



# SmartFarmer

Improving skills for Smartfarming as an innovative tool  
for rural development and economic growth

## TRAINING MATERIAL



Εύκαρπον  
HELLENIC SUPERFOODS

FCDI  
CENTRO DE COMERCIALIZACIÓN DE  
PRODUCTOS AGROPECUARIOS Y FORESTALES



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# SMARTFARMER: Objectives

The SmartFarmer project aims to improve the skills and competences of people in the agricultural sector by introducing a training programme in Cyprus, Greece, Latvia, Spain and Portugal while at the same time encouraging rural development in project countries in particular and Europe in general. The project is based on the transfer of the results of ProudFarmer (<http://www.zemniekusaeima.lv/en/38/>) project that was completed in 2010 and provided innovative results that were successfully integrated in formal training programmes in partner countries. The objectives of SmartFarmer include the analysis of the Methodological Training Tools in Marketing training programme and materials, their adaptation to the requirements of the target group and project countries; sharing experiences in smart farming practices training and development of new (e-) learning contents; testing and evaluation; dissemination of information about the project and project results and preparation of appropriate mechanisms/processes for their further exploitation.

The training material and the e-learning platform (<http://e-platform.smartfarmerproject.eu/>) might be used for the vocational education and training of the rural population on marketing and promotion of competitive agricultural products with high nutritional value, and hence enhancing the development of the rural areas.

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# MODULE 1

## Strategic Planning and Marketing of “smart” organic agro-foods

# UNIT 1.1: The Concept and Principles of Marketing

Authors: Alexandra Mendonça

## Learning objectives/outcomes

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This first unit will help the reader to understand:



- ♦ The meaning of the marketing concept and the functions of marketing;
- ♦ The relevance of marketing to the agricultural and agro-food businesses;
- ♦ Why it is important to implement the marketing concept.

Upon successful completion of this unit, you will be able to:

- ♦ Understand the basic concept of marketing;
- ♦ Understand the difference between a “Production oriented” business and a “Marketing Oriented” business;
- ♦ Understand the influence of effective marketing on agro-food businesses.

## Estimated duration

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The estimated learning duration for this unit is 30 minutes. However for the completion of the proposed practical exercise, around 60 minutes will be required. Therefore, it should take around 90 minutes to complete this unit.



## Summary

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Marketing is an organizational function that includes a set of processes having as essential purpose to **find out what your customers want and supplying it to them**, in ways that benefit the organisation and its stakeholders.

This means that: i) the marketing process should be customer driven; ii) the marketing process should ensure the business sustainability, through the appropriate management of the value triad – quality, service and price.

Farmers are in general highly experienced in agricultural techniques and procedures, but marketing requires learning new skills, new techniques and the capability to access new sources of information. Getting marketing skills will contribute to run farms and agro-businesses more profitably.

## Learning (reading) resources

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### Reasons to get started

For sure you have been frequently involved in thinking about your business and the production and selling of your products.

No matter what is the nature of your activity (e.g. a farm or an agro-food business) and the stage of development of your business (starting-up or already established) you have to face a few questions to cope with market and external environmental challenges. That is to say, to deal with the complex of economic, social and cultural conditions that affect and influence the growth, development and survival of your business.

Getting acquainted and familiar with first principles of marketing does not mean that you have to learn by heart a lot of notions and definitions that apparently are far from your practical problems and requirements.

Marketing, in its basic principles and definitions, has much more to do with your everyday business life than you can imagine. Marketing will help you to better comprehend how you can adopt a more market oriented approach and understand your firm's external environment, in order to improve your business.



## Marketing Concept and Marketing Functions

The essence of marketing is *identifying and meeting human and social needs*. According to Philip Kotler, **marketing** is “a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others” [4].



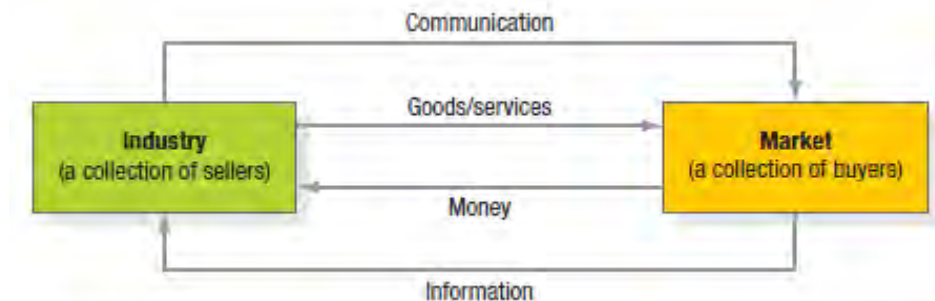
Managing these exchange processes involves work and expertise. Thus marketing management can be seen as “the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value” [4].

In short, marketing covers a set of concepts, theories, tools, practices, procedures and... experience. Let's get started with some core definitions that will help you to go deeper into the marketing concept and functions.

**Markets.** The concept of exchange leads to the concept of market. Originally, the “market” was the place where buyers and sellers gathered to exchange their goods. In marketing, however, the term “market” is used to refer to groupings of buyers, while the sellers are considered to be the “industry”.

Buyers and sellers are linked by four flows, as shown in the figure below. Sellers send goods,

services and communication (e.g. advertisements, direct mails) to the market and in return, they receive from the market money and information (e.g. buyers' preferences, sales data).



Source: Philip Kotler, Kevin Lane Keller (2012), *Marketing Management* [4]

**Needs, Wants, and Demands.** *Needs* are basic human requirements such as for food, water, clothing and shelter. These needs exist intrinsically in people and are part of the human condition. *Wants* are desires for specific satisfiers of the basic needs (e.g. I need clothing, but I want an Armani suit). Human wants are deeply influenced by social forces. *Demands* refer to wants for specific products, supported by the capacity and willingness to buy them. Many people want an Armani suit, but only few are able and willing to buy one.

**Products.** A product can be broadly defined as *anything that can be offered to someone to*

*satisfy a need or want*, including physical goods and services. In fact, physical products supply services in many cases (e.g. a microwave oven provides cooking services), while services are delivered through physical objects and other vehicles (e.g. tourism services).

**Value, Cost and Satisfaction.** How do consumers choose among the many products that may satisfy a certain need? The key issue is *value*. The buyer chooses the product he/she perceives to provide the most

value. This value results from the combination of the tangible and intangible benefits and the cost of the product.

The customer value triad combines Quality, Service, and Price. Value perceptions increase with quality and service, but tend to decrease with price. *Satisfaction* reflects the customer assessment of the perceived performance of a given product, in relationship to his/her expectations.

Therefore, we can consider that the **marketing function** is primarily “the identification, creation, communication, delivery, and monitoring of customer value” [4].



In other words: marketing involves **finding out what your customers want and supplying it to them**. This leads to two important conclusions:

- ♦ The marketing process should be *customer driven*;
- ♦ The marketing process should ensure your *business profitability*, through the appropriate management of the value triad – quality, service and price.



In short: marketing is all about creating, communicating and delivering:

- ♦ The right product (What)
- ♦ For the right people (Who)
- ♦ At the right price (How)
- ♦ At the right place (Where)
- ♦ At the right time (When)
- ♦ At a profit (Why)

### Why is Marketing important?

Most farmers and small agro-businesses see themselves as “price takers”. They tend to consider that they have no control over prices (due to the bargaining power of wholesale and retail chains), frequently they don’t know how to attract new customers, they have difficulty to follow up changes in market demand, or they lack knowledge on the most profitable products to grow.

While farmers and other agro-businesses can usually outline their problems clearly, they often face difficulties in identifying potential solutions.

Marketing plays a key role in addressing those challenges and problems. It provides a set of processes and tools that will help analysing your products and services, assessing the effectiveness of your commercial communication and distribution activities and improve the overall performance of your business.

Marketing can inspire enhancements in your existing products, helping to innovate and improve the position of your business in the marketplace.

Successful marketing will also help to build demand for your products and services and will contribute to create a loyal customer base.

Making the right marketing decisions is not always simple, but an effective marketing approach will support you to set prices, to decide where to sell your products and how much to spend on advertising, direct sales or Internet promotion.

Marketing involves also knowing as much as possible about your customers, their needs and demands and includes as well research to follow up competitors, the technology



framework and the economic and social factors that may globally influence your business.

Farmers are in general highly experienced in agricultural techniques and procedures, but marketing requires learning new skills, new techniques and the capability to access new sources of information. Getting marketing skills will contribute to run farms and agro-business more profitably.



### *Orientation towards the Market-place*

During the past decades, the marketing approaches have changed dramatically.

In particular, in the last few years, economic, social and cultural factors have shaped new marketing opportunities and challenges. These factors refer to a large range of inter-linked evolutions that go from the digital revolution to the globalisation processes, including also the development of disintermediation solutions in the delivery of products/services, increased access to information, better environmental consciousness of customers and more empowerment of consumers, to mention just a few.

Let's have a look on the evolution of the marketing ideas, from "old" to "new" concepts.

**The Product Concept.** Marketing focused on the **product** and the companies concentrated

their efforts on making a "better" product. The definition of "better" was based on internal standards and values. The mousetrap in this approach is that "a new or improved product will not necessarily be successful unless it's priced, distributed, advertised and sold properly" [4].

**The Marketing Concept.** This concept emerged in the late 1950's – early 1960's and shifted the focus of marketing from the product to the **customer**. The approach is not finding the right customers for your products, but "*the right products for your customers*". This concept developed the *marketing mix* and the "four P's" approach, as they become known: product, price, place (distribution channels) and promotion. These issues will be further discussed and detailed at Module 2.

**The Holistic Marketing Concept.** More recently, it was becoming evident that a broader strategic marketing concept was required. Therefore, a new shift started to emerge, focusing on the **firm's external environment**. That is to say that it is necessary **to know the customer in a global context** that includes not only the competition, but also the government policies and regulations, as well as the wider economic, social and political macro forces that influence the markets evolution. Holistic marketing acknowledges that "everything matters in



## Module 1

marketing and that a broad, integrated perspective is often necessary” [4].

### *Start thinking differently...*

The supply chain is a long channel stretching from raw materials to the finished products delivered to final consumers. Most farm outputs require additional processing, packaging and other intermediary services, in order they are in fact useful to the consumers.

Products are highly perishable and are not standardised by size or quality. They are variable in quantity and quality over the year and often produced far from centres of consumption...

... it looks like that the needs of farmers and consumers appear as almost being opposite, as illustrated in the following figure.

#### One of the keys to success is to know:

WHO are your customers?

WHAT are their needs and priorities?

WHAT are they

looking for?



#### FARMERS' NEEDS

- ☞ Products to be sold at the highest possible price
- ☞ Production to be sold regardless of quality
- ☞ Sales to be made as close to the farm as possible
- ☞ Products to be sold immediately after harvest
- ☞ Products to be sold without any packaging

#### CONSUMERS' NEEDS

- ☞ Products to be purchased at the lowest possible price
- ☞ To purchase only the highest quality possible
- ☞ Purchases to be made as close to home as possible
- ☞ Products to be available throughout the year
- ☞ Products to be available in packs if required

*Source: Adapted from ProudFarmer Project (2010), Methodological Training Tool in Marketing, 1. Marketing of Local and Typical Products, 1.1. First Principles of Marketing [5]*

Each operator captures only a certain percentage of the total value generated along the supply chain. To increase the farmers' share of consumers food expenditure will depend on:

Providing services currently performed by other operators downstream in the supply chain, for example by processing farm outputs or selling directly to the public;

Contributing to improve the supply chain efficiency, for example by reducing buyers' costs, or by meeting buyers' specific requirements, that otherwise would not be satisfied.

Running a farm or a small agro business is not simply producing and hoping that customers will come to buy. *Customers will pay for what they want and not necessarily for what you might want to sell them.*



Good ideas alone will not guarantee success. So, start thinking differently! Be customer driven and market focused!

As a first step, we propose you an exercise.

### Exercise/activities

We propose you to go to your local store/supermarket and:



1. Make a list of the available fresh fruits and vegetables.
2. Behave as a “consumer” and proceed purchasing, as if this was your weekly shopping of everyday items.
3. Write down a list of the needs/reasons, which pushed you to buy a specific product

and, in case of more than one choice for the same class of products, make a list of priorities, which led you to select those specific ones.

After shopping is finished:

1. Analyse the goods that you produce in comparison to the list of needs/reasons and eventual priorities, which led you to select the specific products you have purchased in the supermarket. Classify your own products according to your list of needs/reasons and priorities.

2. Analyse the products you have bought in comparison with the products that you produce and make a list of the differences – appearance, price, packaging, labelling, added value, communicative decorations, further services provided, etc..

3. Analyse all your lists and identify prospective changes in your products to fill gaps of quality, needs/reasons and priorities, which would lead you to buy the supermarket products rather than yours.

At the end of the exercise you will be able to answer to this question:

Are there margins of improvement for your products, in order they are more appealing for your current consumers and are able to attract new consumer categories?

## Bibliography/Further reading

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[5] **ProudFarmer Project** (2010), Methodological Training Tool in Marketing, 1. Marketing of Local and Typical Products, 1.1.First Principles of Marketing

# UNIT 1.2: Business Strategic Planning

Authors: Alexandra Mendonça, Petros Kosmas

## Learning objectives/outcomes

This unit will help the reader to understand:



- ♦ What is a strategy and what are generic types of strategies;
- ♦ The role of strategic planning and how strategic planning is carried out;
- ♦ The relationships and the differences between the overall business strategic planning and marketing planning.

Upon successful completion of this unit, the reader will be able to:

- ♦ Be familiar with 3 types of generic strategies;
- ♦ Describe the process of strategic planning;
- ♦ Differentiate between business planning and marketing planning.

## Estimated duration

The estimated learning duration for this unit is 90 minutes.



## Summary

Strategy can be described as a decision-making process that acts as a unifying element indicating the direction for the actions of an organisation, to achieve defined objectives. Companies may adopt many different strategies, depending on their objectives and

resources and their external environment. Porter has successfully organised possible approaches into three generic types of strategies: overall cost leadership, differentiation and focus.

The strategic planning process includes the definition of the business mission, the analysis of external opportunities and threats and the assessment of internal strengths and weaknesses; based on the analysis of the external and internal environment, business goals are established and the *strategy* is tailored. Furthermore, a *business plan* should be outlined for the implementation of the strategy. Supporting mechanisms to get feedback and control along the plan implementation should also be designed.

Market strategic planning is a principal component of the overall business planning. A marketing strategy sets target markets and a marketing mix. It is a "big picture" of what a company will do in the market, in order to gain a competitive advantage. A marketing plan is a detailed breakdown of the marketing strategy, outlined for operational implementation of the strategy.



## Learning (reading) resources

### What is Strategy?

“Goals indicate where a business wants to go; strategy answers how to get there” [4].



Strategy can be described as a decision-making process that acts as a unifying element indicating the direction for the actions of an organisation, to achieve defined objectives.

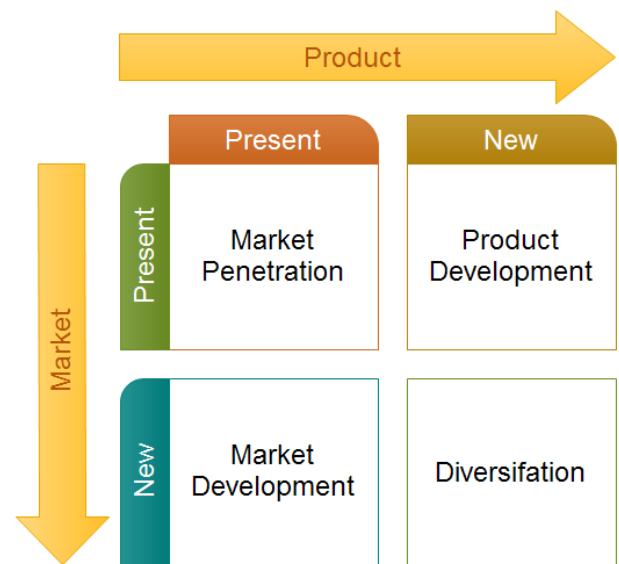
Strategy can also be compared to the captain on the bridge of a ship, sailing to a certain harbour. The captain is constantly scanning both the horizon and the immediate surroundings and adjusting the course, possibly taking the ship into another direction if a storm appears or if an object is obstructing the path.

All companies have a strategy, either explicit or implicit. An explicit strategy is developed through a structured planning process, while an implicit strategy results from the various firm's activities. There are however relevant benefits in adopting an explicit process for formulating the strategy, to safeguard that the company efforts are coordinated and directed to accomplish a specified set of goals.

A formal strategic planning process would ask questions that are of general concern to your business and should provide an organised way to answer them: What is my business

doing now? What is happening in the environment? What should my business be doing?

For instance, in the scope of the strategic planning process, companies should review and identify if there are opportunities for improving their performance. Ansoff [1] defined a very useful framework for detecting market/product opportunities:



Source: Ansoff, I (1957), *Strategies for Diversification*, Harvard Business Review

Consider the hypothetical case of *NiceFarm*, currently producing blackberries. Which growth and diversification options could be adopted by *NiceFarm*?

**Market-Penetration.** This option is addressed to gain more market share with the current products, in the current markets. There are three major possibilities. If most of the customers are buying on an infrequent basis, the company could demonstrate them the benefits of consuming blackberries more regularly (e.g. due to their healthy characteristics). Another option could be trying to attract buyers from the competitors, to switch to *NiceFarm* blackberries, exploiting possible weaknesses of the competitors' products or marketing approach (e.g. lower quality, smaller size, higher prices). A third possibility would be to attract non-consumers of blackberries, considering that there are still many persons that do not eat those fruits.

**Market Development.** This approach is envisaged to look for new markets, with the current products. If *Nicefarm* has been selling blackberries only to consumer markets, it could try to sell, for instance, to business markets (e.g. restaurants, catering companies). Secondly, *Nicefarm* could look for additional distribution channels; if currently it is selling only within supermarkets, it might try selling in farmers markets or through the Internet. Thirdly, the company could try to sell in new locations, in the domestic market, or exporting; if it is currently selling only in its own region, could expand to neighbouring regions or abroad, to other countries.

**Product Development.** This option is designed to incorporate new product developments. *Nicefarm* could change and improve the blackberries attributes, shifting from conventional production to organic production. If applicable, could obtain a Protected Designation of Origin, or a Protected Geographical Indication, adding value to the existing product. Finally, considering that the packaging is also part of the product, creating a new package concept, more convenient and appealing for final consumers, could also be implemented, as part of the product development approach.

**Diversification.** This approach is appropriate when new opportunities can be identified outside the present business scope, including new products and new markets. *Nicefarm* could look for new products having technical or marketing synergies with its current production (e.g. it could start growing goji berries, in addition to blackberries). The company might search also for new products and markets that require different skills and technology, and that can be appealing to its current customers and new consumers (e.g. *Nicefarm* could start producing blackberry jams or liquors).

### Formulating a Strategy

The essence of formulating competitive strategy is relating a company to its environment [5].



## Module 1

Companies may adopt many different strategies, depending on their objectives and resources and their external environment. Porter [5] has successfully organised possible approaches into **three generic types of strategies**:

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Source: Porter, M.E. (1980), *Competitive Strategy*

**Overall cost leadership strategy.** The company achieves the lowest production and distribution costs and is able to sell at prices lower than the competitors, winning market share. Putting the emphasis on efficiency, this strategy usually requires scale, therefore is more frequently adopted by large firms, because small businesses do not have the required resources. “Whether a cost leadership strategy is sustainable depends on the ability of another competitor to match or develop a cost base than is lower than the cost leader” [8].

**Differentiation strategy.** The business concentrates on achieving superior performance, through a product or service that provides unique attributes that the customers perceive to be better or different from the competitor’s offer. Ideally the company differentiates along several dimensions (e.g. quality, customer service) and the value added by the uniqueness of the product or service may allow to charge a premium price for it. It must be however stressed that “the differentiation strategy does not allow the firm to ignore costs, but rather (that) they are not the primary strategic target” [5].

**Focus strategy.** The business focuses on one (or more) narrow market segments and follows either cost leadership or differentiation within that specific target segment. This can be also named as a *niche strategy*, as it is based on the principle that the company is able to better meet the needs of a selected narrow buyers group, than the competitors, who operate more broadly.

## Business and Marketing Planning

The business strategic planning process includes several steps, which are summarised in the figure below: the company should define its mission and evaluate its external environment (opportunities and threats) and internal conditions (strengths and weaknesses); after that it will be able to take decisions on

the objectives and goals to be reached (for a given planning period). The next step is tailoring a strategy to achieve the goals established.

Once a business strategy is developed, supporting tools should be prepared for carrying out the strategy. A business plan (or programme) should be outlined and implemented, as well as monitoring and control mechanisms to follow up if the business plan is heading in the right track.



Source: Philip Kotler, Kevin Lane Keller (2012), *Marketing Management* [4]

In the opening chapter of this learning tool emphasis was put on the advantages for farmers and small agro-businesses to adopt the holistic marketing concept and a market oriented approach.

In this scope it is necessary to understand the relationships between the overall business strategic planning and marketing planning. The marketing area should supply information

and strategic recommendations to support the broad strategic business planning process. That is to say that “the first step in the business planning is the marketing step, where the target market and product positioning (...) are defined and sales goals and needed resources are established” [4].

In addition to the broad business strategy and plan, a specific **marketing strategy and operational plan** should also be outlined, to allow the fine tuning of marketing objectives, principles and tools that will guide the company in the target markets.

These issues will be further discussed in Module 2 that focuses on the **Marketing Mix**, one of the key concepts in

marketing theory.

A marketing strategy in general sets target markets and a marketing mix. It is a "big picture" of what a company will do in the market, in order to gain a competitive advantage. A marketing plan is a detailed breakdown of the marketing strategy, outlined for operational implementation of the strategy.



## Case Study 1: S.J.M. LAZAROU LTD Aromatic Herbs & Essential Oils

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### *Company Profile*

Mrs Yianoulla is a botanologist and she routinely gives TV presentations about herbs, essential oils and their great medicinal values. She started the herb farm about 15 years ago, close to her home village, Korakou and today she owns one of the biggest herb farms in Cyprus. Korakou is a fairly remote village about 4 km off the main Nicosia-Troodos road, close to Evrichou. Today, she is helped in the business by her family, with the business side of the operation managed by her son, Mr Filaktis Lazarou.

In an area of 3 hectares Mrs Yianoulla cultivates a range of more than 50 medicinal herbs, which are transferred to the company's own small processing unit and made into herbal teas and essential oils. Its production will soon expand as a new rented area will be planted so as to meet growing demand. She is regarded as one of the highly specialist herbs distillers although she insists on using traditionally simple distillation apparatus. A variety of herbal teas are packed in attractive, air tight packaging following traditional drying processes where herbs are left to dry naturally in shaded and well aerated rooms. Additionally, a broad range of organic essential oils are available in retail bottles. Specially blended

essential oils, with olive oil as a base ingredient, are prepared for use as medicinal remedies and spa treatment oils. Among its essential oils product line, the company also distills herbs that are grown in the wild such as pine and cypress, harvested under permission from the local authorities.

### *Healing powers of Cyprus herbs*

In a highly organised herb farm where all herbs are hand-picked under the experienced eyes of Mrs Yianoulla Lazarou, one can find the ultimate freshness, taste and aroma of the Cypriot herbal treasures. The place of the farm, its relatively small and manageable size and the dedicated care and attention given by Mrs Yianoulla and her family, are the key factors in achieving products of distinct quality, rich in their natural attributes. Over 70 loose leaf herbal teas are available to meet all consumer demands for taste and medicinal properties.

Mrs Yianoulla also guides interested visitors via educational tour in her herb farm and uncover the secrets of herbs and essential oil processing and their associated attributes.

S.J.M. LAZAROU LTD focuses on “niche” market. Most of the company's products are re-tailed through selected pharmacies in Cyprus. The many years of involvement in the herbs business and the fame that Mrs Yianoulla acquired through her TV presentations, has



made her products highly appreciated by consumers. She proudly claims that no longer does she have to chase for customers, rather the customers look for her products.

Following years of research, a new line of business has recently been launched involving the production of a range of herbal cosmetics and facial creams.

## Case Study 2: KIBYK LTD - Cyprus Superfood Ecofarming LTD

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### *Company Profile*

Cyprus Superfood Ecofarming LTD was established officially in 2013 and is an innovative specialized group of small-scale farmers, who united their love for nature by cultivating superfoods on their land. The organic superfood farms are located in the mountainous areas of Cyprus, especially on Mount Troodos.

The total area of cultivated land is 3 hectares and soon will be extended to 4.5 hectares. In these areas varieties of berries are growing - such as goji berries, aronia, blueberries - with great care and attention. Recently new cultivations have joined the range of varieties, like those of raspberries, blackberries and cranberries.

*Small is Beautiful especially when Smart-Farming deals with organic Superfoods*

The reason Cyprus Superfood Ecofarming LTD promotes the production of Superfoods in a manageable land size is for the cultivations to have the required care and attention. This differentiation strategy ensures the uniqueness and quality of the farmer's group products, which in the future will strengthen the branding strategy.

This Smartfarming approach by Cyprus Superfood Ecofarming LTD preserves biodiversity and meets consumer demand for higher-value foods. At the same time it provides sustainable business opportunities for small-scale farmers.

Until today, Cyprus Superfood Ecofarming LTD is moving up in the market with fresh and dried superfoods, jam and herbal tea. In 2014, the processed products (goji berry jam and aronia tea) were successfully placed in the domestic and foreign markets, especially in Greece.

The vision of Cyprus Superfood Ecofarming LTD is to develop the summary of small-scale farmers into a total producer, where the individual interest of each member is obtained through the collective approach and vice versa. Its umbrella brand will ensure the high nutritional value of its products, as a result of respect for the environment and human being.

### *Small, specialized and beautiful*

Cyprus Superfood Ecofarming LTD focuses on a “niche” market and develops a differentiation strategy, by investing in organic certified superfood products.

The strategy of Cyprus Superfood Ecofarming LTD is based on the approach summarised hereafter.

Dissemination of information to improve the sale of superfoods. This involves giving consumers more information about the benefits of eating superfoods.

Certification to guarantee the quality and safety of products. Standard certification gives a seal of authority that is more reliable than a storyline in the advertising or on the package.

Development of trust between the producer and the consumer, by having the name of the producer in each product. By this way the consumer has the opportunity to specifically identify the producer.

Connection with the consumers by developing more distribution channels for buyers convenience. Besides providing more specialized distribution channels activities with the customers are also set up. These activities are related to health and safety issues and include: Farm visits. When consumers visit a sustainable farm, they see how organic superfoods

are produced and this can strengthen their trust. Informal meetings and events to discuss or develop issues of common interest, such as yoga sessions, or cooking classes using the company's products.

### Case Study 3: KLEOPAS pomegranates

#### *Company Profile*

KLEOPAS pomegranates started operation in the production of pomegranates in 2006, and from then displays a remarkable work. The final product, genuine fresh pomegranate juice without preservatives, presented in the Cypriot market, reasonably characterized as an innovative product.

13 hectares of pomegranates were cultivated in the beginning in selected communities of Limassol-Cyprus, producing 15-25 tons per hectare. Then, the total area of plantations was increased, as well as the total production. Currently the cultivated area amounts to 23 hectares, producing 25-30 tons per hectare.

#### *Innovation in SmartFarming practices*

The plantation consists of two different kinds of pomegranates varieties named “wonderful”, that are considered suitable for juicing. Kostas Kleopas went a step ahead in manufacturing by constructing an innovative treatment plant for pomegranate juice, which was

supported by European funds under Axis-LEADER of the Rural Development Program 2007-2013. The new processing unit was designed according to European standards, in compliance with health and safety rules and is staffed with modern machinery, resulting in increased yield of the product, while providing less energy consumption and increased environmental protection.

The principal activities of KLEOPAS pomegranates are divided into the following stages: Collection of pomegranates – Processing – Packaging-Labelling – Sales/Distribution.

KLEOPAS pomegranates follows the business differentiation strategy because its juice contains 100% fresh pomegranate and until to date is the only type of this kind of product, in Cyprus.

### Exercise/activities

1. Considering Porter's theory, please indicate the type of business strategy adopted by the "smart" agro-producers, presented in the case studies. Which are the common main principles adopted by the agro-producers?
2. Taking each case study separately please exemplify how the strategy was implemented.



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# UNIT 1.3: Designing Business and Marketing Strategies and Plans

Authors: Ioannis Galatoulas

## Learning objectives/outcomes

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Following the successful completion of Unit 2, the learner should have familiarized with the terms of strategic plan and marketing plan. In this Unit, it is crucial for the learner to gain knowledge of how to plan and evaluate both a strategic plan and a marketing plan.



Upon successful completion of this Unit the reader should be able to:

- ♦ Define agribusiness mission and vision.
- ♦ Analyze the external and internal environment (SWOT analysis and Market Research – different methods and tools).
- ♦ Set goals and objectives (for the planning period).
- ♦ Build a business plan.
- ♦ Create a marketing strategy and a marketing plan.

In order to successfully complete this Unit, the authors will provide to the learner the following:

- ♦ An introduction to business planning.
- ♦ A suggested structure of a business plan.

- ♦ External learning sources.
- ♦ A case study.

Finally, this Unit includes an exercise related to the construction of a simple business plan.

## Estimated duration

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The estimated learning duration for this Unit is 180 minutes.



## Summary

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As in any other business, in agribusiness, vision and mission statements can help in defining the purpose of a venture, its goals, and the path to be followed, in order to succeed, as well as guiding the policies and conduct. Vision statements declare what an agribusiness aspires to be, with an emphasis on the future of the operation. Mission statements outline the purpose of the business, its customers, stakeholders, and services rendered.

One of the most important documents for any business is their business plan. It is common practice for consultants, lenders, potential business partners, and other business-associated individuals to request a business plan to make a more informed decision concerning their relationship with a business.

Some commonly used tools for a successful business plan are SWOT analysis, Porter Analysis and Market Research.

Moreover, a marketing plan is either a product specific, or a market specific, or even a company-wide plan that describes activities involved in achieving specific marketing objectives within a set timeframe. In addition the marketing strategy is an organization's strategy that combines all of its marketing goals into one comprehensive plan. A good marketing strategy should be drawn from market research and focus on the right product mix in order to achieve the maximum profit potential and sustain the business. The marketing strategy is the foundation of a marketing plan.

### Learning (reading) resources

#### Agribusiness mission and vision - Goals and objectives



As in any other business, in agribusiness, vision and mission statements can help in defining the purpose of a venture, its goals, and the path to be followed, in order to succeed, as well as guiding the policies and conduct. **Vision statements** declare what an agribusiness aspires to be, with an emphasis on the future of the operation. **Mission statements** outline the pur-



pose of the business, its customers, stakeholders, and services rendered [1].

A vision statement for a company or organization focuses on the potential inherent in the company's future, or what they intend to be. While a vision statement might contain references to how the company intends to make that future into a reality, the “how” is really part of a mission statement, while the vision statement is simply a description of the “what,” meaning, what the company intends to become. There are “Short Vision Statements” and “Long Vision Statements” depending on the company profile [2].

Writing a good vision statement isn't difficult. Think about what an agribusiness does and what, in an ideal world, a Smartfarmer would like to achieve and how would it be appeared to the outside world. Consider the services and attributes that this company provides, then imagine how it would be if it provided the very best version of them possible. List those visions, and incorporate them into a brief statement that gives a good overview of the kind of image it should represent.



A carefully crafted vision statement can help in communicating the company's goals to employees and management in a single sentence or a few concise paragraphs. While a well-thought-out statement may take a few days or weeks to craft, the result will be a tool



that helps inspire strategic decision making and product development for this agribusiness for years to come.

According to a study that appeared in the Harvard Business Review, up to 70 percent of employees do not understand their company's strategy. Failure to understand your company's position can lead to poor decision making at all levels of an organization. For that reason, the first step toward crafting a vision statement is to take a careful look at where a company stands its place in the industry and the realistic goals for the intermediate and long term.

Vision statements are aspirational; they lay out **the most important primary goals** for a company. Unlike business plans, vision statements generally don't outline a plan to achieve those goals. But by outlining the key objectives for a company, they enable the company's employees to develop business strategies to achieve the stated goals. With a single unifying vision statement, employees are all on the same page and can be more productive [3].

In some cases, vision statements are a challenge for many people because they aren't sure what form the statement is supposed to take.

- ♦ A typical corporate or company vision statement will be **brief and succinct**; it will

say a lot in just a few words, so those words must be very carefully chosen.

- ♦ The key to a good vision statement is to think of things in a long-term, broad sense, without sounding generic.
- ♦ If you are too specific, you will limit your vision and it won't be applicable ten years down the road: for example, if the current goal for your business is to move into a larger building, that's a vision for the future but it's not the vision for the future of your entire business. It's too narrow in focus.
- ♦ On the other hand, if you say that you want to achieve success – well, any business in the world could say that. It's too generic. The best statement will be clear about whom you are as a company as well as whom you wish to become.

Understanding your goals and being able to state them clearly is the first step toward making them happen.



A **mission statement** is a key tool that can be as important as a business plan. It captures, in a few succinct sentences, the essence of a business's goals and the philosophies underlying them. Equally important, the mission statement signals what a business is all about to its customers, employees, suppliers and the community [4].

The mission statement reflects every facet of a business such as the range and nature of the products it offer, pricing, quality, service, marketplace position, growth potential, use of technology, and the relationships with its customers, employees, suppliers, competitors and the community.

*“Mission statements help clarify what business you are in, your goals and your objectives” [5]*



### External and internal environment

One of the most important documents for any business is their **business plan**. It is common practice for consultants, lenders, potential business partners, and other business-associated individuals to request a business plan to make a more informed decision concerning their relationship with a business [6]. Some commonly used **tools** for a successful business plan are SWOT analysis, Porter Analysis and Market Research.

**SWOT Analysis:** A systematic review of the firm's Strengths, Weaknesses, Opportunities, and Threats. This is used to draw focus on what the firm does well and what it may be able to do to take advantage of emerging market opportunities. Performing a SWOT analysis, lays the foundation for the business plan. Four separate SWOT analyses should be performed, each



related to one of the four functional areas of management: marketing, production/operations, finances, and human resources.

Regarding strengths, all the benefits of the holding should be noted, such as:

### Strengths

- ♦ **The organizational structure:** The organization of an enterprise is necessary in order to present the bases for its proper and efficient operation. By creating an integrated plan, all business functions can be implemented, roles and distinct functions can be differentiated, high performance can be achieved and finally, conflicts and inconsistencies in the operation of various departments can be avoided.
- ♦ **The vertical integration of production:** Minimizing dependence on others, whether suppliers or customers, should be an objective for any business. In this way, a better organization and maximum efficiency are achieved, as well as improvement of economic ratios. Meanwhile, Smartfarmer enjoys the surplus value arising from processing but also part of the commercial

profit, which he loses when he remains exclusively in the primary sector.

- ♦ **The innovative action (new products, innovative packaging etc.):** Innovation is a factor that creates surplus value. Innovation may refer to the manufacture of a product, the introduction of a change in a classic product, the application of new packaging or even the change of the label. Anything new, easy to use, efficient or even more attractive is an innovation that the Smartfarmer is asked to identify and implement, either alone or in partnership with others, in order to achieve economies of scale.
- ♦ **Environmental protection (organic farming, organic food etc.):** Ecological consciousness (thinking green) is a key factor for decision making both for businesses and consumers. The recyclable packaging, the application of environmental standards, taking recycling measures as the reuse of materials, as well as (eco) friendly production methods are challenges to be faced by Smartfarmer.
- ♦ **The comparative advantages (place of installation, certified food products, products of designated origin):** The location of a business can be a competitive advantage for many reasons. One of them is access to transportation or the existence of adequate infrastructure or even access to abundant and cheap labor. Another reason is possi-

bility of producing products of origin (PDO, PGI etc.), which increase the Smartfarmer's income.

- ♦ **Differentiation:** The ability of a company to differentiate is an important factor for a successful business. In the same way, Smartfarmer must have structures in order to produce differentiated products. These products should be diversified both by type or form and during their packaging. For example, the ability of Smartfarmer to change production in a short time is an important adaptability element. Moreover, differentiation of packaging to a small (retail) as well as a professional one is a form of diversification that improves the flexibility of Smartfarmer.
- ♦ **Low production cost:** It is clear that the ability to reduce production costs is a strong point for any business and consequently for each Smartfarmer. The reduction in production costs is a tool to improving pricing policy and therefore a competitive advantage over others.

Similarly, all possible weaknesses should be recorded as well, which are the strong points of competition.

### Weaknesses

- ♦ **The lack of organization:** Failure of Smartfarmer's organization may lead to failure to

meet the targets set, to productive resources' waste without corresponding outputs and to failure of the business effort.

- ♦ **The non-vertical integration of production:** The lack of integrated production increases dependence of Smartfarmer on third parties, for both sourcing and disposing of his products. At the same time, it increases the risk of instability of the final product, because of changing production methods, which affects the quality and final grade of consumer satisfaction.
- ♦ **The lack of innovation:** A product, which is a copy or recirculation of an existing one, cannot easily penetrate the markets, especially when there are companies with a timeless presence and a recognizable by consumers brand name.
- ♦ **The comparative advantages of competition:** The existence of a vertically integrated competitor in an area with easy access to transport and cheap labor, fully qualified, is possible to close the passage of Smartfarmer to the markets.
- ♦ **Failure to product differentiation:** The production of a type of product in a package without benefits depending on the sector, the season and the market needs, is a major weak point.
- ♦ **High cost of production:** It is important that the cost of production remains low, so that

the Smartfarmer can be competitive, but also flexible, in terms of pricing policy.

- ♦ **The existence of a market leader:** A strong player in the market can create unfair competition, leading the Smartfarmer to failure due to inability to dispose of his products or even failure of supply of raw materials at competitive prices.

In the same way, opportunities and threats should be recorded, which exist in the economic environment.

### Opportunities

- ♦ **The increased and unmet demand for market goods:** When the market is asking for specific goods, which are not offered or they are available in limited forms and with elements of seasonality, then this is an opportunity for the Smartfarmer who will be able to overcome these obstacles.
- ♦ **The availability of funding:** Easy access to financial tools, in organized markets, is an important element to stimulate liquidity, and hence the growth of each firm.
- ♦ **The need for new products:** The contemporary consumerist lifestyle creates opportunities for market entry of new products. Modern marketing is capable of creating needs to consumers, since the product available is of premium quality.

- ♦ **The availability of new technologies:** Finding and implementing new technologies in the production process can reduce production costs, increase quantity, improve product quality, make more environmentally friendly the production process and to improve, generally, Smartfarmer's position against competition.
- ♦ **The exploitation of productive opportunities:** Cheap land, diversification in production of traditional products and the introduction of new production processes and products, as a result of globalization, creates opportunities for each bold Smartfarmer.
- ♦ **The development of the economic environment:** The economic crisis is a major obstacle for the economies of the West, but for many entrepreneurs (businessmen) it's a significant opportunity. Falling rent prices, the shift to traditional goods, the reduction of labor costs, the reforms arising, but also the tendency to consume more primary sector's goods, are potentials for each Smartfarmer.

### Threats

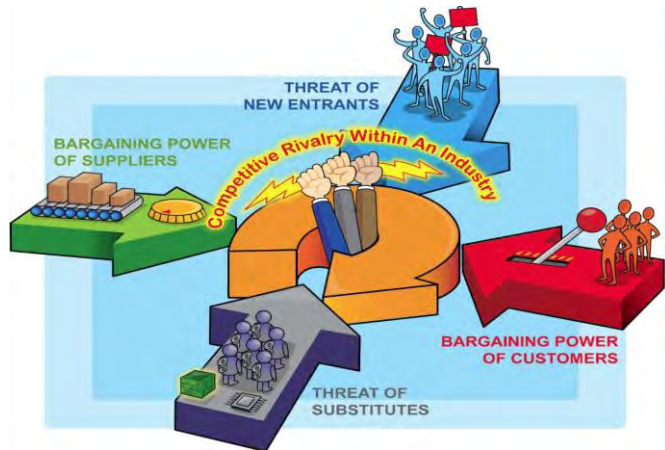
- ♦ **The existence of increased imports from third countries:** The import of cheap goods from developing countries is possible to create oppressive conditions for a businessman, who applies quality standards in

his production, doesn't employ children, creates infrastructure and generally follows policies of healthy competition.

- ♦ **The unstable economic and political environment:** The unstable economic policy, the continuously changing tax system and the lack of development policy, do not allow to entrepreneurs to plan their production and prepare a strategic development plan.
- ♦ **Strong competition:** Strong competition can lead to a price war, which may exhaust businesses.
- ♦ **The lack of expertise:** The lack of knowledge on production or on marketing issues can lead to mistakes and finally to increased cost estimates, which will lead the Smartfarmer and his products out of market.

If considered from SWOT analysis that an economic activity can become sustainable, then an analysis on the marketing mix should be prepared. This analysis should include:

## Porter's five forces analysis:



The Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps the businessman understand both the strength of his/her current competitive position, and the strength of a position he/she is considering moving into. With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it **an important part** of your planning toolkit. Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However it can be very illuminating when used to understand the balance of power in other situations [8].

Five forces analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

- ♦ **Supplier Power:** Here the Smartfarmer assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over him/her, the cost of switching from one to another, and so on. *The fewer the supplier choices there are, and the higher the necessity for the suppliers' help, the more powerful these suppliers are.*
- ♦ **Buyer Power:** Here the Smartfarmer evaluate how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from the Smartfarmer's products and services to those of someone else, and so on. *If there are few, powerful buyers, then they are often able to dictate terms.*
- ♦ **Competitive Rivalry:** What is important here is the number and capability of competitors. If there are many competitors, and they offer equally attractive products and services, then they will most likely have little power in the situation. *On the other hand, if no-one else can do what the Smartfarmer do, then he can often have tremendous strength.*



- ♦ **Threat of Substitution:** This is affected by the ability of the customers to find a different way of substitute the product and services. *If substitution is easy and viable, then this weakens Smartfarmer's power.*
- ♦ **Threat of New Entry:** Power is also affected by the ability of people to enter a market. If it costs little in time or money to enter a market and compete effectively, if there are few economies of scale in place, or if there is little protection for key technologies, then new competitors can quickly enter the market and weaken others position. *On the contrary if there are strong and durable barriers to entry, then a favourable position can be preserved and take fair advantage of it.*

### The Marketing Mix and the 4Ps of Marketing

Usually the marketing mix and the 4Ps of marketing are used as synonyms for each other. In fact, they are not necessarily the same thing. "Marketing mix" is a general phrase used to describe the different kinds of choices organizations have to make in the whole process of bringing a product or service to market. The 4Ps is one way – probably the best-known way – of defining the marketing mix.



**Product:** The main characteristic of an agricultural product is the variety of the primarily produced good and its particular elements. As for example are mentioned the size, the colour, the scent, its durability and other sensory characteristics. Moreover, the quality of goods (both primarily produced and the final product) is an important element of marketing. The size (of the fruit as well as of packaging) is very important in order to attract the consumer. More specifically, **a large fruit is more likely to attract a consumer.** There is, however, the likelihood that the consumer could question the quality of it due to its size. Similarly, regarding packaging, household needs are different related to the needs of the pro-



fessional. Guaranties (contracts, certifications) can create strong bonds between the consumer and the product and thus with the Smartfarmer. Performances of production shape trade policy, which supports the name (brand name). All these create the identity of the product.

**Price:** The price of product is not something specific that concerns only the final consumer, but it's the creation of a well-structured price list. That price list should have the price (as it results according to competition, demand and production costs) with the discount policy, the payback period and the conditions attached to the agreement.

**Promotion:** The promotion of products is a complex issue and refers to the presence of agricultural holding, but also to the sales' promotion at conferences and events, the constant presence in magazines and other printed and electronic media, to support social activities and to the use of online promotional tools.

**Place of sale:** The choice of the place of sale is determined by the selection of channels of products' promotion, taking into account the distribution networks, the maximum geographical coverage, the diversity and of course the transfer of goods. More precisely, the choice of how to promote either at wholesale or retail trade is the first business decision, followed by the selection of promotional

channels, such as supermarkets, mini-markets, the bench of outdoor markets, electronic stores etc. The aim of the selection of **distribution channels** is also the geographic distribution of sales' areas, so as to share the market risk. The allocation can be done either at cities level (domestic) or internationally in markets with different quality characteristics.

***"Putting the right product in the right place, at the right price, at the right time." E J McCarthy (1960) [9]***

*“Putting the right product in the right place, at the right price, at the right time.”*

*E J McCarthy (1960) [9]*



Product		Price	
<b>Variety</b>	Satisfactory	<b>Catalog price</b>	Pricing based on competition and demand
<b>Quality</b>	Top	<b>Discounts</b>	Offers and bonuses to regular customers
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>• Extra Virgin Olive Oil</li> <li>• Edible Black Olives</li> </ul>	<b>Payment period</b>	After agreement (3 months maximum)
<b>Sizes</b>	<ul style="list-style-type: none"> <li>• Wholesale</li> <li>• Retail trade</li> </ul>	<b>Payment terms</b>	Favorable to the client - depending on his reliability
<b>Guaranties</b>	<ul style="list-style-type: none"> <li>• Contracts signed (Wholesale)</li> <li>• Certification from international organizations</li> </ul>		
<b>Returns</b>	High		
<b>Brand</b>	Brand Name / Trademark		

Promotion		Place	
<b>Sales promotion</b>	<ul style="list-style-type: none"> <li>• Participation in conferences</li> <li>• Advertising in professional journals and websites</li> <li>• Sponsorship of events</li> </ul>	<b>Channels</b>	<ul style="list-style-type: none"> <li>• Supermarkets</li> <li>• Companies manufacturing delicatessen products</li> <li>• Restaurants</li> <li>• Tourist kiosks</li> <li>• Local producers</li> <li>• Local producers</li> </ul>
<b>Public relations</b>	<ul style="list-style-type: none"> <li>• Development with the operation of Public Relations Department</li> <li>• Participation in open activities (sports et. al.)</li> </ul>	<b>Coverage</b>	<b>1. Large urban centres:</b> <ul style="list-style-type: none"> <li>• Athens</li> <li>• Salonika</li> <li>• Aegean County</li> </ul> <b>2. Germany</b>
<b>Direct Marketing</b>	<ul style="list-style-type: none"> <li>• Organization of “Promotion events” in supermarket stores</li> </ul>	<b>Variety</b>	Enough variety to cover all needs
		<b>Transportation</b>	<ul style="list-style-type: none"> <li>• Responsibility of the company in the domestic market</li> <li>• Wholesaler for export</li> </ul>

**Marketing research** is the process or set of processes that links the consumers, customers, and end users to the marketer through information - information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications [10].

The success or failure of your agribusiness will be measured by how well are catered the needs of the customers. Identifying the market and developing a strategy will effectively serve it [11].

### *Building a business plan*

As it was mentioned in a previous section of this Unit, one of the most important documents for any business is their business plan.



Hence, in this section a **simple structure** of a business plan is provided.

#### **1. Title page of a business plan [12]**

- ♦ **Business logo:** Adding a logo gives a more professional image.
- ♦ **Type and overview of the plan:** Is it a business plan, a marketing plan or an Emergency Management and Recovery Plan?
- ♦ **Name:** Enter the business owner's name. Enter multiple names if there are multiple owners.
- ♦ **Title:** The titles of the business owner(s) listed above. For example: Owner/Manager.
- ♦ **Business name:** Enter your business name as registered in your state / territory.
- ♦ **Main business address:** Enter your main business address. This can be your home address if you are a home-based business or your head office if you have more than one location.
- ♦ **Prepared:** The date you finished preparing your plan. This may also be important when making note of a date for revision.
- ♦ **Revision history table:** Detail the changes made to your plan: (version number, changes made, person responsible and date updated).
- ♦ **Communication strategy table:** Details of who and how often the plan will be dis-

cussed (manager/staff, type of communication, person responsible and frequency).

♦ **Table of contents.**

**2. Area description – demographic data – business environment**

- ♦ Analyze any possible advantages and disadvantages of the area that the business is established. Describe of all infrastructures, the other facilities, the market, the existence of labor force and the financial condition.
- ♦ Search and analyze all demographic data of the selected area.
- ♦ Revise the existed business environment.

**3. Product description**

- ♦ Describe in details the products and services that the agribusiness is going to offer.
- ♦ Be extremely analytical while writing down the final products, since this will lead in choosing the necessary equipment for the production method. For example, if a Smartfarmer cultivates blueberries and wants to sell raw fruit, marmalade and dry fruit then he/she needs to decide the production method, the size of the product, the label, the storage place, etc. If the Smartfarmer produces marmalade in jar of 200gr. and jam in plastic cup of 200gr. then there should be two codes to describe these two products.

**Table 1:** Methods separating products

Object	Measure type
Type	Service – product
Condition	Raw – dry – compost
Size	Weight – volume – big pack – small size
Market	Retail – HO.RE.CA <sup>1</sup> . – wholesale
Trade	Home market – export

**4. Financial Data**

A critical point for success is the analytical description of the financial status of the business.

- ♦ **Investment expenditure:** Includes the investment in all necessary equipment, such as buildings, infrastructure and surroundings and of course machinery.
- ♦ **Operating Expenses:** Includes all type of costs needed for a company to operate. These costs, which are repeated annually, refer to ground rent, consumables, energy costs, visibility and promotion costs, staff costs, interests, depreciations, premiums, etc.

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<sup>1</sup> Hotel - Restaurant - Cafe

- ♦ **Staff cost:** All costs for employees and payments for human capital should be counted as annually costs. For example, production manager, sales manager, professional staff, laborers, etc are some of the employees cost.
- ♦ **Supplies and materials:** Packages, labels, raw materials etc.
- ♦ **Insurance, guarantees, interest rate.**
- ♦ **Energy, fuels.**
- ♦ **Rent:** Includes car, buildings, soil, machinery, etc.
- ♦ **Spare parts.**
- ♦ **Payback.**
- ♦ **Estimated production:** It is estimated for the determination of annually income. This requires the syntax of the price list and definition of the discount policy. From this, the revenue is resulting.
- ♦ **Financial results:** When all data recorded, the financial results can be calculated. This should indicate whether the business activity can be viable and which sectors should be noticed by the entrepreneur.

## 5. Organization chart

## 6. Operation

## 7. Timetable

## Marketing strategy and a marketing plan

A **marketing plan** is either a product specific, or a market specific, or even a company-wide plan that describes activities involved in achieving specific marketing objectives within a set timeframe. In addition the **marketing strategy** is an organization's strategy that combines all of its marketing goals into one comprehensive plan. A good marketing strategy should be drawn from **market research** and focus on the right product mix in order to achieve the maximum profit potential and sustain the business. The marketing strategy is the foundation of a marketing plan [13].



A marketing plan begins with the identification (**through market research**) of specific customer needs and how the firm intends to fulfill them while generating an acceptable level of return. It generally includes analysis of the current market situation (opportunities and trends) and detailed action programs, budgets, sales forecasts, strategies, and projected (proforma) financial statements.

A quick and efficient way to create a marketing strategy and complete a marketing plan is presented bellow [14].

1. **Executive Summary:** Complete the Executive Summary last, and, as the name implies, this section merely summarizes each of the other sections of the marketing plan. The

Executive Summary will be helpful in giving to constituents such as employees, advisors, etc. an overview of the plan.

2. **Target Customers:** This section describes the customers targeted. It defines their demographic profile (e.g., age, gender), psychographic profile (e.g., their interests) and their precise wants and needs as they relate to the offered products and/or services. Being able to more clearly identify the target customers will help both pinpoint the advertising (and get a higher return on investment) and better “speak the language” of prospective customers.
3. **Unique Selling Proposition (USP):** Having a strong unique selling proposition (USP) is of critical importance as it distinguishes any company from competitors. The hallmark of several great companies is their USP.
4. **Pricing and Positioning Strategy:** The pricing and positioning strategy must be aligned. For example, if a company wants to be known as the premier brand in the industry, having too low a price might dissuade customers from purchasing. In this section of the marketing plan, the desired positioning and the pricing to support it, should be described accordingly.
5. **Distribution Plan:** The distribution plan details how customers will buy the product. For example, will



customers purchase directly or from distributors or even other retailers. Think through different ways in which you might be able to reach customers and document them in this section of your marketing plan.

6. **Offers:** Offers are special deals that are put together to secure more new customers and drive past customers back to the company. Offers may include free trials, money-back guarantees, packages (e.g., combining different products and/or services) and discount offers.
7. **Marketing Materials:** Marketing materials are the collateral being used to promote a business to current and prospective customers. Among others, they include website, print brochures, business cards, and catalogues.
8. **Promotions Strategy:** The promotions section is one of the most important sections of a marketing plan and details how to reach new customers. There are numerous promotional tactics, such as television ads, trade show marketing, press releases, online advertising, and event marketing.
9. **Online Marketing Strategy:** Most customers go online these days to find and/or review new products and/or services to purchase. As such, having the right online marketing



strategy can help to secure new customers and gain competitive advantage.

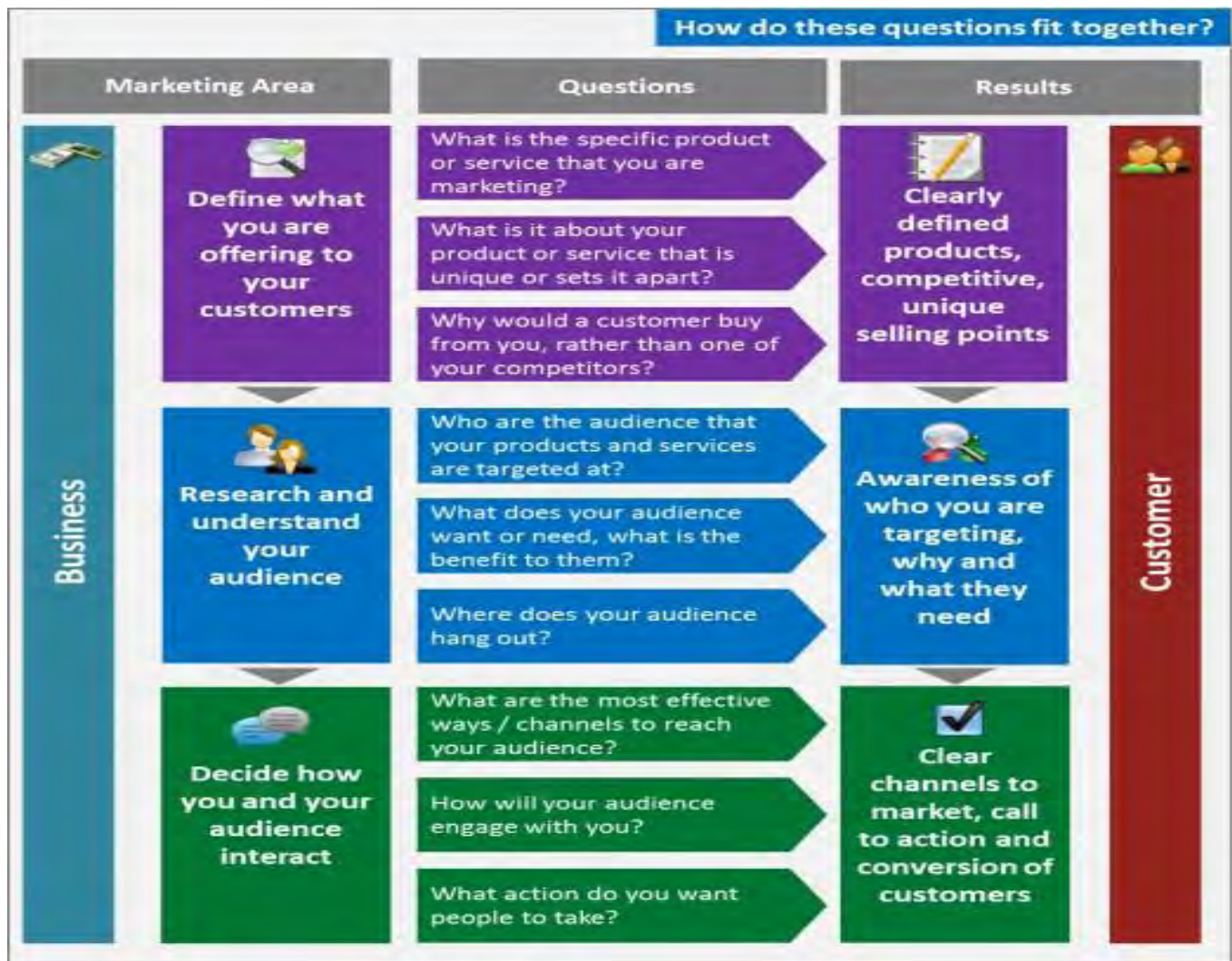
- 10. Conversion Strategy:** Conversion strategies refer to the techniques being employed to turn prospective customers into paying customers. For example, improving sales scripts can boost conversions. Likewise increasing social proof (e.g., showing testimonials of past clients who were satisfied with the company) will nearly always boost conversions and sales.
- 11. Joint Ventures & Partnerships:** Joint ventures and partnerships are agreements being forged with other organizations to help reach new customers or better monetize existing customers.
- 12. Referral Strategy:** A strong customer referral program could revolutionize success. For example, if every one of your customers referred one new customer, the customer base would constantly grow.
- 13. Strategy for Increasing Transaction Prices:** While the primary goal when conversing with prospective customers is often to secure the sale, it is also important to pay attention to the transaction price.
- 14. Retention Strategy:** Too many organizations spend too much time and energy trying to secure new customers versus investing in getting existing customers to buy more often. By using retention strategies such as a

monthly newsletter or customer loyalty program, revenues and profits could be increased by getting customers to purchase more frequently over time.

- 15. Financial Projections:** The final part of the marketing plan is to create financial projections. In your projections, include all the information documented in the marketing plan.

While the financial projections will never be 100% accurate, use them to identify which promotional expenses and other strategies should give the highest return on investment. Also, completing the financial projections, will set goals (e.g., your goals for your referral program) for which the company should strive.





Source: [www.entrepreneur.com/article/43018](http://www.entrepreneur.com/article/43018)

## Case Study

### EFKARPON HELLENIC SUPERFOODS

Efkarpon is a new generation cooperative with 115 business partners. All of them cultivate at least 0.5 hectares of superfoods (goji berry, blueberry, aronia melanocarpa or hippophae).

All these partners have tributed approximately 7000 Euro per hectare to build a factory in order to process their products and get the added value.

These Smartfarmers decided to do a marketing search, fill a business plan, create a marketing mix and finally decide how to invest their money, how many employees they need and how to trade their products.

Following the example of Efkarpon, six (6) more cooperatives have been created during the financial crisis in Greece showing that a more technocratic way is necessary in agribusiness in order to succeed in a globalize economy.

### Exercise/activities

#### 1. Answer the following questions

- i. *Why are you in business?* What do you want for yourself, your family and your customers? Think about the spark that ignited your decision to start a business. What will keep it burning?



- ii. *Who are your customers?* What can you do for them that will enrich their lives and contribute to their success - now and in the future?
- iii. *What image of your business do you want to convey?* Customers, suppliers, employees and the public will all have perceptions of your company. How will you create the desired picture?
- iv. *What is the nature of your products and services?* What factors determine pricing and quality? Consider how these relate to the reasons for your business existence. How will all this change over time?
- v. *What level of service do you provide?* Most companies believe they offer “the best service available” but do your customers agree?
- vi. *What roles do you and your employees play?*
- vii. *What kind of relationships will you maintain with suppliers?*
- viii. *How do you differ from your competitors?* Many entrepreneurs forget they are pursuing the same Euros as their competitors. What do you do better, cheaper or faster than other competitors? How can you use competitors’ weaknesses to your advantage?

- ix. How will you use technology, capital, processes, products and services to reach your goals?
  - x. What underlying philosophies or values guided your responses to the previous questions? Some businesses choose to list these separately.
2. Create your own five forces analysis

Write your five forces analysis as shown in the picture below.



3. Create a marketing plan by following the steps described in the table below

Define your offering	Understand your audience	Approaching your audience
What are your specific products & services?	Who are your products & services aimed at?	What are the most effective ways to reach them?
What is it about your offering that makes it unique?	What is the benefit to your audience? What do they need?	How will your audience engage with you?
Why would a customer buy from *you*?	Where do they hang out?	What action do you want them to take?

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# MODULE 2

## Strategic Planning and Marketing of “smart” organic agro-foods



### Learning objectives/outcomes

This training unit will help you acquire knowledge about:



- ◆ The product basic features and characteristics
- ◆ The features of agricultural products
- ◆ Added value to the product
- ◆ Product development sequential process and product life cycle
- ◆ The packaging and labelling

### Estimated duration

The estimated learning duration for this unit is 60 minutes including the exercises



### Summary

A product is the item offered for sale. A product can be a service or an item. It can be physical or in virtual or cyber form. Each product has a useful life after which it needs replacement, and a life cycle after which it has to be re-invented.

A product needs to be relevant: the users must have an immediate use for it. A product needs to be functionally able to do what it is supposed to, and do it with a good quality.

*A product should be adaptable:* with trends, time and change in segments, the product should lend itself to adaptation to make it more relevant and maintain its revenue stream.

A product packaging must be appealing in order to attract and hold the consumers' eye and attention, and serve in an efficient and functional manner.

A product label delivers your sales message. Labels also must fulfill your legal obligations.

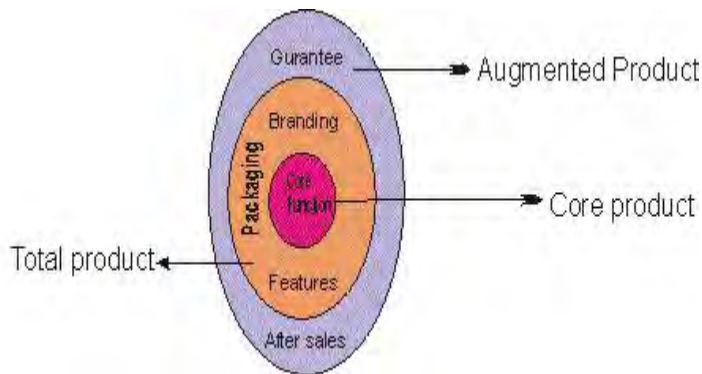




## Learning (reading) resources

**A product** is anything that can be offered to a market for attention, acquisition, use or consumption; it includes physical objects, services, personalities, places, organisations and ideas.

### *Concept of benefit building with a product (P.Kotler)*



### **Core Product**

Basic product and the focus is on the purpose for which the product is intended.

### **Total Product (Actual Product)**

Translating the list of the core product benefits into a product that people will buy. Kotler states that this can involve deciding on

the quality level, product and service features, styling, branding and packing.

### **Augmented Product**

Additional non tangible benefits that a producer can offer.

### *What are the Product features?*

Feature is a function of an item which is capable of **gratifying a particular consumer need** and is hence seen as a benefit of owning the item. In business, a product feature is one of the distinguishing characteristics of a product or service that helps boost its appeal to potential buyers, and might be used to formulate a product marketing strategy that highlights the usefulness of the product to targeted potential consumers.



Core Product Features	Formal Product Features	Augmented Product Features	Future Product Features
-What is the buyer really buying? -What can this product or service do for the customer or receiver? -Which problem will it help to solve? etc.	-Brand name -Image -Quality -Price -Outlets -Personnel relations -Package -Design -Styling -Colour -Prestige -Availability etc.	-Assistance -After sales service -Delivery -Installation -Warranty -Maintenance system -Insurance -Reparability -Credit terms -Instalments -Leasing etc.	-Is the product produced in an environmental protective manner? -Is it safe in use? -Does the manufacturer have a decent and moral respectable image? -Recycling Status. etc.

## Features of Agricultural Products

The agricultural products are of different nature than industrial products. So the features of products can be divided in three major types on the basis of production, marketing and consumption.



### Production-related features of agricultural goods

**1.1. Seasonal production.** Most of the agricultural goods are produced only in certain season. The food crops such as maize, paddy, wheat etc.; cash crops such as sugarcane, tobacco, jute and vegetables, potato and fruits are produced in certain suitable sea-

sons. But some products such as fish, dairy products, eggs etc. can be produced in all seasons.

**1.2. Scattered Production.** Except some limited goods most of the agricultural goods can be produced in all parts of a country.

### Marketing-related features of agricultural goods

**2.1. Perishable products.** Most of agricultural products are of perishable (could decay or spoil) nature, but they are not equally perishable within same duration of time. Some perish within shorter time and some others remain usable for little longer. Fish,

milk, meat, fruits, vegetables etc. remain fresh only for shorter time, so they are quick perishable. Such products should be supplied to market as quickly as possible. Special cold storage is needed to keep such goods safe and fresh. Food crops/grains such as rice, wheat, mustard etc, remain usable for relatively long time.

**2.2. Bulky products** (large size and/or weight). Most of the agricultural products are weighty and bulky. So, transport and storage cost rises higher than the value of these products.

**2.3. Quality and quantity variation.** Quality and quantity of agricultural products become different according to the productivity of land, season and climate. The quality of seeds, use of fertilizers etc. also causes difference in quality.

### 3. Consumption-related features of agricultural goods

**3.1. Continuous consumption.** Agricultural products are very important to meet daily needs of people. So, it is necessary to have regular supply of agricultural products such as food grains, fish, meat, milk, fruits etc to satisfy daily demand.

**3.2. Inelastic demand.** The demand for agricultural products remains relatively less elastic. Demand for such products does not decrease or increase due to rise or fall of prices. The consumers are compelled to meet their daily needs at minimum level, even if the price of agricultural products rises up.

**3.3. Price fluctuation.** The price of agricultural products remains unstable. The price of agricultural products is easily affected by supply and demand.

### What is added value?

A buyer's behaviour is very different when buying goods, articles or services of different characteristics. The pattern of buyer's decisions and habits in the buying procedure is very much connected to the nature of the purchased item.

Adding value to a project often incorporates an **extra element of service or a product**. New product success is influenced by factors, which include product superiority, economic value to user, overall project fit, technological complexity and brand name, and image.

This way, added value can be offered with the physical product. **More added value** and higher preference level – **more independent** the marketer can be in setting price.

Various target groups of customers or receivers will value different benefits. The marketer

must offer the “individual” relevant product packet according to values of the target market.

These values are elements such as breed variety or welfare in animal production, or even utilizing packaging, which create convenience or extra satisfaction, or guarantees for the end user.

Adding value to the products can be accomplished in a number of different ways, but generally creating value is done through **innovation** (one of defini-



*tions: Innovation is the process of creating a product or service solution that delivers significant new customer value).*

Below there are listed some ideas in order to add value through product innovations and through process innovations:



### *Adding value through product innovations:*

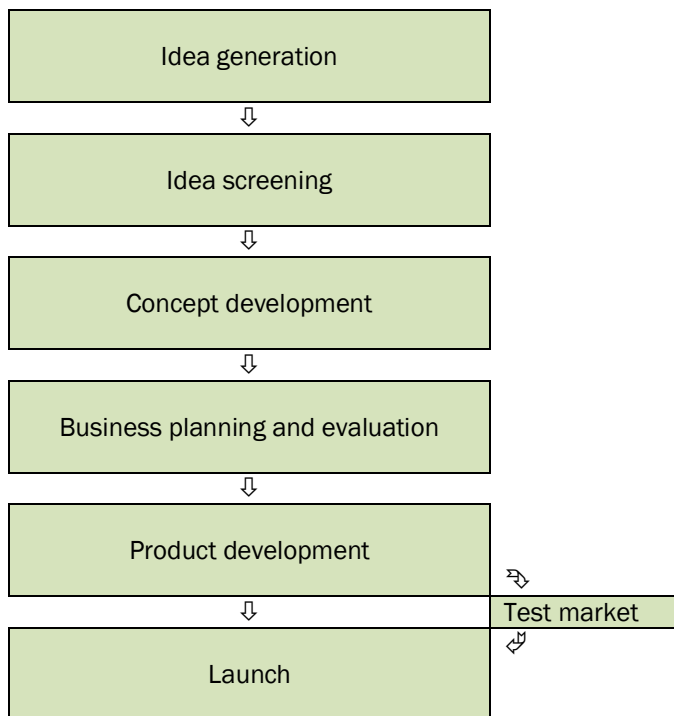
- ♦ Credence (*acceptance as true or valid*) attributes
- ♦ Information about origin and producers
- ♦ Ingredients
- ♦ Mixes and blends
- ♦ Palletizing (*store or move by means of pallets*)
- ♦ Cartons
- ♦ Packaging
- ♦ Presentation
- ♦ Healthfulness
- ♦ Quality
- ♦ Product form
- ♦ Variety (e.g. a sort; a type)
- ♦ Consistency (e.g. thickness or viscosity)
- ♦ Volumes
- ♦ Prices
- ♦ Timing when the product should be launched in the market

### *Adding value through process innovations:*

- ♦ Service
- ♦ Differentiation
- ♦ Promotion
- ♦ Marketing methods
- ♦ Channels of distribution
- ♦ Transport and logistics
- ♦ Storage
- ♦ Cooling/refrigeration
- ♦ Quality assurance
- ♦ Green/Clean production
- ♦ Harvest techniques
- ♦ Cultural practices
- ♦ Planting materials
- ♦ Growing season
- ♦ Certification
- ♦ Production technology
- ♦ Labor conditions
- ♦ Post-harvest handling

## Project & Product development sequential process

The standard approach to optimizing success is a sequential process of idea generation, idea screening, concept development, business planning, prototype development, market test and launch.



Source: (ProudFarmer, MTM)

The objective of the **idea generation** stage is to maximize the number of ideas available for consideration.

At the **idea screening** stage, the objective is to pursue only those ideas, which appear to have genuine potential for success.

In the **concept development** phase, the first step is to redefine ideas into customer-oriented benefit and product attribute statements. The resulting concept statements can then be tested with possible target audiences using techniques such as focus group meetings and one-on-one interviews.

Data from focus groups and interviews provide the basis for evaluation of the new product **business plan**.

During the **product development** phase is very important to understand the identified specific customer benefits. Prototypes are produced during this phase.

The objectives of the **test market** are to assess in a geographically restricted area, the performance of the product, when placed alongside competitive offerings in end user outlets.

Once a **launch decision** has been reached, the question is whether the product should be introduced on a national or a phased, market-by-market, basis.



## PRODUCT LIFE CYCLE

The **product life cycle** is a concept that has attracted marketers for many years. Using the biological analogy, it is argued that all products are born, introduced to the market, grow in sales, mature (sales growth stops) and then decline (sales fall).

### Introduction

Sales rise slowly, probably via small test marketing operation, but development and initial marketing costs result in negative profits.

### Growth

If the product “catches on”, there is a period of rapid growth in sales volume and development of profit contribution. This stage involves distribution and communication of the product benefits, and is perhaps the most critical period of the product’s life. It must be securely established now and a high reputation for quality and delivery maintained.

### Maturity

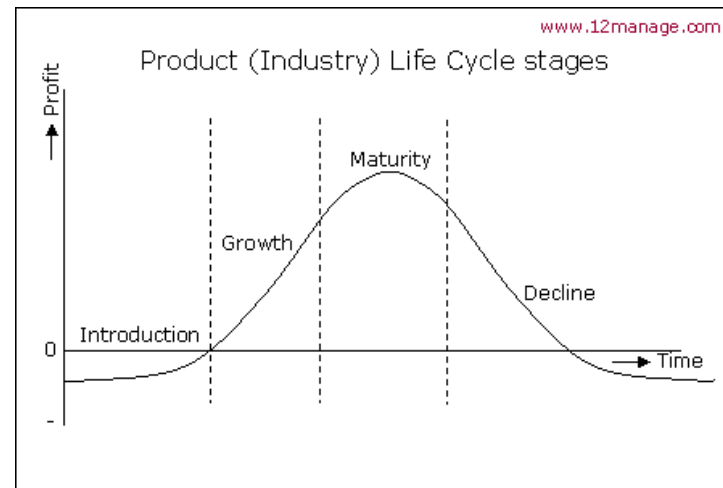
Long stage in the cycle, in which sales grow slowly or are stable, then begin to decline, when competition items appear. Profits attain their peak here, but marketing skills are required to maintain the product’s position in the market.

### Decline

It maybe rapid or prolonged sales decline. However, an opening of new markets for the

product or a promotional push might give it a second life and postpone its ultimate expiry.

The most useful feature of the product life cycle is that it enables the marketer to plan ahead new uses, new product features and new market segmentations, rather than having to react to them when they occur.



Source: (ProudFarmer, MTTM)

### Extension Strategy

Can be defined as a medium to long-term plan for lengthening a products life cycle. It is likely to be implemented during the Maturity or early Decline.

Extension Strategies include:

- ♦ Redesigning the Product – New and Improved!
- ♦ Adding an extra feature – Now with...(colour, quality, texture...).
- ♦ Changing the packaging and advertising to appeal to a **NEW** Market Segment.
- ♦ Providing a **Unique Selling Point (USP)**

## PACKAGING

Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use.



bution, storage, sale, and use.

**Packaging** is supposed to guarantee that on its way from producer to consumer the product in the filled package **will not be damaged**. The packing material for transport, as well as for small packages, must be unused and should not transfer any unhealthy substances to the product. Colour prints and typing should not be on the interior side of the wrapping, shelter or covering paper, and so should not get into contact with the product. The con-

tents of each filled package require **regularity and unity**. As the product's stage of maturity should fit the demands of the destination market, length and duration of the transport ways, type of transport means (normal or refrigerated truck), influences of weather situations and determined use (immediate consumption or storage) have to be taken into account.

Product packaging offers companies **unique opportunities** to address lifestyle changes as well as social and political concerns. Companies often consider using:

- ♦ environmentally friendly packaging
- ♦ packaging that makes social and political statements



Attractive, colorful, and visually appealing packages have **promotional value** and can carry important messages about the product's performance.



### **LABELLING**

**Package labelling** is any written, electronic, or graphic communications on the packaging or on a separate, but associated label.



Nutrition Facts	
Serving Size 1 cup (228g)	
Servings Per Container 2	
Amount Per Serving	
<b>Calories</b> 260	Calories from Fat 120
	% Daily Value*
<b>Total Fat</b> 13g	<b>20%</b>
Saturated Fat 5g	<b>25%</b>
Trans Fat 2g	
<b>Cholesterol</b> 30mg	<b>10%</b>
<b>Sodium</b> 660mg	<b>28%</b>
<b>Total Carbohydrate</b> 31g	<b>10%</b>
Dietary Fiber 0g	<b>0%</b>
Sugars 5g	
Protein 5g	
1%	Vit-

**Labelling** on each filled package indicates the amount and kind of the product, its origin and marketing characteristics. Furthermore, it enables the identification of the packer and the sender's address.

An **organic label** indicates that a product has been certified against specific organic standards. The label carries the name of the certification body and the standards with which it complies (e.g. EU 2092/91). To the informed consumer, this label can function as a guide. Certification bodies evaluate operations according to different organic standards and can be formally recognized by more than one authoritative body. The label of a given certification body, therefore, informs the consumer on the type of standards complied with during production and processing as well as on the type of recognition granted to the certification body.

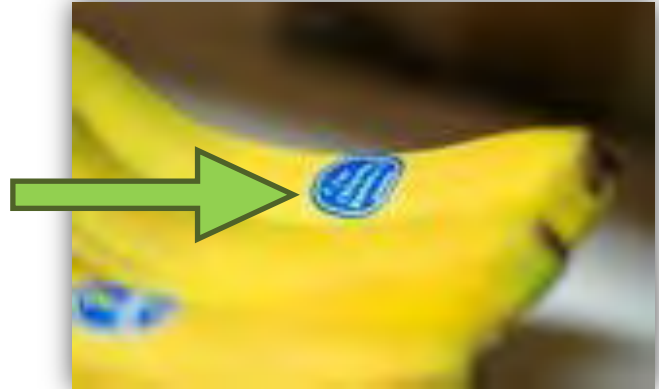


*Packaging and package labelling have several objectives:*

- ◆ Physical protection
- ◆ Barrier protection
- ◆ Containment or agglomeration
- ◆ Information transmission
- ◆ Marketing
- ◆ Security
- ◆ Convenience
- ◆ Portion control

### *Three Kinds of Labels*

- ♦ **Brand Label** – gives brand name and trademark or logo
- ♦ **Descriptive Label** – gives information about product use, construction, care, performance, and other features
- ♦ **Grade Label** – states the quality of a product



## Case study

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### “Skrīveru Sweets” Ltd

A family business founded in 2005 Skrīveri.

The company's motto is - ***Combine healthy with sweet balance!***

The owners started sweet candy “Gotiņa” (Cow with some sweet attitude) production in Lizums (Gulbene County) in 1998. In order to expand business they started also production in other place Skrīveri. Due to closing down production of Skrīveru Food Factory in 2004, there were available many professionals.



Since the production is very specific and real “Gotiņa” recipe can only be performed by manual labor, then such professional people is the main value of the company.

The company continuously develops **new products** and creates a variety of new flavors.

During an annual international food exhibition “Riga Food 2013”, between representatives of Latvia, Lithuania, Estonia, Czech Republic, France, Slovakia and Denmark, the company won two top awards - gold and silver medals. They were awarded in the category “Packaging of bakery and confectionery.”





Candy box “**City of Green Land RIGA**” includes Latvian berry truffles with raspberry, black currant, cranberry, cherry and quince flavors, complemented by white chocolate. On the packaging you can read a short story about Riga. Candy box “**Green Land**” includes traditional candy “Cow” and on the packaging is a touching story about Latvia as green land. This is a wonderful souvenir from Latvia.

In 2014 National Competition “Best Packaging Latvian 2014”, traditionally organized by the Latvian Packaging Association, has got recognition for creative and attractive box solutions “Berry Princess” and “With Love”.

Currently the company “Skrīveru Sweets” provides job to about 110 employees.



## Exercise/activities

### Questions:



- ♦ What are the three major features of products based on production, marketing and consumption?
- ♦ Please list the ideas, how you can add value to your product and/or production process?
- ♦ Why is a package important to product planning?
- ♦ Identify a product at each individual stage of the Product Life Cycle.
- ♦ Produce a Product Life Cycle, illustrating at which point an Extension Strategy may be applied to a product.
- ♦ What are the main functions of product packaging?
- ♦ What are the three kinds of labels? Which of them is widely used in your country?

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## Module 2

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# UNIT 2.5: Price

Authors: Olga Galea Gallardo, Leonor Martín Cabello

## Learning objectives/outcomes

Upon successful completion of this unit, you will be able to:



- ◆ Understand what the price is and how it is formed.
- ◆ Identify the factors that influence price in your company.
- ◆ Calculate the right price for your products.

## Estimated duration

The estimated learning duration for this unit is 60 minutes including the exercises.



## Summary

Accurately determined price is one of the key factors in determining whether the customer purchased a product or not, and it is an essential prerequisite for successful marketing of goods and services. Throughout this point you will learn the factors that influence price, the most common pricing strategies and how you can calculate the prices of your products.

Setting the correct price for your products is a key process for your success as businessman. It is not easy, because pricing requires a lot of information, both internal (from your own

company and production process) and external (from competitors, consumers, market, etc.).

Pricing strategies are long- and medium-term decisions related to pricing and its modification that will allow setting objectives and taking appropriate decisions related to prices.

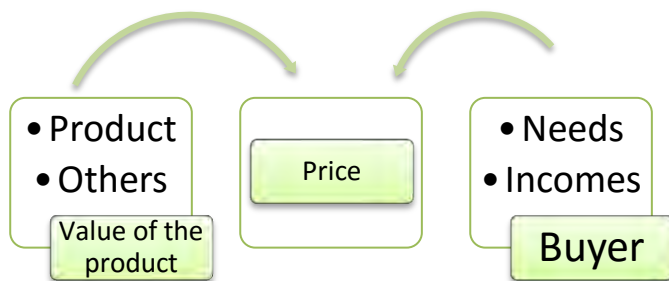


## Learning (reading) resources

Price is the sum of money for which anything is bought, sold, or offered for sale. It is the market value or agreed exchange value that will purchase a definite quantity, weight, or other measure of a good or service.

Related to marketing, price is an economic category and occupies a central position. Price involves understanding of the nature of market, supply and demand, market equilibrium, buying and selling process, money and commodity circulation, etc.

Pricing is the method adopted by a firm to set its selling price. It is difficult to set the price of products because there are many factors that have an influence on it. Beyond the intrinsic value of the product (cost of production process, quality, utility, etc.), it is very important the perception that the client has about the product, as well as client's needs and desires, and his/her income level.



*Adapted from ProudFarmer, 2010*

## Structure of price

The price consists of the following elements:

- ♦ **Production costs.** Expressed as costs, which are formed from product production and marketing. This element is one of the most specific, relatively stable and its inclusion is mandatory for each price. It is also one of the most important factors and makes about half of the price.
- ♦ **Profit.** The amount realized by selling the product after taxes and other costs are deducted. It is the value share payable to the manufacturer.
- ♦ **Turnover receivable.** Provides commercial operation of a revolving sphere. Its mission is to cover the cost of turnover and profits to the operators (brokers, wholesale and retail suppliers). That drives up the price by 20% or more.
- ♦ **Taxes and mandatory payments.** Indirect taxes by the state (value added tax -VAT, excise and customs duties)



Factors influencing price

It is not easy to set the optimal price because it depends on several factors, some of them are:

Internal factors	
Company's objectives	<ul style="list-style-type: none"><li>• Survival (competition, overcapacity);</li><li>• Maximize profit (better price);</li><li>• Accent quality (investments for improving it);</li><li>• Product sales maximization (reduce cost);</li><li>• Increase market share (continued product development and implementation)</li></ul>
Marketing strategy	<ul style="list-style-type: none"><li>• The maximal price strategy (unique, limitations);</li><li>• Low price strategy (lower price than competition for the same type of product);</li><li>• Price volatility strategy (seasonality, product substitutes);</li><li>• Passive pricing strategy (watching competitors' prices)</li></ul>
Company costs	Fixed and variable costs: production costs, equipment, depreciation, marketing costs, labor wages, etc.
Other	<ul style="list-style-type: none"><li>• Product specificity and type</li><li>• Product Life cycle</li><li>• Additional services</li><li>• Sales volume, etc.</li></ul>
External factors	
Market types	Monopoly, Oligopoly, Perfect competition...
Other	<ul style="list-style-type: none"><li>• Competitors' production costs and prices</li><li>• Elasticity demand,</li><li>• Customer motivation and priorities</li><li>• Brand, image, quality, and reputation of your products</li><li>• Legislation</li><li>• Socio-political factors, etc.</li></ul>

## Strategies for product pricing

**Pricing strategies** are long- and medium-term decisions related to pricing and its modification. The company should set a strategy and adapt it to market situation. Organic pricing strategies vary between farmers. Some farmers quantify production costs and add a price margin to assure a reasonable profit margin, some others price according to local market prices. Most farmers likely use a combination of both approaches.

Some common strategies:

- ♦ **Premium Pricing.** Use a high price where there is a unique brand, or the product is a novelty, or has a high quality. This approach is used when a substantial competitive advantage exists and the marketer is safe in the knowledge that he/she can charge a relatively higher price.
- ♦ **Penetration Pricing.** The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased.
- ♦ **Economy Pricing.** This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Low price is not always attractive, it might make the consumer distrust about quality.
- ♦ **Price Skimming.** A company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

Don Hofstrand, the co-director for the Ag Marketing Resource Center at Iowa State University Extension, stresses three factors to consider when deciding on a pricing strategy:

1. Consider the cost of producing and marketing your product, which is the minimum price you should set for your product.
2. Consider what the buyer is willing to pay. Talk to consumers about what they're getting and what they will pay, while explaining your costs. Try and negotiate what is reasonable for both parties.
3. Consider competitors' prices by looking at market prices at venues similar to those you will use.

## Case Study: Sociedad Cooperativa Virgen de la Estrella (Virgen de la Estrella Cooperative Society)

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### *Company Profile*

Virgen de la Estrella Cooperative Society, was created in 1963 by a few farmers of Los Santos de Maimona, a small village located in the south-west of Extremadura. It is nestled in a natural setting of incomparable beauty, between the regions of Tierra de Barros and Matanegra, and crossed by Via de la Plata. The soils collected not only a great cultural and historical heritage but also the right conditions to offer products of the highest quality to their customers. They have native varieties of olive (Morisca) and grape (Eva), that enable them to produce Extra Virgin Olive Oil and Wine with its own unique characteristics that have made them won many awards over the years.

But local and regional market is limited for this traditional and common product in this area and they have had to seek other alternatives to find the best price for other product varieties.

### *Strategy for product pricing*

#### *Premium Pricing*

The new collection of Maimona textures from Virgen de la Estrella Cooperative launched in 2013, has four top quality oils limited edition, three of them are mono varietals -arbequina, Seville chamomile and morisca- and fourth from ecological agriculture. A top quality is derived from the dual process of selection which the oil is subjected: first choosing the best field olives and second by demanding quality control (organoleptic characteristics of the product and chemical composition). Furthermore, the end storage without oxygen guarantees the preservation of their property, which remain unchanged from day one.



The range stars are Maimona textures Reserve and Eco Maimona textures obtained from olive trees of the native Moorish variety which is grown only in the southern of Extremadura, many of which were planted after the Reconquest of the Muslims in the Peninsula.

From the combination of both factors you can obtain an intense and balanced oil with hints of green apple and a soft and velvety after-



taste. Its shocking labeling combines a modern look with traditional packaging as the Doric bottle 500 ml. or 1 liter tin. Each bottle seeks to break the prejudice of the gourmet oil as expensive and minimalist. It comes Maimona textures to satisfy those who are seeking originality in the kitchen at a premium price for a special and unique touch to any dish.

### Calculate market price

Pricing takes place in several stages. First of all is necessary to set our **pricing goal** (could be gain market share, increase profits...). Then is needed to analyze: the demand (its sensitivity to price changes), the production costs and our competitors; it requires internal information (costs, production and supply volumes, revenue and profit margins) and also external (product, market and competitors, demand / supply). With all this information we will choose a pricing method and identify the factors that affect prices to finish setting the price of our products.

- ❖ **Pricing methods based on costs.** In practice, the main consideration is that the price of goods should be such that it could compensate for any given costs and provide an income for the company's normal operations. The following cost concepts are distinguished:



- ♦ Fixed or indirect costs (FC), they are not directly related to the volume of production (administrative size, rent, mission, etc.).
- ♦ Variable or direct costs (VC) associated with production volumes. If there is no production, no direct costs.
- ♦ Other planned cost (technology acquisition, advertising).
- ♦ Total costs (TC) which are the sum of above costs.

A basic method for pricing based in productions costs is "**Cost plus desired profit (%)**". It consists on adding to total costs the profit margin you want to obtain. Probably, this is the formula that you have been using until now:

$Price = TC + Profit (\%)$  ; Or what means the same:

$$Price = TC * (1 + (\frac{profit}{100}))$$

So, If the total costs of your product are 100 € and you want a margin profit of 30%, with this method the price would be:

$$Price = 100 * (1 + (\frac{30}{100})) = 100 * 1.3 = 130 \text{ €}$$

This method ignores market conditions, competition, product positioning, etc. However, due to its simplicity, it remains as the favorite of many SMEs. With a little improvement in the formula we will get better answers:

$$Price = \frac{TC}{1 - (\frac{profit}{100})}$$

So now, the price would be:

$$Price = \frac{100}{1 - (\frac{30}{100})} = 100 / 0.7 = 142.86 \text{ €}$$

Why this second formula is better? Because it calculates the profit margin using the sale price instead using costs. This makes a great difference when you need to calculate discounts to consumer because discounts are calculated on selling price.



**Recordkeeping** is the best way to determine good pricing. If you know how much it costs to produce each item and each item's corresponding sales price, you can determine which products you should continue to produce and which don't make sense to sell because you lose money on them. It is important to calculate expenses frequently so you can keep track of how costs change over time.



❖ **Pricing methods based on market.** The reality is that prices are very volatile elements, formed in accordance with market demand-supply calculations. So other methods more sophisticated take into consideration:

- ♦ What competitors do.

- ♦ Price differentiation depending on market conditions: product variations, sales conditions, geographical features, the nature of demand in different market segments, etc. E.g., in areas where more wealthy people live, the item will be sold at a higher price, but in others the same product will have a lower price.
- ♦ Product consumer value detection - based on the nature of the product comparisons (often used for new products).


Your goal as a farmer/businessman would be to be profitable (pricing correctly) to stay in business. Some tips to achieve it:



- ♦ Be aware when prices and costs change; be flexible and change prices accordingly.
- ♦ Get new things to market so you don't look like everyone else.
- ♦ Keep a close eye on costs but don't compromise quality.
- ♦ Do market research, know who the customers are and what they want, and educate them about production costs.

### Exercise/activities

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1. Short self-assessment quiz is suggested as a way to test the knowledge and facilitate reflection. Are these statements true or false?
  - a. Prices are affected by internal factors, like production costs, and by external factors, like consumer's preferences.
  - b. Our direct competitors pricing strategy should not worry us when setting our prices.
  - c. The most important consideration when pricing is to be able to pay taxes, compensate costs but provide incomes is not so important.
  - d. Recordkeeping help the farmer to determine good pricing.
2. As we have seen, it is very important for you to understand what are your costs and your profit margin. We propose you to calculate your costs and use this table (Excel file) to calculate prices. You can adjust the table according to market conditions and your pricing strategy.

[SmartFarmer Training Material Module2 Unit5 Pricing Tool](#)

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### Further reading

[www.maimona.com](http://www.maimona.com)

# UNIT 2.6: Promotion / Promotional tools

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## Learning objectives/outcomes

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Upon successful completion of this Unit, you will be able to:



- ♦ Find out how to develop successful promotion.
- ♦ Identify the target audiences.
- ♦ Establish the communication objectives and define the message.
- ♦ Select the communication channels.
- ♦ Define the promotion mix.

## Estimated duration

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The estimated learning duration for this unit is 90 minutes.



## Summary

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In order to sell a product, to increase the profit and multiply the number of satisfied customers it is necessary to develop a successful promotion, by defining a promotional mix, identify the target audiences and establish communication through the selected communication channels.

Promotional mix is a specific combination of promotional methods used for one product or a family of products. Elements of a promotion mix may include print or broadcast

advertising, direct marketing, personal selling, point of sale displays, and/or merchandising.

In marketing and advertising, a target audience is a specific group of people within the target market at which a product or the marketing message of a product is aimed at. For example, if a company sells new diet programs for men with heart disease problems (target market) the communication may be aimed at the spouse (target audience) who takes care of the nutrition plan of their spouse and child.

A communication channel is a medium through which a message is transmitted to its intended audience, such as print media or broadcast (electronic) media.

### Learning (reading) resources

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The marketing strategy of a company is multi-dimensional considering the decisions making plan. The marketing strategy is constantly changing, evolving and adapting on the company needs and consumers requirement.

The differences in the marketing plan of several companies are observed at the points that every business wants to focus on. Also, each company needs to emphasize to the general public from a different perspective considering its comparative advantages.

### Promotion

Promotion is a form of corporate communication that uses various methods to reach a targeted audience with a certain message in order to achieve specific organizational objectives. Nearly all organizations, whether for-profit or not-for-profit, in all types of industries, must engage in some form of promotion. Such efforts may range from multinational firms spending large sums on securing high-profile celebrities to serve as corporate spokespersons to the owner of a one-person enterprise passing out business cards at a local businessperson's meeting [1].



Like most marketing decisions, an effective and successful promotional strategy requires the marketer understand how promotion fits

with other pieces of the marketing puzzle (e.g., product, distribution, pricing, target markets). Consequently, promotion decisions should be made with an appreciation for how it affects other areas of the company.

The audience for an organization's marketing communication efforts is not limited to just the marketer's target market. Targets of a marketing message generally fall into one of the following categories:

- ♦ **Members of the Organization's Target Market:** This category includes current customers, previous customers and potential customers.
- ♦ **Influencers of the Organization's Target Market:** There exists a large group of people and organizations that can affect how a company's target market is exposed to and perceives a company's products.
- ♦ **Participants in the Distribution Process:** The distribution channel provides services to help gain access to final customers and is also target markets since they must recognize a product's benefits and agree to handle the product in the same way as final customers.
- ♦ **Other Companies:** The most likely scenario in which a company will communicate with another company occurs when the marketer is probing to see if the company would have an interest in a joint venture, such as

a co-marketing arrangement where two firms share marketing costs.

- ♦ **Other Organizational Stakeholders:** Marketers may also be involved with communication activities directed at other stakeholders.

### Target audiences

In marketing and advertising, a **target audience** is a specific group of people within the target market at which a product or the marketing message of a product is aimed at [2]. For example, if a company sells new diet



programs for men with heart disease problems (target market) the communication may be aimed at the spouse (target audience) who takes care of the nutrition plan of their spouse and child.

The first step in targeting markets is to separate customers who make up large, general markets into smaller groupings based on selected characteristics or variables, as shown in the table below.





Segmentation Variables Consumer Markets	Segmentation Variables Business Markets
<p><b>Demographics</b> age group (e.g., teens, retirees, young adults), gender, education level, ethnicity, income, occupation, social class, marital status</p> <p><b>Geographics</b> location (e.g., national, regional, urban/suburban/rural, international), climate</p>	<p><b>Demographics</b> type (e.g., manufacturer, retailer, wholesaler), industry, size (e.g., sales volume; number of retail outlets), age (e.g., new; young growth, established growth, mature)</p> <p><b>Geographics</b> location (e.g., national, regional, urban/suburban/rural, international), climate</p> <p><b>Business Arrangement</b> ownership (e.g. private versus public, independent versus chain), financial condition (e.g., credit rating, income growth, stock price, cash flow)</p>
<p><b>Current Purchasing Situation</b> brands used, purchase frequency, current suppliers</p> <p><b>Purchase Ready</b> possess necessary equipment, property, knowledge and skill sets</p> <p><b>Local Environment</b> cultural, political, legal</p>	<p><b>Current Purchasing Situation</b> brands used, purchase frequency, current suppliers</p> <p><b>Purchase Ready</b> possess necessary equipment, property, knowledge and skill sets</p> <p><b>Local Environment</b> cultural, political, legal</p> <p><b>Customers Served by the Business</b> identify the business' market</p> <p><b>Business' Perceived Image</b> identify how targeted businesses are perceived by their customers</p>
<p><b>Benefits Sought</b> price, overall value, specific feature, ease-of-use, service, etc.</p> <p><b>Product Usage</b> how used, situation when used, etc.</p> <p><b>Purchase Conditions</b> time of day/month/year when purchased, credit terms, trade-in option, etc.</p> <p><b>Characteristics of Individual Buyer</b> purchase experience, how purchase is made, influencers on purchase decision, importance of purchase</p> <p><b>Psychographics</b> personality, attitudes, and lifestyle combined with demographics</p>	<p><b>Benefits Sought</b> price, overall value, specific feature, services, profit margins, promotional assistance; etc.</p> <p><b>Product Usage</b> how used (e.g., raw material, component product, major selling item at retail level), situation when used, etc.</p> <p><b>Purchase Conditions</b> length of sales cycle, set product specifications, bid pricing, credit terms, trade-in option, product handling, etc.</p> <p><b>Characteristics of Buying Center</b> purchase experience, number of members, make-up of key influencers, willingness to assume risk;</p>

The second step in selecting target markets requires the marketer to critically evaluate the segments identified.

In determining whether a segment is worthy of being a target market, the marketer needs to identify and evaluate the following issues:

- ♦ Size of the segment
- ♦ Competition in flat or dynamic segment.
- ♦ Company skills, knowledge and expertise to service the segment.
- ♦ The segment should not extend too far beyond the direction the company has chosen to take.

### *Establish the communication objectives and define the message*

The most obvious objective marketers have for promotional activities is to convince customers to make a decision that benefits the marketer.



The possible objectives for marketing promotions may include the following:

- ♦ **Build Awareness:** New products and new companies are often unknown to a market, which means initial promotional efforts must focus on establishing an identity. In this situation the marketer must focus promotion to: 1) effectively reach customers, and 2) tell the market who they are and what they have to offer.
- ♦ **Create Interest:** Moving a customer from awareness of a product to making a purchase can present a significant challenge. Customers must first recognize they have a need before they actively start to consider a purchase. The focus on *creating messages* that convince customers that a need exists has been the hallmark of marketing for a long time.
- ♦ **Provide Information:** Some promotion is designed to assist customers in the search stage of the purchasing process. In some cases, such as when a product is so novel it creates a new category of product and has few competitors, the information is simply intended to explain what the product is and may not mention any competitors.
- ♦ **Stimulate Demand:** The right promotion can drive customers to make a purchase. In the case of products that a customer has not previously purchased or has not purchased in a long time, the promotional efforts may be directed at getting the customer to try the product.
- ♦ **Reinforce the Brand:** Once a purchase is made, a marketer can use promotion to help build a strong relationship that can lead to the purchaser becoming a loyal customer [3].

### Communication channel

A communication channel is a medium through which a message is transmitted to its intended audience, such as print media or broadcast (electronic) media [4].



To determine the appropriate communication channel, identify the people you want to communicate with, research how they obtain information, consider the complexity of the message you want to communicate, calculate the cost of communicating and decide whether you want the communication to be interactive. The choice of channel is not simple; for a complex communication program, you may need to work with professionals such as public relations or marketing communication consultants [5].



In order to communicate the message of the company to the customers, there are several means as followed:

#### Briefings

A briefing is a session held with key State and local officials, media representatives, and community leaders. Briefings help to notify key State and local officials, media representatives, and community leaders of developments at the site. A briefing can be used to introduce your organization and explain its role and work process.

A briefing allows State and local officials, the media, and citizens to question your organization directly about any activity before the public release of information, prepares officials and citizen leaders to answer questions from their constituents when the information becomes public and also allows for the exchange of information and concerns.

#### Community Mailings

A community mailing sends information by mail to key contacts and concerned or involved members of the community. It disseminates information quickly and easily in writing, and it is particularly useful when you have updates for the community. If the updates are straightforward, non-controversial, and easy to understand, the mailing can stand on its own. However, if the updates are more complicated and require discussion or further explanation, the mailing should be done in addition to public or small group meetings.

#### Exhibits

Exhibits set up visual displays of maps, charts, diagrams, or photographs. Effective exhibits can make technical information accessible and understandable and can be used during any phase of your site work.

Exhibits are a **one-way communication** tool and do not provide an opportunity for community feedback.

### *Fact Sheets*

A fact sheet is a brief report summarizing current or proposed activities at the site. Fact sheets are appropriate whenever new information is available and can be useful to introduce your organization to the community and explain the organization's role.

### *Newsletters*

A newsletter informs consumers of business activities and allows you to deliver a written document that customers can keep and refer to later.

### *Open Houses/Availability Sessions/Poster Sessions*

An open house or availability session is an informal meeting where community members can talk to agency staff on a one-on-one basis. It is most appropriate when key milestones or major decisions have been reached.

By conducting an open house/availability session it is possible to determine community interest in the site before planning an open house.

### *Presentations*

A presentation can be a speech to a club, civic or church organization, school class, or similar local audience. Presentations are more effective if they focus on such major milestones as research findings.

### *Public Meetings*

A public meeting is a large meeting, open to the public, where experts present information and answer questions, and community members ask questions and offer comments.

### *Small Group (Or Focus Group) Meetings*

At small group meetings, organization staff shares information with interested community members and State and local officials. It is especially useful for informing and keeping in touch with community concerns, answering questions, and clearing up any misconceptions or misunderstandings.

### *Telephone Contacts*

Telephone contacts are calls to State and local officials and concerned community members, informing them of your organization's activities, finding out who is involved at the site, and gathering information about the site. After this initial contact is made, you may make calls during your work on site to inform these individuals and monitor the extent of community concerns.

Telephone contacts are important to understand community concerns and gather information.

## Promotion and promotional mix

Promotional mix is a specific combination of promotional methods used for one product or a family of products. Activities identified as elements of the promotional mix vary, but typically include the following:



**Personal selling** is one-to-one communication between seller and prospective purchaser. It generates direct contact with prospects and customers. It is one of the most *expensive* forms of promotion. Examples: personal meetings, telemarketing, e-mails, and correspondence.

**Advertising** is a form of non-personal promotion. It is when companies pay to promote ideas, goods, or services in a variety of media outlets. It can be found everywhere. With advertising, a company engages in a one-way communication to the prospect or customer. Examples: magazines, newspapers, television, websites, city buses, etc.

**Direct marketing** is a type of advertising directed to a targeted group of prospects and customers rather than to a mass audience. The goals of direct marketing are to generate sales or leads sales representatives to pursue sales. Direct marketing allows a business to engage in one-way communication with its customers about product announcements, special promotions, bulletins, customer inquiries, and order confirmations. Examples: direct mail, e-mail.

**Sales promotion** basically represents all marketing activities other than personal selling, advertising and public relations. Sales promotions are used to stimulate purchasing and sales and the objectives are to increase sales, inform potential customers about new products, and create a positive business or corporate image. Examples: coupons, product samples, point-of-purchase displays.

**Public relations activities** enable an organization to influence a target audience. Most of the time, public relation campaigns try to create a favorable image for a company, its products, or its policies. Companies give news releases to announce newsworthy developments about a company's products or services, distribution channels, facilities, operations, partners, revenues and earnings, employees, and events. **Publicity** is one tactic that public relations professionals use. This means bringing newsworthy information to the

public. Examples: newspaper and magazine articles, TVs and radio presentations, charitable contributions, speeches, seminars [6].

As shown in the table below, the promotional methods used depend on several factors.

<b>Stage in the life cycle</b>	E.g. advertising is important at the launch stage.
<b>Nature of the product</b>	How much information is required by customers before they buy?
<b>Competition</b>	What are rivals doing?
<b>Marketing budget</b>	How much can the firm afford?
<b>Marketing strategy</b>	Other elements of the mix (price, product, place etc).
<b>Target market</b>	Appropriate ways to reach the target market.



## Case studies

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Efkarpon – Hellenic Superfoods has innovative products, imported into Europe only as processed from developing countries. These countries have substandard criteria regarding quality standards and the use of agrochemicals. Because of it, Efkarpon decided to rely on the assertion “go organic”, producing only organic superfoods. In this way Efkarpon aims on consumer safety feeling, the goodwill of the goods, and a better price. The final target is to reposition these goods on the international market.

Other Smartfarmers, which produce aloe vera, decided to promote their products using modern marketing methods such as social media. This way, they target on a large part of the consumer daily program, which contains the internet and the social media. This is a cheap, massive and effective way of promotion.

Producers of mastic and crocos at Chios and Kozani, relied on the strong brand name and the uniqueness of their products. They created a series of products with specific characteristics, all of which are highlighting the identity of the company, the product characteristics and the uniqueness of the commodity. Timing was essential, since they decided to produce widespread products and to introduce their brand name (Mastic spa,

Mastic shop, refreshments Mast, Crocos et al), not only in Greece but also worldwide.

Finally, the Social Cooperative “Nea Gi” decided to follow the path of consumer awareness and education, by sending weekly e-newsletters. This method is difficult to follow as well as time consuming, but creates loyal customers and strong bonds with the business as a result of the constant contact.

## Exercise/activities

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1. Create a promotion mix using as many means as possible to communicate your message.



## Bibliography/Further reading

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- [5] <http://smallbusiness.chron.com/determine-appropriate-communication-channel-24098.html>
- [6] <http://lam09.weebly.com/5-parts-of-promotional-mix.html>

## Learning objectives/outcomes

This unit is intended to help the reader to:



- ◆ Understand the importance and functioning of the distribution channels;
- ◆ Learn how to choose the best distribution channels for a farm or agro-business;
- ◆ Understand that the principles of the distribution channels systems are applicable both to the domestic and foreign markets.

Upon successful completion of this unit, you will be able to understand:

- ◆ The role of marketing channels;
- ◆ The pros and cons of selling your products through intermediaries;
- ◆ The decisions you will have to take to design your distribution channels system;
- ◆ The major issues to take into consideration when entering into international markets.

## Estimated duration

The estimated learning duration for this unit is 90 minutes.



## Summary

Distribution (or “Place”) is one of the four traditional elements of the marketing mix. The

options concerning the distribution channels are critical and have deep influence on all other marketing decisions. Therefore, distribution should be integrated with the global marketing plan, to ensure the focus on the target markets.

Distribution channels should be flexible to enable the organisation to respond to market changes and new market opportunities.

Producers have many alternatives for reaching the market. They can sell directly or use one, two, three level channels. Most producers do not sell their goods directly to final consumers. Between the producers and the final consumers there is usually a set of marketing intermediaries performing several functions. The most relevant functions accomplished by intermediaries are information, promotion, matching, negotiation, ordering, financing, risk taking, physical distribution and payment.

To decide which type(s) of channel to use it is necessary to define the distribution objectives, taking into consideration the buyers needs and wants and the possible alternative marketing channels. There are however many factors that influence these decisions and evaluating the possible alternatives, such as the types and numbers of intermediaries involved in the channel, is essential.

## Learning (reading) resources

Distribution (or “Place”) is one of the four traditional elements of the marketing mix. The options concerning the distribution channels are critical and have deep influence on all other marketing decisions.

Distribution should therefore be integrated with the global marketing plan, to ensure the focus on the target markets. Furthermore, distribution channels should be flexible to enable the organisation to respond to market changes and new market opportunities.

### The nature of distribution channels

Distribution channels move products and services from businesses to consumers and to other businesses.

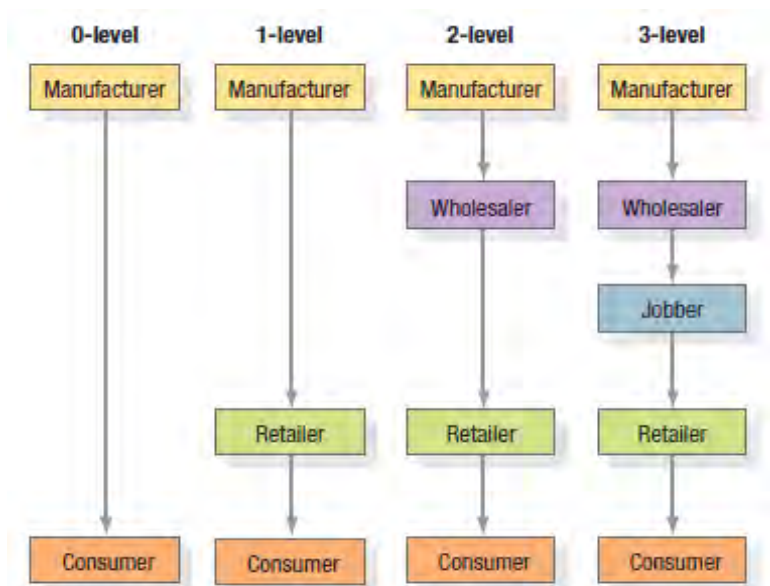


Also known as marketing channels, distribution channels consist of a set of interdependent organizations – such as sales agents, wholesalers and retailers – involved in making a product or service available for use or consumption.

The producer/manufacturer and the final customer are part of every channel. The figure below illustrates marketing channels of different lengths, for consumer goods.

A zero-level channel, also called a **direct marketing** channel, consists of a producer or manufacturer selling directly to the final customer. Farm or processor own shops, farmers selling their products in traditional outdoor markets, or Internet selling are all major examples of direct selling.

Many businesses in the agriculture sector distribute their products through **intermediaries**, benefitting from their experience, specialised knowledge, contacts and broader scale of operations.



Source: Philip Kotler, Kevin Lane Keller (2012), *Marketing Management* [5]

## Module 2

For instance, a one-level distribution channel contains one selling intermediary, such as a retailer, while a two-level channel embraces two intermediaries (typically a wholesaler and a retailer), which is a common situation in consumer markets. Longer channels may include additional intermediaries, such as jobbers, that are small-scale wholesalers, who sell to small retailers.

Successful companies usually adopt multi-channel marketing solutions. That is to say

that they use two or more distribution channels to reach their customers (e.g. distribution through wholesalers and/or retailers and direct sales via Internet or in a local market), covering different consumer segments, or different buying requirements within the same segment.

When adopting a multichannel approach, the company must assure that the different channels are well integrated and managed, to avoid conflicts.

### Glossary

**Retailers:** The retail sector includes a wide range of outlets such as supermarkets, department stores, small grocery shops and merchants. They are characterised by dealing with the end user of the product.

**Wholesalers:** Wholesalers buy a variety of products, in fairly large quantities and sell these items to other businesses who require relatively small quantities of a variety of goods. Wholesalers in the agro-food market may serve consumer retail shops (e.g. grocery shops) and/or industrial retail outlets (hotels and restaurants, hospitals, schools, catering organisations).

**Sales agents and brokers:** Sales agents and sales brokers are distinguished from the other types of channel members already described, because they do not take title to the goods. The role of agents and brokers is to facilitate distribution by bringing buyers and sellers together. Sales agents often have close relations with particular growers/processors/manufacturers and contract to sell on their behalf in return for a commission. Some agents negotiate sales for a number of non-competing clients, whilst others handle sales for only one client and usually have the exclusive right to do so, within a specified geographic area. In many respects the sales agents behave as if they were an extension of the client's own sales organisation. Brokers, on the other hand, earn a commission for informing buyers of possible sellers and informing sellers of possible buyers.

Whilst the figure above is helpful in outlining the different types and the length of the distribution channels, it is an oversimplification. For instance, the sales agents are not categorised separately in the diagram, considering they often operate together with the other channel members and they don't take the title of the products.

*Adapted from: Crawford, I.M., Agricultural and food marketing management [2]*

E-commerce has grown in importance and many companies have adopted Internet distribution systems. “Channel integration must recognize the distinctive strengths of online and offline selling and maximize their joint contributions” [5].



### *The functions of the distribution channels*

The most important role of a distribution channel is to provide a link between production and consumption.



There are several important key functions that are undertaken in the scope of the distribution channels:

1. **Information:** collect information about potential and prospective customers, about competition and other relevant factors in the marketing environment.
2. **Promoting:** prepare and disseminate information to motivate buying.
3. **Matching:** offer must fit buyer's needs (e.g. grading, assembling, packaging).
4. **Negotiating:** reach agreements on the price and adjust other terms and conditions of the transaction.

5. **Ordering:** backward communication to the producer or processor about intentions of buying, by the marketing channel members.
6. **Financing:** obtaining funds to cover inventories and other costs along the distribution channel.
7. **Risk Taking:** the commercial risks must be assumed by the members of the operating channel.
8. **Physical Distribution:** transporting and storing goods.
9. **Paying:** providing for payment of the buyers to the sellers.

Some of these functions and flows go forward (e.g. promotion, physical distribution), some move backwards (e.g. ordering, paying), while others move in both directions (e.g. information, negotiation).

All the functions must be performed, but they can be shifted among the different channel members. Desirably they should be implemented by the channel member most efficient to perform each specific function. The intermediaries' remuneration should depend on the marketing functions they perform and, in particular, on their performance efficiency.



## The Distribution-Channel Strategy

To outline a marketing channel system it is necessary to define the distribution objectives, taking into consideration the buyers needs and wants and the possible alternative marketing channels. There are however many factors that influence these decisions.



### 1. Defining channel objectives and constrains

The channel objectives should be defined in accordance with the target service output levels, while minimising the total channel costs.

Effective channel planning requires the company to decide which market segments to serve and select the best channels to adopt in each case. These decisions are influenced by a number of **constraints**:

**Product Characteristics.** Perishable products require more direct marketing and short distribution circuits, to minimise delays and repeated handling that may deteriorate the products' condition.

**Intermediaries Characteristics.** Channel options reflect the strengths and weaknesses of the different types of intermediaries in carrying the different distribution functions. "A middleman's existence is justified just so long as he/she performs marketing functions which others cannot or will not, or can perform his/her marketing functions more effi-

ciently than can the producer and/or alternative intermediaries" [1].

**Competition Characteristics.** Channel design is influenced by the competitors' distribution options. The producer may want to have his products in or near the same outlets selling the competitor's products.

**Marketing Environment.** Legal regulations and restrictions referring to food products affect channel options. Other environmental aspects should also be taken into consideration: for instance, when economic conditions are depressed it would be of great importance to move products into the market through the most economical solutions, to minimise the final price of the goods.

Check the *NCAT Marketing Tip Sheet Series* and find interesting tips addressing 13 different marketing channels for agro-food products, including, for instance: Farmers Markets, Roadside Stands, the Internet, Restaurants, Grocery Shops, Institutional Markets (e.g. schools, prisons, hospitals, or similar organisations), Wholesale Buyers at Terminal Markets.



The following box provides an example about tips for selling on the Internet.

The **Internet** can provide exposure to a large number of potential customers and can be used to advertise your farm or agro-food business with pictures and maps, take orders online, show product availability, keep in touch with your existing customers and support other ways of selling, such as your own shop or farmers markets.

### **Advantages**

You can let a lot of people know about your farm, its history, product line and location.

You save time, since your website or web presence is always available to customers.

A basic website can be developed with minimal resources, at low cost.

Third-party websites can be used to provide web presence with minimal investment of your time or resources.

### **Key Questions to Ask Yourself**

What is my experience and comfort level with computers? If it is limited, who can help me with my Internet work on a regular basis?

How will I keep my site or web presence up to date?

How might Internet marketing fit with and support other marketing channels, such as farmers markets and institutional markets?

### **Tips for Selling on the Internet**

Outline your goals for your farm's Internet presence. Evaluate what resources (labour, expertise, software, hardware) you will need to support these goals.

To take and process orders on Internet a more sophisticated website will be required, than one that simply advertises your business and products.

You need to know your closest, least expensive, most reliable shipping options and be sure that they can ship with cold solutions.

Make your website easy to use and easy to find. Ask for feedback from friends and customers.

Select a website address ("domain name") that is short, meaningful, easy to spell and easy to remember.

Diversify your distribution channels. Do not rely on your website as your only marketing channel.

Guide people to your site (e.g. create links to related websites, list your web address in farm guides, put your website and email address on all your farm's printed material, sign up with websites that promote local products).

*Adapted from: National Center for Appropriate Technology (2012), NCAT Marketing Tip Sheet Series [6]*

## 2. Defining Channel Alternatives

Channel alternatives refer basically to three characteristics: the type of intermediaries, the number of intermediaries and the terms and responsibilities of each channel participant.

**Type of intermediaries.** The farmer or small agro-business should identify the types of intermediaries that can carry on their distribution activities (e.g. wholesalers, supermarket chains, groceries) in the target geographical areas. The companies should also look for innovative channel alternatives. Sometimes a company chooses a new or less conventional channel because of the cost or ineffectiveness of working with the dominant channel (e.g. supermarkets). The box below illustrates an unconventional solution for distribution of agro-food products.

**CSA - Community Supported Agriculture** is a system of direct marketing where consumers pay the farmer at the beginning of the growing season for a weekly box of fresh fruits and vegetables. A CSA “share” is harvested and delivered to the customers over a period of several months (...).



The core philosophy of the CSA model is that customers (or "members") truly support their local CSA farm by sharing the risk each season. This means that even if there is a bad

harvest, the members still pay the same amount for the season. Members are willing to do this to ensure that “their” farm survives over time as a healthy food source and that they are connected to the land and a local community. A CSA farm has the opportunity to develop a very loyal customer base.

*Adapted from: National Center for Appropriate Technology (2012), NCAT Marketing Tip Sheet Series [6]*

**Number of intermediaries.** It is also critical to choose how intensive the distribution will be. The intensity of distribution will depend on the decisions taken in the scope of the overall marketing strategy (see Module 1/Unit 2 for additional information). Three broad strategic options based on the number of intermediaries are as follows:

**Intensive distribution** – places the products in as many outlets as possible. The marketing of commodities and other low unit value products typically looks for intensive distribution, i.e. saturation of the market. This option requires large production capacity and, in most cases, it is too expensive to be supported by a small farm or agro-business. In intensive distribution, channels are usually long and involve several levels of wholesaling, as well as other middlemen.

**Selective distribution** – relies on a limited number of intermediaries to sell the products

and enables the grower/producer to develop closer working relations with those middlemen. The company can gain adequate market coverage, while safeguarding more control over intermediaries and lower costs than intensive distribution. The distribution channel is usually relatively short with no intermediaries between the producer and the retailer that sells the product to the final consumer.

**Exclusive distribution** – it is an extreme form of selective distribution, in which only one retailer or distributor is used in a specific geographical area to sell the products. This option is not unusual in the sale of more expensive and sophisticated agro-food products. “Some market coverage may be lost through a policy of exclusive distribution, but this can be offset by the development and maintenance of the image of quality and prestige for the product and by the reduced marketing costs (...). In exclusive distribution producers and middlemen work closely in decisions concerning promotion, inventory to be carried (...) and prices” [2].

**Terms and responsibilities of each channel participant.** The key decisions referring to the trade relations with the intermediaries are price policy, terms and conditions of sale, territorial rights and the specific responsibilities to be taken by the producer and the intermediary.

**Price** policy includes the establishment of a price list, schedule of discounts and intermediaries margins. These options should reflect the interest of the intermediary and of the producer and be seen as equitable and sufficient, by both, to enable lasting cooperation.

**Terms and conditions of sale** refer to payment terms and producer guarantees, as well as any restrictions on where and how products are to be sold.

**Distributors’ territorial rights** define the distributors’ territories and the terms under which the producer will engage other distributors (if applicable).

**Responsibilities** and duties of the producer and distributor must be clearly defined, in particular in exclusive distribution channels.

The overall objective is to build a long-term partnership that will be profitable for all channel members.



### Remember

Analyse the market demand.

Adjust the products in accordance with customers’ needs.

Define the right Distribution-Channel Strategy.



## Case Study

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Bowersox et al., quoted by Crawford, provide an interesting perspective on the relationship between the overall marketing strategy and the marketing distribution channels and practices. These authors describe the story of the development of the **cut flower market in the USA**, in the 1960's decade.

Cut flowers have to be distributed very quickly. Even if they are treated with a preservative (...), their shelf-life is fairly limited. Californian growers were among the first to develop special containers which helped slow the rate of deterioration in cut flowers. These containers precooled freshly cut flowers in the field, held flowers in different quantities, were designed to fit aircraft hold dimensions and were easy to handle.

The traditional marketing channel for cut flowers was flower shops. These were considered inappropriate when the objective was to expand demand for cut flowers. Market research suggested that only 2.5 percent of households regularly purchased cut flowers, but that there were opportunities to induce the public to buy more flowers and more often. Flower shops, however, were oriented towards special occasions such as weddings, funerals, gift days etc.. Growers wanted to mass market their produce and so department stores and food chains were targeted

because these outlets enjoyed much higher levels of customer traffic.

Research also revealed that many consumers considered the unit price too high for them to purchase cut flowers regularly. The grower's response was to abandon the convention of selling in packs of a dozen stems. They brought down the unit price by packaging in smaller bundles. Roses, for instance, were marketed in lots of three. Having decided on the size of the sales units, flowers were packed in the field accordingly.

To persuade retailers to stock cut flowers, margins had to be competitive with those of other products contending for the limited floor space available. Growers invested in the design of a merchandising unit which minimised the floor space required and maximised the impact on prospective purchasers. In addition, because research showed flowers to be an impulse purchase and more likely to take place at the end of a store visit than at the beginning, growers encouraged retailers to position the merchandising units near the checkout counters. These tactics served to increase the profitability of cut flowers to retailers.

This case illustrates how physical distribution and the overall marketing decisions are inter-related. The changes in the distribution channels required a change in the marketing

strategy, in order to be effective, and vice versa.

*Adapted from: Crawford, I.M., Agricultural and food marketing management [2]*

## International markets

Finally you should note that the overall approach referring to the distribution channels is applicable both to the **domestic and foreign markets**. There are however a few myths that refrain small agro-businesses to take the challenge of entering into foreign markets – e.g. “I am too small to export”, or “Exporting is too complicated”.

These myths have no substance. There are thousands of small firms successfully operating in international markets and the agro-businesses do not need to carry all the exporting process alone. Outside experts (for instance farmers associations or exporting consultants) can help finding potential foreign customers and appropriate marketing channels and can also provide assistance on the paperwork and delivery of the products.

Nevertheless, when considering to export, a farmer or small agro-business should develop the exporting process carefully, to avoid pitfalls. Here follow a few **guidelines for entering in international markets**:

**Assess your business export readiness and potential** – it is fundamental to understand

what is necessary to succeed in the international marketplace and to evaluate if your company has the required resources and capacity to handle the extra demand for exporting.

**Outline an export plan and integrate it with your global business plan** – an export plan is the part of your business plan that focuses on international markets; it should identify your target market(s), export goals and required resources.

**Research and select your target market(s)** – market research is the key to understand opportunities, to find out what is important to your potential customers and to provide the comprehension on how a new market should be approached and developed.

**Understand the key legal aspects of international trade** – it is essential to get familiar with the import regulations, product standards and licensing requirements of the target markets.

**Adapt your overall marketing plan in accordance with the specific requirements of your exporting markets** – for instance, exporting prices should be defined, promotional materials should be reviewed taking into consideration differences in cultural and business practices and....

**Determine the best methods of delivering your product** – appropriate distribution chan-



## Module 2

nels should be outlined, including in most cases local partnerships and/or intermediaries.

**Develop a sound financial plan** – a comprehensive financial plan for the exporting activities is required; it will help to protect against exchange rate fluctuations and slow collection of accounts receivable (e.g. international trade payments usually take longer than domestic payments).

### Exercise/activities

From your knowledge of this unit, please provide brief responses to each of the following questions:



1. Are intermediaries necessary? Yes or No? Give three good reasons for your answer.
2. In what important aspect do sales agents and brokers differ from most other types of intermediaries?
3. Name and describe 9 key functions that are undertaken by the distribution channels.
4. In which circumstances and for what type of products is intensive distribution most likely to be used?
5. In your own words, outline the key steps in developing a distribution-channel strategy.

6. Complete the following sentence: “The key to establishing good working relations with intermediaries is...”

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# UNIT 2.8: Lauterborn's 4Cs

Authors: Andreas Stylianou

## Learning objectives/outcomes

This unit is intended to help the reader to be aware of the Lauterborn's 4Cs model and to compare it with the traditional 4Ps approach.



Upon successful completion of this unit, you will be able to:

- ◆ Understand the concept of the 4Cs model;
- ◆ Describe the 4 elements of the 4Cs model;
- ◆ Identify the basic differences between 4Ps and 4Cs models;
- ◆ Include the 4Cs model elements in your business and marketing plan;
- ◆ Reset your perceptions around what you are creating and offering to the market;
- ◆ Apply the 4Cs approach in the business framework.

## Estimated duration

The estimated learning duration for this unit is 60 minutes including the exercises.

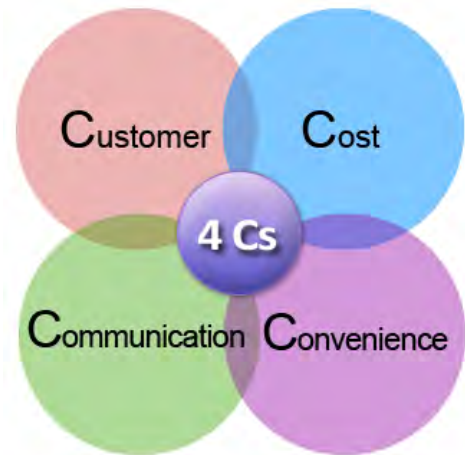


## Summary

McCarthy's 4Ps is the traditional Marketing Mix and is used for decades by all the marketers throughout the world. This concept has been criticised by a number of studies as be-

ing production-oriented and not consumer-oriented. However, in spite of its deficiencies the 4Ps concept remains a staple of the Marketing Mix.

Among the different critics developed, the Lauterborn's 4Cs model is considered to be simpler and more consumer-centric, while it attempts to better fit the movement from mass marketing to niche marketing. In fact this model is equivalent to the traditional 4Ps, but viewed from customer perspective. The 4Cs model consists of consumer's wants and needs, consumer's cost to satisfy those needs, consumer's convenience to buy and two-way communication with consumers.



## Learning (reading) resources

### *The 4Ps model and the criticism*

McCarthy (1960) offered Marketing Mix, often referred to as the 4Ps (product, price, promotion, place), as a means of translating marketing planning into practice (Bennett, 1997). Since then, the 4Ps are used by all the marketers throughout the world and are considered to be the pillars of the traditional marketing.

Nevertheless, the concept of 4Ps has been criticised as being a production-oriented definition and not a consumer-oriented (Popovic, 2006). Throughout the years, a number of studies and authors (e.g. Lauterborn, 1990; Möller, 2006; Popovic, 2006) have disputed the validity of the traditional Marketing Mix in the changing society, while some critics even go as far as rejecting the 4Ps altogether, proposing alternative frameworks (Goi, 2009). Möller (2006) indicated some key criticisms against the Marketing Mix framework:

The Mix is internally oriented and does not consider consumer's behaviour.

The Mix regards consumers as passive; it does not allow interaction and cannot capture relationships.

The Mix does not offer help for personification of marketing activities.

Additionally, the Mix does not mention relationship building which has become a major marketing focus, or the experiences that consumers buy (Fakeideas, 2008). However, regardless of its deficiencies and limitations, and perhaps because of its simplicity, the 4Ps concept remains a staple of the Marketing Mix and therefore many marketing textbooks have been organised around it (Goi, 2009).



Among the different critics and models developed, the Lauterborn's formula, well known as 4Cs, is considered to be simpler and can be used when deciding on marketing issues. At the same time, the 4Cs model is **consumer-oriented** and ensures you look at the Marketing Mix from the customer's point of view. Hence, in the following lines, the 4Cs model is described.

#### **Do not forget that:**

*"Today's customers take functional features and benefits, product quality, and a positive brand image as a given. They want products, communications, and marketing campaigns that dazzle their senses, touch their hearts, and stimulate their minds."*

*Bernd Schmitt*

Source: business survival toolkit

(<http://business-survival-toolkit.co.uk/>)

## A shift to 4Cs model

McCarthy's 4Ps model was originated in the 1960's when homogenous mass marketing could be effective. This model was particularly useful in the early days of the marketing concept when physical products represented a large portion of the economy (Goi, 2009). In the new changing society, the focus is on the consumer, who is very savvy and with many demands on his time. In this framework, Lauterborn (1990) proposed the 4Cs model, which places the focus determinedly on the customer's perspective rather than your agribusiness and attempts to better fit the movement **from mass marketing to niche marketing**.

This does not mean that the 4Ps are not important, but integrating both the 4Ps and 4Cs into the marketing strategy will help effectively build a strong brand (Smith, 2003).



### The 4Cs are:

1. **Consumer wants and needs (rather than Product):** You cannot sell whatever you can make anymore. You cannot develop products and then try to sell them to a mass market. You can sell what someone specifically wants to buy. You have to study and understand consumer wants and needs through ongoing survey and feedback so that you can provide massive

value back to them; substantial inputs should be taken from primary market research. Then attract them one by one with something he/she wants to buy. "Build" the product for them. As the legendary management Guru Peter Drucker once said: *"The purpose of a business is to create and keep a customer."*

2. **Cost (rather than Price):** Understand the consumers' cost to satisfy their wants and needs. Price is only a part of the total cost to satisfy a want or a need. If you rely strictly on price to compete, you are vulnerable to competition in the long term. Cost involves finding out what sacrifices a consumer must make in order to buy a product. The total cost will consider for example the cost of time in obtaining a product (driving to your place), the cost of conscience by consuming that or even the cost of searching the product. Many factors affect cost, such as the consumer's cost to change or implement the new product and the cost for not selecting a competitor's product.

*"Value is no longer the biggest burger for the cheapest price. It's a complex equation with as many different correct solutions as there are subsets of customers."* Lauterborn (1990).



3. **Convenience to buy (rather than Place):** The goal of the third C is to make the purchase of a product as convenient as pos-

sible for the consumer. In the era of Internet, e-commerce, catalogs, credit cards and phones, consumers neither need to go anyplace to satisfy a want or a need nor are limited to a few places to satisfy them. Convenience takes into consideration the ease of buying a product, finding the product, finding information about the product, etc. The focus should be on how easy it is for consumers to buy/acquire a product instead of how easy it is for the agribusiness to distribute the product.

*“Think beyond those nice, neat distribution channels you have set up over the years. Know how each sub-segment of the market prefers to buy, and be ubiquitous.”* Lauterborn (1990).



#### 4. **Communication (rather than Promotion):**

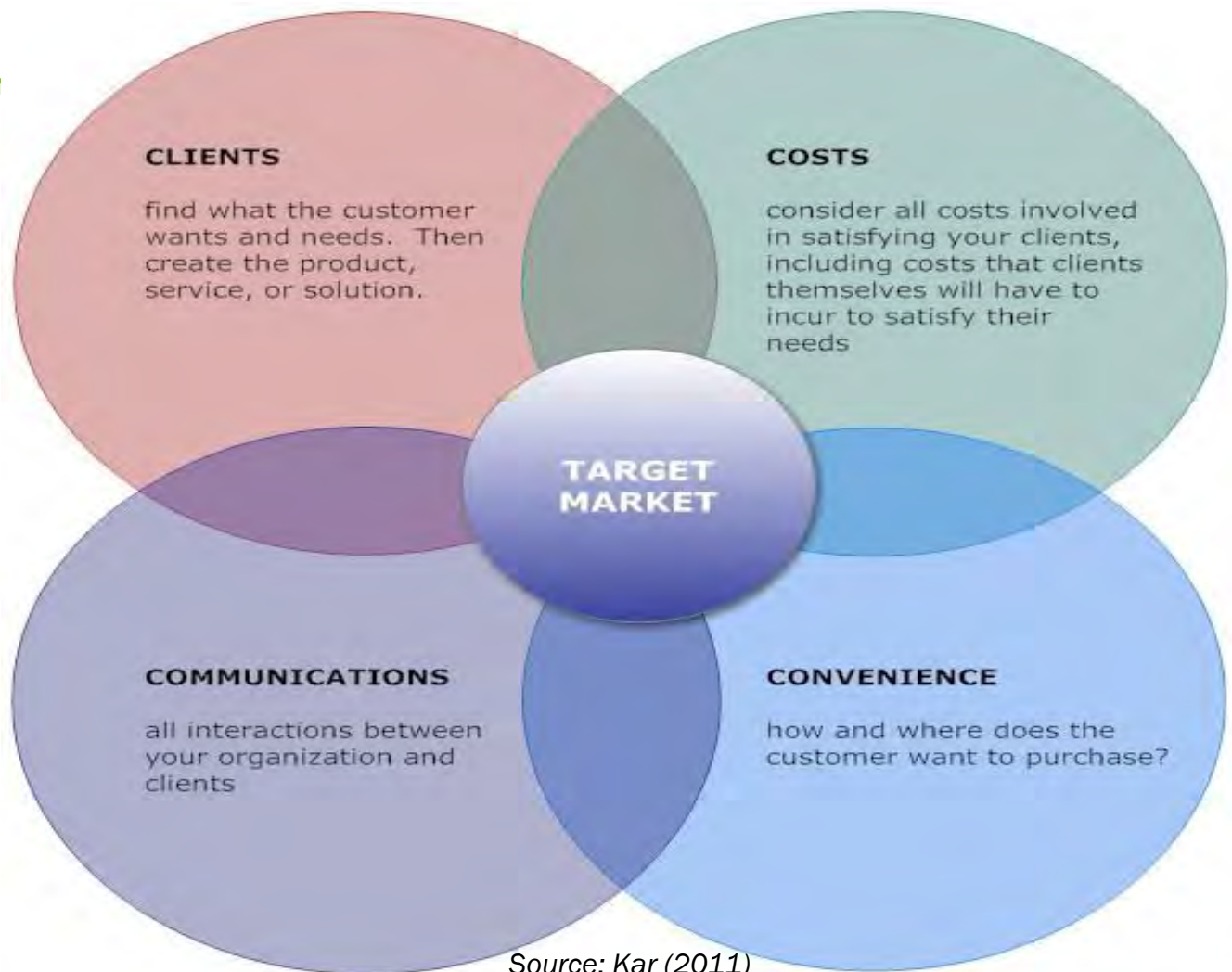
While promotion is “manipulative” as it is from the seller, communication suggests an exchange of ideas between the buyer and the seller; therefore it is “cooperative.” Communication is a two-way, interactive and relationship-based process which aims to create a dialogue with the potential consumers based on their needs and lifestyles. It is about “listening and learning”, “giving and taking” instead of one-way communication of “telling and



selling” (i.e. promotion). There are different forms of communication, like advertising, public relations, personal selling, social media and any other form of communication between the business and the consumer.

The four variables/elements of the 4Cs model are illustrated in the following figure:





Source: Kar (2011)

### Summing up with some tips:

Instead of Product: Study consumer's wants and needs

Instead of Price: Understand the consumer's cost to satisfy those wants and needs.

Instead of Place: Think consumer's convenience to buy.



Instead of Promotion: Focus on two-way communication with consumers.

### However:

It is important to understand that the underlying core remains the same; the 4Cs model is in fact a reiteration of the 4Ps model, refined to be more consumer-oriented.

### Last but not least:

In today's economy, it is very easy for consumers to take their money elsewhere. The competition is tough. If you can understand your clients' needs and wants through ongoing survey and feedback, you will be able to provide lots of value back to them (Dore, 2014).

## Case study

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### *Preserving Tradition...*

The agribusiness **Niki Agathocleous Ltd** was founded by Niki Agathocleous in 1989 and is established in the small mountain village of Agros in Cyprus.

It is a tradition in Cyprus for housewives to offer homemade spoon sweets to their guests. Wanting to carry on this tradition, with her passion for cooking, Niki began to make spoon sweets and jams for friends and relatives.

In 1986 Niki opened her first workshop. In 1989, and because of the increased demand for her products, Niki Agathocleous Ltd was officially born. In 1992, the company opened its second workshop, always staying loyal to the traditional recipes and to the high-quality produce by applying all the strict food and health standards.

In 1996, the company introduced new products into the market such as fruit compote, tomato puree, vine leaves, and ***spoon sweets and jams for diabetics***. The company also brought back a very old recipe for ***pink rose sweet***. This recipe was only known by the people of Agros village, the only place in Cyprus where this pink rose can be found. In 2003, after continuous demand for its products, the company built its first big factory in-

cluding a **retail shop** and was certified with the HACCAP health system and later with ISO 22000, which is an international standard that specifies the requirements for a food safety management system.

Since 2004 the company **exports its products** to more than six (6) countries including England, Australia, USA, France, Japan and Egypt.

In 2005, the company started producing one of the most well-known Cypriot products, **Soutzioukos**, which rapidly became one of the most loved products of the company. **New products** were also introduced into the market such as carob syrup, grape syrup, kiofteria (sun-dried grape mixture) and sun-dried figs.

Today the company offers **more than sixty (60) traditional products** and has become one of the leading companies of this specific sector in Cyprus.

The current and potential customers, but tourists also, have the opportunity to visit company's retail shop and factory in Agros in order to experience the traditional Cypriot way of producing spoon sweets, jams, Soutzioukos and other products. There, the customers can also taste and buy the products which are also available in **many retail shops** in Cyprus.

Moreover, the company has its own **website** where detailed information is provided for each product. There, the consumers can also **provide feedback** and make suggestions to

the owners regarding the products. Last but not least, the company has a **Facebook account** aiming to make the communication with customers more efficient and interactive.

This agribusiness represents a good example of the 4Cs model implementation as it is focused on:

consumers' needs for traditional and healthy quality products

consumers' cost to satisfy their wants and needs

consumers' convenience to buy

two-way and relationship-based communication with customers

Source: <http://nikisweets.com.cy/index.php?op=page&id=69>

## Exercise/activities

From your knowledge of this unit, please provide brief responses to each of the following questions:



1. What is the basic difference between 4Ps model and 4Cs model?
2. When was the last time you really searched / studied your customers' needs? What means did you use for this purpose?
3. Think like a consumer: Number 3 reasons for which a consumer will prefer to buy your product instead of a competitor's.
4. How convenient do you make it for consumers to obtain your product?
5. Number 3 reasons for which a company website may be necessary.
6. Why a two-way communication is considered to be more appropriate than one-way communication?
7. Number 3 communication channels which provide interaction with the consumers.

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## Learning objectives/outcomes

Upon successful completion of this unit, you will be able to:

- ♦ Understand how cooperating with others can improve your business;
- ♦ Define a strategy for cooperation in your entity;



## Estimated duration

The estimated learning duration for this unit is 90 minutes including the exercises.



## Summary

This unit talks about cooperation...To cooperate means "working together"; but, with whom are you supposed to cooperate? And why? Why should you work with someone else? For what reason? You could think "I'm fine as I am".

In this unit we explain the benefits that small businesses, as yours, get from cooperation. Whether you are a small producer who wants to break into the market, or you are a business owner already established and with a certain turnover, we will show you that working together with other companies and organizations opens up a wealth of possibilities.

It helps in reducing risk and costs and achieving faster and cheaper access to markets, information and technology. But it is needed to take the time necessary to define objectives, choose partners and establish the rules of the game.

You will also find out that you can form alliances with those who seem to be your toughest competitors, in addition to suppliers and customers.

Throughout the text there are examples to help you understand and identify interesting partnerships for the development of your business.





### Learning (reading) resources

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In the coming years, only most organized farmers will be able to stay on a more and more competitive and demanding global market. Cooperation is probably the best option for the small producers, with fewer resources than large enterprises, to meet with success competitive challenges.

Cooperation between farmers and agribusinesses should be understood as a process of combining efforts, resources and talent to implement a common project.

### *Pros and cons of cooperation*

Before discussing how we can cooperate, we have to understand what benefits we will get from it (and also be aware of the problems we might find). Partnerships can be created for different reasons and they are becoming a cornerstone of many business models. Every entity that runs a business model will be dependent on a key partner or more at one point or another. Since entities are dependent on certain partners, it is vital to understand which exactly the main motivations are to cooperate:

- ♦ **Optimization and economy of scale.** The most basic reason is to optimize the allocation of resources and activities. Most of the times, it is not efficient for a company to own all resources or perform every activity

by itself. Optimization and economy of scale partnerships often involve outsourcing or sharing infrastructure and allow:

- ❑ To reduce costs.
- ❑ To expand the volume of sales by opening up new markets.

- ♦ For instance a jam producer buys the raw fruits from different farmers as each of them is specialized in different fruits production and can produce the fruits for a quality, which is so excellent, that the jam producer can focus on jam instead of losing time and money at the production fields.



- ♦ **Reduction of risk and uncertainty.** If you share the risk, you will have more possibilities of success. Partnerships can help to reduce the risk in a competitive environment characterized by uncertainty. It is not unusual for competitors to form a strategic alliance in one area while competing in another.

- ♦ For example, tomato sauce companies from a region have jointly developed an R & D (Research and Development) strategy to do research on new technology to make new products. The group cooperated to bring new technology to market, yet individual members compete in selling their own products.



- ♦ **Acquisition of particular resources and activities.** Few companies own all the resources or perform all the activities described by their business models. Rather, they extend their own capabilities by relying on other firms to furnish particular resources or perform certain activities. Such partnerships can be motivated by needs to acquire knowledge, licenses, or access to customers. This allows:

- ♦ To reduce costs.
- ♦ To take advantage from the experience and knowledge of others.
- ♦ For instance, there are farmers, especially in cereal producing areas, who joint in cooperatives to acquire agricultural machinery (like tractors or harvesters). These allow them to always have the latest technology available, a cost that individually could not afford.



Thus, cooperation for agricultural producers is seen as an opportunity:

- ♦ Producer gets more of the added value of his/her product, through covering production stages that are not affordable for the producer alone (packaging, processing, marketing ...).
- ♦ It gives greater transparency and stability to agricultural markets. For example, coop-



eratives enable producers increase bargaining power, both on customers and on suppliers; this improves the competitiveness of farmers in a market increasingly difficult and globalized.

- ♦ To access to services such as training, information, new technologies and knowledge that allows improving production efficiency. This is especially important for small businesses that do not have the human and financial resources necessary to meet alone the huge investment required to develop new technologies and penetrate large markets, distant or less known.
- ♦ Furthermore the agricultural associations contribute to the structuring of the territory by giving continuity to farming, which encourages employment and economic and social development of rural areas.

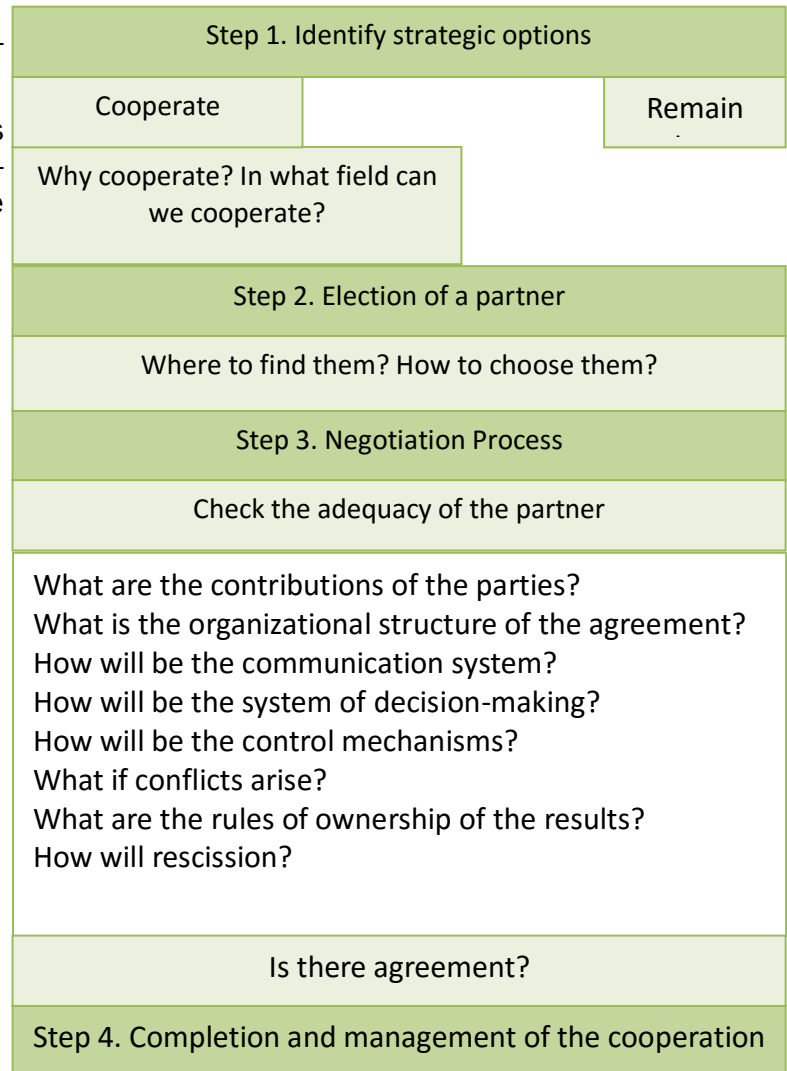
**As a weakness** of cooperation in business is the fact we work with partners, and that can cause problems. Similarly that going together with the right partner can greatly simplify our work, disagreements with partners or associates who fail to meet their obligations may lead to failure.

Inevitably over time differences of opinion, conflicts or disputes will arise; so it is necessary to make clear the objectives sought, the

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division of tasks, responsibilities and contributions to be made by each of the parties.

But without doubt the benefits it will bring us to cooperate outweigh the potential drawbacks. The next graph shows the steps we must follow:



*Adapted from "Basic Guide for cooperation between companies"*

Thus, a cooperative of almond growers has defined rules for accession of new members and a set of rules that members must comply. When a new partner applies for membership it should be checked that it meets the requirements for access and be informed about the rights and obligations he/she is contracting.

It is expected that the producer, before joining has assessed different options (other cooperatives in the area, direct sales, contracts with companies, etc.) and concluding that this is the most appropriate for him/her and he/she is fully aware of the commitment undertaken.

In summary cooperation achieves an easier, faster and cheaper access to markets, information and technologies. But we need to take the time necessary to define the objectives of cooperation, choose our partners and establish the rules of the game.



### Forms of cooperation

The possibilities open by cooperation are many. First you should have clear objectives to establishing partnerships in order to choose the most suitable way: if you're looking for a partner to distribute your products nationwide, if you want to penetrate into the international market, transform production, create a brand image, etc.

One way of defining the forms of cooperation is based on the characteristics of the parties involved:

- ♦ Depending on the sector. You can collaborate with others in the same industry or even seek help from entities of other scope.
- ♦ Depending on the geographical area. Maybe you want to work with producers in your locality or region, but also might be interested in a partner in another country that will facilitate market entry.
- ♦ Depending on the agents involved. You can not only partner with your competitors, but also with your suppliers, and even with your customers. Let us pause here in more depth:



- Co-opetition. Strategic partnerships between competitors. It is based on a combination of cooperation and competition, derived from an understanding that business competitors can benefit when they work together. A good example of co-opetition is the Jerte Valley in Extremadura. This is an area specialized in cherry production and there are lots of shops that sell cherries and derivatives. It looks like this is a bad idea – too much competitors. However, the reality is that all this

abundance of options attracts customers, because competitors work together building a common brand image. This is where the competition starts. Since the concentration attracts more customers, every cherry marketer individually will have more customers.

- ❑ Strategic alliances between non-competitors. Strategic alliance means the arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project. For example, companies which produce different food products (e.g. olive oil, fruits, breads, jams...) might form a strategic alliance to open a shop in which sell their products directly to consumers.
- ❑ Buyer-supplier relationships to assure reliable supplies. Both parties are necessary in order for each other's business model to run. For instance a paprika manufacturer is dependent on buying the raw materials (dried peppers) from a peppers producer. This is a typical buyer-supplier relationship, as they need each other.
- ❑ Partnerships with customers. Customers are going to pay for our products ... So nothing better to agree with them! A clear example is the organic consumer groups, a bond of trust that benefits

both entities: producers ensure that customers will buy their products; customers ensure quality and origin of products. It is particular beneficial for producers who are starting. The operating rules varies; the frequency of the delivery of the products can be weekly, biweekly or monthly; sometimes consumers go to the farm to pick up the products, other times producers carry products to town, and even there are producers that send products by courier. An important point is the degree of freedom in choosing products: some producers offer fixed products at a fixed price per week, while others operate as a conventional store.

As for the legal formula that takes cooperation, the establishment of cooperatives is very common in agriculture sector. Cooperatives are companies formed by persons associated for carrying out business activities designed to meet their common economic and social aspirations, with a democratic structure and functioning. All Member States of the European Union have legislation on cooperatives. However, conditions vary greatly from one country to another.

But this is not the only possibility. We do not always have to start a new company with our partners. The choice between one or another kind of



agreement will depend on issues such as duration, intensity and frequency of activities, financing needed or confidence among the partners. Cooperation agreements can take other forms, including:

- ◆ Cooperation agreements without equity participation. These often are formalized by simple verbal agreements. Ultimately this can lead to conflicts, so you should always establish a written one. But when we are starting it can be a good option. This is the case of a small producer of vegetables that has the opportunity to sell a small amount of product in a shop in town, but does not have a suitable vehicle: he/she can reach an agreement with another producer with a vehicle to do the same route and take the products in for some kind of compensation.
- ◆ Subcontracting. With this formula, a company requests from another the performing of an activity necessary to the development of a product, such as the analysis of product quality by an outside laboratory, the performance of a processing step, an area of marketing, design, etc. The reasons for outsourcing are generally due to cost factors, short-term capacity or lack of necessary resources.
- ◆ Consortium. They are temporary associations to perform certain project together, in the event that one or both parties do not have the technical, commercial or financial capacity to carry out the objectives in their own. Through the consortium they share the cost of the investment, risks and benefits, without creating a company with separate legal personality.
- ◆ Joint venture. A joint venture is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture, each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests.
- ◆ Networks. Characterized by the existence of various members that establish agreements between all of them or just with some. It can even relate companies from different countries, public and private institutions, financial institutions, etc.
- ◆ Cross-distribution agreements. Exchanges of products to be distributed in other regions or countries. Two companies obtain mutual benefits by distributing their products in markets where they previously have no presence.
- ◆ Other forms of cooperation are licenses, franchises or share exchange agreements or minority stakes.

Referring to that seen in previous units, we will see some examples of forms of cooperation we can establish through the prism of the 4Ps and 4Cs.

### Cooperation examples related to Marketing mix – the 4 Ps

#### Product

- Cooperation in production process. Producers cooperate to transform their production together because individually they do not meet the minimum volume to cover cost.
- Technological cooperation. For the acquisition of technology. It is ideal for most small producers who cannot bear the costs and uncertainty of directly taking the risks of a process of research and technological development.

#### Price

As we have said before, grouping the production to get a larger volume when selling allows better conditions with distributors and buyers.

#### Promotion

Marketing co-operations. For small producers it can facilitate creating a brand image, getting greater presence in international markets, or highlighting the regional origin of a particular product.

Marketing co-operations are sensible, when the marketing goals of two companies can be combined with a concrete performance measure for the end consumer. Successful marketing co-operations generate “win-win-win” situations that offer value not only to both partnering companies, but also to their customers. Marketing co-operations extend the perspective of marketing. While marketing measures deal with the optimal organization of the relationship between a company and its existing and potential customers, marketing co-operations audit to what extent the integration of a partner can contribute to improving the relationship between companies and customers. For example: To sell noodles and ketchup together.

#### Place (distribution)

Cooperation marketing. This formula may allow trading on other markets or opening new sales channels and distribution. You can also consider an exchange of products between companies that have different geographic locations and are committed to marketing in their respective markets.



## Cooperation examples related to Lauterborn's 4 Cs

<b>Consumer</b>	<p>An interesting way of cooperative distribution is the consumer driven marketing. A group of consumers pay a certain sum to a farmer in advance, and he must deliver goods to the consumers during the year.</p> <p>Carlo Petrini, founder of Slow Food gave this a name when he said: "As a consumer, I am the co-producer of my food. I have the same responsibility as the farmer has". The production and the processing of food need a climate of understanding and trust between producer and consumer.</p>
<b>Cost</b>	<p>In order to decrease the cost, beyond the selling price that the customer pays, a producer may enter into agreements with distributors and retailers to make the product to be as accessible as possible.</p>
<b>Communication</b>	<p>See Promotion</p>
<b>Convenience</b>	<p>To facilitate the purchase to the consumer, producers can cooperate to give greater visibility to their products and make easier finding information about the product. This can be done creating a website where consumer can find information about the characteristics and benefits of the product and the details of producers and places to buy it.</p>

## Case studies

Let us now see three real cases of cooperation in the agriculture sector. The first two are aimed at facilitating the marketing of production. The third is an example of partnership for quality management.

### *ACTYVA, Cooperative Society*

ACTYVA, S. Coop. is an Integral Cooperative non-profit (no benefits among partners are dealt, salaries cannot exceed 150% of what is charged in the labour market) acting in Extremadura, bringing together agricultural producers, processors (bakeries, canning), technical advisors (veterinarians, agronomists, graphic designers, environmentalists, filmmakers) and consumers.

Its values are agro ecology, responsible consumption, food sovereignty and social transformation. It aims to make possible the production and distribution of organic food, standardizing a model venture between producers, technicians, administrators and consumers. An affordable way to eating healthy organic food and produced closely; at the same time that new employment opportunities are generated.

- ❑ **What achieve agricultural producers and processors members of ACTYVA, S. Coop.?**

They gain visibility in the market, learn marketing techniques and achieve greater closeness and commitment to consumers. Through training platform also acquire skills that incorporate to their farms.

In short, they get to increase their sales and incomes by participating more on the added value, as they have a direct involvement in the marketing and distribution channels are shorter.

### ❑ **On-going projects**

- ♦ **Big Brother Bio Farming** (<http://bbbffarming.net/>). Open source online platform that seeks to build, promote and facilitate companies organically produced positioning in social networks. The aim is to bring organic (or in the process of being) farmers closer to customer through blogs, courses, events, videos and a community of prosumers (producers and consumers).
- ♦ **Cáceres para Comérselo** (“Cáceres to eat it”). The pilot project started in the city of Cáceres, although its aim is to grow all over the region. It allows online orders that are picked in workplaces and other places in the city. You do not need to be a member of Actyva, S. Coop. to order; although obviously members have more advantaged than the simple clients.

### ❑ **Process**

Until this has materialized has been a long process. Through a crowd funding campaign, money for the creation of the website was achieved in 2013. Earlier in 2012, they did a diffusion tour in municipalities of Spain and Portugal to publicize the initiative. The website was launched in 2014, as the implementation of the project "Caceres to eat it" and the legal procedures for the establishment of the cooperative. This has been complicated by the particularities of the regional law of cooperative. The initiative has been well received, but it does not stop there ... the mood of the members is to continue growing, replicating the model in other territories.

### *Ambrosía La Vida*

Ambrosía La Vida

(<http://www.educatierra.es>) is a space for joint marketing of eco products in Plasencia city. In 2012 three organic producers joined forces to open a store in common to bring their products to customers:

- ❖ Barrunta Sentidos (<http://www.barruntasentidos.com/>) – group of fruit and vegetables producers.
- ❖ Ecotahona del Valle del Ambroz (<http://www.ecotahonadelambroz.org>) – organic bakery.

- ❖ Enrique Vega (<http://www.educatierra.es/vida/index.php/enrique-vega>) - organic beef cattle.

Among the three entities have been able to launch a separate project, which would not have been possible separately because of the costs of developing and maintaining the shop and the time to attend the customer.

Since its beginning, Ambrosía has sought to go beyond being a simple store where the consumer can buy food. Ambrosia is also a tasting room, a coffee shop and restaurant, and a place to listen concerts or attending workshops, among other events.

Indeed in recent times the success of its kitchen has been such that the restaurant business is gaining more weight in the business model.

### *Association "Mesa del Tomate de Extremadura" (Tomato of Extremadura)*

Extremadura is one regions of Europe with highest tomato production. The region not only grown but also transform tomato; there are 14 industrial plants that are devoted to it.

Various actors in the sector cooperate together in the Association, which has legal personality and is non-profit. Its aims are monitoring, research, and innovate in toma-

to crops and products as well as the management of quality analysis of the fresh fruit and the finished product.

The Association includes representatives of all tomato processing industries in the region of Extremadura (14) and producer organizations of fruit and vegetables in the same field, on a parity basis. The Association monitors contracts and is responsible for solving problems and disagreements between industry and farmers, is responsible for setting quality criteria and also controls the inputs of product in factories to meet the conditions set by the regulations.

Thus, all Extremadura's tomato sector contributes to the generation of a quality image, which facilitates the marketing at international level.

## Exercise/activities

Short self-assessment quiz is suggested as a way to test the knowledge and facilitate reflection.



1. Cooperation is a concept that can only be applied in the context of large companies with large resources and ambitious projects. This statement is:
  - a) True
  - b) False

2. Indicate the most accurate answer. Cooperation allows to:
  - a) Reduce risks
  - b) Acquisition of resources
  - c) Reduce costs
  - d) All the answers are true
3. Indicate the most accurate answer. A company may enter into cooperative agreements:
  - a) With other companies that are not direct competitors.
  - b) It is possible to establish cooperation agreements with suppliers.
  - c) Cooperation opens up many possibilities. May cooperate with other companies, whether or not competitors, suppliers and even customers.
  - d) Business cooperation is impossible.
4. Indicate the correct answer:
  - a) For agricultural producers cooperation possibilities are limited to join to a producers' cooperative.
  - b) It is convenient to put the cooperation agreement in writing with the objectives, responsibilities and obligations of each party.
  - c) Business cooperation can occur in many areas, but not in the area of marketing
  - d) Who cooperate with is not so important, what is important is the cooperation itself, so we should not give importance to the choice of our partners

5. Indicate the most accurate answer. An agricultural producer may establish partnerships:
  - a) With other producers in the area to share equipment or purchase inputs
  - b) With a processing industry to sell his/her output under certain conditions
  - c) With consumer group to supply products over time with a certain quality.
  - d) All the answers are true
3. <https://www.youtube.com/watch?v=RIhLNFb-5O0>
4. <https://www.youtube.com/watch?v=AwmMmadIK18>
5. <http://es.slideshare.net/tutor2u/cooperation-between-businesses>

## Bibliography/Further reading

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2. ENTANGLE consortium (2014) Entrepreneurship Trainers for VET: a novel generation learning. Business Model Canvas. Module 7 Key Partners.
3. ProudFarmer Consortium (2010) Methodological Training Tool in Marketing. Unit 1.5 Place

### Further Reading

1. <https://coopseurope.coop/>
2. [http://europa.eu/legislation\\_summaries/employment\\_and\\_social\\_policy/social\\_dialogue/l26018\\_en.htm](http://europa.eu/legislation_summaries/employment_and_social_policy/social_dialogue/l26018_en.htm)

# MODULE 3

## Organic Farming, Quality Schemes and Ecoagriculture

# UNIT 3.10: EU agricultural product quality policy

Authors: Inga Berzina, Maira Dzelzkaleja

## Learning objectives/outcomes

This Unit will help the learner to acquire knowledge about:

- ♦ Organic Agriculture Principles, Legislation and Certification
- ♦ Quality Standards
- ♦ PDO, PGI and TSG products<sup>1</sup>



## Estimated duration

The estimated learning duration for this unit is 90 minutes including the exercises.



## Summary

During last decades the consumer trust in food quality has drastically decreased, mainly because of the growing ecological awareness and several food scandals like Bovine Spongiform Encephalopathy (BSE), dioxins and foot and mouth disease.

Food quality is an important food manufacturing requirement, because food

consumers are susceptible to any form of contamination that may occur during the manufacturing process. Many consumers also rely on manufacturing and processing standards, particularly to know what ingredients are present, due to dietary, nutritional requirements (e.g. vegetarian), or medical condition.

In these demanding circumstances, the EU regards the promotion and assurance of food quality as an important instrument for EU farmers to increase their competitiveness and profitability. EU law already enforces strict requirements to guarantee the standard of European products. It is therefore committed to the improvement and extension of quality assurance schemes to identify and protect certain foodstuffs produced in accordance with particularly demanding criteria of quality or production method.

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<sup>1</sup> *Protected Designation of Origin, Protected Geographical Indication, Traditional Speciality Guaranteed.*



## Learning (reading) resources

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### *Organic Agriculture Principles, Legislation and Certification*

#### PRODUCING ORGANIC

More than 270.000 organic operators (producers, processors and importers) were registered in the EU-27 in 2011. A major part of these operators (about 235.000) was represented by agricultural producers, who may also process and/or import organic products, and which were mostly active in the EU-15.

Organic farming is a way of producing food that **respects natural life cycles**. It minimizes the human impact on the environment and operates as naturally as possible, in accordance with objectives and principles including the following:

- ❖ Crops are rotated so that on-site resources are used efficiently
- ❖ Chemical pesticides, synthetic fertilisers, antibiotics and other substances are severely restricted
- ❖ Genetically modified organisms (GMOs) are banned
- ❖ On-site resources are put to good use, such as manure for fertiliser or feed produced on the farm

- ❖ Disease-resistant plants and animal species adapted to the local environment are used
- ❖ Livestock are raised in a free-range, open-air environment and are fed on organic fodder
- ❖ Animal husbandry practices are tailored to the various livestock species

Organic farming is part of an extensive supply chain, which also includes food processing, distribution and retailing. Each link in this chain aims to deliver the benefits of organic food production in terms of:

- ❖ consumer confidence and what the logo guarantees
- ❖ environmental protection
- ❖ food quality
- ❖ animal welfare

The EU has developed **comprehensive rules** on organic production, processing, distribution, labeling and controls.

Organic agricultural methods are internationally regulated and legally enforced by many nations, based in large part on the **standards** set by International Federation of Organic Agriculture Movement (IFOAM), an international umbrella organisation for organic farming organisations established in 1972.

- ❖ Organic foods are made in a way that complies organic standards set by national governments and international organisations.
- ❖ Organic food production is a heavily regulated industry - currently the EU and many other countries require procedures to obtain special certification in order to market food as “organic” within their borders.
- ❖ Most of certifications allow some chemicals and pesticides to be used, so consumers should be aware of the standards for qualifying as “organic”.

ACT: Council Regulation (EC) No [834/2007](#) of 28 June 2007 on organic production and labeling of organic products and repealing Regulation (EEC) No [2092/91](#) [[See amending act\(s\)](#)].

## Scope

The framework established by this Regulation governs:

- ◆ agricultural products (including aquaculture products), either processed or unprocessed and intended for human consumption;
- ◆ animal feed;
- ◆ vegetative propagating material and seed used for crops;
- ◆ yeasts used as food or feed.

This Regulation contains the basic objectives and general principles for organic farming. The objectives focus on sustainable agriculture and production quality, which must meet consumers’ needs. The general principles concern, inter alia, specific production methods, the use of natural resources and stringent restrictions on synthetic chemical inputs. Furthermore, the Regulation lays down specific principles concerning farming, the processing of organic food and organic animal feed.

## Production rules

According to the **general rules for organic production**, genetically modified organisms (GMOs) are prohibited in all their forms. Rules concerning the labeling of food allow operators to ensure compliance with this prohibition. Treatment by ionizing radiation is also prohibited.



Those wishing to operate both types of **agricultural production** (organic and non-organic) must ensure that animals and land for these two activities are separated.

Organic **plant production** must comply with certain rules concerning:

- ◆ ground treatment, which must preserve life and the natural fertility of the ground;

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- ♦ the prevention of damage, which must be based on natural methods but which can make use of a limited number of plant protection products authorized by the European Commission;
- ♦ seed and plant propagation material, which must be produced using organic methods;
- ♦ cleaning products, for which authorization must be requested from the Commission.

On 24 March 2014, the European Commission presented a legislative proposal for a new Organic Regulation and a European Organic Action plan to the Council. The Action entered into force in April, whereas the new Organic Regulation will go into trilogies discussions, with the key institutional players involved being the European Council and European Parliament. If the scheduled timeline is followed, the new regulation would come into force in the middle of the 2015-2020 CAP period.

**Organic certification** is a process for producers of organic food and other organic agricultural products. In general, any business directly involved in food production can be certified, including seed suppliers, farmers, food processors, retailers and restaurants.

Requirements vary from country to country, and generally involve **a set of production standards** for growing, storage, processing, packaging and shipping that include:

- ♦ avoidance of synthetic chemical inputs (e.g. fertilizer, pesticides, antibiotics, food additives), genetically modified organisms, irradiation, and the use of sewage sludge;
- ♦ use of farmland that has been free from prohibited chemical inputs for a number of years (often, three or more);
- ♦ for livestock, adhering to specific requirements for feed, housing, and breeding;
- ♦ keeping detailed written production and sales records (audit trail);
- ♦ maintaining strict physical separation of organic products from non-certified products;
- ♦ undergoing periodic on-site inspections.

In some countries, certification is overseen by the government, and commercial use of the term *organic* is legally restricted. Certified organic producers are also subject to the same agricultural, food safety and other government regulations that apply to non-certified producers.

Certified organic foods are not necessarily pesticide-free, certain pesticides are allowed.



## Certification of the Organic Production<sup>2</sup>

### How to become an organic producer in the EU?<sup>3</sup>

The most important starting point is to adhere to the principles of organic farming. Council Regulation (EC) No 834/2007 and Commission Regulation (EC) No 889/2008 lay down the basic rules that organic farmers have to apply.



As organic farming is soil related, you need to acquire or rent an agricultural land in order to become an organic farmer. Organic production requires commitment and knowledge, therefore it is recommended to **have some training** for this type of agriculture.



Organic farming is an overall system to manage a farm and produce food, while ensuring the following: best environmental practices, high level of biodiversity, the preservation of natural resources, high animal welfare standards.

These are the main principles that have to be translated into **concrete production methods**

such as multi-annual crop rotations, the use of livestock manure as a fertiliser and growing only what the farm can naturally yield. It is also essential to encourage natural resistance to pests and diseases in both crops and livestock. It is encouraged to have suitable habitats for the benefit of the animals to help control pests in a natural way. It is also important to provide access to quality feed and free-range pasture to maintain the health of the animals.

It is also important to contact a **control body** of organic farming in the respective Member State. Control bodies can provide more detailed information for the particular segment of organic farming you are planning to engage in. The control bodies are entitled to run control on each organic farm and investigate whether the production is according to the standards. Organic farmers are controlled once a year to make sure that the rules are respected and if they are, the products may bear the **organic logo** of the European Union. There are two years of conversion period in organic farming before a product can be marketed as organic.

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<sup>2</sup> <http://ec.europa.eu/agriculture/organic/>

<sup>3</sup> [http://ec.europa.eu/agriculture/organic/eu-funding/how-to-become-an-organic-producer/index\\_en.htm](http://ec.europa.eu/agriculture/organic/eu-funding/how-to-become-an-organic-producer/index_en.htm)



*The logo and the labelling rules are an important part of the organic regulations. With this regulatory framework the EU provides conditions under which the organic sector can progress in the line with production and market developments, thus improving and reinforcing the EU organic farming standards and import and inspection requirements.*



The **main objective** of the European logo is to make organic products easier to be identified by the consumers. Furthermore it gives a visual identity to the organic farming sector and thus contributes to ensure overall coherence and a proper functioning of the internal market in this field.

### **Food Quality Standards**

The standards provide requirements, specifications, guidelines or characteristics that can

be used consistently to ensure that materials, products, processes and services are fit for their purpose.



The standards are adopted by European bodies, which have the task of elaborating technical specifications that meet the essential requirements laid down by the technical harmonisation Directives, while ensuring that those standards are the result of agreement of all parties concerned: producers, users, consumers, administrations, etc.

### **Standardisation and certification in the European Union**

#### **HACCP**

Hazard Analysis and Critical Control Point (HACCP) system adopted by the **Codex Alimentarius Commission**.

- ♦ The Codex Alimentarius is a set of food standards, definitions and criteria applicable to food fields and food microbiology and hygiene.
- ♦ Was created in 1963 by FAO (Food and Agriculture Organization) and WHO (World Health Organization) to develop food standards
- ♦ It also defines the HACCP method.
- ♦ It has become an international reference with authority over the whole food industry,

from producers to consumers. Its impact is important for protecting consumer health.

### **HACCP - Hazard Analysis and Critical Control Points**

- ◆ Hazard – biological, chemical or physical
- ◆ Analyse – event probability, consequences, possible control
- ◆ Critical – which factors, what are the critical parameters
- ◆ Control – monitoring and impact of hazards
- ◆ Point - activity, procedure, place

The HACCP system, which is science based and systematic, identifies specific hazards and measures for their control to ensure the safety of food. HACCP is a tool to assess hazards and establish control systems that focus on prevention rather than relying mainly on end-product testing. Any HACCP system is capable of accommodating change, such as advances in equipment design, processing procedures or technological developments.

**HACCP can be applied** throughout the food chain from primary production to final consumption and its implementation should be guided by scientific evidence of risks to human health. Besides enhancing food safety, implementation of HACCP can provide other significant benefits. In addition, the application of HACCP systems can aid inspection by regulatory authorities and

promote international trade by increasing buyer confidence in food safety.

### **Food industry branches that are requiring HACCP system:**

- ◆ Production, processing and food packaging
- ◆ Storage, transport and distribution of food
- ◆ Preparation and distribution of food to hospitals, kindergartens, hotels, restaurants...

### ***GHP – Good Hygiene Practice***


GHP is described and defined by the Codex Alimentarius Code of Principles of Food Hygiene CAC / RCP Kor.3 (1997), as amended in 1999. GHP regulations address issues related to record-keeping, staff training, public hygiene, verification (control) equipment and investigate (revue) the clamor.

### **Food Business Operators should apply the hygienic practices to:**

- ◆ Ensure that food is safe and suitable for consumption;
- ◆ Ensure that consumers have clear and easily understandable information, through labeling and other appropriate means, to enable them to protect their food from contamination and growth or survival of pathogens to create in food by storage, processing and preparation in an appropriate manner;

- ◆ Have confidence in food trading.

### *The five key principles of food hygiene according to WHO are:*

- ◆ Prevent contaminating food with pathogens spreading from people, pets and pests; 
- ◆ Separate raw and cooked foods to prevent contaminating the cooked food;
- ◆ Cook food for the appropriate length of time and at the appropriate temperature to kill pathogens;
- ◆ Store food at the proper temperature;
- ◆ Use safe water and raw materials.

The EU Parliament is informed on food safety matters by the European Food Safety Authority (EFSA). Individual member states may also have other legislation and controls in respect of food safety, provided that they do not prevent trade with the other states, and can differ considerably in their internal structures and approaches to the regulatory control of food safety.

### *Geographical indications and traditional specialties<sup>4</sup>*

Foods and products of “special meaning and history” – traditional, regional products



EU law lays down stringent requirements guaranteeing the standards of all European products. In addition, **EU quality schemes** identify products and foodstuffs farmed and produced to exacting specifications.

The only EU enforced quality assurance schemes in the food industry are the certification of regional quality assurance in the European food industry (Council Regulations (EEC) 2081/92 and (EEC) 2082/92) and the framework for organic farming (Council Regulation (EEC) 2092/91) which was analysed in a previous section of this Unit.

The main aim of quality assurance and certification schemes is to differentiate the included products from the rest of the production to obtain an increased market price as well as a marketing advantage.

In 1993 EU legislation came into force which provides for a system for the protection of food names on a **geographical** or **traditional recipe** basis. The geographical indications and



traditional specialities highlight regional and traditional foods whose authenticity and origin can be guaranteed.

*According to EU regulations there are three ways of products protection:*



### Protected Designation of Origin (PDO)

PDO - protected designation of origin is the name of an area, a specific place or, in exceptional cases, the name of a country, used as a designation for an agricultural product or a foodstuff,

- ◆ which comes from such an area, place or country,
- ◆ whose quality or properties are significantly or exclusively determined by the geographical environment, including natural and human factors,
- ◆ whose production, processing **and** preparation takes place within the

determined geographical area.

To receive the PDO status, the entire product must be traditionally and ENTIRELY manufactured (prepared, processed AND produced) within the specific region and thus acquire unique properties.



### Protected Geographical Indication (PGI)

PGI - protected geographical indication is the name of an area, a specific place or, in exceptional cases, the name of a country, used as a description of an agricultural product or a foodstuff,

- ◆ which comes from such an area, place or country,
- ◆ which has a specific quality, reputation or other characteristic property, attributable to its geographical origin,
- ◆ whose production, processing or preparation takes place within the determined geographical area.

## Module 3

To receive the PGI status, the product must be traditionally and at least PARTIALLY manufactured (prepared, processed OR produced) within the specific region and thus acquire unique properties.



### Traditional Speciality Guaranteed (TSG)

TSG - traditional speciality guaranteed is a trademark for an agricultural product or foodstuff, which has a certain feature or a set of features, setting it clearly apart from other similar products or foodstuffs belonging to the same category.

The product or foodstuff must be manufactured using traditional ingredients or must be characteristic for its traditional composition, production process, or processing reflecting a traditional type of manufacturing or processing.

To receive a TSG status, the product does not have to be manufactured in a specific geographically delimited area; it is sufficient

that it be **traditional** and different from other similar products.

Only food items or dishes that are traditionally made in a specific EU region, and have at least a 25-year history of the recipe being handed down from generation to generation, can apply for the TSG trademark.

About 40 traditional food items or dishes have obtained the TSG trademark, with the most well-known being “Mozzarella” cheese and “Pizza Napoletana” in Italy, “Jamon Serrano” ham in Spain, as well as Belgian beer “Kriek.”

### Examples of registered foods



Cornish Pasty



Mozzarella



Oscypek



Tarta de Santiago

no agreement is made, the final decision is taken by EC.

Each country according to EU legislation defines National Requirements for food quality schemes, their implementation, operation, monitoring and control arrangements.

## Registration of a product at EU Commission

- ♦ Ministry sends applications of nationally protected products to European Commission.
- ♦ EU Commission reviews applications
- ♦ EU Commission publishes summary of application in Official Journal of the European Union. All countries can dispute the application during the three months period.
- ♦ If there are no objections, EU Commission publishes registration in Official Journal of the European Union.
- ♦ If there are objections, EU Commission calls the countries to solve the dispute. If



## Case study 1

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As one of the Traditional Speciality Guaranteed (TSG) products of Latvia in **EU quality schemes** is recognized:

### **Salināta Rye Bread (Salināta rudzu maize)**



Latvian rye and barley are the oldest cereals in its latitudes, because they suited to the northern environment.



Among the dishes, the Latvians have always brought the rye bread on the table on all occasions for celebration and certainly occupies a place of honor. Rye bread is included in the Latvian cultural canons, which is the greatest and most remarkable works of art and cultural set of values and reflect the nation's all-time most significant achievements in culture.

With the word "salinātā bread" means of coarse rye flour bread, which is prepared such: the part of the flour pours into a hot water, in other words - it is "salināta". More specific this product does that dough is prepared into a wooden vats, during the preparation process is added cumin and sugar. The bread loaf is elongated shape with a smooth and shiny crust that is smeared with starch paste.

"Salinātas" rye bread loaves are formed 1 kg, 1.5 kg, 2 kg or greater.

The process of registration:

On 11 October 2012 was sent to the European Commission the application in order to include "Salināto Rye Bread" into the Traditional Specialties Guaranteed Register.

On January 8, 2014 was adopted in the EC Regulation (EU) No. 12/2014, the name of the entry register of traditional specialties guaranteed (Salināta Rye Bread (TSG)).

## Case Study 2

National food quality scheme is a scheme in which all stages of the food chain can be traced, the product manufacturer is certified according to national food quality schemes and the requirements of the final product is in retail or direct delivery of the final consumer.

National food quality schemes in Latvia recognized with:

### 1. A Quality label “Green Spoon”.



“Green Spoon” is a quality sign for the promotion of Latvian agriculture products. Products are marked with this label only if they comply with the following quality standard: at least 75% of the raw materials used was obtained in Latvia (one EU Member State or region, the claim that the scheme referred to as the country of origin or region). Now the National food quality scheme is covering 62 producers and 174 products.

In order to receive label “Green Spoon” entrepreneurs get advice on the services available

in any Food and Veterinary Administration (PVD), afterwards submit an application at any PVD administration throughout Latvia. After checking, acceptance, evaluation and testing of the results of the analysis by the PVD Inspector, the decision is made for assigning or not the quality label.

More information: [www.karotite.lv](http://www.karotite.lv)

### 2. A Quality label “Bordeaux spoon”.



A quality sign for the promotion of the food-stuffs produced in Latvia, but from imported materials (e.g. chocolate, cocoa production which has been imported from Ghana, but the all manufacturing process is done in Latvia).

<http://likumi.lv/doc.php?id=268347>



## Module 3

### Exercise/activities

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From your knowledge of this section, please provide brief responses to each of the following questions:



1. Explain briefly the meaning of Organic Farming.
2. What are the Food Quality Standards in EU?
3. What do you think is meant by the quality of the food product?
4. How do the Consumers judge the Food Quality?
5. Do you know the Food Quality Schemes in your country?
6. Are you familiar with the food products, which are protected by Designation of Origin (PDO), protected by Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG)? If yes, do you know what is needed to receive these status/schemes, respectively?

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# UNIT 3.10: Towards Ecoagriculture

Authors: Petros Kosmas

## Learning objectives/outcomes

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This section is intended to help the readers to use all the knowledge that they will accumulate from Unit 11: to address complex real life issues related to sustainable Ecoagriculture, and be linked to real life practitioners in the field.



## Estimated duration

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The estimated learning duration for this unit is 90 minutes.



## Summary

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Unit 11 starts by providing a background and context for Ecoagriculture. The main chapters combine theory with general approaches and information for eco-friendly cultivation practices.

The ultimate objective of Unit 11 is the learner (farmer) to fully understand that his/her production to be economical, competitive and sustainable should be ecological. This approach is one of the basic key aspects of Smartfarmer's training program.

All parts of Unit 11 are applicable in a Pan European level.

 **EcoAgriculture** 



## Learning (reading) resources

### Defining Ecoagriculture

Agriculture is an integral part of the new complex rural landscape. Each landscape has its own social construct, and of course the territorial identity. These are the assets of a landscape.

**AGRICULTURE** in the training material includes all methods of modifying natural ecosystems, through nurturing of domesticated species of plants and animals, for the production of goods and services for human needs.

**BIODIVERSITY** consists of the diversity of life on Earth, species of animals, plants and microorganisms and the genes that contain, and the ecosystems that enhance this diversity.

**ECOAGRICULTURE** refers as a holistic approach to ecologically and socially responsible land use, represents a vision of rural communities managing their landscape and resources to jointly achieve three goals:

- ◆ Enhance rural livelihoods;
- ◆ Conserve or enhance biodiversity and ecosystem services;
- ◆ Develop more sustainable and productive agricultural systems;

The core of this ecological-based farming is ensuring that business or agricultural activity is consistent with the natural functions of ecosystems.



Thus, farmers will no longer depend on costly chemicals and artificial pest control.

The term "eco-agriculture" was coined by Charles Walters, economist, author, editor, publisher, and founder of Acres Magazine in 1970 to unify under one umbrella the concepts of "ecological" and "economical" in the belief that unless agriculture was ecological it could not be economical.

*"To be economical agriculture, must be ecological."*

Eco-agriculture is both a conservation strategy and a rural development strategy.

### *The ecological agriculture as a key to competitiveness*

The main concern of stakeholders representing typically innovative agricultural operations is to increase agricultural productivity and profits, despite the conservation of biodiversity (Walters and Holling, 1984).

Antle and Pingali (1994) showed that pesticide use had a very negative effect on farmer health, that farmer health had a positive effect on productivity, and that there were likely

to be social gains from a reduction in insecticide use in Philippine rice production.

Nowadays, farmers should be targeted on both **economic and environmental performance** of the agricultural value of their holdings. Main objectives of this direction is to try to optimize the management of natural resources, enhance the resilience of farms, and encourage the diversification of agricultural products and biodiversity.



The implementation of the new Common Agricultural Policy (CAP) at European level is in this direction, so it can be "effective for the environment, feasible for farmers, and acceptable to society. This 'greening' of CAP, with 30% of direct payments to farmers (Pillar 1), and 30% of payments for rural development (Pillar 2) used as a reward and incentive for ecoagricultural practices".

**Integrated Ecoagriculture** approaches seek to jointly achieve -at a landscape scale- three critical elements:

- ♦ Enhanced rural livelihood;
- ♦ More sustainable agricultural productive systems (crops, livestock, forests, fisheries); and
- ♦ Protected or enhanced biodiversity, including genetic resources, ecological communi-

ties, ecosystem services, wild flora and fauna.

Making ecoagriculture work requires a favorable institutional environment, suitable financing and good dissemination of information (Mishra, 2013). According to Mishra (2013), *"to boost real agriculture development, it needs to develop biodiversity reserves that"*:

- ♦ Benefit local farming communities;
- ♦ Develop habitat networks in non-farmed areas;
- ♦ Reduce land conversion to agriculture by increasing farm productivity;
- ♦ Minimize agricultural pollution;
- ♦ Modify management of soil;
- ♦ Modify farm systems to mimic natural ecosystems.

### **Sustainable Agriculture**

Sustainable agriculture is a complex issue associated with producing food, while maintaining the biophysical resources including soil, water and biota with no adverse impacts on the wider environment.



It should:

- ♦ Maintain or improve the production of clean food;

- ♦ Maintain or improve the quality of landscapes, which includes soils, water, biota and aesthetics;
- ♦ Have minimal impact on the wide environment;
- ♦ Be acceptable to society.

### *Concerns of Eco-friendly sustainable agriculture*

The **Agenda 21** for eco-friendly cultivation practices includes:

#### **Water quality and quantity concerns**

Issues here include leaching of nutrients and pesticides, water extraction and drainage and flooding. Contamination of both ground and surface waters caused by high levels of production and use of manure and chemical fertilisers is a serious problem, particularly in areas of intensive livestock or specialised crop production.

#### **Air quality concerns**

The issues here are emissions of ammonia and greenhouse gases. At EU level for example, agriculture is responsible for about 8% of total greenhouse gas emissions but due to the pastoral nature of Irish farming, the proportion here rises to 30%.

#### **Biodiversity concerns**

Issues include genetic, species and ecosystem diversity. The intensification of agriculture has led to widespread reduction of species and habitats.

#### **Landscape concerns**

The marginalisation of agricultural land can lead to its abandonment if farming ceases to be viable. Alternatively, intensification of agriculture can lead to the loss of important landscape features such as hedges and ponds, the enlargement of fields and the replacement of traditional farm buildings with industrial structures.

#### **Soil erosion concerns**

Overgrazing particularly in mountain areas has led to the erosion of vegetation cover with the consequent loss of soil, the silting of rivers, etc.

#### **Food safety and animal welfare concern**

There is concern about the consequences for the quality and safety of the food supply of the increasing use of pesticides and drugs, as well as the consequences of introducing genetically-modified organisms.

### *Eco-friendly approaches*

Mishra's eco-friendly approaches (Mishra, 2013) are as:

### A. Organic farming

Organic farming is a production system, which avoids or largely excludes the use of synthetically compounded fertilizers, pesticides, growth regulators, and livestock feed additives. To the maximum extent feasible, organic farming system rely upon crop rotations, crop residues, animal manures, green manures, off-farm organic wastes, mechanical cultivation, mineral-bearing rocks, and aspects of biological pest control to maintain soil productivity, to supply plant nutrients, and to control insects, weeds, and other pests.



*Nature will always be there to lend a hand.*

### B. Biological farming

Biological farming allows the use of selected chemical fertilizers (avoiding disruptive materials such as anhydrous ammonia and potassium chloride) and adopts low-input approaches to use of herbicides and insecticides.

### C. Nature farming

Nature Farming parallels organic farming in many ways but includes special emphasis on soil health through composts rather than organic fertilizers, when possible.

In addition to the above **methods-based approaches** to sustainable farming, regenerative agriculture and permaculture are widely rec-

ognized. However, these latter systems, like sustainable agriculture, are more **conceptually oriented** than methods-based.

### D. Regenerative Agriculture

In regenerative agriculture bunds on nature's own inherent capacity to cope with pests, enhance soil fertility, and increase productivity. It implies a continuing ability to recreate the resources that the system requires. In practice, regenerative agriculture uses low-input and organic farming systems as a framework to achieve these goals.

### E. Permaculture

Permaculture is concerned with designing ecological human habitats and food production systems, and follows specific guidelines and principles in the design of these systems.

Remember *"To be economical agriculture, must be ecological..."*



## Case Study 1

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### *Ecoagriculture: An Ecological Model for Agriculture in France*

In France, the new draft law for agriculture, food and forestry goes beyond greening. It promotes the transition to an ecological model of agriculture. In future, farmers will have to meet the twin objectives of economic competitiveness and environmental performance.

It is expected that 50 per cent of farms will be so transformed over the next 10 years. As well as improving economic performance, this ecological model of agriculture (agro-ecology) seeks to optimize the management of natural resources, strengthen the resilience of farms, and encourage diversification and biodiversity.

Economic and Environmental Interest Groups (GIEE) will be created to accompany this transformation. These groups bring together farmers, researchers, advisors and others to make agriculture more innovative, competitive and ecological. By creating such groups, farmers will benefit from increases in agricultural support payments.

This new law implies a change in strategic priorities for investment support. Future priorities could include incentives for:

- ♦ reducing or optimizing the consumption of farm inputs,
- ♦ management of manure and slurry,
- ♦ improving self-sufficiency on the farm and diversification of production systems,
- ♦ enhancing organic nitrogen, particularly through anaerobic digestion,
- ♦ improving the health status of livestock,
- ♦ production of renewable energy, and
- ♦ optimisation of working conditions on livestock farms.

*Adapted from: King D., (2014), Transitional to Eco-agriculture in Europe, Country Side, Vol. 149, pp. 2-3.*

## Case Study 2

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### *A Growing Movement for Ecoagriculture*

“We believe that mobilizing a movement of diverse stakeholders inspired and committed to ecoagriculture and the improvement of rural livelihoods together with preservation and restoration of ecosystem services will build synergies and achieve globally significant benefits for food security, human health and nutrition, poverty alleviation and environmental sustainability.”



*Nairobi Declaration on Ecoagriculture, 1 October 2004*

Ecoagriculture Partners, an international NGO, was formed to catalyze strategic connections, dialogue and joint action among key actors at local, national and international levels whose work is essential to develop and scale up Ecoagriculture systems. These include: community-based organizations, farmers' organizations, conservation and agricultural NGO's, international research organizations, Universities, private sector companies, inter-governmental organizations and public agencies.

The goal of Ecoagriculture Partners is to lay the institutional foundations for scaling up Ecoagriculture. This work program responds to recommendations made by Ecoagriculture innovators from 46 countries who participated in the International Ecoagriculture Conference and Practitioners' Fair in Nairobi, Kenya in 2004.

Collaborative activities aim to enhance understanding of Ecoagriculture through research and documenting practice; build the capacity of Ecoagriculture innovators by linking communities and institutions worldwide; and promote strategic institutional, policy and market changes at national and international levels that support Ecoagriculture.

Ecoagriculture Partners approaches have received growing recognition from the agriculture, conservation and rural development sectors, and have been endorsed by a number of international policy processes and dialogues as a valuable strategy for achieving the Millennium Development Goals:

- ◆ Agricultural think-tank Agrculteurs de France (SAF), (2013);
- ◆ United Nations Millennium Project (Task Forces on Hunger, Water & Sanitation, Environment, 2005);
- ◆ Millennium Ecosystem Assessment (2005);
- ◆ Nairobi Declaration on Ecoagriculture (2004);
- ◆ Community Shamba Recommendations on Mobilizing Ecoagriculture (Nairobi, 2004);
- ◆ International Biodiversity Conference: Science and Governance (Paris, 2005);
- ◆ 1st World Congress of Agroforestry (Florida, 2004);
- ◆ Community Commons Declaration (New York, 2005).

*Adapted from: Jeffrey A., et. al. (2001), Common ground, Common future: How ecoagriculture can help feed the world and save wild biodiversity, The World Conservation Union (IUCN),*  
[www.ecoagriculturepartners.org/reports.htm](http://www.ecoagriculturepartners.org/reports.htm)



## Case Study 3

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### ***RIVERLAND DAIRY BIO FARM LTD***

Established in 2004, Riverland Dairy Bio Farm is the first of its kind in Cyprus to breed, using organic feeds and practices, sheep and goats for producing certified organic milk based products. The farm is currently based at Psimolofou village, close to Nicosia and its organic pasture land occupies an approved area of more than 25 hectares around the main farm. Riverland Farm is certified organic by an independent certification body and conforms to all EU legislation requirements (regulations 2092/91 and 1840/99). This means that the animals are grazed in certified organic land and their dietary needs are supplemented by certified organic, GMO free, feed pellets. Animal health and welfare is achieved by applying strict hygienic practices at the farm level which include the use of modern technology equipment and a low animal population per m<sup>2</sup> of grazing land. Hence, preventive actions are central in practicing organic farming and minimise the need for medical intervention. A combination of factors ensures that the farm can consistently deliver organic milk and meat of the highest quality, free from chemical and antibiotic substances.

Milk processing is contracted out to a regional cheese processor and logistics are well monitored so that the organic milk does not

mix with conventional milk supplies. The whole production and processing chain is inspected by an independent certification body, approved by the EU which carries frequent checks from the farm premises to the end product.

The farm is owned and run by Mr Vasilis, an experienced vet characterised by his young and energetic enthusiasm for promoting organic practices beyond his farm. Despite many setbacks, he remains a devoted scientist in training other farmers in the practices of organic farming and teaching the long term benefits that can be offered.

Riverland Bio Farm along with his contracted processor produces a range of traditional milk products, supplying the local market through a chain of organic retail shops. With a gradual expansion of the farm output, the company has recently embarked in the export trade, beginning with the highly nutritious organic kefir shipped to the Greek market in substantial quantities. Additionally, the farm has started a small scale activity of organic poultry, producing certified organic eggs of the highest quality.

### ***Commitment to healthy food production in a sustainable way***

Biofarm is committed to the production of clean nutritious traditional milk based food using organic farming principles, which ac-

according to the company "are based on the consideration for the health and welfare of consumers, the animals in their care, and the environment we all live in."

Adapted from:

<http://www.cyprusfoodndrinks.com>

## Exercise/activities

From your knowledge of this section, please provide brief responses to each of the following questions:



1. Define briefly the meaning of Ecoagriculture.
2. Can Ecoagriculture convert into a lever to enhance the competitiveness of the agricultural sector?
3. The term "eco-agriculture" was coined by Charles Walters, economist, author, editor, publisher, and founder of Acres Magazine in 1970 to unify under one umbrella the concepts of "ecological" and "economical" in the belief that *"unless agriculture is ecological it could not be economical"*. Do you support Walter's concept. Name and describe the reasons why.
4. How can ecological agriculture fail its purpose? In your opinion which are the directions for the effectiveness of an ecoagricultural system?

5. Name and describe all eco-friendly cultivation practices that are included in the Agenda 21.
6. Sustainable agriculture is a complex issue associated with producing food, while maintaining the biophysical resources including soil, water and biota with no adverse impacts on the wider environment. In your opinion, how can this complex issue be accepted by the agricultural society?

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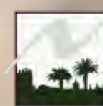
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