4.2.6 SUB-MODULE 6: AGRIBUSINESS

Investing in agriculture is an important strategy towards improving food and nutrition security; and rural incomes; reducing poverty; and promoting sustainable development. Financing agribusiness increases the added value of raw materials, strengthens rural economies and improves the quality of life in many vulnerable households. The majority of farmers in Kenya practice subsistence farming, producing both crops and livestock to meet their basic food requirements. The changing economic circumstances however dictate the need for additional finances to meet household demands and it is imperative that farmers deliberately engage in activities that generate income. Extension services should therefore support farmers to embrace 'farming as a business' approach to improve earnings from farm activities, and eventually transition from subsistence production to commercial/agribusiness. This calls for appreciation and application of business principles in day to day farming decisions and operations.

Importance of Agribusiness

Agribusiness is a term used to describe the sector that encompasses all economic activities that are related to farming, i.e., chemicals, breeding, livestock/crop production (farming), farm machinery, distribution, marketing and sales. It refers to agriculture-related activities that put farmers, processors, distributors, and consumers within a system that produces, processes, transports, markets and distributes agricultural products. Financing agribusiness can increase the added value of raw materials, strengthen local rural economies, food security and nutrition, and improve the quality of life in many homes at risk of exclusion and vulnerability.

Entrepreneurship/ agripreneur is the ability and readiness to develop, organise and run a business enterprise, along with any of its uncertainties in order to make a profit. It is the creation or extraction of value. Entrepreneurship is viewed as change, generally entailing risk beyond what is normally encountered in starting a business, which may include other values than simply economic ones. Policies, incentives and regulatory frameworks that safeguard and promote agro-industries have proven to be highly effective at lifting rural populations out of poverty in many countries.

Farming as a business

Farmers seek to use as little of the meager elements of production as possible to maximize the production of most of the goods that are needed and or wanted - as dictated by the market price. Farming as a business also involves market considerations. Farming for the market is a business since farmers use land, labour, and capital (factors of production) to produce goods to be sold. Such farming is done in the hope and expectation of profit as in all other businesses

Crucial business principles

To succeed in farming business just like any other business, eight crucial principles should be applied. These are:

Develop a passion

Passion is the energy that drives the entrepreneur to success no matter the difficulties that may arise in any business including farming. Passion brings the entrepreneur back to farming even after losing chicken to a disease or when predators kill all his/her animals.

Commitment to continuous learning

Farmers need to acquire and to build on new skills, information, wisdom, knowledge and understanding. A lot of information is available on media, on line seminars, training institutions, NGOs and government agencies.

Readiness to tackle problems as they come along

Successful farmers turn their problems into opportunities for growth and enhanced profits. Farmer face challenges and problems despite their level of preparedness. “Yes, Tough times never last but tough people do”.

Application of sound business principles

Farming should be grounded in sound business principles for success and the entrepreneur must embrace “farming is a business concept”. Thus, the entrepreneur should and must understand the market dynamics, obey the laws of demand and supply, and practice market timing.

Being a marketer

Farmers and entrepreneurs in Kenya today must adopt marketing skills to succeed in farming and there is no point of availing products which cannot yield returns. Good agribusiness performance is determined by the ability of a farm to sell a product or service at a competitive price. Farmers should learn to participate in markets and seek market information to guide in planning production activities. Farmers can participate in markets through producer groups and organizations who provide marketing services including aggregation; storage; processing; transportation and provide market linkages.

Re-investing farming profits

Cash flow and profits are important elements of any business and business success requires continuous and sustained growth. Returns from business should be re-invested. A business plan integrating a growth strategy is an important tool to guide business expansion.

Healthcare

Life is important despite the problems that abound in any farming venture and it is said that “Health is wealth”! Farmers’ organizations in the coffee, tea and dairy sectors are promoting health insurance products and supporting their members to acquire medical services through group covers. Farmer’s health needs to be constantly monitored through medical reviews and such its insurance covers should be promoted to ensure a healthy farming community. Farmers should avoid stress and depression by participating in family health sensitization and training programs offered by various organizations at the local level. Agricultural insurance should be promoted since it takes away worries arising from uncertainties related to farming.

Enjoy what one does

Any business that cannot be taken as an adventure will ultimately burden the owner. Entrepreneurs need to learn and to enjoy the whole farming process. Farmers should embrace farming as an adventure - should be happy and optimistic to absorb profits and losses with their heads held high.

Importance of agribusiness

Farming as a business focuses farmers' efforts towards getting the best out of their farm resources and optimizing their investments. This involves applying business practices such as; Record keeping; Benefit–cost/ gross margin analysis; Business planning and Business. It is imperative for farmers to acquire certain critical skills including; -
Marketing skills, good communication skills, group management skills, gender considerations among others

Goals of farming as a business

- To understand the importance of FAB, 5 farm goals should be clearly defined answering the five questions of: - what? how? Whom? When? How much?
- What to produce (Enterprise issues)? Out of the many possible enterprises that can be carried out in a farm, the entrepreneur needs to identify what to produce to maximize profits from the available production resources.
- How to produce it? (Technological issues). Is it possible to produce it on your land; what resources and inputs are needed and where to get them; what labour do you need? what production skills and information is needed?
- what combination of Inputs; Technologies, Innovations, Management practices (TIMPs)
- For whom to produce?. What is the best/target market for the product? (Market/ marketing issues); For which market?
- When to produce?. (Seasonality Issues/ Supply and Demand); what price can the product get in the market at the season; Is it profitable? Does the farmer have enough capital to produce at that particular time? What are the risks of producing at such a time; what to do about those risks?
- How much to produce?. (Economies of scale/ Returns to scale) Where is the business going – in terms of expansion and growth? what needs to be done?

Farm business planning

It is important for a farmer to understand what a business plan is, why the farmer needs it and how it is prepared. Planning is preparing a sequence of action steps that will assist the agripreneur to achieve specific goals. It is a road map that shows where one wants to go and how to get there. Farming as a business is not business as usual and calls for entrepreneurship.

Importance of a business plan

A comprehensive and creative business plan is a critical tool for an entrepreneur. The business plan is important in ensuring the following: -

- Entrepreneurs concretize ideas and serve as a roadmap
- Guides the farmer to make the best use of his/ her meager resources.
- Minimizes unstructured actions which cost more because the farmer moves back and forth.

Steps in farm business planning

- Set a goal, that is, determine where you want to go. The goal must be SMART, List the objectives to be achieved.
- List the activities to be undertaken under each objective.
  For each activity specify the person responsible and the time broad terms e.g. an activity may require the hiring of labour that is needed.
  Next indicate the resources needed to undertake each activity to, purchase of breeds, feeds, seedlings etc.
  State specific date during which the plan of implementation may be reviewed. Remember: Failing to plan = Planning to fail

Farm business plan format

- Executive Summary – Provides a concise overview of the entire plan; shows the current position of the business and where the owner wants it to be in the future.
- Business Description – Shows the business registration and background
- Marketing Plan – This shows the market analysis, customer needs, their location, and how to reach them.
- Operational Plan – This sets out the work to be carried out and the work flow from initial input to end results and all the needed resources
- Financial Plan – It should include a profit and loss statement; Cash flow statement; Balance sheet; Sales forecast; Personnel plan; and possibly some business ratios and/or a break-even analysis

Regulatory and legal requirement – Adherence to government regulations

Farm budgeting. Budgeting is the process of forecasting the business entity's costs and income for a particular period of time and estimating the future outcome of a plan, normally based on a cycle. The budgeting entity can be an individual, a business, a group or a government. In the context of farming, budgeting is a process of analyzing plans for the use of agricultural resources at the command of the decision maker for an intended outcome.

Types of farm budgets

Whole farm budget: This combines all the enterprises and resources of the farm to provide an overall picture of the expected net returns for the period.

Gross Margin/ Enterprise budget: It estimates costs and returns expected on each enterprise and for comparisons Partial Budget: This is a planning tool adopted to analyze relatively small changes in the whole farm by looking at only income and expense items that will change and not total values Cash flow budget: It forecast the movement of money into (cash inflows) and out (cash outflows) in the farming business over a given period of time.

Steps in preparation of farm business budget

Defining a production Program - Livestock and or Crops. Estimating and specifying the input requirements - Estimate the input requirements for each operation and the cost of inputs. Estimating the cost of production - Estimate all the production processes anticipated e.g. for maize - Land preparation, planting, weeding, harvesting and marketing. Estimating the quantity and value of output - Estimate the anticipated quantity and value of output based on the average yields and prices. Compare the costs and returns to determine the net returns - Compare the anticipated costs and the returns to determine the net returns.

Uses of farm budgets

- Decide what to produce; how much to produce; and the resources needed
- Itemize the financial aspects of the farming business
- List the inputs and production practices required by an enterprise
- Evaluate the performance of different farm enterprises
- Estimate benefits and costs of changes in production practices
- Provide the basis for a total farm plan
- Show the capacity of the farming business to carry risk

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Farm records and record-keeping

Farm records include livestock breeds reared; individual livestock records; crops cultivated; inputs; varieties planted; management and operations activities carried out; quantity harvested/ produced; and marketed. Records may also include minutes of a meeting on the farm. Record keeping involves gathering valuable data or information on the farming activities of a particular enterprise. This is done with the view of processing it in the future (for example, analyzing sales and costs and calculating profits). The record keeping format adopted should be simple and easy to implement, without compromising the quality of the records.

Records provide essential information for Proper farm planning; Credit sourcing; Monitoring farm performance; and Provide basis for decision making. Records also provide insight into farm expenditures and receipts including proceeds from the sale of produce. Records guide in making sound decisions determining what to buy and sell. Keeping records of cash and credit transactions of purchases and sales ensures no losses are incurred.

Commercial farming involves many transactions, which call for accurate and up to date book/ record-keeping to determine if a profit or a loss was made.

Books of accounts

Books of account are records of business transactions. Simple accounting systems should be designed to provide information efficiently and quickly as well as capable of offering protection to the business by exposing theft or fraud. It is important to record and keep all the source documents (sales and purchase receipts/ payment vouchers). The accounting records should be entered in journals and processed through ledger books to generate financial statements (Balance sheet and Income statement).

Gross Margin (GM) analysis

Gross Margin (GM) refers to the gross return after all variable costs have been accounted for, which means it is the return on variable costs only, and does not include fixed costs. GM is the difference between the Gross Farm Income (GFI) and the Total Variable Costs (TVC) of a given farm enterprise. Thus, GM = (GFI – TVC)/farm unit (acre/ hectare). Enterprise GM calculation requires sequential analysis of various activities, so that all input requirements and related costs are determined. This requires complete farm records of various activities involved in the production of each specific farm enterprise.

Markets and marketing

A market is a physical place where the exchange of goods and services takes place. It occurs as a result of buyers and sellers being in contact with one another, either directly or through mediating agents or institutions. It may or may not be a physical location. It is a place where buyers and sellers meet to exchange goods, services and other relevant information. In essence, a market refers to the set of all actual and potential buyers of product and services and the accompanying transactions.

Marketing refers to a series of activities involved in making available services and information which influence the desired level of production, relative to the market requirements and the movement of products from the point of production to the point of consumption. The marketing process involves collection, analysis and dissemination of the desired market data. Marketing refers to the process through which the gap between the producers and consumers is bridged. In this definition, producers are separated by both distance and time. Marketing involves finding out what the consumers want and then supplying them with the same at a profit.

Market and marketing terminologies

Need: It means a state of felt deprivation of some basic satisfaction, e.g. one needs food, air, security.

Want: This is a desire for a specific satisfaction of a need – one may need clothing but specifically wants a jean i.e. from general (need) to specific (want).

Demand: It means “the “want” for a specific product backed by the ability and willingness of the buyer to buy that specific product.

The 5 P’s of marketing namely; Product, Price, Promotion, Place, and People also known as the marketing mix provides a framework that guides marketing strategies and keep marketers focused on the right activities. Agribusinesses need marketing strategies to ensure consumers wants are satisfied and demand is sustained.

Marketing functions

There are four main functions in the process of marketing:

Transportation

Transport reinforce and strengthens trade operations. Agricultural commodities as well as farm inputs must be transported from their initial point of production through the marketing channel to the final consumer. Transport in agricultural marketing plays very important roles:

Markets would be localised in certain areas without transportation of goods from one place to another.

- Exchange of goods between regions and countries would be impossible in the absence of this function.
- Transportation narrows price difference over space – distance between producing areas.
- Transportation widens the market by bridging the gap between producers and consumers located in different areas.
- Transportation of goods from areas of production to areas of scarcity balances prices in the two regions.

Grading and Standardization (also called transformation function)

Grading means sorting of unlike lots of the produce into different lots according to customer quality specification.

Agricultural commodities are graded according to certain characteristics such as weight, size, appearance, texture, moisture content, length, taste etc. Two types of grading are agricultural produce/ commodities:

Fixed grading. Refers to sorting of commodities according to standard or characteristics which are fixed and do not change with time.

Variable grading. This refers to the grading standards which may change over time i.e., the standard changes every year depending on the quality of produce that year (esp. for agricultural products)

Storage function

Storage is an important marketing function which involves holding and preserving goods from the time they are produced until the time they are consumed. Agricultural produce may require aggregation and storage as a result of surplus production and the need to sell at the right time and price.

The storage function of agricultural produce is necessary because it balances supply and demand for agricultural and food products. Agricultural production in developing countries is usually seasonal whilst demand is generally continue throughout the year, hence the need for storage to smoothen supply.

Processing function

The Processing function is defined as a deliberate activity which changes the form of a good. The processing function converts farm products into a more useful form. Farm products require some form of processing to improve the shelf life and ensure quality throughout the marketing channel. Some produce e.g. eggs, fruits & vegetables can be consumed directly in the form in which they are obtained from the produce. Kenya government regulations require milk to be processed before consumption to ensure health standards are maintained.