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Supporting Egypt's Processed Foods Export Industry

Marketing Your Agricultural Product

The Marketing Toolbox

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AGRICULTURE-LED EXPORT BUSINESSES (ALEB)

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THE MARKETING TOOL BOX

Marketing Your Agricultural Product
From
"Managing Your Agricultural Business - A Primer to Understanding and Growing Your Business"
By

Anderson Associates International
Bakersfield, CA USA

The SOS/BAM Model
Article I in a Series of V

- Situation Analysis
- Objective
- Strategies
- Budget
- Action-Plan
- Measurement

A simple structure for developing a marketing plan is the SOS/BAM model. This structure, when used properly, will give you an operational tool that is indispensable and functional. It will assist you in reaching your marketing objectives.

Situation Analysis
This is the most important part of your marketing planning and requires careful thought. You analyze where you are right now - your situation. You look at market potential, customer needs, your product's and your operation's strengths and weaknesses compared to your neighbor's and industry needs. You talk to industry representatives, observe operations that are successful, consider articles and journals you have read that tell about trends in your area of business. Analyze your market for potential niches. Ask your employees what they think your operation's strengths and weaknesses are. You might be surprised at what they say.

You do not need to accomplish this analysis in one sitting. It may take a few periods of writing separated by intervals of thinking and information gathering. An almost magical process begins to take place when you do a situation analysis. New ideas emerge. You will discover creativity in yourself and your employees you may never known were there. One tool for accomplishing this situational analysis is the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis.

Note: For additional information on SWOT analyses, see the Export Strategic Planning Process Toolbox, ALEB, August 1999.

Objective
The Objective section is very simple. You put down on paper specific, measurable objectives you would like to achieve with your operation. You may want to increase the number of customers, or want people to be more aware of your brand name, or want a greater profit. Good objectives are measurable and have a completion date. Do not say, "I want to sell more IQF strawberries." Say, "I want to sell one tonne of IQF strawberries by 31 May." Make your objectives attainable. They should make you stretch, but not be impossible to achieve.

Submit the Surveys in final form with a Statement of Objectives. The next exercise will be to develop a strategy based on what you know about your own company, its products and your initial objectives. Discuss the following concepts in detail, relying on source material for definitive descriptions and steps to resolution. (See Figure 1., "The Four P's of the Marketing Mix, Article II" in this series).

- **Strategies** is the part of your plan where you put down ideas for increasing your business through marketing. Include:
- **Product development** - packaging, branding, warranty and service to meet the unique needs of your target market.
- **Pricing decisions** - raising your price or asking for a premium price.
- **Place or distribution decisions** - deciding whether to continue with your present buyers
- **Promotion** - advertising, personal selling, public relations and publicity, special incentives; communicating to your customers that you can satisfy their needs.

PRODUCT STRATEGY

Quality

Your most important marketing strategy is to produce the most desirable product you can. All other marketing factors – brand, advertising, public relations, distribution channels, salespeople - are useful only if your product truly satisfies the customers and is of the quality you claim it is. The old saying that began in agriculture is appropriate today; "You can't make a silk purse out of a sow's ear!"

But remember, working twelve-hour days in the factory to produce the highest quality product you can is not all there is to it. Beyond the physical features of your products, which you work so hard at perfecting, lie features that are less visible yet eagerly desired by your customers, and often neglected by producers.

Adding Value

You must differentiate what you are offering from all other products in the marketplace to show that your product will better satisfy the needs of your target market. This is called "adding value", and the more value you add to your product, the more profit you will receive. **(See Figure 2., under "Competitive Advantage, Article II" in this series).**

Some of the ways of adding value are:

- **Guarantee.** This can set your product apart. By purchasing your product, your customers have the security of knowing they have minimized their financial risk. You are selling peace of mind.
- **Information and education.** Adding this is always of high value to your customers. Information about cooking it, processing it, transporting it, handling it, storing it or using it are a few options that may apply to your product. All will add value to your product.
- Building **a close relationship** is one of the oldest and most effective means of adding value to your product. If two packages of product are the same quality, the same price and can be delivered at the same time and under the same terms, the seller who has the closest and most helpful relationship with the buyer will get the business.
- If you can **keep the product longer**, you add value. Perhaps you can dry, brine or marinate it. You may produce dried fruits and vegetables; brined strawberries; marinated artichoke hearts; smoked meats; wreaths; garlic braids, etc.

Perceptions

A product is more than its physical and functional characteristics. Your customers are not simply purchasing material items with characteristics resulting from combining soil and water, or genetics and feed. They are also purchasing a perception of more value for their money, whether it is through services, guarantees or even an image.

Brand Name

Another way to differentiate your product is by using a brand name. Many producers, both large and small, identify their products with a brand name or logo. This identification can be used on a box, on advertising, on packaging or even on the product itself. Studies show that both domestic and foreign customers prefer branded produce over unbranded. They think it is of higher quality.

PRICING

The old adage that "small businesses are price takers, not price makers" is not always true today.

If you want to receive a higher price for your product, you normally would have only two options: 1) get the government to guarantee a higher price through price supports or subsidies, or 2) add value to your product. The first alternative is difficult and does not always guarantee success (or prompt payment).

We have already discussed ways to add value to your product under product strategy. Another way to add value to your product is through taking advantage of niche markets and their significantly higher prices. Contrary to sending your product to the local market and selling it beside local competitors with the same product and same price ("price taking"), you can identify other markets where you might have comparative or competitive advantages and receive a significantly higher price.

Note: For additional information on adding value, see discussion about "differentiation" in "Competitive Advantage, Article III in this series).

Note: For more information on pricing, see "Pricing Techniques, Article IV in this series).

PLACE

Out of financial necessity, the battle cry of the innovative producer today is "Get close to your final consumer!"

Working hard is not a valid excuse for not getting involved in the marketing process. Communication and transportation today allow you to bypass middlemen. You can sell directly through co-packers, food ingredient buyers, institutional or industrial buyers, private label for supermarkets, or you can barter your product for needed goods and services. You can make contacts in Greece, East Africa, the Middle East or Western Europe by spending a few dollars on a phone call. For a relatively small investment in a fax machine, you can communicate globally for just a few pounds. And, of course, the world is moving rapidly toward electronic communication through e-mail and the Internet. Sending introductory letters, price lists, specifications, multiple files and even color copies of brochures and other collateral material by e-mail can cost you a few piasters for a local telephone call and Internet Service Provider (ISP) service charges. The Internet is a powerful, inexpensive tool and is extremely cost effective and efficient in representing your company. If communications are fast, business is fast. If business is fast, you make more money!

Bypassing traditional distribution channels is appealing. Nevertheless, remember that the sword that decapitates the middleman is two-edged. An ill-planned strategy could overlook some vital functions your middleman performs, and which you may not be able to duplicate.

PROMOTION

Promotion is what marketing is all about. You want to let customers know that you have the product with the features and benefits they need. Reaching the largest number of people in your target market for your dollar is your goal, and the method of promotion you select should be governed by this principle.

Advertising is the most visible form of marketing, but promotion also includes personal contact, public relations and publicity, direct mail and special promotional incentives.

The BAM in the model stands for:

Budget - there has to be an economic justification for implementing your plan.

Action-Plan - Calendar of events stating when you are going to start these activities.

Measurement - a means of evaluating your progress to see if you are on your way to achieving these objectives. A marketing plan is essential in the competitive market today. It is not an overwhelming task, and it yields some interesting results. Developing a marketing plan is a catalyst to new and innovative ideas. If you make the effort to begin the process, you'll find yourself thinking in directions you never before considered.

SUCCESSFUL MARKETERS

Successful marketers are more concerned with what their customers want than with what they are producing. They are listeners and questioners.

They are long-range thinkers and are willing to forego short-term profits for long-term growth and gain. They are curious about their world and are hungry to learn. Successful agrimarketers are identical in one area: they like people and they enjoy serving them. That is what marketing is all about.

ADDITIONAL RESOURCES and REFERENCES

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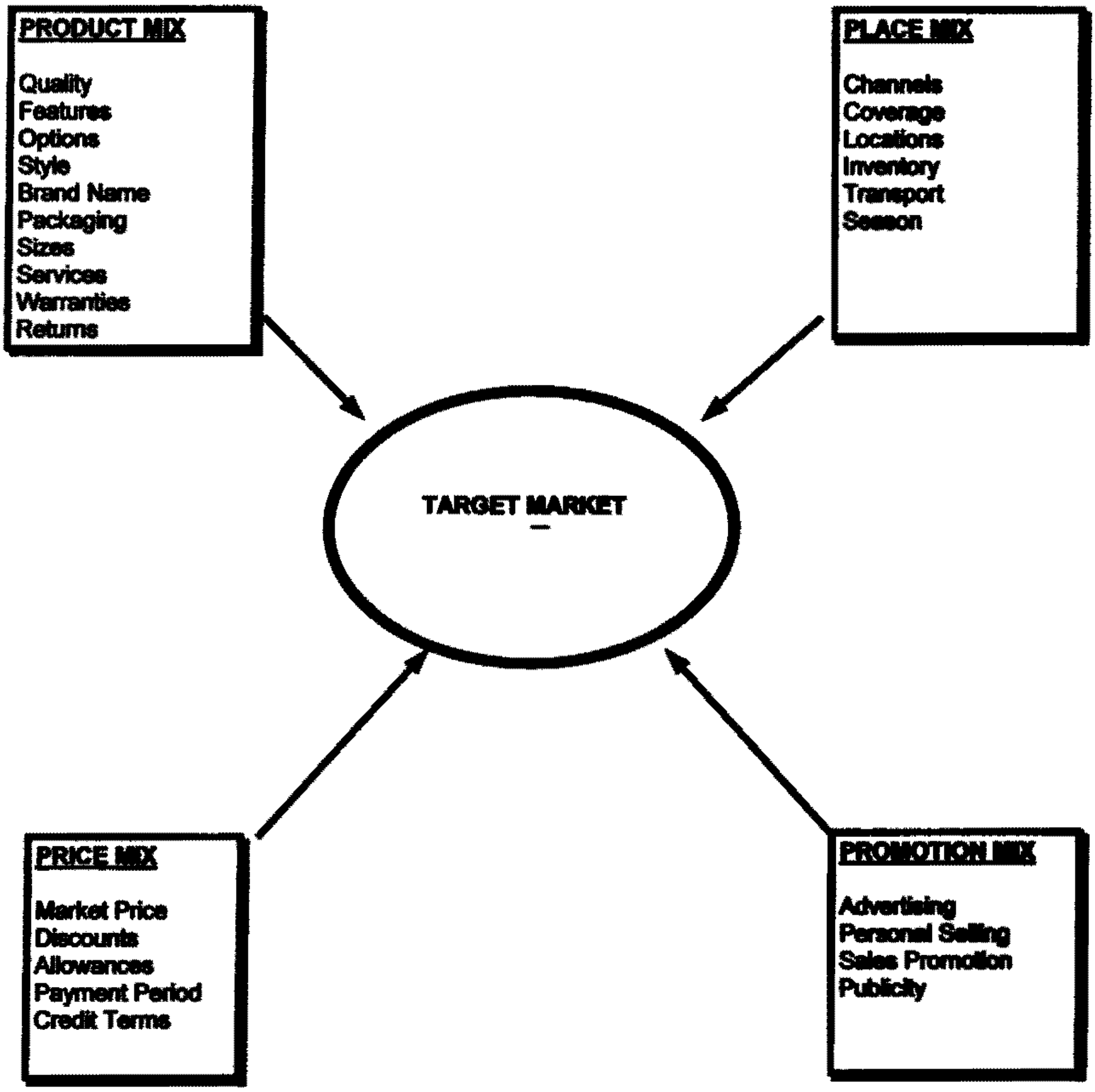
Marketing Your Agricultural Product
Marketing Mix
Article II in a series of V

Figure 1. The Four P's of The Marketing Mix



Marketing Your Agricultural Product
Competitive Advantage
Article III in a series of V

- What is Competitive Advantage?
- Economic Curve
- Price Takers
- Price Makers
- Economic Profit
- Differentiation

Competitive advantage
Competitive advantage grows fundamentally out of value a firm is able to create for their buyer that exceeds the firm's cost of creating it. Value is what buyers are willing to pay for, and superior value stems from offering lower prices than competitors for equivalent benefits (**cost leadership**) or providing unique benefits that more than offset a higher price (**differentiation**). These are the two basic types of competitive advantage. Both concepts play a major role in determining your **product, price and positioning**.

Economic Curve
The economic curve in a capitalistic or free market setting ranges from "monopoly to monopoly". However, at one end of the curve the *enterprise*, or industry, such as farming, a petrol station, a vegetable stand, etc. monopolizes the participating *firms*. This is also called a "perfectly competitive enterprise". At the other end, the *firm* monopolizes the *enterprise*, such as telecommunications, before deregulation. The firm that participates in a monopolistic enterprise, such as farming, is a **price taker**. When the farmer sells wheat, the price is already set, either by the government milling agency or by the cartel (oligopoly) that controls the world price of wheat. The firm takes the price offered at the point of sale. At this end of the economic curve, there is no real "economic profit". The firm that has no competition enjoys a monopoly, and is a **price maker**. Economic profit is assured to this firm. **(See Figure 1, following)**.

Economic profit
Economic profit is defined as the real profit that a firm gains beyond what the equity, converted into capital, could attain in a no-risk investment, or, when invested elsewhere at the same or lesser risk than where currently applied, would exceed the current rate of return. Moreover, when labor is applied to the definition, the proprietor must be able to exceed the wage (salary/profit divided by hours worked) he/she could receive applying the same skills and disciplines in any other setting.

Figure 1. The Economic Curve; The Road to Profits

The Monopolistic Enterprise	⇒	**Differentiation**	⇒	⇒	**Oligopoly**	⇒	⇒	**Monopoly**
Price Taker	⇒		⇒		⇒	⇒		**Price Maker**
No Economic Profit	⇒		⇒		⇒		***Real Economic Profits***	

Differentiation

In between the two ends of the economic curve lies the opportunity to realize an economic profit. In fact, profits increase further along the scale - from left to right. To the firm that is mired in a perfectly competitive enterprise, **differentiation** slides the firm out of the price taker category and can reduce competition, increase prices and return real economic profits.

A firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price. Differentiation allows the firm to command a premium price, to sell more of its product at a given price, or to gain equivalent benefits such as greater buyer loyalty during cyclical or seasonal economic downturns. Differentiation leads to superior performance if the price premium achieved exceeds any added costs of being unique. A firm's differentiation may appeal to a broad group of buyers in an industry or only to a subset of buyers with a particular need.

Many people equate differentiation to a firm's aggregate product. Actually, differentiation can be better understood by viewing the specific *activities* a firm performs and how they affect the buyer. This list of activities is sometimes referred to as the *value chain*. **Virtually any value activity is a potential source of uniqueness or differentiation:**

- Raw products and other **inputs** can affect the performance of the end product, such as proper fertilization and irrigation can assure a plump, juicy grape that tastes good and has a better shelf life.
- Technology **development** activities can lead to product designs that have unique product performance, such as the advent of the shelf stable retort packaging system over the tin can.
- **Operational** activities can affect such forms of uniqueness as product appearance, conformance to the buyers specifications, consistency and reliability.
- **Logistical** activities such as delivery of a product (outbound) in a market window when demand pulls price up, or delivery of packaging material at critical need (inbound) add value.

Human Resource management, marketing and sales and service are all areas wherein a company can implement differentiating practices and policies that add the perception of value to a product or service and, accordingly, a premium price that a customer is willing to buy and pay for.

To be unique and command a price premium, a differentiator deliberately elevates costs.

Cost Leadership

In an emerging or developing agricultural arena where marketing skills have not matured or the industry and/or the customer is less sophisticated, cost leadership is perhaps the clearest strategy for competitive advantage. In it, a firm sets out to become *the* low cost producer in the industry. The sources of cost advantage are varied and may include:

- Economies of scale
- Proprietary technology
- Preferential access to raw materials
- Proprietary learning (empirical data)
- Timing
- Location
- Linkages

Cost leadership often requires a firm to forego some differentiation by standardizing its product, reducing marketing overhead and achieving economies of scale wherever possible.

The strategic logic of cost leadership usually requires that a firm be *the* cost leader, not one of several firms vying for this position. Many firms have made serious strategic errors by failing to recognize this. When there is more than one aspiring cost leader, rivalry among them is usually fierce because every point of market share is viewed as crucial. Unless one firm can gain a cost lead and "persuade" others to abandon their strategy, the consequences for profitability can be disastrous.

When cost leadership is not sustained, either through imitation by competitors, technological changes or other bases for cost leadership erode, the fight for market share is fruitless, and unprofitable.

Market share per se is not important competitively; competitive advantage is.

Marketing Your Agricultural Product
PRICING TECHNIQUES
Article IV in a Series of V

- Setting Prices
- Pricing to the Market
- Cost Approach to Pricing
- "Rules of Thumb" Pricing

The importance of pricing cannot be underestimated as incorrect pricing can often result in the failure of a business. New businesses often make the mistake of either charging too little or too much for their product or service. So to help you avoid making one of these mistakes, the following section will outline some of the guiding principles of price determination.

Setting Prices
Price is a key part of marketing. Setting prices is called "pricing". Prices for products and services can be set by pricing to the market, pricing to your costs, and rule of thumb pricing. New business people with little experience may set an initial price based on the market, and then, as experience grows, re-set prices according to costs. These two aspects of price - what is acceptable to the market and what costs are - must both be considered. In addition, effective pricing depends on the business goals of your company. **Do you want to maximize profits or are you aiming for high growth in sales?** The choices that a business ultimately makes about its markets and sales make a big difference in pricing.

Pricing To The Market
Compare prices with your competitors for similar products and services. Set the price range that customers will expect. You can use that market price range - what is acceptable to the market - as a guide to set your prices. Businesses or people to whom you sell may also price to the market by telling you what they will pay for your product or service. As you keep records of actual costs, the cost approach to pricing will help you make sure all your costs are covered, which may not be true in a market approach to pricing.

Note: Be careful about underpricing in order to compete or make sales. Use competitor's prices to establish the price range for similar products or services but do not underprice. If your true costs are higher, your final prices will have to be higher.

Cost Approach To Pricing
Price must cover all costs of goods/services sold, including production costs of supplies, materials, fixed overhead. and time/labor, plus a profit. Costs should include costs of production, labor and non-labor, including overhead or fixed costs as well as supplies and materials.

Use this simple formula in setting a price (per unit):

Total Costs of Production Per Unit + Desired Dollar Profit Per Unit = Selling Price Per Unit

Businesses can set different profit rates, for example 15% profit on supplies and materials, 20% profit on labor/time, and 25% profit on overhead. These more complicated approaches to pricing usually emerge in response to the special needs of a particular business.

If your research reveals that similar products or services are available on the market at a price much lower than what you could offer, you may have to either adjust your profit margin, the return you expect, reduce your costs (if possible) or decide to provide enough specialized service or selection (**Differentiation**) that the market will pay the extra. Alternatively, you may be forced to conclude that you cannot afford to make this item or provide this service and look for something else to produce or sell. In this case, your competition that is selling at a profit, yet at a lower price, enjoys a "**Competitive Advantage**".

Note: Remember to cost materials at the level it costs to replace them - NOT at original prices; include salaries as a business expense; include interest in your business cost calculations - interest that could have been accrued had the money used in the company been invested elsewhere (i.e. a bank); make allowances for future refunds, servicing, bad debts, amortization of capital costs of equipment or machinery.

A final word about the cost approach to pricing: If you are to be competitive and make an economic profit, which means your business is sustainable, then your organization must be efficient. This includes efficiency in production, optimization of capital equipment to its rated capacity and efficient and productive utilization of your "knowledge capital" – your human resources. Nothing increases the unit cost of a product more than inefficiency and low productivity. A good example is one of Chrysler automobile production in Mexico. Even with the lower wages and benefits structure in Mexico, it still cost Chrysler $800 per vehicle more than to produce a similar vehicle in Detroit.

In the area of human resources, if everybody knows the rules (a policy and procedures manual) and they all work together as a team (delegation, responsibility, accountability) and they know the objectives of the company, then you have a team working a plan and "kicking the ball towards the same goal post". Any other scenario results in an intramural exercise – the same team fighting over the ball and kicking it towards opposite goal posts. Make your investment in your people first and your operations next. Everyone can build a physical plant just like the next person. Your people can make the difference in how that equipment runs and if the company makes a profit or not, or a larger profit.

"Rules of Thumb" in Setting Prices

Some types of businesses charge prices according to certain "rules of thumb". For example:

- Price is always twice labor plus materials, or twice materials plus labor depending on which is higher;
- Price is always materials and labor plus 20% for fixed costs, plus 25% for profits.

Calculating actual costs is the only proven way to make sure your prices cover your costs. Labor/time charges are to be covered partly in the costs of production and partly as a salary in the fixed/operating or overhead costs. In summary, key points to consider in setting prices are:

- Marketing strategy and immediate goals
- Competitors' prices, and the market
- Market demand for the product and consumer buying trends
- Need to cover costs and provide an adequate profit

For further information on costing and pricing, see "The Financial Planning Tool Box - Financing Your Business" and the Series "Managing Your Business -Management Control and Policy" by Anderson Associates International, Bakersfield, CA USA.