Participant Guarantee System

Module Two Running a Business

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PARDI

This Handbook has been prepared for use by Participant Guarantee System (PGS) Farmers Groups in association with the Pacific Agribusiness Research Initiative (PARDI) and in particular with the PARDI PGS Project listed below, and farmers in the Sigatoka Valley and Koronivia area, Fiji.

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PGS MODULE TWO RUNNING A BUSINESS

What is a Business?

A business is an organization which is engaged in the sale of goods or services or both, for a profit.

Management of a business is about making decisions which will make a profit. We are trying to make the best long- term profit.

The key point for our PGS Groups to understand is that business is intended to be for a profit. While businesses can and sometimes do make a loss, they cannot continue to operate if losses continue, and for our PGS Groups, we intend to do everything possible to make a profit. That is a successful business.

What is Involved in Running a Successful Business?

1. Management

We need people to organise. They will allocate resources, work out what needs to be done, and get it done, or make sure that someone gets it done.

We need people to lead. To take responsibility and and make decisions, and tell everyone what is needed and get their assistance to make sure it happens. There is a need for an entrepreneur to make decisions that are good for the business. This takes skill, experience and clear judgement of the situation and an understanding of the business environment.

We need people to take control. The control of the PGS Group is really in the hands of the Members, but they will elect an Executive to make things happen. In the end, it will be up to the President to take control. His leadership is important.

We need people to plan. The Business Plan is an important thing for every business. Every business will have a plan, even if it is in the businessman's head, and is not written down. But it is best for an PGS Group to have a clear, brief Business Plan in writing, complete with a budget that shows how much money we will need to operate, and how much we expect to make (profit).

We need people to monitor. This doesn't mean writing reports, it means keeping an eye on activities and progress, and anticipating problems before they become serious, and speaking with decision makers to take action when problems are anticipated.

2. Money

We need working capital to pay for operating costs (rent, transport), and to buy the things the PGS Group uses (boxes and fertilizer for resale) and assets like an office table, and other assets like a protective structure (plastic shed).

Financial management is the area where many marketing organisations fail, and we must be sure that it will be done carefully and well, with the control being exercised by the members. Community Audits must be conducted by the Members with the Executive regularly to help to avoid problems with financial management.

And when we make profits, we need to build up reserves to be used as working capital. This can be the capital that has been provided by the Member's shares in the first instance. But it is also needed for expansion, to buy things that the PGS Group needs like grading equipment, and to allow for bulk purchase of things like fertilizer which can be resold in small quantities for much lower prices. This money comes from the contribution of 10% of the sale price of Members' vegetables.

3. Role of Executive

The next Module – Running the PGS Group Company – will give detail of the rights and responsibilities of the Executive of the PGS Group. The Executive includes the Directors, the President, Treasurer and Secretary. They undertake the management of the PGS Group.

4. The Business Plan (Also covered in the Handbook)

Support for the Development of the Business Plan

The Business Plan should be as short as possible and as long as needed. For a very simple venture, some of the sections suggested below might not be needed. However, never cut short on the section about economic analysis and Financial Plan!

Content of a Business Plan

1. **General description of the proposed business as an overview –** use the description of the business that was written in the Business Formulation Workshop and add goal and long-term vision and a strategy.
2. **Resources** - firstly determine what resources are needed? How and where, at what price and under what conditions will the Group attain them?
   - Infrastructure (buildings, land, animals)
   - Inputs (materials, tools), labour (own, hired)
   - Know-how (knowledge, skills and attitudes)
   - Money (working capital).
3. **Production Plan** and **Cost of Production** – What does the Group intend to produce and when?

   The Group will need to develop a Planting Calendar or Planting Schedule – If every farmer plants all their land at the same time, we will have too much production to sell. So we need to plan how many beds or plants will be planted by each farmer and what size each farmer will plant intervals such as each fortnight. This will help prevent undersupply and oversupply.
   - How much does each farmer members produce? When is the harvest that they will sell? And when will each one plant and how much? We need a detailed plan for the year, showing the overlapping planting and production schedule for each member. This should be done as a barchart.
   - What is the expected **cost of production**?

     Cost of Production = *Variable Costs plus Fixed Costs:*
   - *Variable Costs* (also called unit-level costs): costs that vary with the amount of produce or the number of units produced. In the agricultural production in general all of them are directly due to the production of the given product. For example: inputs (seed, fertilizer, fungicide, boxes) and hired labor.
   - *Fixed Costs* (also called *Indirect Costs*): costs that are independent of the quantity produced or that are not exclusively used for the production of the given product or/and are not paid for in monetary terms. For example: machinery depreciation; own labor (not always); interest payments.
4. **Marketing Plan** –This answers the questions how, where and to whom the group intends to sell its product and at what price.
   - Market analysis (which market has the best demand? How will it develop? Is/will there be competition? What potential for adding value – e.g. packaging, drying). And for our PGS Groups, can we sell directly to Supermarkets in Sigatoka or Suva?
   - Product (what, in what form and how packaged).
   - Place (where is the product sold at present/in the future? What are transport costs to get there? Is there a need for sales people?).
   - Price (expected highest and lowest price)
   - Promotion (how to advertise, if needed).
5. **Management/Organisation Plan** – Who will manage the business? There are numerous skills required, i.e. records, accounts, marketing contracts. Are skills for production and management available within the Group Members or do we need to get business support service (BSS) providers? What kind of development of the business is foreseen in the future?
6. **Financial Plan/Budget** – How much money/ funds does the business need to start up and to run, where does the PGS Group get it from? (Members' contributions - individual savings?) On what conditions? How is the liquidity of the business?
   - Cash-flow budget – how much cash do we expect to have at hand at every month of the year. How much is needed? Is this enough to pay the bills/ expenditures in the respective month/period of the year? How much working capital do we need to be able to do so?
   - Capital investments needed for buildings, equipment, etc. (including one-time investments and reserve savings needed to replace equipment etc. after some time)?

7. **Calculation of Net Profit** of proposed business venture. What is a realistic surplus that can be expected? To calculate the profit/loss, use the following table as a guide:

Total income	Variable/ Direct costs
	Fixed/Indirect costs
	Surplus

a). **Gross Profit or Loss?** = Total income – cost of production* – other costs**

* *Cost of Production* = variable costs + fixed costs

***Other costs* e.g. for processing and packaging (if done), transport/travel to market, taxes and administration (Note: these costs can be of direct or indirect nature and can be variable or fixed. Some of them are sometimes included in the production costs. It does not matter so much where they are included, but it is important that they are included).

We will do an example of a Business Plan for our case study during training.

5. Stock Control

As well as the control of the physical stock by counting the numbers of boxes, which is covered in Module 1, there is the management aspect of ensuring that the stock is kept safely under lock and key, and is kept free from damage by insects and rats. The Executive must see to it that there is adequate control of these pests during the time that the stock is under their control, from the time of handover from the Member, until it is delivered to market/sales point.

The aspects of packing and transport will be covered in the Post Harvest Standards - Module Four.

6. Capacity Development

There is an important task to develop skills and know-how in the PGS Group. The members will not have knowledge for example, in how to run their meetings and make decisions that affect their business. These matters must be taught by an experienced and well trained BSS Provider.

The PGS Group Manual contains a number of sections of information that is aimed to provide PGS Group members and Executive with skills and know-how. Every member of the PGS Group team, both private BSS providers and Project Staff should consult the Manual for reference material on capacity development. The Training Modules are also very helpful.

The areas that should be given training in are:

1. Business Operation.
2. Financial Management and Bookkeeping.
3. Running the PGS Farmers Group.
4. Stock Control.
5. Marketing.
6. Post Harvest.

7. Conclusion

For a business to be successful, we need the elements above, <u>and</u> we need the full commitment of each of the members. We also need to ensure honesty and integrity, and fair dealings in all the business undertakings of the PGS Group. We wish the PGS Group great success in its endeavors!

Case Study: Business Plan for a PGS Group

"Nadarivatu PGS Farmers Group"

1. General Description of the Business

Objective

"The Nadarivatu PGS Farmers Group (PGS Group) is aimed at improving the money that the Members make for the sale of their vegetables by producing high-quality products for sale to the resort and other institution markets.

Please note: This information and figures are not to be taken as any indication of real information. They are artificial numbers and information for the purpose of the exercise only.

"Nadarivitu PGS Farmers Group"

Members:

The Nadarivitu PGS Farmers Group was formed in 2013 and has adopted the following as part of its Rules:

1. **Membership:** Each Member is required to pay Fj$50.00 for a membership fee to buy a share and become a Member.
2. **Capital** In addition, Members are required to pay a 10% contribution of their gross sales price, to their PGS Farmers Group for growth and build-up of working capital.

In addition, at a General Body Meeting on 30 January 2013, the PGS Farmers Group decided:

3. **Fertiliser:** The PGS Farmers Group will buy three tonnes of fertiliser (Urea) at a cost of Fj$1,200 per tonne. This will be resold at a cost of Fj$60 per bag to members. There are 20 bags in a tonne.

Romika bought 3 bags on 28 November 2013.

4. **Store/Office:** At a General meeting on 15 February 2014, it was agreed to rent the shed owned by Eli for use as a store and office for the PGS Farmers Group. The cost of rent is Fj$50 per month. It is used/rented for six months of the year, from March to August. Eli let the PGS Farmers Group use a lockable cupboard for their records, and allowed the use of a table and couple of chairs free of charge.
5. **Transport:** At the meeting on 15 February 2014, it was agreed that Khan Transport would be hired to transport this year's tomato crops to the market. The fruit will be packed in plastic crates after being carefully graded. The trucks and can carry around 80 - 120 of the 15 kg boxes of tomatoes. Each truck will cost Fj$200 for the trip to the Fijian and the Intercontinental. The farmers would share a truck with the consignments of tomatoes going to both Resorts (Fijian and Intercontinental) on the same truck. It is decided the costs would be shared equally for each kg of tomatoes, even though the Intercontinental is further away.
6. **Boxes:** The plastic crates were ordered from Suva, and 100 crates were bought and branded with the PGS and village label, for Fj$10 each (the MPI will pay 2/3rds of the cost). They will hold 15 - 20kg. Transport for the delivery of the boxes was paid on 2 March 2014 at a cost of Fj$3,000, of which the PGS had to pay $1,000.
7. **Market arrangements:** Arrangements were made with the Fijian and the Intercontinental to buy the premium tomatoes for Fj$2.00 per kg. There are strict conditions that the fruit must be delivered without damage, and must be packed in plastic crates and be of even grade, without blemishes. Payment will be made into the PGS Company bank account after the end of each month.
8. **Delivery:** The Fijian and the Intercontinental have indicated they want 140 kg delivery each Wednesday. The first delivery took place on 30 March 2014, and payment was made on 3 April 2010.
9. **Production:** For the purposes of our case study, we will assume that each Member has the same amount of fruit from each acre, and each Member will supply 20 kg each week. There will also be second grade which is sold for cash to the local middleman.

   The tomatoes are assumed to be about one-third premium grade.

The premium grade is packed in the plastic crates. No payment is made on delivery, only at the end of the month.

You can see from this that the first production of grade one from each Member's farm will be::

Name	Production	Kg	Name	Production	Boxes 8Kg
Manoa	Tomatoes	20	Joshko	Tomatoes	20
Ratu Peni	Tomatoes	20	Ramika	Tomatoes	20
Isoa	Tomatoes	20	Jone	Tomatoes	20
Savenaca	Tomatoes	20			
Tamani	Tomatoes	20			

Rules: The PGS Group was formed in 2013 and has adopted the following as part of its Rules:

I. Shares: Each Member is required to pay Fj$50 for a share to become a member.

II. Contribution: Members are required to pay a 10% contribution of their gross sales price, to their PGS Group for growth and build-up of working capital.

Inputs: The Members will bring their produce for sale through the PGS Group. The costs of production and means of growing the produce are the farmers own responsibility. But the Members will also provide assistance to the PGS Group, and the Executive (President, Secretary, Treasurer) will give their own time to their roles in the PGS Group.

Financial Inputs: The Members will each contribute money for shares and capital as mentioned in the Rules above. MPI will assist in 2014 by providing a two-thirds subsidy for inputs like seed and fertilizer and plastic crates. Members will have to find the 1/3rd contribution, but this may be paid by the PGS Group Company after sales have been made.

Know-How: The Members have had some experience in working with groups through their membership of development groups in the past. But their experience in running a business and in managing an organisation like the PGS Group is very limited and they will need assistance, particularly with operating the bookkeeping and business management. This help will be provided by the PGS Project which will provide support in 2013.

2. Production Plan:

The seasonal calendar shows that the tomatoes are usually harvested from March to September. But the PGS Groups will be encouraged to produce out-of-season crops to take advantage of the higher prices available and to spread their income longer in the year.

Production: For the purposes of our case study, we will assume the following.

1. We want to supply 100kg of premium tomatoes from each PGS Group for each week, equivalent to 400 Kg per month.
2. Production per acre averages 4 tonnes over three months, ie 1.3 tonne/acre/month.
3. First grade is only one third of the crop, i.e. we need 300 kg for 100 kg first grade for sale, equal to (300 x 4 = 1200kg per month).
4. Thus we need 1.2 tonne per PGS Group per month, almost equivalent to the production from 1 acre.
5. We will need four farmers to plant ¼ acre per month to produce 1200kg per month.
6. Tomatoes need one month from seed to seedling, one month from transplanted seedling to production, production is 25% in month one of production 50% in month two and 15 % in month three.
7. One acre requires 8000 plants. Therefore four farmers will plant 2000 plants each.
8. Since we need continuous production of at least 100kg first grade each month, we will expect a second group of four farmers will plant 2000 plants each in the second month. The planting schedule will look like the bar charts in the attached Annex 1.
9. We will expect to market excess tomatoes, and second grade, in the markets at Sigatoka and Suva. There will be quite substantial amounts.

The tomatoes will be graded and packed in plastic crates, limited to 15kg per crate to help prevent crushing. See Specifications in Module Four - Post Harvest.

3. Planned Activities:

The production will be in accordance to the Production Plan. (See Indicative Plan attached).

Planting Schedule Committee: A Committee of two of the most experienced farmers will be nominated by the Group to monitor the plantings by each Member and ensure that the right mount has been planted. If there is need to do so, they can discuss with the Executive the need to change the schedule, to bring more or less farmers in to plant their crop, or to change the schedule in some way.

4. Marketing Plan

Market Analysis: It is known that provided the tomatoes are graded into Grade 1 (perfect) and not so good (Grade 2 and reject). Grade 1 can be sold direct to the Resorts, Fijian, Outrigger, Intercontinental and others.

It is well known that the seasonal price improves considerably put of season in the months November, December, January and February. Thus we will produce tomatoes and sell them in these months.

We also plan to make use of cold stores to provide a buffer stock should there be a problem with one PGS not being able to produce enough to meet obligations due to social obligations such as weddings or funerals etc

Market arrangements: Arrangements will need to be made with the resorts for the sale of the resorts regarding, amount, price and time for delivery. This may require weekly tenders, and we will need to ease into this system. There will be strict conditions that the vegetables must be delivered without damage, and must be packed in plastic crates, and be of even grade, without blemishes.

Price: We expect to achieve a price that is higher than market prices n average, though at times, particularly when we start and until we become recognised for high quality, we may have to accept lower prices for a while. But the higher volume will mean good returns.

Production: We expect to produce 100 kg of premium tomatoes per week from each PGS Group, and we want to produce cabbages, egg plant and capsicum from three or four groups, one group for one crop.

Market Committee: We expect that there will be arrangements made for the sake of each consignment by each PGS Group in cooperation with the others, as organized by the PGS Coordinator Ms Soko. The Executive, particularly the President will make the arrangements.

Handling Payments: The Resorts will pay by cheque into the PGS Group bank accounts after the end of each month. It will be necessary to keep a close eye on this to make sure the right payments are received into the right accounts. This is one of the jobs of the treasurer in each group.

Branding: Each PGS Group will have a Brand. It is thought that the Brand may be the famous Sigatoka Horse, and the label on each plastic crate, box etc, will be that symbol together with the name eg "Nawamangi PGS Farmers Group", "Naduri PGS Farmers Group" and so on. Each crate should be given a permanent number.

The Brand should be used on all the documents and eventually all the PGS Group assets.

5. Management and Organisation Plan

Management/Organisation Plan For our PGS Group, the management will be the Executive, of the President, Secretary and Treasurer. They are the Directors of the Company who are responsible for the running of the Company. Overall decisions will be made by the GM (General Meeting – which is all members of the PGS Group), or the Annual General Meeting (AGM). The Business Plan must be prepared and passed by the Members every year.

6. Financial Plan

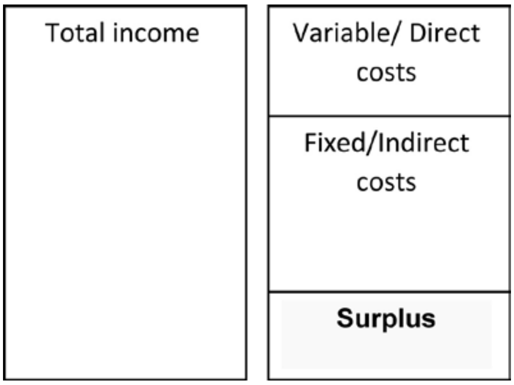
I. Financial Plan-The requirement is for a financial plan, which shows the costs and sales that are worked out in the Monthly Cash Flow Budget.

- Monthly Cash Flow Budget – There is a need to work out the costs of each activity and item that the farmers need the PGS to pay. This needs to be done month by month as the amount needed each month will be different. And the amount of money that comes in from sales also needs to be worked out.

Cash Flow												
Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Share Capital	600											
Work.												
Capital	500											
Sales	5000											
Surplus												
Costs												
Pay to Membs												
Balance												
a = Fertiliser, b = boxes (supplied as required, paid from sales), t= transport r= rent												

- Capital investments needed for buildings, equipment, etc. (including one-time investments and reserve savings needed to replace equipment etc. after some time).

II. Calculation of Net Profit of proposed business venture. What is a **realistic surplus** that can be expected? To calculate the profit/loss, use the following table as a guide:



a). Gross Surplus or Loss? = Total income – cost of production* – other costs**

* *Cost of Production* = variable costs + fixed costs

Cost of Production = direct cost + indirect costs (true for agricultural production)

***Other costs* e.g. for processing and packaging (if done), transport/travel to market, taxes and administration (Note: these costs can be of direct or indirect nature and can be variable or fixed. Some of them are sometimes included in the production costs. It does not matter so much where they are included, but it is important that they are included).

TASKS – for each participant: Business Plan

Prepare a Business Plan, using the Case Study above. Prepare:
i) The Production Plan
ii)The Marketing Plan
iii) The Management and Organisation Plan, and
iv) The Financial Plan.

Business Plan – Qereqere PGS Farmers Group

1. Description of the Business

Objective:____

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Description: ____

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2. Resources ____

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3. Production Plan: (See indicative Plan below) ______________________

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4. Planned Activities ____

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5. Marketing Plan: ____

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6. Management & Organisation Plan: ______________________________

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7. Financial Plan: ____

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Cash Flow

Profit Calculation: ____

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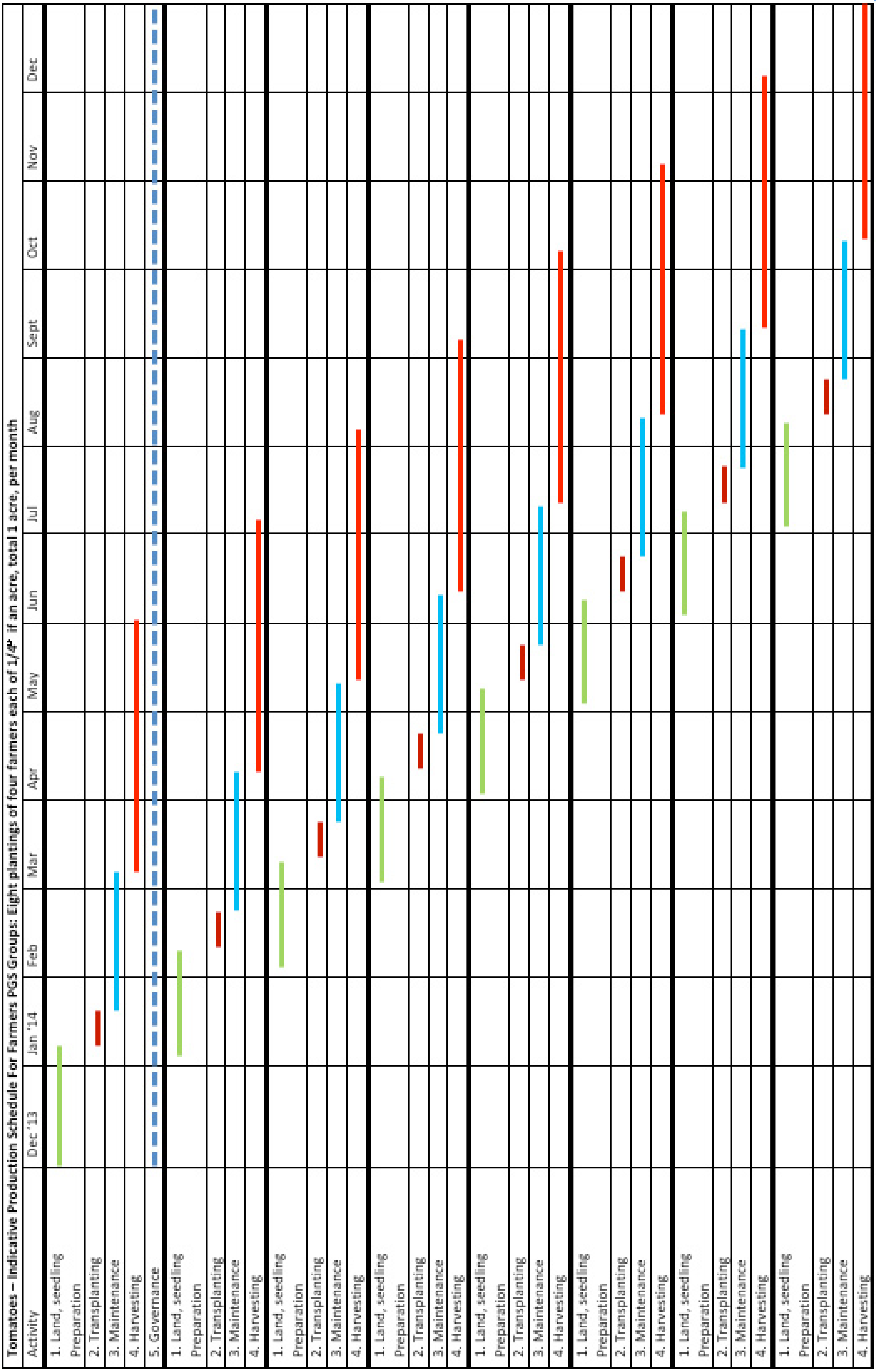
Submitted to a General Body Meeting on ……………………………..(Date)

Result: Approved/Not approved (Signed by President)… ………………………………….


Tomatoes – Indicative Production Schedule For Farmers PGS Groups: Eight plantings of four farmers each of 1/4th if an acre, total 1 acre, per month
Activity
Dec '13
Jan '14
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
5. Governance
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting
1. Land, seedling Preparation
2. Transplanting
3. Maintenance
4. Harvesting

NOTES – TOMATOES INDICATIVE PLAN

ASSUMPTIONS

1. We want to supply 100Kg of premium tomatoes from each PGS Group for each week, equivalent to 400 Kg per month.
2. Production per acre averages 4 tonnes over 3 months, ie 1.3 tonne/acre/month.
3. But first grade is only one third of the crop ie we need 300 Kg for 100 kg first grade for sale, equal to (300 x 4 = 1200kg per month)
4. Thus we need 1.2 tonne per PGS Group per month, almost equivalent to the production from 1 acre.
5. We will need 4 farmers to plant ¼ acre per month to produce 1200kg per month.
6. Tomatoes need 1 month from seed to seedling, 1 month from transplanted seedling to production, production is 25% in month 1 of production 50% in month 2 and 15 % in month 3. However we will assume production is 1200 kg per month, and deal with any actual excess by marketing elsewhere.
7. One acre requires 8000 plants. Therefore four farmers will plant 2000 plants each.
8. Since we need continuous production of at least 100kg first grade each month, we will expect a second group of four farmers will plant 2000 plants each in the second month.
9. We will expect to market excess tomatoes, and second grade, in the markets at Sigatoka and Suva. There will be quite substantial amounts. This excess production will begin after 1 month of harvest, as the second crop comes in. Excess and grade 2 etc will be sold in the open market.
10. Stop transplanting regular crop in September. After that we are heading into "out of season" crop, but the same planting schedule will continue..

1.	**Land, seedling Preparation**	Training farmers, first sowing requires preparation of Land, seedling. Needs: Potting mix (medium), fungicide, seedling trays. Contractual arrangements will be needed for first sales. Probably tenders with Resorts will be needed every week.
2.	**Transplanting**	Production plot land preparation, beds, training on trellises and establishment. Need: trellises (bamboo), fertiliser.
3.	**Maintenance**	Weed control, fungus disease and pest control. Needs: Knapsack sprayers, fungicide, pesticide.
4.	**Harvest**	Post harvest training, grading, contract with resort. Needs: Branding, plastic crates, cold room arrangements, transport.
5.	**Governance**	Bookkeeping and financial control (bank accts), stock control, sales and cost recording, payments to farmers, community audits, Company meetings, AGM, records of meetings, business planning, budgets and savings for cold room, paying off MPI subsidy etc

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