before making the commitment to plan:

- a commitment of active and involved leadership, with continuous leadership engaged throughout the planning process
- a resolution of major crises that may interfere with the long range thinking during, commitment to, and participation in the planning process (e.g., insufficient funds for the next payroll, the organization is not operating legally, etc.)
- a board and staff that are not embroiled in extreme, destructive conflict

  a board and staff who understand the purpose of planning and what it can and cannot accomplish, as well as consensus about expectations
- a commitment of resources to adequately assess current programs and the ability to meet current and future client needs and
- a willingness to question the status quo and to look at new approaches to performing and evaluating the "business" of the organization

B. LEVEL OF PLANNING

As with any other organizational effort, you can do a little planning or a lot of planning. "Enough planning" is when your organization's leadership understands and has consensus about a clear organizational direction.

Planning Resource Requirements

As a nonprofit organization, it is critical to examine what needs you are attempting to address from the planning process and the resources available to engage in the process. It is safe to assume that an organization can expect more benefits from a more informed, more resource intensive process.

The key resources required for planning are staff time, board time, and dollars (e.g., market research, consultants, etc.). Specific examples of time resources consumed by the planning process might include time spent:

- collecting and analyzing environmental information
- engaging key stakeholders
- gathering historical financial information, projecting future budgets, and cash flow projections and
- analyzing options and consequences for potential organizational and program strategies.

The amount of resources, time, and money spent on planning should reflect the complexity of the issues you are addressing and the availability of information and resources. Resource requirements will vary for every organization.

The Role of an External Consultant

For an organization with little or no experience in planning, an external consultant can enhance the planning process by providing the following services:

- Facilitating of retreats, meetings and the planning process as a whole: The use of a consultant to serve as the "conversation traffic cop" is one method of ensuring that good ideas do not get lost in the emotion of the process or personality of the participants. A consultant can work with an organization to minimize planning barriers that impact effectiveness, using his or her experience as a source of tried and true processes.
- Training in planning information and processes: It is critical for everyone involved in the planning process to be speaking the same language and using the same planning tools. External consultants can provide that conduit of information flow and education.

- Providing an objective and different perspective in the process: As an outsider to the organization, the consultant can ask questions and challenge existing traditions, assumptions, and routines more objectively than staff and board members. Often planners do not realize that they are using jargon or have made certain assumptions about their constituency. Having an outside consultant participate in the planning process helps ensure that organizations stay true to one of the prerequisites of engaging in the planning process, the willingness to question the status quo.
- The process expert role: The consultant who has facilitated and conducted many strategic planning processes can provide significant information and advice on tools and processes that can best accomplish your process and content goals.

ONCE THE DECISION TO PLAN HAS BEEN MADE

The planning process is like any other process, it needs to be managed. People have many expectations when they hear the word planning. It is important to make sure that everyone is operating from the same set of expectations and knowledge base. Organizations often train key board and staff members in process and planning language before embarking on the planning process.

Large groups of individuals are not conducive to the creation of documents and quick decision making. They are more suited to producing feedback, ideas, and suggestions about existing documents or modifying draft decisions after the initial analysis has been completed. A strategic planning committee is one tool that is used to focus the energies and responsibilities of the process. The planning committee spearheads the process, serving as the quarterback of the team, but it does not take sole responsibility for all decision making and all the nuts and bolts work.

It is also important to identify the potential information needs of the process. Key decisions will be made during planning. In order for these decisions to be

high quality, decision analysts and decision makers need to have appropriate financial, program, and client information.
Another tool used in the management of the planning process is a work plan, or a plan to plan. It is an outline of the steps and activities that will take place during the planning process. The plan specifies the tasks, outcomes, resources to be expended (time and financial), and the person(s) responsible in each of the phases in the process.

STEPS TO PREPARE FOR PLANNING

The following items summarize the steps necessary to prepare for the planning process:

- Obtain a formal commitment to conduct planning, including education of board and staff, if necessary
- Select a strategic planning committee of no more than five to seven people, a combination of visionaries and "actionaries," or a planning liaison to spearhead the process
- Develop a work plan or a plan to plan that outlines who is responsible for each outcome and time frames

Consider the adequate level of resources (dollars and time) required to conduct an appropriate planning process.

When to Develop Strategies

Strategy development follows the creation and affirmation of the organization's purpose statement, environmental and program data collection and analysis, and identification of critical issues. It is critical that strategy development follow these steps because the information gathered and decisions made in these phases are the foundation for strategy creation and selection

Each of these steps provides the following:

- The purpose statement, the statement of the organization's ultimate goal, provides the direction to which the strategies should ultimately lead.
- External market data and program evaluation results provide critical data to support strategy development. Without this information and insight, the organization's strategies will not be in alignment with or effective in the marketplace.
- The critical issues list serves as the specific focus and framework for the activities of the organization and the pattern of these activities (developing and selecting the strategies).

How to Develop Strategies

Strategy formulation is a combination of rational, scientific examinations and educated, intuitive best guesses. Many individuals are overwhelmed by the idea of developing strategies, but it can be a fun and invigorating process. The process entails:

- examining the organization's critical issues
- determining how the organization's strengths and skills can be employed to address the critical issues
- analyzing opportunities and strengths and looking for ways to synthesize the two
- exploring and choosing the best approaches for the organization.

During this evaluation ask these key questions: Does the strategy meet/address critical issues? Is this aligned with our mission? Is this approach financially viable?

One effective method of strategy generation is to list critical issues and organizational strengths onto flipcharts and then have staff or board members brainstorm possible uses of those strengths or other skills to address the critical issues. Once the brainstorm session is completed, use a roundtable discussion to investigate and evaluate the possible strategies. Remember to develop a list of alternative strategies to investigate and keep in the contingency planning file.

It is important not to discount the ideas that come to people during non-working hours. The Polaroid camera is the result of a three year old's question to her father: "Dad, why can't I see the picture now?"

Strategy of Development Tools

A number of analytical tools have been developed to assist organizations with the planning process. Many nonprofit organizations have adapted these tools, modifying the questions and criteria to align with their own specific services and markets. Listed below are analytical tools frequently used by nonprofit and for-profit organizations.

SWOT Analysis

SWOT analysis is a methodology of examining potential strategies derived from the synthesis of organizational strengths, weaknesses, opportunities and threats (SWOT). The partnering of the different elements and the extensive data collected as a result of the analysis can serve as a spark for roundtable discussions and refinement of current strategies or generation of new strategies.

The MacMillan Matrix

This strategy grid, developed by Dr. Ian MacMillan, is specifically designed to assist nonprofit organizations to formulate organizational strategies. There are three assumptions underlying this approach:

- the need for resources is essentially competitive and all agencies wanting to survive must acknowledge this dynamic
- given that resources are scarce, there is no room for direct duplication of services to a single constituency -- this is wasteful and inefficient

- mediocre or low quality service to a large client population is less preferable to delivering higher quality services to a more focused population.

These assumptions have implications that are difficult and painful for many organizations and individuals. It might mean terminating some programs to improve core services and competencies, giving programs and clients to more efficient, effective agencies, or competing aggressively with those programs that are less effective or efficient.

MacMillan's matrix examines four program dimensions that guide placement on the strategy grid and indicate implied strategies.

Alignment with Mission Statement

Services or programs that are not in alignment with the organizational mission, unable to draw on existing organizational skills or knowledge, unable to share resources, and/or unable to coordinate activities across programs should be divested.

Competitive Position

Competitive position addresses the degree to which the organization has a stronger capability and potential to fund the program and serve the client base than the competitive agencies.

Program Attractiveness

Program attractiveness is the complexity associated with managing a program. Programs that have low client resistance, a growing client base, easy exit barriers, and stable financial resources are considered simple or "easy to administer." The level of program attractiveness also includes an economic perspective or a review of current and future resource investments.

Alternative Coverage

Alternative coverage is the number of other organizations attempting to deliver or succeeding in delivering a similar program in the same region to similar constituents.

The MacMillan Matrix provides ten cells in which to place programs that have been reviewed in terms of these four dimensions. Each cell is assigned a strategy that directs the future of the program(s) listed in the cell (e.g., aggressive competition, joint venture, orderly divestment, etc.). One cell of the matrix, "Soul of the Agency," requires additional explanation. These are the difficult programs for which the organization is often the clients' "last, best hope." Management must find ways to use the programs in other cells to develop, piggyback, subsidize, leverage, promote, or otherwise support the programs in this category.

Additional Strategies for Your Organization

Listed below are several strategies applicable to both the organizational and program levels, adapted from Philip Kotler's *Strategic Marketing for Nonprofit Organizations.* From a social need and services perspective, some are more desirable than others.

Surplus Maximization

An agency runs its organization in a manner that increases the amount of resources on hand. Usually this strategy is adopted to accumulate resources for expansion or growth.

Revenue Maximization

An agency manages its organization to generate the highest possible revenues, perhaps in an effort to establish a reputation or critical mass.

Usage Maximization

An agency works to serve the highest number of users of their services. This strategy can be used to position the organization or program for funding or budgetary purposes.

Usage Targeting

An agency provides services in a manner that encourages serving a specific number or type of constituents. This strategy is used to address unmet needs of specific populations or to cover the costs associated with providing services.

Full Cost Recovery

An agency manages its programs and services so that it financially breaks even, providing as much service as the finances will allow. Many nonprofits adopt this strategy in an effort to provide services without entering fiscal crisis.

Partial Cost Recovery

An organization operates with a chronic deficit every year, providing services that are critical and cannot be provided at a breakeven level of costs (e.g., mass transit or the Post Office). These organizations rely on public and private foundations, individuals, and governments to cover the annual deficit.

Budget Maximization

An agency maximizes the size of its staff, services, and operating expenditures regardless of revenue/cost levels. Organizations that are concerned with reputation and the impact of trimming services or infrastructure on that reputation employ this strategy.

Producer Satisfaction Maximization

An organization operates towards a goal of satisfying the personal/professional needs of a founder, staff, or board of directors rather than the established needs of external clients and customers.

Fees for Service

An organization provides services to clients for a fee. The fee is typically below market rates and does not cover the full cost of providing the services.

New Revenue Strategies

An organization uses direct marketing activities designed to generate new sources of revenue from specific funders. Examples include starting a new service or program, approaching a new funder, changing the way services are provided, or setting up a profit making venture.

Legitimization Strategies

An organization works to communicate to the community that it is conforming to existing standards and norms - that it is a legitimate and worthy participant in the sector. Examples include adapting services to funder priorities, contributing non cash or cash resources to other nonprofit organizations, or seeking endorsements or board participation from prominent individuals.

Retrenchment Strategies

An organization emphasizes efforts to reduce internal costs to offset the potential or real loss of revenues or grant monies. Examples include increasing staff workloads, increasing use of part time or volunteer staff, eliminating services or programs, or reducing non-fixed expenses such as training or supplies.

What should a strategic plan include?

The end is in sight! Now that everyone has had a chance to contribute their ideas, the options have been wrestled with, the choices have been made, and the details worked out, all that remains is to commit the ideas to paper and make it official.

The Draft and Review Process

First of all, who actually writes the plan? Remember that writing is done most efficiently by one or two individuals, not by a whole group - the writer simply crafts the presentation of the group's ideas. Often an executive director will draft the plan, or the task may be delegated to a staff person, board member, or a consultant who has been working with the planning committee. In the end, it really does not matter who writes the strategic plan; what matters is that it accurately documents the decisions made, that it represents a shared vision, and that it has the support of those responsible for carrying it out.

That is why the process of review and approval is the most important consideration in this step - much more so than who does the writing. The planners should decide in advance who may review and respond to the draft plan; obviously committee members will participate in the review process, but should the full board and the full staff? The guiding principle of participation in the strategic planning process is that everyone who will help execute the plan should have some input into shaping it; whether or not this includes review of the final drafts of the plan is a judgment call that really depends upon the particular circumstances of an organization.

Ideally, the big ideas have been debated and resolved, so that revisions only amount to small matters of adding detail, revising format, or changing some wording in a particular section. Still, if reviewers get bogged down in crossing too many t's and dotting too many i's, the plan could linger in draft form forever. The planning committee must exercise leadership in setting a realistic time frame for the review process and in bringing the process to a timely close: the committee needs to choose the level of review appropriate for the organization, provide copies for review to the selected individuals, and set a deadline for submitting feedback (usually allowing one to two weeks is sufficient). Upon receiving all the feedback, the committee must agree on which suggested revisions to accept, incorporate these into the document, and submit the strategic plan to the full board of directors for approval.

STANDARD FORMAT FOR A STRATEGIC PLAN

A strategic plan is a simply a document that summarizes, in about ten pages of written text, why an organization exists, what it is trying to accomplish, and how it will go about doing so. Its "audience" is anyone who wants to know the organization's most important ideas, issues, and priorities: board members, staff, volunteers, clients, funders, peers at other organizations, the press, and the public. It is a document that should offer edification and guidance - so, the more concise and ordered the document, the greater the likelihood that it will be useful, that it will be used, and that it will be helpful in guiding the operations of the organization. Below is an example of a common format for strategic plans, as well as brief descriptions of each component listed, which might help writers as they begin trying to organize their thoughts and their material. This is just an example, however, not the one and only way to go about this task. The point of the document is to allow the best possible explanation of the organization's plan for the future, and the format should serve the message.

TABLE OF CONTENTS

The final document should include a table of contents. These are the sections commonly included in a strategic plan:

I. Introduction by the President of the Board

A cover letter from the president of the organization's board of directors introduces the plan to readers. The letter gives a "stamp of approval" to the plan and demonstrates that the organization has achieved a critical level of internal agreement. (This introduction is often combined with the Executive Summary below.)

II. Executive Summary

In one to two pages, this section should summarize the strategic plan: it should reference the mission and vision; highlight the long-range goals (what the organization is seeking to accomplish); and perhaps note the process for developing the plan, as well as thank participants involved in the process. From this summary, readers should understand what is most important about the organization.

III. Mission and Vision Statements

These statements can stand alone without any introductory text, because essentially they introduce and define themselves.

IV. Organization Profile and History

In one or two pages, the reader should learn the story of the organization (key events, triumphs, and changes over time) so that he or she can understand its historical context (just as the planning committee needed to at the beginning of the planning process).

V. Critical Issues and Strategies

Sometimes organizations omit this section, choosing instead to "cut to the chase" and simply present goals and objectives. However, the advantage of including this section is that it makes explicit the strategic thinking behind the plan. Board and staff leaders may refer to this document to check their assumptions, and external readers will better understand the organization's point of view. The section may be presented as a brief outline of ideas or as a narrative that covers several pages.

VI. Program Goals and Objectives

In many ways the program goals and objectives are the heart of the strategic plan. Mission and vision answer the big questions about why the organization exists and how it seeks to benefit society, but the goals and objectives are the plan of action - what the organization intends to "do" over the next few years. As such, this section should serve as a useful guide for operational planning and a reference for evaluation. For clarity of presentation, it makes sense to group the goals and objectives by program unit if the organization has only a few programs; if some programs are organized into larger program groups (e.g., Case Management Program in the Direct Services Program Group), the goals and objectives will be delineated at both the group level and the individual program level.

VII. Management Goals and Objectives

In this section the management functions are separated from the program functions to emphasize the distinction between service goals and organization development goals. This gives the reader a clearer understanding both of the difference and the relationship between the two sets of objectives, and enhances the "guiding" function of the plan.

VIII. Appendices

The reason to include any appendices is to provide needed documentation for interested readers. Perhaps no appendices are truly necessary (many organizations opt for brevity). They should be included only if they will truly enhance readers' understanding of the plan, not just burden them with more data or complicating factors.

How do we increase our chances of implementing our strategic plan?

Organizations and their leadership are often reluctant to commit time and resources to a planning process because of the fear of the plan "ending up on the shelf." This article addresses a key question regarding the strategic plan: What can I do to ensure the plan does not end up on the shelf?

There are three areas that must be addressed to ensure that the planning process and resulting strategic plan are valuable and useful for the organization:

- The process that is used to develop the plan can guarantee success or failure. Credibility and ease of use are often direct results of how the plan was created.
- The format of the plan will influence how and when people use the document in the workplace. Complex, outdated documents are doomed to remain on the shelf.
- Management's use and respect for the plan influences the acceptance for the rest of the staff and board members. There is no reason for program directors to refer to established goals and objectives if the executive director does not.

Ensuring the Plan Has Impact

During the strategic planning process, it is important to include the following process, content, and usage elements to ensure the usefulness of the strategic plan to the organization.

Process Elements

Engage leadership

Include the informal and formal organizational leaders when conducting a process. Active involvement communicates a message of organizational importance and priority.

Work from a common understanding

Provide training on the process and establish a list of expectations and results to ensure that everyone is working towards the same outcomes.

Include individuals who will implement plan

Encourage all levels of staff to contribute to the process. Involving these individuals will ensure that the plan is realistic and help motivate staff to implement the plan.

Address critical issues for the organization

Failure or unwillingness to put these critical issues on the table for discussion and resolution might lead staff to implicitly or explicitly challenge the credibility of the plan, its priorities, and/or its leadership.

Agree on how the plan will be operationalized

Specify who will implement which parts of the plan, scheduling routine evaluation meetings to review progress.

Content Elements

Include an internal and external focus

Remember to address structural, board/staff development, and communication issues in your plan.

Do not get too detailed

Use the strategic plan to articulate the broad framework, direction and, priorities of the organization and its programs. Extremely specific plans become quickly outdated and end up on the shelf.

Create a balance between the dream and reality

Ensure that your plan is grounded in the reality of what can and cannot be accomplished.

Keep language, concepts and format simple

Make sure that the language is easy to understand, especially for those that are unfamiliar with your organization. Structure the document so that it is user friendly.

Usage Elements

Actively use the plan as a management tool

Actively using the plan for short-term guidance and decision making will establish a model for use.

Incorporate sections of the plan in everyday management

Formalize the usage of the plan into the day-to-day activities of the organization. For example, one organization reads the mission statement at the opening of every business meeting to remind the membership of the organization's focus and purpose. In another organization, the executive director requires that all ideas for program changes or expansion directly address how the changes relate to the organization's mission.

Organize the work of the organization in the context of the plan

Establish operational goals and activities within the context of the strategic plan (e.g., include goals and objectives in individual and program evaluations or have program directors refer to the plan to provide guidance in decision making).

Design a system for controlling the process

Ensure that there are mechanisms (e.g., evaluation meetings, monthly reports against plan) to inform management on progress.

By employing the strategies listed above, you can be sure that the effort you put into the strategic planning process will direct your organization and become a useful tool to both management and staff.

STRATEGIC PLANNING MODELS

There is no one perfect strategic planning model for each organization. Each organization ends up developing its own nature and model of strategic planning, often by selecting a model and modifying it as they go along in developing their own planning process. The following models provide a range of alternatives from which organizations might select an approach and begin to develop their own strategic planning process. Note that an organization might choose to integrate the models, e.g., using a scenario model to creatively identify strategic issues and goals, and then an issues-based model to carefully strategize to address the issues and reach the goals.

The following models include: "basic" strategic planning, issue-based (or goal-based), alignment, scenario, and organic planning.

MODEL ONE - "BASIC" STRATEGIC PLANNING

This very basic process is typically followed by organizations that are extremely small, busy, and have not done much strategic planning before. The process might be implemented in year one of the nonprofit to get a sense of how planning is conducted, and then embellished in later years with more planning phases and activities to ensure well-rounded direction for the nonprofit. Planning is usually carried out by top-level management. The basic strategic planning process includes:

1. **Identify your purpose (mission statement)** - This is the statement(s) that describes why your organization exists, i.e., its basic purpose. The statement should describe what client needs are intended to be met and with what services, the type of communities are sometimes mentioned. The top-level management should develop and agree on the mission statement. The statements will change somewhat over the years.

2. **Select the goals your organization must reach if it is to accomplish your mission** - Goals are general statements about what you need to accomplish to meet your purpose, or mission, and address major issues facing the organization.

3. **Identify specific approaches or strategies that must be implemented to reach each goal** - The strategies are often what change the most as the organization eventually conducts more robust strategic planning, particularly by more closely examining the external and internal environments of the organization.

4. **Identify specific action plans to implement each strategy** - These are the specific activities that each major function (for example, department, etc.) must undertake to ensure it's effectively implementing each strategy. Objectives should be clearly worded to the extent that people can assess if the objectives have been met or not. Ideally, the top management develops specific committees that each have a work plan, or set of objectives.

5. **Monitor and update the plan** - Planners regularly reflect on the extent to which the goals are being met and whether action plans are being implemented. Perhaps the most important indicator of success of the organization is positive feedback from the organization's customers.

Note that organizations following this planning approach may want to further conduct step 3 above to the extent that additional goals are identified to further developing the central operations or administration of the organization, e.g., strengthen financial management.

MODEL TWO - ISSUE-BASED (OR GOAL-BASED) PLANNING

Organizations that begin with the "basic" planning approach described above, often evolve to using this more comprehensive and more effective type of planning. The following table depicts a rather straightforward view of this type of planning process.

Summary of Issue-Based (or Goal-Based) Strategic Planning

(Note that an organization may not do all of the following activities every year.)
External/internal assessment to identify "SWOT" (Strengths and Weaknesses and Opportunities and Threats)

1. Strategic analysis to identify and prioritize major issues/goals
2. Design major strategies (or programs) to address issues/goals
3. Design/update vision, mission and values(some organizations may do this first in planning)

4. Establish action plans (objectives, resource needs, roles and responsibilities for implementation)
5. Record issues, goals, strategies/programs, updated mission and vision, and action plans in a Strategic Plan document, and attach SWOT, etc.
6. Develop the yearly Operating Plan document(from year one of the multi-year strategic plan)
7. Develop and authorize Budget for year one(allocation of funds needed to fund year one)
8. Conduct the organization's year-one operations
9. Monitor/review/evaluate/update Strategic Plan document

MODEL THREE - ALIGNMENT MODEL

The overall purpose of the model is to ensure strong alignment among the organization's mission and its resources to effectively operate the organization. This model is useful for organizations that need to fine-tune strategies or find out why they are not working. An organization might also choose this model if it is experiencing a large number of issues around internal efficiencies. Overall steps include:

1. The planning group outlines the organization's mission, programs, resources, and needed support.
2. Identify what's working well and what needs adjustment.
3. Identify how these adjustments should be made.
4. Include the adjustments as strategies in the strategic plan.

MODEL FOUR - SCENARIO PLANNING

This approach might be used in conjunction with other models to ensure planners truly undertake strategic thinking. The model may be useful, particularly in identifying strategic issues and goals.

1. Select several external forces and imagine related changes which might influence the organization, e.g., change in regulations, demographic changes, etc. Scanning the newspaper for key headlines often suggests potential changes that might affect the organization.
2. For each change in a force, discuss three different future organizational scenarios (including best case, worst case, and OK/reasonable case) which might arise with the organization as a result of each change. Reviewing the worst-case scenario often provokes strong motivation to change the organization.
3. Suggest what the organization might do, or potential strategies, in each of the three scenarios to respond to each change.
4. Planners soon detect common considerations or strategies that must be addressed to respond to possible external changes.
5. Select the most likely external changes to effect the organization, e.g., over the next three to five years, and identify the most reasonable strategies the organization can undertake to respond to the change.

MODEL FIVE - "ORGANIC" (OR SELF-ORGANIZING) PLANNING

Traditional strategic planning processes are sometimes considered "mechanistic" or "linear," i.e., they're rather general-to-specific or cause-and-effect in nature. For example, the processes often begin by conducting a broad assessment of the external and internal environments of the organization, conducting a strategic analysis ("SWOT" analysis), narrowing down to identifying and prioritizing issues, and then developing specific strategies to address the specific issues.

Another view of planning is similar to the development of an organism, i.e., an "organic," self-organizing process. Certain cultures, e.g., Native American Indians, might prefer unfolding and naturalistic "organic" planning processes more than the traditional mechanistic, linear processes. Self-organizing requires continual reference to common values, dialoguing around these values, and continued shared reflection around the systems current processes. General steps include:

1. Clarify and articulate the organization's cultural values. Use dialogue and story-boarding techniques.
2. Articulate the group's vision for the organization. Use dialogue and story-boarding techniques.
3. On an ongoing basis, e.g., once every quarter, dialogue about what processes are needed to arrive at the vision and what the group is going to do now about those processes.
4. Continually remind yourself and others that this type of naturalistic planning is never really "over with," and that, rather, the group needs to learn to conduct its own values clarification, dialogue/reflection, and process updates.
5. Be very, very patient.
6. Focus on learning and less on method.
7. Ask the group to reflect on how the organization will portray its strategic plans to stakeholders, etc., who often expect the "mechanistic, linear" plan formats.