ADVANCE MODULE-02

BIRD

BANKERS INSTITUTE OF RURAL DEVELOPMENT, LUCKNOW
(Designated Nodal Training Institution at Central Level by GoI under the
Central Sector Scheme on Formation & Promotion of 10000 FPOs)

FPOs are growth engine
of Indian Agriculture

Resource Material
Business Planning

under
Central Sector Scheme on Formation & Promotion of 10000 FPOs

NABARD

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Advanced Module on Business Planning

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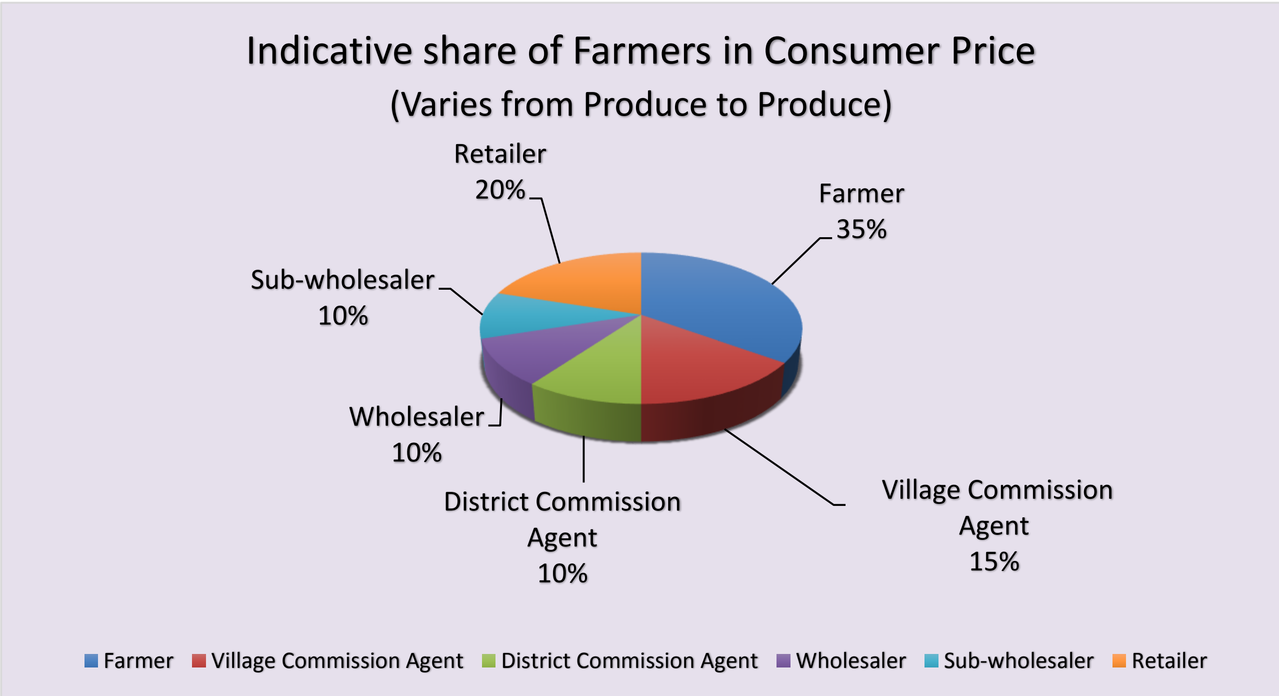
Introduction

Farming and allied activities support the livelihoods of over half of all Indian families. 83% of these farming families are categorised as smallholders. Farming and allied activities present many challenges – improved productivity of land, food security for the nation, sustainability of resources and improved returns to farmers. The Government of India has the aim of doubling farmers' incomes by 2022. Farmers as a whole and small and marginal farmers in particular do not have the volume individually (both input and produce) to get the benefit of economics of scale. Besides, in agricultural marketing, there is a long chain of intermediaries along the value chain of agri-produce, and the farmer receives only a small part of the value that the ultimate consumers pay.



Aim of the FPO as a business entity

Farmer Producer Organizations (FPOs) have emerged as the preferred means to cater to the economic and commercial needs of farmers, particularly of the small and marginal farmers. FPOs – registered as cooperatives, companies or trusts - enable member-farmers to reap the benefits of economies of scale and greater bargaining power in the purchase of inputs, processing and marketing of their produce apart from providing them access to timely and adequate credit, extension and linkages to markets. This makes the FPO a 'business entity'.

What is a Business?

A Business is a set of activities with an objective of earning profit. The activities can be any combination of -

- Production
- Services, and
- Marketing

A business is an economic system, in which goods and services are exchanged for one another or for money on the basis of the perceived worth with an intention to earn profit.

What does a Business Require?

- Selection of business activity
- Customers
- Planning how to conduct the business
- Resources / Investment
- Profit / Margins
- Sustainability – how to stay in the business for a long time – without damaging its resources

What is new in for farmers in Farmer Producer Organisations?

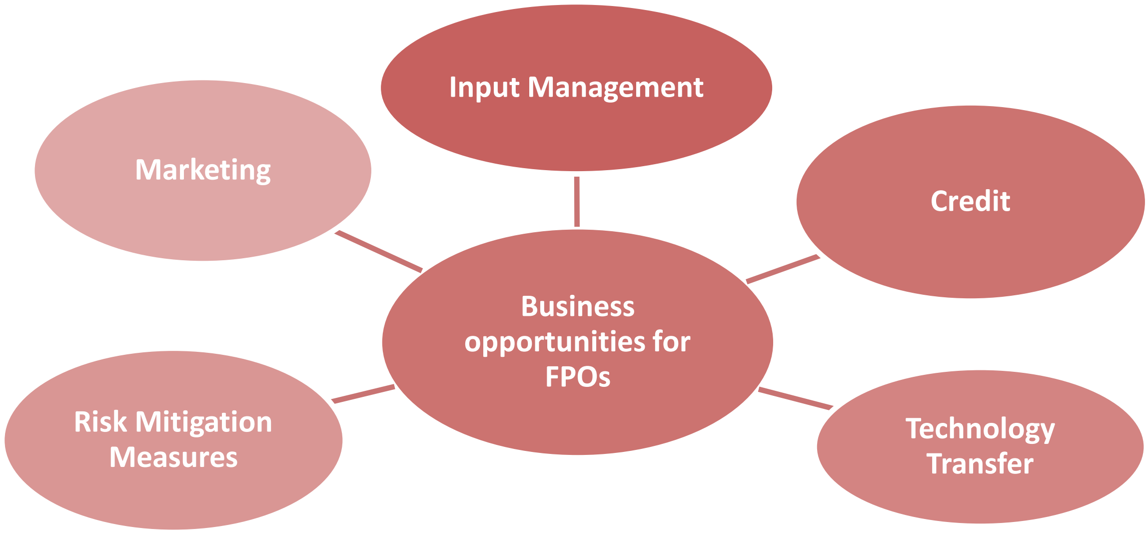
- **Scale**: Small to large
- **People**: Single to many
- **Product**: One product to many
- **Market**: Local market to distant markets
- **Decisions**: Single point decision to group based decisions.
- **Forms of sale**: "Sell as Such" to "Changing the form"
- **Time of Sale:** Immediate Sale to Strategic Sale
- **Risk + Return + Responsibility:** from Single to Group

FPOs as Agri-entrepreneurs

The Dilemma of the Indian farmer

Indian farmers generally buy agriculture inputs in retail but sell agriculture outputs in wholesale and pay transport both ways. Therefore, FPO should learn to buy in wholesale and sell in retail or upscale markets for its members farmers.

In general, farmers have the skill and expertise in agriculture production. However, they generally need support for marketing of what they produce. The FPO, as a business entity attempts to bridge this gap. The FPO takes over the responsibility of any one or more activities in the value chain of the produce - from procurement of inputs, harvested produce to delivery of the final product at the ultimate consumers' doorstep. In brief, the FPO can undertake the following economic activities as a business entity:



An FPO can support the member farmers in earning more income by undertaking any, many or all of the activities listed above.

- **Buying inputs in bulk:** By aggregating the demand for inputs, the PO can buy in bulk, thus procuring at a cheaper price compared to purchase by an individual farmer. Besides, by transporting in bulk, the cost of transportation shall be reduced. This reduces the overall cost of production.
- **Better financial products for farmers:** reasonably priced and timely credit, responsive insurance products to farmers.
- **Improving farming processes:** through timely and useful extension services, technology transfer and inputs – at farmer and FPO level
- **Aggregating harvested produce of members:** Similarly, the FPO may aggregate the produce of all members and market in bulk, thus fetching a better price per unit of produce.
- **Market information:** The FPO can also provide information related to the market to the member farmers to enable them hold on to their produce till the market price becomes favourable.
- **Reducing farmers' risks –** during production, storage and marketing.

  All these interventions will result in more income for the member farmers.
- The FPO has to focus all its activities, be it technology, extension, tie ups or knowledge acquisition, towards a commercially feasible outcome for the FPO and its members.
- The financial gains, on a long term sustainable basis, to both the FPO and its members, should be clearly evident.
- The immediate short term plan should ideally aim to showcase the potential gains to its members, for building up the membership base.

It is observed that at times FPOs get absorbed in the technical or operational aspects of the business; but as they are a business they need to integrate the same with the financial implications consistently.

An indicative list of various business opportunities available to FPOs as Agri–entrepreneurs is indicated below –

i) Pre-harvest Stage -

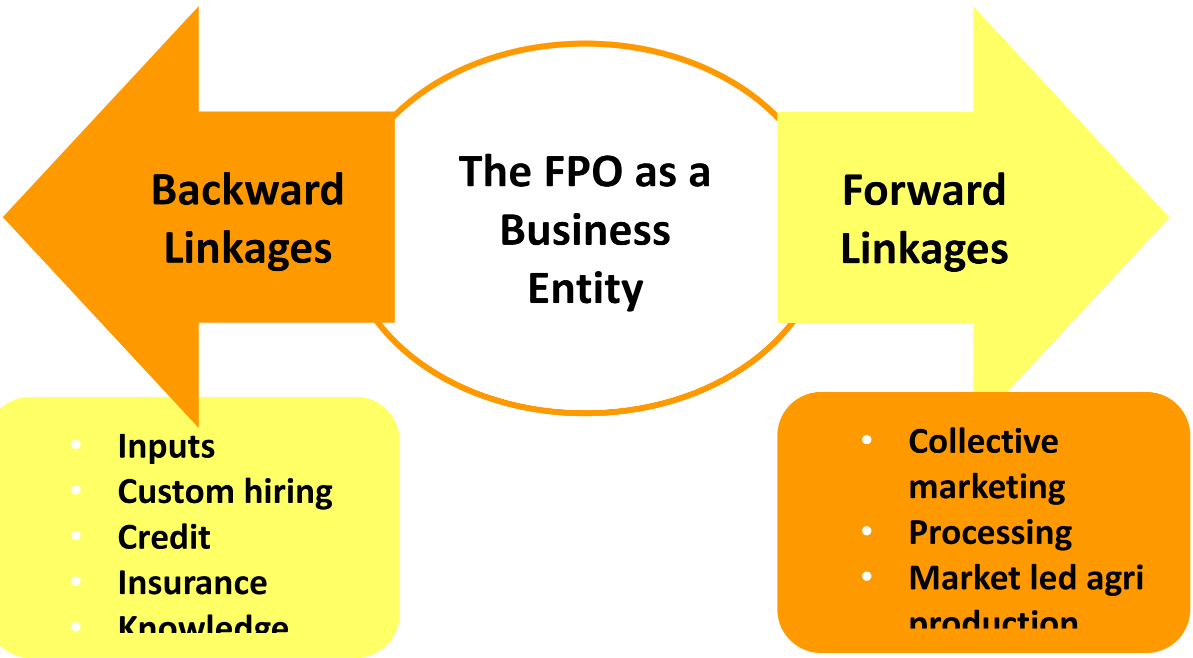
- **Input supply business** – Seeds, Fertilizer, pesticides (FPO can plan to get a licence for these inputs), sprayers, pump sets, pipelines, accessories, etc.
- **Custom hiring business** – Tractor, Power tiller, thresher, land leveller, cono-weeder, Transplanter, etc. through a common facility centre. (Many of the State Governments are providing subsidy to FPOs for undertaking the activity.)
- **Dissemination of technology and innovations in Agriculture and allied sector –** better seeds, integrated pest and nutrient management, system of crop intensification, etc.
- **Access to credit**

ii) Post- harvest Stage

- **Aggregation or procurement and storage of produce**
- **Marketing business –** Bulk marketing to mandi/whole seller/institutional buyers
- **Primary processing like sorting, drying, cleaning and grading**
- **Insurance services** – Crop insurance, farm machine insurance etc.
- **Brand building, Packaging and Standardization**
- **Participation in commodity exchanges & eNAM**
- **Export of Agri and allied produce**

iii) Other ancillary/allied products/services

Therefore, the FPO as an Agri-entrepreneur entity can provide both backward and forward linkages to its member farmers.



Essentials of a sound business enterprise

The FPO as a business entity should also adopt and inculcate the characteristic features of sound business enterprises. A few such features are mentioned below -

- **Location and Size** – A favourable location and suitable size (members and activities) have a great bearing on the success of any business concern.
- **Objective**- It should be clearly described and also be realistic. Each business activity should be directed towards the achievement of its objectives. For a business organisation, the generation of a sustainable financial surplus and income is a must.
- **Planning** - Rational and orderly thinking about the ways and means for the achievement of the objectives of the FPO. It has to analyse the nature of the problem or challenge and assess the solutions with reference to the objectives of the firm and also to reduce the risk.
- **Adequate Finance** - Finance is the lifeblood of the organization. Inadequate finance may lead to losses in the firm. Hence, arrangements should be made to meet the short-term and long-term financial requirements of the business. Flow of funds and employment of funds should be planned well in advance. Relationship building with Banks / NBFCs / Suppliers and cash flow and its management and margins are the key.
- **Innovation and technology** - To improve the methods and techniques of production, quality of the products and also to introduce new products. This will enable the FPO to meet the changing needs of customers, demand and gives a competitive edge.
- **Sound Organization -** It is a medium for exercising effective control and management of any business. A well-defined organizational chart indicating the roles and responsibilities of the office bearers and staff is necessary for the organization for the optimum utilisation of varied talent and skills and allocating work among the staff.
- **Effective leadership and Management** - In order to achieve the objectives of the business, visionary leadership and effective and efficient management is essential. No firm can achieve success unless it has an efficient management. The Board and office bearers must recognise and understand this.

Chapter 2: A Conceptual Framework for Business Planning

Coverage, component and steps involved

Background

The main objective of mobilising farmers into member-owned producer organisations, or FPOs, is to enhance production, productivity, and profitability, especially of the small and marginal farmers. FPOs are rightly positioned to do business at par with competitive market forces and to generate a surplus at the producer level by reducing unnecessary intermediaries.

Farming is similar to a business from the perspective of the production cycle and sales transactions. But for transactions to be qualified as business, they have to be conducted in an organized manner. Farming will become a business when it institutionalizes its process as a formal business entity, envisaged and planned through the FPOs.

However, in any FPO the primary producers are basically agriculturists who are, in general, well versed with the know-how of agricultural activities but not with a business mind set. So the primary objective of any FPO should be to support its members to become better agriculturists with a business mindset, while itself taking on the supporting role with business acumen too. We need to remember, that a FPO that fails as a business, fails its members too. A business plan is an essential tool to focus on the FPO's objectives.

What, Why, and How of a Business Plan for FPOs

The three important aspects of the Business plan for FPOs are as follows -

- Why a Business plan? What are the benefits of the Business Plan and who all are the users?
- What is the structure of the business plan and what all it should cover?
- How to prepare a business plan in a simple, clear and step by step manner?

WHAT IS A BUSINESS PLAN?

A business plan is a document that summarizes the operational and financial objectives of a business. A business plan is a guide for how a company will achieve its goals. For anyone starting a business, crafting a business plan is a vital first step. Therefore, comprehensive business planning is essential which sets out the business objectives and provides directions to achieve and sustain the profitability of the FPOs. The document which covers these aspects of a company is referred to as "Business Plan".

In short, the business plan must contain answers to the questions like:
“What, Why, Where, When, Who, How, and How Much”.

- What - The selected economic activity/activities of the FPO
- Why - reasons for choosing the economic activity/activities
- Where- location of the activity; also, where and how to obtain the resources for carrying out the activity
- Whom - for whom- know and identify the customer and the supplier
- Who - who will be responsible to carry it out- staff, BOD, CEO, individual member
- When – When to start and when to finish? Factors such as seasonality
- How - The Process of carrying out the activity/activities
- How much – the numbers that drive the business – money, people, growth rates

WHY IS BUSINESS PLANNING IMPORTANT FOR AN FPO?

- The Farmer Producers’ Organisation, unlike a typical business organisation is unique. Its members are both its owners and its customers. The FPO plays two roles a developmental role – improving members’ lives and livelihoods, preparing members for skills and abilities and a business role – enabling the best financial return to members and itself. It is a Social Entrepreneur with the passion to generate the maximum value for small and marginal farmers and the rigor to compete with in the market.
- For the viability and sustainability of the FPO, it is important that the FPO has a reasonable membership base and on the other side the FPO is able to retain them by offering the required services as **members are also the customers of the FPO**.
- In case of FPOs particularly dealing with agricultural activities, their business plan may encompass the integrated value chain model as the actual risk and profit of the business activities shall have a direct impact on all the members of the FPOs.
- The core business planning exercise for any FPO is to identify the Gaps and Problems faced by the farmers in the cluster area. In the business planning exercise we have to develop the skill of management of resources of the FPO on the one hand and address the issues faced by the farmers to increase the productivity and profitability on the other hand.

Therefore, to start, operate and manage the business of the FPO in an effective manner, a clear **blueprint** is required which will measure the performance of the FPO against a certain benchmark. Therefore, the Business Plan acts as an effective blueprint.

Characteristics of good business plan:

A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan.

1. The first is the **business concept**, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
2. The second is the **market place for the product**, in which you describe and analyse potential customers: *who and where they are, what makes them buy* and so on. Here, you also describe the competition and how you'll position yourself to beat it or how to identify a niche market or open up or deepen a market.
3. Finally, the **financial section** contains the projected income and cash flow statement, balance sheet and other financial ratios, such as break-even analysis. This part may require the help of an accountant and a good spreadsheet software program.

Coverage of a Business Plan

- What is to be produced / offered, how and when?
- How much investment is required?
- Where will the investment come from?
- Where could loan / credit be secured from? What are its terms & conditions? Can the loan be adequately serviced?
- Can the business survive fluctuations in any of the key parameters?
- What is the payback period of the investment?
- What is the subsidy / facilitation which can be availed or coordinated with government agencies, etc.
- The facilitation for exports by the Govt / Agencies or the norms for import of the importing nation, as appropriate.

HOW TO DEVELOP A BUSINESS PLAN?

In the subsequent chapters the methodology for preparation of a business plan by FPO has been described in a simple, clear and step by step manner.

Stages of Business Planning

Broadly, the three stages of business planning exercise can be depicted as follows -

Situational Analysis → **Business Planning** → **Business Progress and monitoring**

Both the pre and post stage of the business planning are crucial to the development of the business plan and its execution to achieve the expected results.

Situational Analysis Stage

The exercise of business planning needs basic information about the cluster area and infrastructure and support services available in the vicinity. Such information can be collected through secondary data and baseline survey/PRA to be conducted in the cluster area. The financial and non-financial indicators are considered for determining business performance. Three simple methods that will be introduced to assist the pre-planning situational analysis are -

a. Feasibility analysis b. SWOT Analysis c. Critical Planning Questions

Business Planning

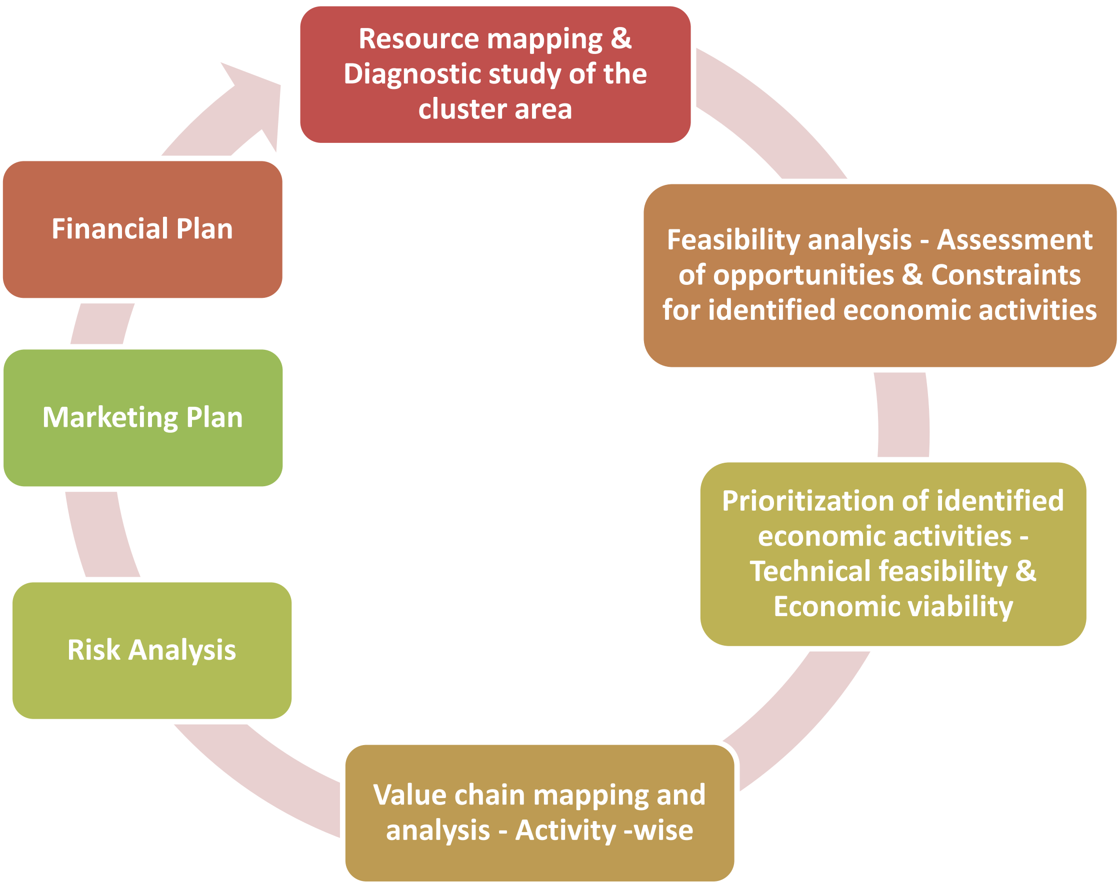
It specifies the strategies with regard to the identified economic activities as a business proposition for the FPO on the basis of the external and internal operating environment and problems identified in the earlier stage.

Business Progress Monitoring

To ensure the company's progress, the business plan needs to be monitored consistently. The future activities in the plan can be modified or adjusted to situations as they evolve during implementation. It must include in brief the existing business profile, membership profile, contribution by the members in financial terms, the profile of the Board, etc. which can be expanded upon when approaching formal financial institutions for funding support.

Steps involved in formulating a vibrant business plan

A new FPO dealing with agricultural activities should follow SEVEN steps while preparing a vibrant business plan as detailed below-


Resource mapping & Diagnostic study of the cluster area
Feasibility analysis - Assessment of opportunities & Constraints for identified economic activities
Prioritization of identified economic activities - Technical feasibility & Economic viability
Value chain mapping and analysis - Activity -wise
Risk Analysis
Marketing Plan
Financial Plan

Chapter 3: Gathering Information for a Business Plan

Resource mapping of cluster area through baseline survey

PRA for preparation of Business Plan by FPO

The quality of information we use to develop a business plan will determine how realistic the plan will be. This chapter details out some tools that an FPO can use to understand its operational environment.

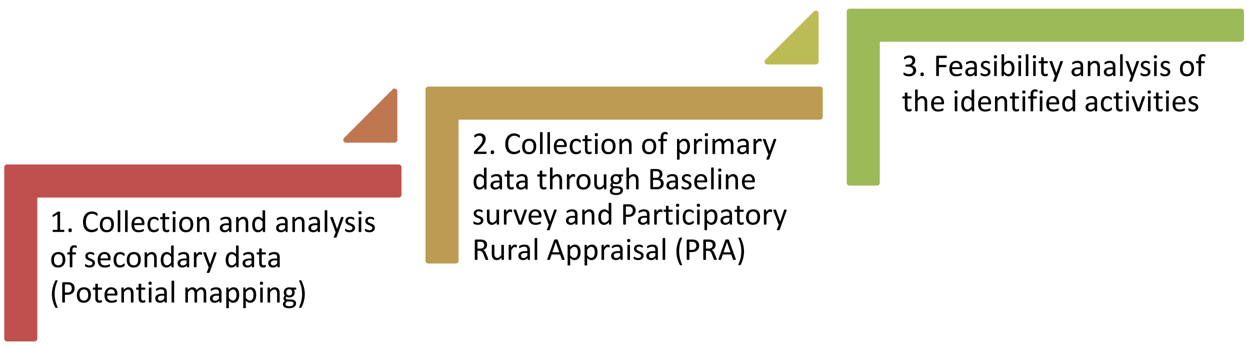
Resource mapping of cluster area

Mapping available resource in a selected cluster area is the foundation stone for developing a vibrant business plan for the FPO. Before starting any economic activity of FPO, it is always advisable to first map the resources available in the cluster area and also identify the problems and issues faced by the farmers/members so that a clear road map can be drawn for selecting viable economic activities to be undertaken by the FPO as their business.

When we are sick, we undergo for various pathological tests as advised by Doctor. Based on the report, the doctor diagnoses the disease and prescribes suitable treatment. In case of FPO, we have to do the same thing. Resource Mapping is a diagnostic study of the cluster area; it is to assess the preliminary situation of the farmers and the status of agriculture and allied activities in that area.

The diagnostic study of cluster area will facilitate in identifying the potential interventions required and understanding the specific context of project implementation. The facts and figures collected must be comprehensive and lead to action. The process of a diagnostic study would as under:

Process involved in conducting Diagnostic Study



Importance of Resource mapping

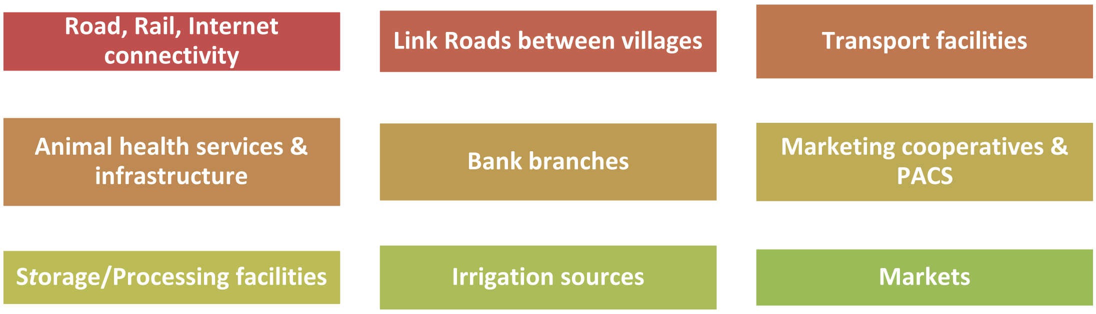
Without resource mapping the FPO cannot prepare a viable business plan.

If you cannot map your resources you cannot undertake any business.

1. **Collection of secondary data:** The FPO has to collect and analyse secondary data of the cluster area to identify potential activities and assess resource availability to continue and sustain the FPO's potential activities. Much of the needed information is available in the official websites of the concerned district (district.nic.in). However, discussions with the concerned line department officials and KVKs would be helpful. The analysis of secondary data will give the following information about the cluster area:

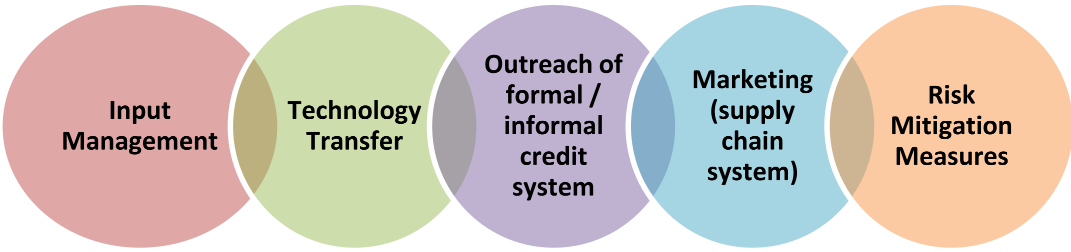
- **Block map:** Will give the idea about the boundary and landscape of the cluster area, details of panchayats and villages and other details.
- **Occupational structure of cultivators:** Information about activities undertaken by farmers under agriculture and allied sectors and other livelihood activities in the area.
- **Rainfall Pattern:** The analysis of rainfall data for past 25-30 years will facilitate understanding the trends in rainfall pattern and impact of climate change in the cluster.
- **Seasonality, cropping pattern and preparation of cropping calendar:** Provide information regarding crops grown in different seasons, potential relevant technologies for the agricultural operations and the data would be helpfulin understanding the production trends, market demand, soil health, labour demand and the availability of resources.
- **Land use pattern and productivity assessment:** The analysis of the data will enable us to define the future interventions in agriculture and allied sector.
- **Natural Resources:** The information on forest cover, non-timber forest produce, tanks, watershed, wasteland, river, coastal area, etc. will help in understanding the potential economic opportunities available for the people in the cluster.
- **Irrigated area in the Block:** The information on sources of irrigation viz. canal, tank, tube well, open well, drip/sprinkler, etc. and also on aspects like net area irrigated, irrigation intensity, etc. in each village under the cluster can be analysed which can be an enabler in taking decisions on the interventions required.
- **Infrastructure facilities:** The information on following can be a key to planning for business:
- **Market details:** Information on the distance of the market both for input and output services from the production site is very important information for assessing the cost of operation and the scope for marketing.

As such, the analysis of the secondary data will help in understanding the overall socio-economic scenario of the cluster area. These details could be marked on a map which will help to identify the cluster of nearby villages based on commonalities.



2. **Primary Data Collection through baseline survey & Participatory Rural Appraisal (PRA)**

Primary data of the identified cluster is required which will help in identification of potential economic activities and formulating a technically feasible and economically viable business plan. The required primary data for undertaking base line survey can be broadly categorized into five major heads which are as under:



Input Management	Technology Transfer
Cropping Pattern, cropping intensity, crop rotation	Advocated Package of Practices for the crops grown in the area adopted
Land preparation : Method, season & cost	Present level of adoption of technologies
Seed : Availability, accessibility, variety & quantum per unit area	Institution involved in the area
Irrigation : Type of irrigation, infrastructure, frequency and scheduling of irrigation	Mode & efforts of the institutions for transfer of technologies
Fertilizer : Availability, accessibility, type and quantum required per unit area	Farmers and institutions view on the above
Pesticides : Availability, accessibility, type , quality and quantum	Information on new/modern technologies suggest in the area by technical institution
Labour/workers availability workers and the prevailing rates	Issues involved in adoption of new technology
Assets ownership / custom hiring, level of mechanization and expenditure involved	Government schemes related to above along with incentives

Intercultural operations	
Pre and post-harvest management practices and available infrastructure support	
Input-wise expenditure per unit area	
Production and productivity	

Outreach of credit	Marketing	Risk Management
Types of financial resources available	Type of the supply chain	Level of risk associated with production (drought, flood, pest and diseases, water scarcity etc.
Availability, cost and extent of formal credit	Extent of business participation of the farmers in the existing supply chain	Coverage / effectiveness of crop insurance
Gap in requisite credit needs	Distribution of economic rents among different stakeholders of the supply chain	Diversification of crops
Cost of informal credit	Gaps in economic rent under formal and informal supply chains	Status of agriculture allied sector, expenditure, income / loss, input supply etc.
Issues / constraints in credit outreach	Possibility of alternative supply chains	Outreach of schemes, procurement on MSP

Participatory Rural Appraisal (PRA): Participatory Rural Appraisal (PRA) is an approach to collect data and it can be adopted for gathering the farmers' perspective on various problems/issues encountered by them as also the type of opportunities available in the cluster area. It is fairly quick and easy to collect any data/information we need. Depending on the type and nature of data required for our purpose, we can choose appropriate PRA methods and tools for data collection in the given villages. The PRA tools depend on good interactions between FPO staff and members and collectively capturing the discussions visually – through diagrams.

PRA Tools

The following PRA tools can be useful for capturing the information relating to the key areas pertaining to FPOs:

1. Brainstorming – to gather new ideas
2. Focus Groups Meetings – to discuss topics in detail and arrive at solutions
3. Resource Mapping – to visually capture different types of resources in the area

4. Preparation of crop calendars – to identify different cropping activities related to various crops during the entire year.
5. Constraints Analysis or problem tree analysis - to identify problems faced by members during farming or marketing and trying to find the root cause where possible
6. Opportunity Matrix – to map opportunities to solve problems and rank/rate them by ease or difficulty of implementation
7. Stakeholder Analysis – mapping all the people and institutions that are important to the FPO and members – by their importance and influence on the FPO
8. Trend Analysis – identifying the trends in variables like demand for certain crops, labour availability, cost of cultivation, extreme weather, etc., over many years
9. Crop budgeting

Output of the baseline survey

The secondary data and first hand information collected from the FPO's area will help us develop a good backgrounder for developing a business plan.

• Social and cultural setup	• Various people's institutions
• Government and local government institutions/departments present locally	• Cropping Season/ Crop Rotation
• Crop-wise/Activity-wise production & productivity as also the gaps	• Quantity of input needed per acre and the cost of input
• Access & availability of resources for cultivation (water, fertilisers, pesticides, credit and technology support)	• Land preparation – Mode & Cost
• Varieties and seed rate	• Seed availability – Source & Cost
• Availability of labour/workers and prevailing wage rates	• Formal & informal credit – Sources, cost, outreach, etc.
	• Cost of cultivation per unit area
• Level of adoption of Package of Practices and gaps	• Adoption of new technologies and issues involved
• Marketing supply chains, level of farmers participation, gaps, scope of developing alternate supply chains	• Market price movements
• Details of service providers and associated margins	
• The risks associated with production (rainfall, water, climatic condition, pest and diseases) and marketing	• Risk mitigation mechanism – schemes, coverage, tools, infra-structure

Indicative Baseline survey format

An indicative baseline survey format for primary data collection is available on the BIRD Lucknow website (www.birdlucknow.in) under FPO Resource Centre (Basic module-CBBO module- Reading material- Session V & VI). Parameters could be added or deleted as per need & requirement.

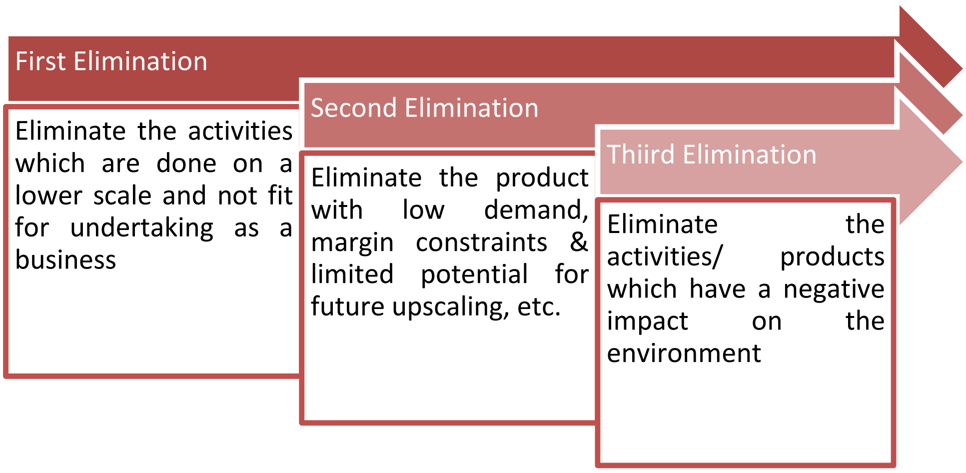
Chapter 4: Feasibility Studies for Business Planning

Ranking and selection of most viable and sustainable business activities for an FPO

Feasibility Study

Using information from the primary and secondary data, the feasibility of the prospective economic activities in the identified cluster can be assessed. In other words, we calculate if the activities bring in benefits that are much larger than their costs.

General Rules for elimination of unviable economic activities:



Analysing gaps in products and services available to farmers

While undertaking feasibility the analysis of the information so gathered and the following parameters need to be considered.

Potential gap in input management

- ✓ Quantitative gap assessment in availability of quality seeds and distributor/retailer margin
- ✓ Quantitative gap assessment in availability of fertilizers/micro nutrients/pesticides on time and distributor/retailer margin
- ✓ Status and utilization of farm mechanisation and gap in farm power
- ✓ Status of availability and the diversification in farm implements
- ✓ Assessment of the crop and input-wise cost of cultivation

Potential gap in technology transfer

- ✓ Crop-wise gap in potential and realized yield
- ✓ Extent of adoption of scientific package of practices for different crops grown
- ✓ Extent of adoption of new/modern technologies suggested in the area by technical institution

Potential gap in risk management

- ✓ Extent of diversification of agriculture and potential thereof
- ✓ Extent of crop insurance coverage
- ✓ Extent of storage facility vis-à-vis requirement in the cluster
- ✓ Availability of weather forecasting services
- ✓ Level of access to market information/intelligence
- ✓ Level of convergence under various State/Centrally sponsored schemes

Potential gap in market and marketability

- ✓ Extent of market surplus of agriculture produce
- ✓ Mechanism of marketing
- ✓ Actors involved in the marketing of a certain produce
- ✓ Farm gate price during the past 3 years under different supply chain
- ✓ Product-wise demand and supply gap in the nearest mandis
- ✓ Assessment of any product which is in demand in the market but not produced in the cluster
- ✓ Assessment of marketing cost and marketing margin
- ✓ Distribution of economic rent among stakeholders in the prevailing supply chain and potential for FPO to intervene.

Potential gap in credit outreach

- ✓ Sources of funds for agricultural operation
- ✓ Assessment of the formal and informal credit required
- ✓ Gap in the availability of formal credit
- ✓ Extent of under-financing by the RFIs

Identifying economically viable activities

After studying the gaps in products and services available to the FPO's farmer-members, a few activities can be identified. Typically these activities can be grouped as under:

- Aggregation of inputs
- Aggregated marketing
- Enhancement of production and productivity of identified crops
- Primary and secondary processing(value addition)
- Trading business

Steps in assessing the economic viability of identified activities

Once the FPO has selected a set of business activities, assess the costs and benefits of each activity in a five step process.

Step I - Select the economic activities to be undertaken

Step II – Work out the annual cost of operation including capital cost

Step III – Estimate the benefit to be accrued in unit terms and financial terms

Step IV - Conduct financial appraisal of the identified activity

Step V – Recommend or decide to select/reject the activity

Indicative calculation for selecting an business activity (crop production)					
S.N.	Business Activity	Minimum Financial resources required (Rs. in Lakh) (Indicative)	Risk involved	FPO as a value chain actor	Approx. market margin
1	**Input Business**				
1.a.	Seed	2.00	Low	Input supplier	5-10%
1.b.	Fertilizer/Micro nutrients	10.00	Low	Input supplier	2-3 %
1.c.	Plant protection	2.00	Low	Input supplier	15-20%
1.d.	Farm mechanization	10.00	Low	Service provider	8-10%
2	**Output business**				
2.a.	Aggregation	5-25	Medium	Primary Trader	2-5%

2.b.	Collective Marketing	5-25	Medium	Wholesaler	3-5%
2.c.	Trading other than producer member	10.00	Medium	Wholesaler	5-10%
3	**Value addition**				
3.a.	Primary processing	5-10	Low	Trader	5-10%
3.b.	Secondary Processing	10-20	High	Wholesaler	10-15%
3.c.	Tertiary processing	15-25	High	Wholesaler	15-20%

Tips for selecting viable economic activities for new FPO

Based on the baseline survey and PRA exercise, analyse what the problems faced by the farmers in the cluster area are; e.g., unavailability of inputs at time, distress marketing, high cost of cultivation, lack of farm level storage, etc..

- What problems we the FPO sole? Remember, the problems faced by the farmers can be business opportunities for an FPO.
- Can the selected business activity provide round the year work to the FPO's members?
- Procurement of fertilizer is a low-margin business. However, it is an essential component of farming and helps the FPO develop a close bond with its member farmers.
- Does the economic activity chosen by the FPO reduce the cost of cultivation or cost of marketing? Remember, cost saved is money earned.
- Prioritise the economic activities based on the financial resources (own/borrowed) and operational capacity of the FPO. An FPO cannot provide solutions to all the problems of the farmers in one go. It is better to start in a small and manageable manner. Select a few workable economic activities but provide an end to end solution. Avoid unviable activities even if they are demanded by members.
- Scale up the business activities step by step, depending on increase in financial and operational capacity of the FPO.
- Prepare a crop calendar for selected crops or allied activities. For example the variety of crops, date of nursery raising, transplantation, sowing, weeding, harvesting, etc. to be fixed by mutual consent of farmers to bring business discipline among the farmers.
- Provide extension services to member farmers for input supply, technology transfer, aggregation, strategic marketing and bring new technologies, practices, innovation in the business activities of the FPO. Develop tie-ups with KVKs, universities and private firms. This builds up mutually beneficial relationships.

CASE: Selecting a Viable Business Activities for an FPO Business Plan

The Farmer-First FPC Ltd. recently conducted a feasibility study. During the study, the following activities were ranked and selected – as being promising. The FPO considered its financial resources, staff capacity and the prevailing socio-economic conditions of the member farmers to rank the activities. The FPO aims to enhance the members' livelihoods and income. The viable economic activities selected by them are mentioned below -

S.N.	Name of the Product	Issues/Problems faced by the farmers	Activities to be undertaken by the FPO
1	Input business – Seed, Fertilizer & Pesticides	Not available on time and quality of the product	Obtain Licences for selling fertilizer, seeds and pesticides
2	Output business - Maize & Black Gram	Low production and issue of pricing	Adoption of appropriate technology, aggregation, and collective marketing
3	Allied activities – Rearing of Goats	New activity at commercial level	Adoption of appropriate technology, aggregation and collective marketing

Calculation for the Input Business by the FPO

1. ***Assumptions made for Input business***
    a. Available Financial Resources – Rs. 5 lakh
    b. Member size – 300
    c. Area of cultivation – 325 ha, Irrigation facilities available in *Kharif & Rabi*
    d. Cropping patter – Maize (*Kharif*) , Tomato (*Rabi*)
2. ***Estimation* of inputs required**

Name of the input	Crop	Quantity	Amount (Lakh)
Seed -	Maize	65 Q	20.07
	Tomato	48 kg (Hybrid), 161 Kg (General)	2.41
Fertilizer	Maize Tomato	488 Q	24.09 17.88
Plant protection	Maize Tomato		8.03 6.50
Total			78.98

3. ***Estimated working capital required @ 20% of Rs. 78.98 Lakh = Rs. 15.78 Lakh***
    a. Own resources – Rs. 5 Lakh
    b. Credit required Rs. 10.78 Lakh

4. ***Estimation of Gross Margin from Input Sales to Farmers***

Name of the input	Amount in Lakh	Indicative Gross Margin (%)	Gross Margin (Rs. In Lakh)
Seed	22.48	7	1.57
Fertilizer	41.97	2	.84
Plant protection	14.53	17	2.47
Total	78.98		4.88

5. ***Total Gross margin = 4.88 lakh***
6. ***Administrative expenses for managing the input business*** *(Salary, rent, electricity bills, Stationary, etc) – Say* ***= Rs. 2.00 lakh***
7. ***Marketing expenditure*** *= (Transportation, Storage, loading and unloading, losses, Bank charges etc.) Say* ***= Rs. 50,000***
8. ***Total Cost of operation****:* ***Rs. 2.50 Lakh***
9. ***Estimated Profit*** *=* ***Rs. 2.38 Lakh***

Questions:

1. Has the Farmer-First FPO considered all the aspects in its calculation?
2. Why should the FPO select/reject the activity?

Chapter 5: Mapping of Agri-Value chains

Mapping various players and financial dynamics of Agri-Value Chains

Cases of Maize and Goat Value Chains

1. Agricultural Value Chain (AVC)

A value chain is a continuum of activities ranging from pre-production, soil preparation, sowing of seeds, value addition and up to packing products for the ultimate customer. Therefore, a value chain is defined as *the sequence of value adding activities* from production to consumption through stages such as processing, packaging and distribution.

Elements of Agricultural Value Chain - Economic Rent and Value Added

The basic elements of agricultural value chain are economic activities, the main value chain actors, supporting value chain actors, demand and supply, flow of product, money, information and knowledge. In the language of value chains, each person in the value chain charges "economic rent" at his or her stage of the chain.

Economic Rent = the sum of the marketing cost and marketing margin

Products, money, *information* and *knowledge* are the basic elements which flow among the value chain actors and business. These elements are either transferred or exchanged among the value chain actors and business.

Value Added = price received by the actor – price paid by actor

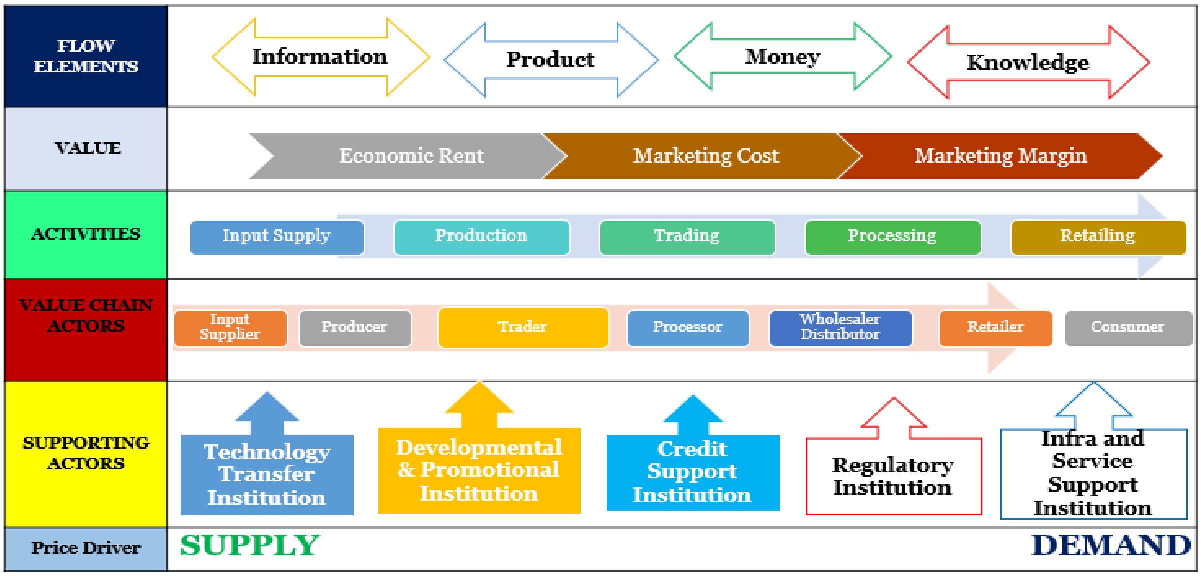
Difference between Supply Chain and Value Chain

- A supply chain is managing the total flow of the goods from producers to the ultimate consumers
- Value chain is adding value at every stage in the transfer of goods from producer to consumer. So the supply chain is basically logistic management only.

Eco-system of Agricultural Value Chain

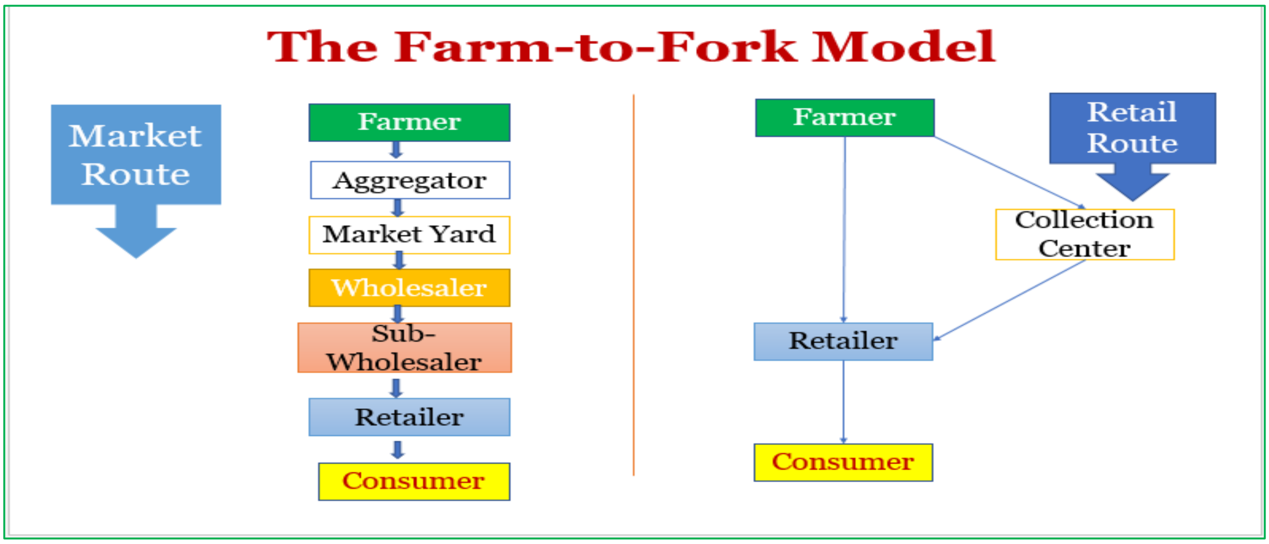
A value chain consists of various activities, economics, actors, supporting actors, the flow elements, etc. When we combine several basic elements of a value chain – we get to see the Ecosystem of the Agri-Value Chain – as is illustrated in the diagram.

Eco-system of Agricultural Value Chain



Integration of economic activities and value chain actors

Agriculture has been changing rapidly from one of fragmented production and marketing relationships toward integrated market systems or chains.



Driven by gains from economies of scale and globalization of the food chain, multinational agri-enterprises increasingly dominate the sector with more and more vertical and horizontal linkages or integration.

The changes are also being driven by the marketplace and responsiveness to consumer interests, including stricter compliance, timeliness and quality standards.

2. Developing AVCs (Agriculture Value Chains) through FPOs

By developing AVC through FPOs, the economic rents at each stage can be absorbed by the FPO. In this way, a larger portion of the consumer's rupee is earned by the farmers and the FPO. The strategy for developing value chains depends on the business model. The term "business model" in value chains refers to the way value is added within a network of producers, suppliers and consumers. The business model includes the ***drivers, processes and resources*** of the entire value chain system, even if the system is composed of multiple enterprises.

Enhancement of "economic rent" may be possible through more and more business participation of the producer in the aggregation and collectivization of the individual resources, production and marketing in a given institutional framework by farmer producer organizations which are as under:

- Participation to fulfil *Technological Gaps*
- Business participation in *Input Management (Aggregation of Inputs)*
- Business participation in *Primary/Secondary Processing (Value Addition)*
- Business participation in *Marketing (Collective Marketing)*
- Business participation in *Trading Business* during the lean period of the agricultural operation of the concerned FPO's members

Business participation in the prevailing agri-value chain requires the FPO to enter as a value chain actor and perform collective economic activity (enhance the scale of economy). Hence, it is important to understand the business model/s of different value chain actors in terms of the value chain characteristics (economic rent and value add).

Role and functions of market intermediaries in agricultural marketing

Value chain actors	Functions & Features	Requisite Financial Services
Input suppliers-Seed, fertilizer, plant protection, animal feed etc.	• Input management (Inputs, technical services) • vary in size	• Short-term working capital • Mid-term financing (equipment dealers) • Payments, transfer
Producers/ farmers	• Primary production • Engaging family members and seasonal/part-time workers.	• Short-term working capital • Mid-term financing (equipment, livestock) • Deposit accounts (value storage, commitment savings) • Payments, transfers
Aggregators, service	• Buy produce, aggregate it before selling	• Short-term working capital

providers, traders	• They need to make their Working Capital flow as quickly as possible. • Small traders stop buying when they run out of cash, leaving farmers stranded with their products.	• Mid-term financing (storage facilities, vehicles) • Deposit accounts (checking) • Payments, transfers
Retailers, wholesalers ***Exporters***	• Sell the processed product to retailers and supermarkets. • Manage credit relations in two directions • Act as a de facto bank for other actors in the chain. • Often need more capital than other traders in the value chain.	• Short-term working capital • Mid-term financing (equipment) • Deposit accounts (checking) • Payments, transfer

Importance of Value Chain Actor's Dynamics for an FPO

For the FPO to harness the economic rent along the long, ineffective and inefficient agri-value chain, it must increase economies of scale. Before intervening in the prevailing agri-value chain, the FPO should gain knowledge of value chain dynamics in terms of the business model of the value chain actors. This will give the following vital information for decision making:

- *Requirement of financial resources* to perform the business activity of the particular value chain actor.
- *Assessment of infrastructure and support services* would be required for loading / unloading, processing, packing, weighing, assaying, transport, establishment of shop and storage.
- Assessment of the economic rent / mark-ups (*Marketing cost and Marketing Margin*) to analyse technical feasibility and economic viability of the prioritised business activity.
- *Networking / business relationship mechanism* with both the input and output value chain players to optimally perform the business activity.
- *Assessment of market dynamics/market intelligence* (variation in demand, price, segment, quality, etc.) in correlation with the business activity.
- *Extent of operation and market risk* involved in a particular business activity and how value chain actors overcome them with the undertaking of a risk mitigation strategy.

3. Case: Value Chain Dynamics of Maize Crop – An Example

Maize is a multi-faceted crop used as food, feed and industrial crop globally. Maize has a very prominent role to play in the Indian economy. Maize is less water demanding and gives a higher yield per hectare. The consumption of Maize has increased at a CAGR of 11% in last five years. Today, Maize is a source of more than 3,500 products including specialised Maize like QPM "Quality Protein Maize". As per the demand estimates, Indian Maize production has to grow with a CAGR of 15% in the next 4-5 years.

Seasonality of supply and demand of maize

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Demand												
Supply												

Source:- PwC analysis based on GAIN Report 'India: Grain and Feed Annual 2017

	Strong Demand
	Weak Demand
	Strong Supply
	Weak Supply

Producer and Production of maize

Average cost of maize sale comes to about Rs.44,058 and the average revenue is around Rs.52.800 with a productivity of 48 quintal per ha. Cost of sale composition revealed that material input cost is highest, which is $1/3^{rd}$ of selling price followed by labour input (27.93%), credit/lease/insurance cost (15.45%) and marketing cost (6.74%). Net margin to the producer is about 16.55% of the cost of sale.

An example of cost of sale composition of the maize cultivation per ha

S. No.	Particulars	Amount (Rs.)	Amt. in Rs./ quintal	%
1	Material Input	17,594.00	366.54	33.33
2	Labour Input	14,748.00	307.25	27.93
3	Credit / Lease /Insurance	8,156.97	169.94	15.45
4	Marketing Cost	3,560.00	74.17	6.74
Total Cost of Input		44,058.97		
5	Net Margin	8,741.03	182.10	16.55
	Selling Cost by producer	52,800.00	1,100.00	100.00

Cost and Margin of maize among various value chain actors (Rs./Quintal)

S. No.		Producer	Trader	Wholesaler	Processor	Dealer	Retailer
1	Purchase Price	0.00	1100.00	1300.00	1551.00	2150.00	2600.00
2	Incremental Input Cost	917.90	58.85	168.46	684.11	189.86	103.68
3	Market Margin (MM)	182.10	141.15	81.54	472.89	260.14	327.99
4	MM (% of Cost of sale)	17.00%	11.00%	5.00%	17.00%	10.00%	11.00%
5	Sale Price	1100.00	1300.00	1550.00	2708.00	2600.00	3031.67
6	Return on investment	20.00%	12.00%	6.00%	21.00%	11.00%	12.00%
7	Return on incremental investment	20.00%	240.00%	48.00%	69.00%	137.00%	316.00%
8	Sharing of Risk	Very High	Low	Medium	Medium	Low	Medium
9	Ranking in sharing of profit	6	3	5	4	2	1

Break Even point and viability for the producer: The break-even point for the cost of sale depends primarily on the sale price and productivity of the maize. For the given sale price of the maize @ Rs.1100/quintal, and cost of cultivation of Rs. 44,000/acre - breakeven productivity is coming to 40 quintal per ha. Hence, production business of the producer is found economically unviable in prevailing agri-value chain.

Solution for the producer: Enhancement of the economic rent of the producer is only possible through the participation of the producer in the prevailing agri-value chain. This will enable them partly access the *other actor's* margins, *which is presently 83%*.

Distribution of market margins among value chain actors (Rs. / quintal)

Actor	Purchase Price	Marketing Cost	Market Margin	Sale Price	Market Margin (%)
Input supplier	550	50	25	625	2.04%
Producer	625	275	200	1,100	16.33%
Primary Trader	1,100	100	50	1,250	4.08%
Wholesaler	1,250	200	100	1,550	8.16%

Processor	1,550	300	400	2,250	32.65%
Dealer	2,250	250	200	2,700	16.33%
Retailer	2,700	200	250	3,150	20.41%
Total		1,375	1,225		100.00%

Opportunity for the FPOs by undertaking role of different value chain actors

S. No.	Role of Value Chain Actor by FPO	Estimated increase in Market Margin
1	As an Input Supplier	Market margin of producer can be increased by Rs.25/quintal (2%)
2	As a Primary Trader	Market margin of producer can be increased by Rs.50/quintal (4%)
3	As a Primary Trader and Wholesaler both	Market margin of producer can be increased by Rs.150/quintal (8%)
4	As a Primary Trader, Wholesaler and Processor	Market margin of producer can be increased by Rs.550/quintal (33%)
5	As a Primary Trader, Wholesaler and Processor along with input Supplier	Market margin of producer can be increased by Rs.575/quintal (46%)

4. Case: Participation of FPO in the Goat Value Chain

Kamla Farmer Producers Company Ltd. (KFPCL), Darbhanga, Bihar, and
Durgadevi Farmer Producers Company Ltd. (DFPCL), Udala, Mayurbhanj, Odisha

Goat rearing is a common agri-allied activity especially for women in resource poor families. To organize the activity, the farmers were organized into FPO thus formalizing some of the value chain. The FPOs participate in the value chain of the goat business as an input supplier and primary trader/aggregator by replacing the local primary traders.The FPOs have entered into a written contract with slaughterers for direct supply of live goats procured from FPO members on a commission basis. The business from goat rearing activity for the FPO is only restricted to 3 percent commission on the sale value both from the Producer (1.5 percent) and the Slaughterer (1.5 percent).

The extent of participation in the goat value chain by the FPO is depicted below.

The Goat Value Chain – Pre FPO and Post FPO business participation

How do FPO members benefit?

Due to interventions of the FPO in the goat rearing value chain, benefits to the farmers/producer accrued on three accounts, viz. increased productivity, better price realisation and social conditions.

Increased Productivity of Goats

The initiatives undertaken by FPO for productivity enhancement in goat rearing were as under:

1. **Breed improvement**: Maintaining and providing breeding bucks of *Black Bengal* goats breed: the breeds now have high-quality meat, low requirement of feed, high kid production rate (a doe gives one to three kids twice a year), easy adaptability to a varying environment and high resistance to disease.
2. **Scientific rearing:** The FPO introduced the system of model goat shed made from local material, stall feeding, regular vaccination through PashuSakhi (trained women FPO paravets) and diet management. This helped in better weight gain and lower mortality. The goat rearers were trained in making mineral blocks and azolla cultivation – as nutrient

supplements. As a result, average body weight of 18 month bucks increased by 15-20% and mortality rate came down from 10% to 2%.

Transparent market practices for better price realisation

The FPO introduced weighing machines at village level to promote live-goat selling; previously local traders priced goats by visual assessment. Now farmers earn a fair price based on the actual live-weight of the animal.

Assuming the role of an aggregator, the FPO executed written contractual arrangements with the slaughterers and thus the producers were also hedged from the price fluctuations.

Based on the information collected from the producers, the difference in income between pre & post FPO scenario was as under:

Price Discovery for FPO members in goat farming (KFPCL)

Particulars	Pre-FPO	Post-FPO	Remarks
Average weight of a 18 month goat	12-14 Kg (Avg. 13 kg)	14-16 kg (Avg. 15 kg)	Introduced weighing system
Market price (Rs/kg live weight)	Rs. 200-230 (Avg. 215)	Rs. 220-240 (Avg. 230)	Introduced price contract as an aggregator
Sale realisation per goat (Rs)	2,795	3,450	
Price Difference (%) per goat due to FPO interventions		**23.4%**	

Social Advantages

Before the formation of the FPO, goat rearing farmers normally left the animals for open grazing. Many a times, the goats would browse the vegetables in household wadis/ kitchen gardens resulting in frequent brawls among villagers. After the FPO introduced stall-feeding and improved sheds, farms are protected and children are attending school (instead of grazing animals).

The men folk in these villages used to migrate to adjoining states as agriculture labourers. However, understanding the profitability of goat rearing activity, a few of them have stopped migrating and have taken up goat rearing as a full-time livelihood activity.

Chapter 6: Risk Analysis of Economic Activities

Risk analysis of the selected economic activities

Risk mitigation strategies

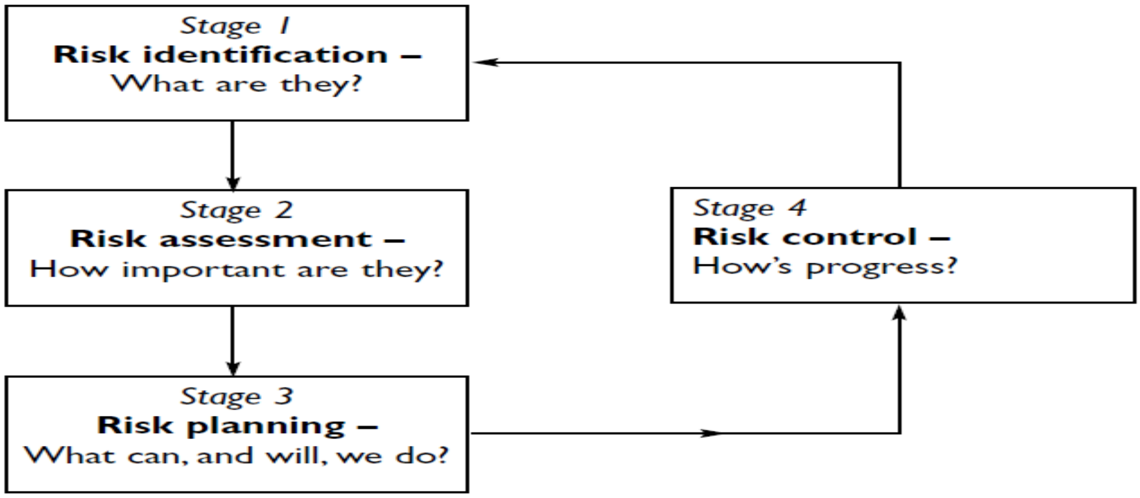
Opportunities and Threats analysis

After conducting a feasibility study, the FPO can rank and select the economic activities with the most potential as their business based on their financial resources, capacity of the FPO and prevailing socio-economic conditions of the member farmers. Then they have to understand the value chain of the selected economic activities and decide which role they are going to play as a value chain actor. At this stage it is pertinent to critically evaluate the external business environment particularly the opportunities and threats for each identified economic activities. Every activity must be evaluated to know whether it is worth pursuing. The opportunities and threats of each identified activity is analysed in terms of the following attributes:

a) Size of the market
b) Its stability i.e., is the demand for the product long term or purely temporary?
c) The extent to which the market is dissatisfied with the existing solution
d) Level of competition - high, medium or low
e) Price and quality sensitivity of the market
f) Barriers to entry/exit
g) Changes in government policies such as subsidy, availability of low cost funds, etc.

Risks identification and safeguards

Identification of risks and possible safeguards is an integral part of the Opportunity/Threat analysis. The goal is not to eliminate risk altogether (an impossible proposition) but to identify them and assess whether they can be managed or minimised through operational resilience. *If the risks or threats seem unmanageable then one may discard the business idea all together*.



Risk Identification and Mitigation

Even after starting the business, the risks continue to remain in the business environment, both internally and externally. Hence, it is important to develop risk assessment mechanism and risk mitigation strategy. There are five key steps in the development of this strategy.

i. **Risk Identification:** Identify and map the processes/factors that would have the biggest impact on earnings. These are the factors that would have the biggest impact on earnings, if disrupted. *For example, a bad monsoon will severely affect crop production in rain-fed areas thus reducing the earnings of the FPO considerably*.

ii. **Identify Critical Infrastructure** - including processes, relationships, people, regulations, plant, and equipment - that supports the FPO's ability to generate earnings. *For example, if there is break-down in the Bulk Milk Chilling Unit, the whole stock of milk will go waste, besides adversely affecting the supply chain*

iii. **Identify the Main Vulnerabilities:** Vulnerability is the inability to cope with the adverse effects of an event or risk. For example, storage, processing and trading of commodities can come under a new regulation, imposing conditions, which the FPO may find difficult to comply with, at short notice.

iv. **Identify the Weakest Links:** the elements on which all the others depend. *For example, if there is a single buyer for all produces, this is the weakest link. Further, a member/BOD/employee of the FPO on whom the whole operation of the FPO depends, etc.*

v. **Develop a Planned Response to Mitigate the Risks:** For example, the enterprise may build additional capacity for some critical infrastructure like a spare refrigerated van for ferrying chilled milk or a power back up for a BMCS.

Major five risks faced by FPO and strategies to manage them

To stabilize the income of the FPO, it is important for the FPO to manage the risks. There are five major sources of risks that an FPO should address and use various tools and strategies to manage each of these risks as mentioned below -

1. Production, Operational and Technical risks
2. Marketing risk
3. Financial Risk
4. Human resources management risk
5. Institutional and legal risks

A. Production, Operational and Technical risks

Production, operational and technical risk relate to the possibility that your yield or output levels will be lower than projected. Major sources of production risks arise from adverse weather conditions such as drought, excessive rainfall at harvest or planting, heat waves, etc. It may also result from damage due to insect/ pests and disease despite control measures employed and from failure of equipment and machinery such as an irrigation pump. Operational risk relate to value addition process and practices adopted by FPO.

Strategies to manage production and technical risks:

- ✓ Follow recommended production and operational practices.
- ✓ Diversification of crops and growing different crop varieties and completely new crops. Diversification reduces the impact of risk by spreading risk over several farm enterprises
- ✓ Expand production through intensive cultivation techniques or by planting more acreage.
- ✓ Insure crops and all farm equipment
- ✓ Adopt risk mitigating practices such as drip/sprinkler irrigation, use of resistant varieties of seeds, etc.
- ✓ Consider site selection - use fields less susceptible to flooding or pests and rotate crops.
- ✓ Maintain equipment and keep facilities in good working condition
- ✓ Diversify your business activities

B. Marketing risk

Marketing risks relate to the possibility that you will lose the market for your products or that the price received will be less than expected. Lower sales and prices due to increased numbers of competing growers or changing consumer preferences are common sources of marketing risk. Marketing risks can also arise from loss of market access due to a wholesale buyer or processor relocating or closing, or if a product fails to meet market standards or packaging requirements.

Strategies to manage marketing risks:

- ✓ Develop a marketing plan with realistic sales forecasts and target prices.

- ✓ Explore 2-3 alternate markets for your produce/s.
- ✓ Increase direct marketing efforts to capture a higher price.
- ✓ Market through multiple channels or outlets to reduce reliance on a single market.
- ✓ Enter into sales or price contracts with buyers.
- ✓ Spread harvest and sales over the season by scheduling planting and facility of storage.
- ✓ Conduct essential market research - understand your customers' needs and preferences.
- ✓ Purchase Whole-Farm Revenue Protection / appropriate insurance cover to cover unexpected decline of market prices during the growing year
- ✓ Purchase inputs during harvesting time/season.

C. Financial Risks

Financial risks relate to not having sufficient cash to meet expected obligations, generating lower than expected profits, and losing equity in the portfolio. Sources of financial risk commonly result from production and marketing risks described earlier. In addition, financial risks may also be caused by increased input costs, higher interest rates, excessive borrowing, lack of adequate cash or credit reserves, default in credit supply, etc.

Strategies to manage financial risk

- ✓ Develop a strategic business plan and monitor financial ratios and enterprise benchmarks.
- ✓ Control key farm expenses - consider other suppliers and alternative inputs.
- ✓ Conduct a trend analysis to assess change in farm profits.
- ✓ Communicate and renegotiate agreements with suppliers.
- ✓ Consider rental options rather than purchasing machinery, equipment or land.
- ✓ Evaluate the possibility of expanding or contracting different enterprises.
- ✓ Control or defer unnecessary administrative expenditures.
- ✓ Make exposure norms for supply on credit inventory management.

D. Human resources management risk

Human resource management risks pertain to risks associated with individuals and their relationship to each other. These relationships include those with employees and customers. Key sources of human resource risk arise from illness, death or accident. The impact of any of these events can be devastating to a business entity. Human resource risks also include the negative impact arising from a lack of people management skills and poor communications.

Strategies to manage Human resource management risk (often neglected in FPOs)

- ✓ Develop and practice good "people skills" with the employees.
- ✓ Evaluate alternative sources of labour.
- ✓ Provide adequate training to CEO, BOD and key staff members. It improves performance.

- ✓ Develop good communication skills among field staff
- ✓ Recognize and reward good performance
- ✓ Ensure the safety of workers
- ✓ Provide adequate supervision and discipline and periodical review
- ✓ Consider health and life insurance needs of the core staff of the FPO

E. Institutional and legal risks

Institutional risk refers to unpredictable changes in the provision of services from institutions that support farming. Such institutions can be both formal and informal and include banks, cooperatives, marketing organizations, input dealers and government extension services. Part of institutional risk is the uncertainty of government policy affecting farming, such as price support and subsidies. The risks that FPOs face are often a result of decisions taken by policy-makers. Further, legal risks relate to fulfilling business agreements and contracts. Failure to meet these agreements often carries a high cost.

Strategies to manage Institutional risk and legal risks

- ✓ Understand business contracts and agreements - ask questions if you are unsure.
- ✓ Know and follow state and central regulations related to your farming operation.
- ✓ Mobilizing savings and credit, with members providing mutual guarantees
- ✓ Review business insurance policies and carry sufficient liability coverage.
- ✓ Democratization of business operations.

Case: Mitigate Production Risk through Integrated Farming Systems

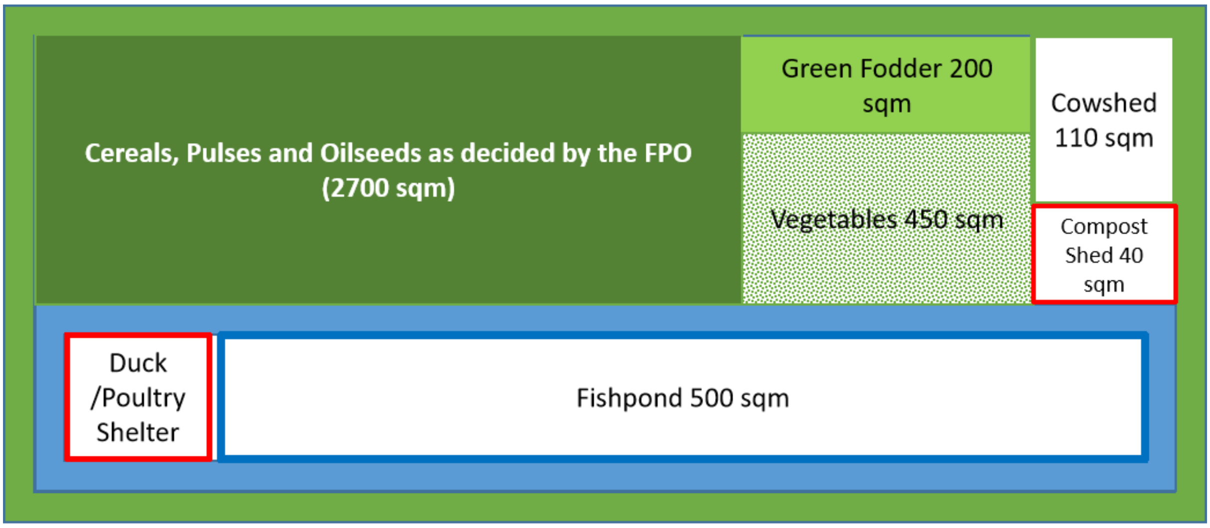
Two examples of managing production risks using Integrated Farming Systems (IFS) are described below.

Benefits of IFS

- Year around employment to the member farmers
- At least 3 times more returns per unit area as compared to sole agriculture
- Better resource recycling through the system
- Increasing Input Efficiency
- Environmental Safety
- Possibility of diversifying the FPO’s product line – as farmers already have diversity built into their farms

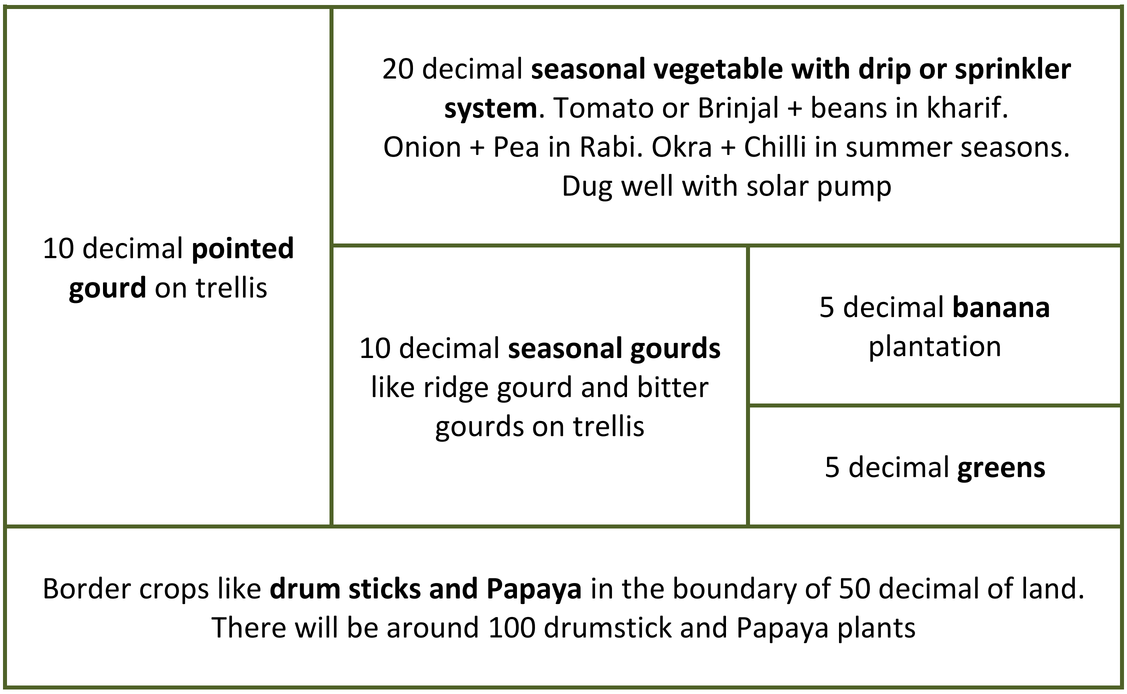
1. Model of a One Acre Integrated Farming System

The boundaries of the farm incorporate Horticulture crops like papaya, guava, Mango etc



2. Financial Returns from Integrated Vegetable Cultivation Half-Acre Model

An example adopted by Patneswari Agri. Producers Company Limited, Rayagada (Odisha)



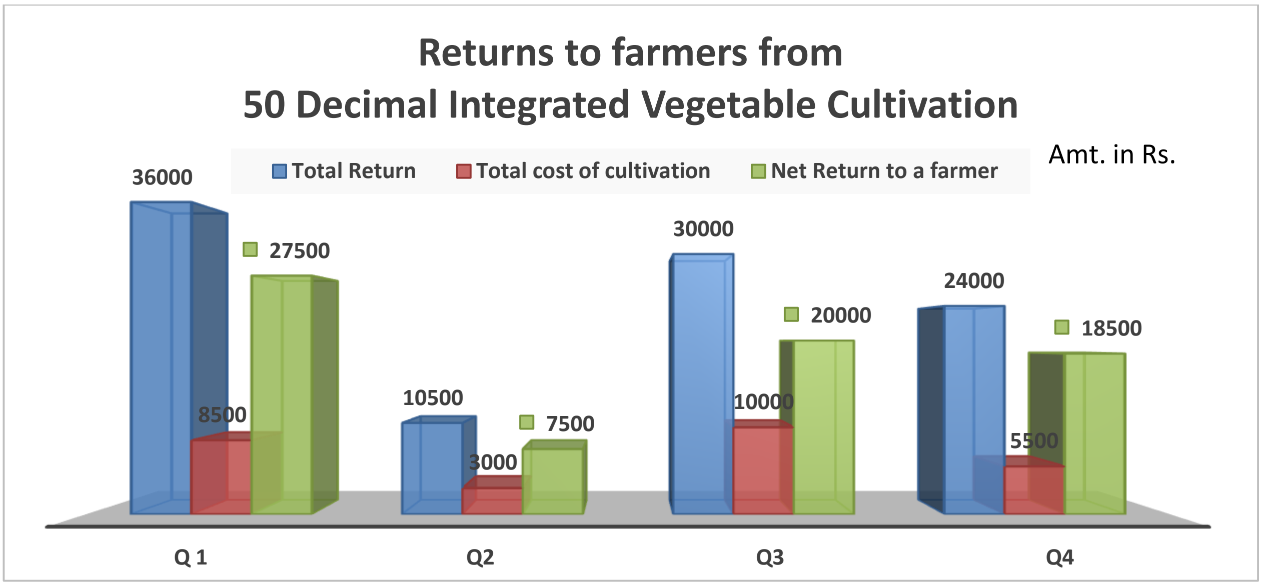
Cost of 50 Decimal (0.5 acre) integrated vegetable cultivation per farmer

Sl No	Items	Units	Unit cost in Rs	Total cost in Rs
1	Capital Cost			
1.1	Dug well (6ft dia with cemented ring and of 30 ft depth.)	1	35,000	35,000

1.2	solar pump (0.5hp)	1	25,000	25,000
1.3	Sprinkler/ low pressure drip system for 20 dcml of land to be used for seasonal vegetables.	1	15,000	15,000
1.4	Trellis for seasonal gourd in 10 decimal land	1	3,000	3,000
1.5	Trellis for pointed gourd in 10 decimal land	1	3,000	3,000
1.6	Cost of establishing Fencing around the plot	1	9000	9,000
	Total Capital Cost			**90,000**

Return per farmer from 50 decimal (0.5 acre) integrated vegetable cultivation

Sl No	Description	Q1 (Jul-Sep)	Q2 (Oct-Dec)	Q3 (Jan-Mar)	Q4 (Apr-Jun)	Total Rs.
1	From Banana Cultivation(10 decimal)			14,000		14,000
2	From seasonal Vegetable(20 decimal)Tomato + Beans; Onion + Pea; Okra + Chilli)	20,000	7,500	9,000	15,000	51,500
3	From Pointed gourd cultivation 10 decimal	9,000			6,000	15,000
4	Seasonal Gourds in 10 decimal land (Bottle gourd, Bitter gourd etc)	7,000	3,000	7,000	3,000	20,000
4	Total Return	**36,000**	**10,500**	**30,000**	**24,000**	**100,500**
5	Total cost of cultivation	***8,500***	***3,000***	***10,000***	***5,500***	***27,000***
6	**Net Return to a farmer**	**27,500**	**7,500**	**20,000**	**18,500**	**73,500**



Chapter 7: Marketing Strategy for FPOs

Demand, Market and Competition analysis

Profit planning dynamics

Agricultural marketing

Agricultural marketing comprises of all activities involved in the supply of farm inputs to the farmers and movement of agricultural products from the farms to the consumers.

- The agricultural marketing system includes two major sub-system viz. product marketing and input (factor) marketing. The product marketing sub-system includes farmers, village/primary traders, wholesalers, processors, importers, exporters, marketing cooperatives, regulated marketing committees and retailers. The input sub-system includes input manufacturers, distributors, related associations, importers, exporters and others who make available various farm production inputs to farmers.
- The agricultural marketing system is understood and developed as a link between the farm and non-farm sectors. A dynamic and growing agriculture sector requires fertilizers, pesticides, farm equipment, machinery, diesel, electricity, packing material and repair services which are produced and supplied by the industry and non-farm enterprises.
- The marketing system should bring about the overall welfare to all the segments (producers, consumers, middlemen and traders) in society. The government acts as a watch-dog to ensure that interests of all the groups associated with marketing are protected.
- The subject of agricultural marketing includes marketing functions, agencies, channels, efficiency and costs, price spread and market integration, producer's surplus, government policy/facilitation and imports/exports of agricultural commodities.

A. Demand and supply analysis

After selecting viable economic activities for business, FPOs should analyse the market demand for the particular commodity and also the ability of member-farmers to supply. The FPO should have information about the crops grown by its farmer members, total area under production of these crops and the quality of production. Similarly, a suitable format should be used to monitor the demand side activities. The FPO must calculate the volume of marketable surplus of the commodity with their member farmers. Marketable surplus is the produce left with the member farmers after meeting their own consumption requirements –

for food, seeds, feed for livestock, etc. Based on this information, an FPO should prepare suitable marketing strategies for establishing linkages with the buyers.

Estimating the volume of produce that can be delivered to the buyers, as per agreed quality standards and time is a major challenge for any FPO. For example, an FPO has about 500 members spread across 10 villages. Production Schedule Format can be used by CEO/BOD of the FPO for data collection from the members. Knowing the cropping pattern and the date of harvest of each of their produce will assist the FPO to ensure selling time of the produce to the buyers. A sample format is given below which can be used seasonally.

Production Schedule in conjugation with marketing schedule

Farmer Member details		Crop details				
Farmer Member ID	Name of Farmer Member	Name of the crop	Crop area	Planting date of Crop	Harvest Time of Crop (week/Month)	Expected marketable production of Crop
		Crop 1				
		Crop 2				
		Etc.				

Procurement and Aggregation Tool (Assessment of Marketable Surplus)

The FPO can develop linkages with buyers by sharing the information about the crops produced by FPO farmer members and the quantity which FPO can supply. The information from the above production schedule format will help the FPO to receive indents from the buyer. To deliver to the buyer at the agreed time, the FPO should develop a plan to procure produce from the members. The plan will help in preparing a time schedule for procurement from farmers and making delivery to buyers efficiently as detailed below-

Farmer Member details		Aggregation of Crop details			
Farmer Member ID	Name of Farmer Member	Name of the crop	Harvest Time of Crop (week/Month)	Expected procurement & aggregation time from farmers	Expected Delivery to the buyer
		Crop 1			
		Crop 2			

For example: An FPO receives an order from a buyer to deliver 10 quintals of tomato.

- The FPO using the information from the above tables finds that tomato will be harvested in the next 15 days.
- The FPO uses the procurement and aggregation plan and based on the harvest time, forecasts a delivery time to the buyer.
- Thus, the FPO can tell the buyer that the delivery will be done by 20 days.
- If it is acceptable to the buyer, the FPO can execute the order accurately.

B. Market analysis

The marketing plan is the first step in developing any new strategy. It should be based on a realistic assessment of the external environment. The market analysis should cover details about:

- The overall market for the produce of the FPO
- Changes in the market
- Market segments, their attractiveness, profitability
- Target market and customers
- Description of customers
- Competitors – Direct and indirect

Know your Market - Decoding Market Segments

It is important for an FPO to understand the market segment and forms of commercial transactions. There are mainly two forms of commercial transactions namely

- ✓ **B2C - Business-to-Consumer** - the process of selling products directly to consumers.
- ✓ **B2B - Business-to-Business** - the process of selling products or services to other businesses.

Depending on factors like market location, product, seasonality and the scope of better margins, an FPO can devise a strategy either to be part of one or both the channels at a time. The table summarises various market segments and the customer transaction type they perform.

Market Segment	Customer Transaction Type (B2B, B2C, Both)
Export Market	B2B
Arbitrage	B2C
Retailers/Online Delivery	Both
Hotel/ Restaurant/Café	B2C

Direct Marketing to Apartments	B2C
Food Processing Units	B2B

C. Competition Analysis

The purpose of the competition analysis is to determine the strength and the weaknesses of the competitors within the proposed market. With this the FPO can find the strategies that will -

- provide the proposed FPO business a distinct advantage in the market and
- find the barriers that can to prevent competition from entering your market, and
- locate any weakness that can be exploited within the product development cycle.

The first step in a competition analysis is to identify the current and potential competition. For the purpose, FPO should look at the market from the customer' view point and group all competitors by the degree to which they contend for the buyers' perception value in terms of money or satisfaction by its use. After grouping the competitors, we can analyse their strategies and identify the areas where they are most vulnerable. The aim is to get a competitive advantage over them. The analysis could be carried out on the parameters like (1) reasons behind their success or failure; (2) prime customer motivator; (3) major component costs and (4) industry mobility barriers.

The strategy for negotiating the proposed market share may focus on

- Product
- Distribution
- Pricing
- Promotion and
- Advertisement.

Marketing Strategy

The FPO's marketing strategy is chosen after selecting its target market segments and carrying out a SWOT analysis. The choice depends on a variety of factors including:

- the image that the FPO wants to project about the product and the organization
- the FPO's sales objectives – wanting rapid penetration or is content with slow penetration of the market, etc.
- Marketing Mix - planning a right mix of the 4 Ps - Product, Price, Place and Promotion – to develop an appropriate marketing strategy (see figure).

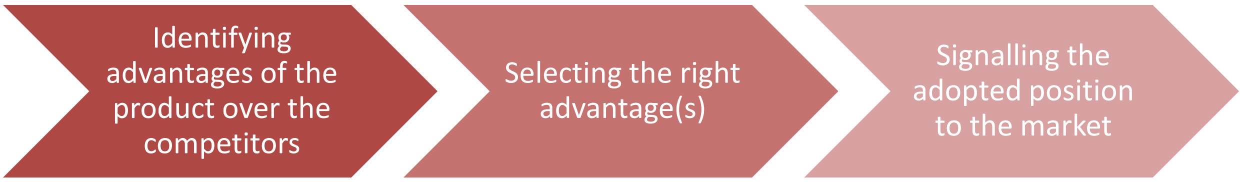
The marketing decides how the FPO plans to reach out to customers and retain them. The Marketing Mix helps the FPO to fine tune its strategy to reach the right customers.

Pricing Strategies

For any given product, the success of the business significantly depends on pricing policy. An organization goes through the following steps in setting its pricing policy

Positioning Strategy

Once a market has been segmented and a particular segment chosen, the FPO has to position the product in that market segment. This means the FPO has to inform the customers about what it is offering and how it is different and better than the competitors. Positioning is done in three steps:



Price and Promotion

Price and level of promotional spending are very important tools in achieving market penetration objectives. For instance, if the objective is to quickly gain a large market share, the strategy could be a combination of low price and high decibel promotion, leading to large volume of sales. The market strategies often have to decide on the level of quality and price that it can offer to a chosen market segment as compared to competitors.

Based on the strategies chosen, the Marketing Mix (4 P's of Marketing) could be formulated and the marketing plan can be written. It should cover the following:

Target markets	**Competition**	**Environment**

Product /service	**Price**	**Place**
Promotion	**Targeted sales in the coming year and projections for the next two years**	

Chapter 8: Financial Planning and Management of Businesses by FPO

The last part of the business planning process is the preparation of the financial plan. The financial plan basically translates all the other parts of the business plan, i.e. value chain analysis, opportunity and threat analysis, the operating plan, marketing plan, etc. into anticipated financial results. It contains the status and the future projection of financial performance of the business inclusive of the selection, evaluation, and interpretation of financial data along with other relevant information in financial decision making. In fact, the financial plan of a business plan indicates if the business idea is viable and profitable or not. Therefore, it represents the best estimates of the risks involved in the business and the return on investment.

The financial plan clearly answers the following questions related to business selected by the FPO-

- How much money does the FPO have?
- Where did it come from?
- How much money does the FPO need?
- How will the FPO use it?
- What returns is the FPO assuring to its shareholder members and others?

Assumptions in a Financial Plan

The assumptions we make to generate a financial plan can make or break our business plan. All the components of financial plan depend on the assumptions. The assumptions are nothing but the projections made for various activities to be undertaken /undertaken by the FPO like procurement, processing, sales, management and other costs. These should be written on a separate sheet and the rest of the calculations for other components should be done based on that. Therefore, it is very important to **develop and specify assumptions as realistically and as accurately as possible**, so that the components of the financial plan are more realistic and present reasonably accurate projections.

Generally, three financial areas are discussed under the financial plan of an FPO –

1. Capital requirement and financing pattern of the FPO
2. Financial projections indicated in the form of statements of the FPO i.e. Profit & Loss Statement, Cash flow statement and Balance sheet
3. Financial returns indicated in the form of financial ratios

1. Capital Requirement and Financing Pattern of the FPO

To start and run the business by any FPO, funds are a basic and essential component. Two essential component of fund management are

- Procurement of funds to run its operation
- Effective utilization of funds

The capital requirement of the FPO will depend on the nature and volume of business undertaken by them which would vary from one business to another. The capital requirement of an FPO is determined by fixed costs and variable costs.

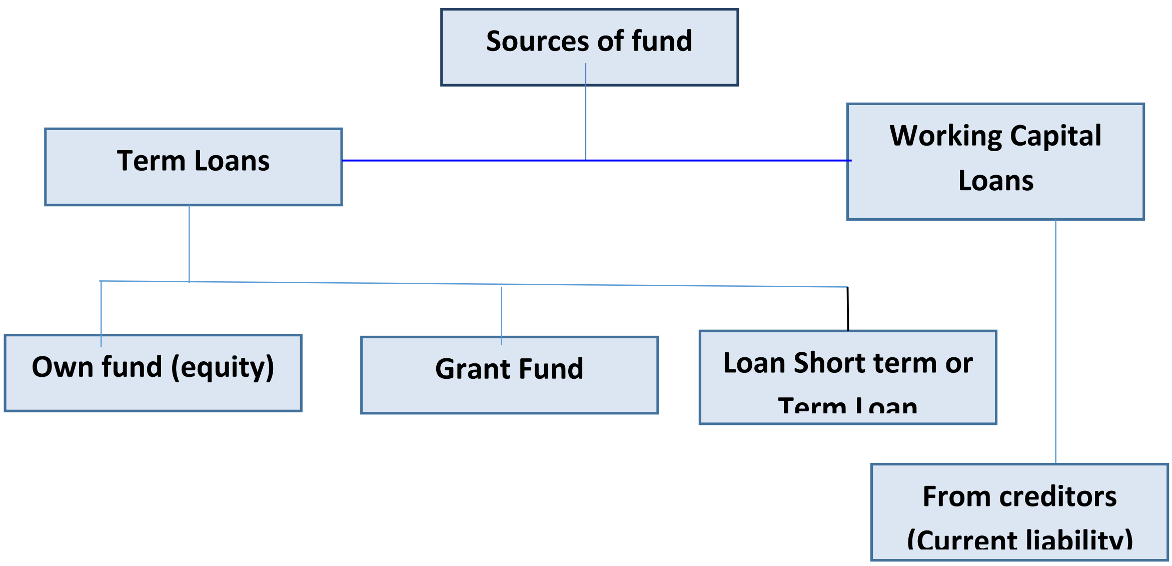
- **Fixed costs:** Fixed costs are those which remain unaffected by the sales volumes. This means that you have to incur them, no matter how much is the sales volume. Rent or certain number of staff hired for the business are good example of fixed costs.
- **Variable costs:** Variable costs are those that change directly with the sales volumes or with the size of the business. For example the cost of inventory or raw material is a variable cost. The more you sell, the more raw material you have to purchase and vice-versa.

Other types of costs are **direct costs** and **indirect costs**.

- **Direct costs:** Those costs that are directly involved in the production of goods or providing services of the FPO. For example - raw material cost and labour cost
- **Indirect Costs:** Those costs that are spent on running the business not directly related to production of goods or services often associated with administrative processes. For example - Office rent, salary, travel cost etc.

Direct cost can also be called as variable cost and indirect cost can be called as fixed cost.

Sources of Funds



Mobilisation of the financial resources

Equity share	•By incresing membership / Number of shares •Cost of fund is negligible •No issue of repayment period
Equity grant	•Can be availed from equity grant fund •Cost of fund is negligible •No issue of repayment period
Director's debt	•From the Board of Directors with or without interest •Low cost fund •without any collateral
Convergence with Govt. scheme	•Convergence with the various subsidy scheme •Some state Govt. are offering interest subvention schemes
Credit from financial Institutions	•Formal credit from financial institutions •Credit appraisal and documentation •May require collateral

Understanding Capital for running the business of the FPO

Capital is the total amount of money needed by the business to perform business operations. It consists of Fixed Capital and Working Capital. Fixed Capital is necessary for buying assets such as machinery, land, buildings, storage, etc. whereas Working Capital is used to perform day-to-day tasks of the business such as buying materials, paying wages, paying salaries etc.

Expenditure, Sales and Revenue of an FPO

Expenditure projects the cost of production, transportation cost and administrative costs.

- The cost of production includes procurement cost and value addition cost.
- The administrative cost includes salary, rent, maintenance, cost of utility etc. This includes only variable cost as fixed cost is included in capital expenditure.

The projection for expenditure is undertaken based on assumptions built on the Operations plan, management plan and market plan components of the business plan.

Sales and Revenue give the year wise projections for sales and income from the business. This is based on the market plan component of business plan.

2. Financial Statements

Key Financial Statements for developing a business plan include

- Profit & Loss Statement
- Cash flow Statement
- Balance sheet

Profit & Loss Statement

The profit and loss statement tells us whether the FPO is making profit or loss for a specific period of time. It presents the summary of the income and expenditure for the financial year and indicates if the business has made loss or profit in that financial year.

Any profit & loss statement basically consists of elements such as revenue/Sale, cost of goods sold, profit, expenses and taxes.

a. The income includes turnover or revenue from sales and income from other sources like bank interest on deposit.
b. The expenses includes the cost incurred towards procuring a commodity, its processing/ value addition, transportation cost, administrative cost, interest cost and depreciation on asset for that year.

This is the most important statement of a financial plan as gives the clear picture if the business would make profit or would incur loss.

Example of Profit & Loss Statement of an FPO for the year ending 31 March 2021

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
Expenses & Losses		**Income & Gains**	
To Operating expenses	200,000	By Gross profit (Sales – cost of goods sold)	500,000
To salary			
To rent			
To transportation charges			
To training charges			
To electricity			
To depreciation			

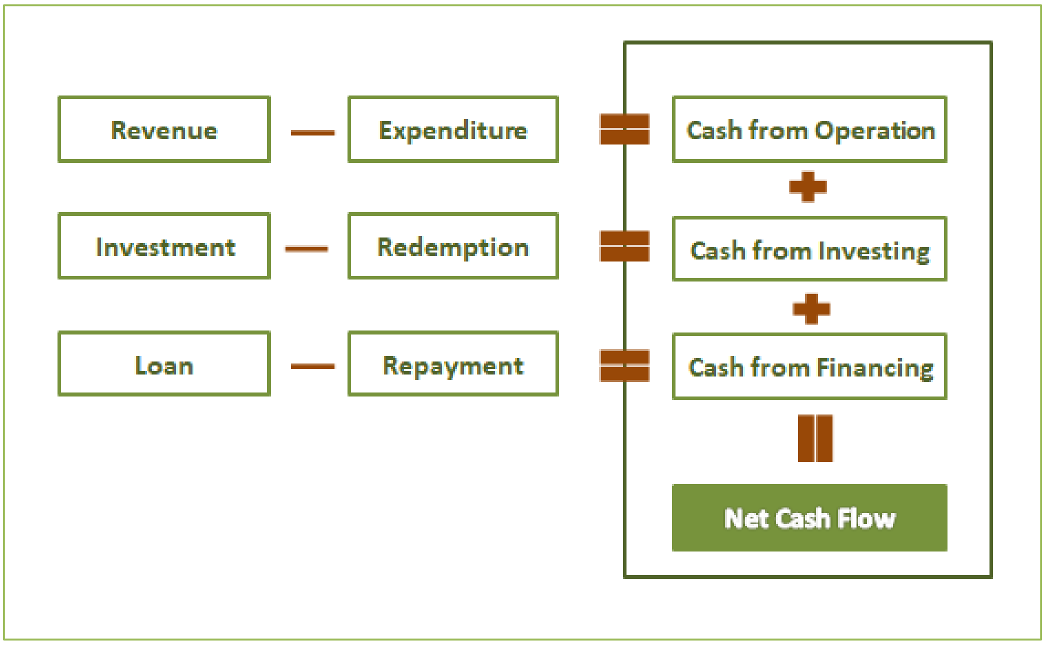
To Taxes and interest (If any)	40,000		300,000
To reserves (say 10%)	26,000		
To net profit before interest	260,000		
Earnings per share (1000 shares)	234,000/1,000 =Rs.234		

Key points to remember under Profit & Loss Statement

- Cost of goods sold = Opening stock + Purchase – Closing stock
- Gross Profit = Revenue/sales – Cost of goods sold
- Operating profit = Gross profit – (Operating Expenses + Depreciation expenses)
- Net profit or loss = Revenue/sales – Expenses. Basically what is left over after deducting everything like cost of goods sold, operating expenses, depreciation, interest and taxes.
- Reserves are mandatory in a producer organization; it is advised to allocate a portion of net profits (@10% in the above example)after interest and taxes to Reserves.
- Profit or loss accounted in Profit & Loss Statement are to be carried forward to Cash Flow Statement.
- In case of a new FPO, it is expected to write a projected income statement for the next 3 to 5 years. The projection is called a pro-forma Statement

Cash flow Statement

Cash flow statement is like a bank account statement which tells us how much cash was on hand at the beginning of a period and how much at the end of a period. It also captures where the cash came from and how the FPO spends it. The cash flow statement summarizes cash inflow and outflow from three activities – operations, investment and loan. A good financial plan should reflect cash flow from all these activities for any given financial year.



The cash flow statement is a very important part of the financial plan. This gives the picture of liquidity of cash with an FPO so as to continue its operation. Cash flow statement of the FPO will indicate when the business might be low on cash and when it might be the best time to buy new equipment. Above all, a cash flow statement will help figure out how much money might be needed to be raised or borrowed to grow the business of the FPO. Therefore, a cash flow statement helps an FPO to figure out the low cash points and to consider options to bring in additional cash.

In short, a Cash Flow Statement includes

- Opening Cash Balance
- Cash Inflows for the period
- Cash Outflows for the period
- Closing Cash Balance

Balance Sheet

The balance sheet indicates the total assets and total liabilities of FPO at any point of time. The assets are always equal to liabilities in balance sheet. The own building, infrastructure, furniture, equipment, vehicles are part of assets. The shareholding and loan are part of liabilities. In a nutshell, what the FPO owns is called its Assets and what the FPO owes is called its Liability. The FPO's can be called as shareholders equity.

Therefore, **Assets = Liabilities + Shareholders equity**

So, the Balance sheet describes the assets controlled by the business and how those assets are financed with the fund of creditors (liabilities) with the capital of the FPO or with both. The lending agency looks for fixed assets and shareholding to seek security for their loan. They also look at the existing loan amount in the balance sheet before giving the loan. The fixed assets and shareholding on higher side and loan on lower side are good indicators and banking institutions would be comfortable in giving the loan to FPO.

Sample Balance sheet of an FPO as on 31 March 2021

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Equity capital (Share)	800,000	Fixed Assets -	
Add - Net profit Less - Net loss Add - Reserves	50,000	Building Less- Depreciation Machinery Less- Depreciation	500,000
Long term liabilities -		Furniture & fixtures	200,000
Long term loans	400,000	Current Assets -	
Current liabilities -		Cash at hand	50,000
Creditors	50,000	Bank balance	150,000
Short term loan or working capital loan	100,000	Stock of produces	500,000
Outstanding expenses		Loans & Advances	
Income received in advance		Other current Assets	
Total	14,00,000	Total	14,00,000

Key points to remember under Balance sheet

- Balance sheet is a snap shot of the Company's financial health at a particular time hence the heading of the balance sheet should state "Balance sheet as at year ending of March 31 _________ (year).
- Money owed to the business is accounts receivables. This is typically the money that customers have not yet paid for the products or services they have bought.
- Money owed by business to others is accounts payable. This is typically the money that the business has not yet paid to its raw material and other input suppliers.
- Any grant assistance that comes with a specific purpose will be accounted on liability side and assets side of the balance sheet.
- In case of an Equity Grant Scheme of SFAC, the equity grant will be transferred to the shareholder's account initially, which later is to be transferred to the farmers' account. In such cases, the equity grant added will be shown on the liability side under equity capital. The same will be accounted on the cash side of assets as well.
- Loans from anyone including promoters should be included on the liabilities side of the balance sheet and interest on loan to be included on the debit side of the P&L Account.

3. Financial returns indicated in the form of financial ratios

The financial health of an FPO can be gauged with financial indicators. Supplementing the financial statements with financial indicators increases the credit worthiness of an FPO. Similarly, it helps to promote the goodwill among the suppliers of the FPO. There are several financial indicators to assess the financial strength of an organization. Of these, some of the important indicators for an FPO are discussed below-

Current Ratio

It is also called Banker's ratio as it determines the ability to repay of the Company. Basically, it measures the ability of the organization to meet its short-term obligations.

Current Ratio = Total current assets/ Total current liabilities

Higher the ratio better is the liquidity and financial health of the organisation. A good business shall have a current ratio more than 1.25. For example, if the current ratio of an FPO is 1.40 it means the FPO has 1.40 times more current assets than liabilities to cover its debts. Similarly, a current ratio below 1 indicates that the company does not have enough liquid assets to cover its short-term liabilities. The BOD and CEO should continuously monitor the current assets at a particular point in time and the liabilities outstanding at that point of time so that he can assess the profit or loss at that particular point of time.

Breakeven analysis

It is the most commonly used budgeting statement. In simple terms, this means arriving at a sales or turnover figure which will breakeven all the costs incurred in the business. This **volume** of sales is called the break even sales or the breakeven point. This also means that any amount of sales after this would result in profits for the business. At breakeven point, the total variable costs plus the fixed costs is equal to the total sales revenue. This can be expressed as:

$$\mathbf{F + V\,(X) = P(X).}$$

Where, F = Fixed costs, V = Variable costs/ unit,

X = Volume of output (in units), P = Price per unit

Let us take a simple example to illustrate the above concepts.

An FPO wants to sell agriculture produce (gram). The purchase price of gram from the farmers is Rs. 3,000 per quintal. Its overall fixed costs per annum is Rs. 1,00,000 (which includes rentals, salaries, communication, promotion, etc.). Additional variable cost per quintal of produce works out to Rs. 250 per quintal (which including transportation, waste, insurance, etc.). The sale price of gram in open market is Rs. 3,600/Qtl. How much volume of business the FPO is required to do to breakeven?

What would be the breakeven sales for FPO?

Assuming that the breakeven sales is Vb, the breakeven sales for FPO would be:

$$\{3{,}600 \text{ x } Vb\} = 100{,}000 – (3000+250) \text{ x } Vb$$

$$350\ Vb = 100{,}000,\ Vb = 285.714 \text{ Quintal.}$$

This means that FPO will have to sell more than 286 quintals of gram in one year to reach the break even.

Now if the FPO also wants to recover the salary of 01 staff which works out to Rs. 10,000 per month and targets a profit of Rs. 140,000 during the year from the activity, then what quantity of maize he should sell?

Total sales – Total costs = (Rs. 10,000 x 12) + Rs.140,000 = Rs 2,60,000

Applying the same formula:

$$\mathbf{100{,}000 + 260{,}000 + (3{,}000+250)\ X = 3600\ X}$$

$$\mathbf{360{,}000 = 3{,}600X – 3250X = 350X}$$

X = 1028.57 quintal

This indicates that in order to earn a profit and meet the salary of 01 staff, the FPO has to sell more than 1029 quintals of maize during the year provided the assumption undertaken holds true during the entire year.

Working Capital

Working capital is the money a company needs to finance its daily operations. It can be arrived by adding up a company's cash, inventory and accounts receivables and then subtracting short-term debts. We can use the following formula-

Working capital = Current Assets – Current Liabilities

For an FPO Current Assets generally indicate cash and other assets expected to be converted to cash within a year and Current Liabilities indicate debts/obligations that are due within one year. Therefore the concept of operating cycle in the business of an FPO is very important. Operating cycle is the length of time required to convert items like raw material, work in progress, finished goods and receivable into cash. If raw material/ agriculture produce, etc., are held for a longer point before actually selling and getting cash then the operating cycle is longer. On the other hand if the time gap between procurement & sale is less, then the operating cycle is shorter.

Let us take a simple example to illustrate the above concepts.

For calculating the working capital requirement by an FPO, it should estimate the fund requirement for activities which begins with acquisition of raw materials and ends with collection of receivables. First we have to calculate the Length of operating Cycle as follows-

- Procurement of raw material (say) : 30 days
- Conversion/process time (say) : 15 days
- Avg. holding time of finished goods (say) : 15 days
- Average collection period (say) : 30 days

Total operating cycle : 90 days

- Operating cycle in a year : 4
- Total operating expenses/annum : Rs.60 lakh

Working capital requirement : 60/4= 15 lakh

The success of the FPO management lies in ensuring smooth working capital cycle or simply having sufficient working capital for running the day to day operation of the Organisation. A working capital ratio of less than one indicates that the company has less working capital and vice versa. A ratio of more than one is considered satisfactory. Ideal Current Ratio preferred by the banks is 1.33:1. However, it also depends on the nature of the business.

Debt Equity Ratio

It indicates the portion of equity and long-term debt the organization is using to finance its assets. It is a measure of the organization's financial leverage. To calculate this ratio, we can use following formula –

Debt Equity Ratio = Total liabilities/shareholders' equity.

A high debt/equity ratio could indicate that the entity has been aggressive in financing its growth with debt. A ratio of 1 indicates investors and creditors have an equal stake in the business assets. Lower the ratio, the better it is considered.

Debt Service Coverage Ratio

The debt-service coverage ratio (DSCR) is a measure of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year, including interest, principal, sinking fund and lease payments. It can be calculated by the following formula-

Debt Service Coverage ratio = Net Operating Income/Total Debt service

Net operating income = Company's Revenue – Operating Expenses

Total Debt Service = Current Debt Obligations.

This means any interest, principal, sinking fund and lease payments that are due in the coming year. On a balance sheet, this will include short term debt and the current portion of long-term debt.

Key points to remember by FPOs under Income tax, taxability on FPCs and minimum alternate tax (MAT)

Financial planning traditionally includes making adequate provisions for taxes to be paid by a business. FPOs in India have some exemptions.

- In India, Income tax is to be deducted for turn over i.e., sales revenue of any company including FPO
- Income tax up to Rs.100 Crores is exempted to FPOs from 2018-19 to 2022-23 (for five years) on sales revenue.

- The Income Tax Act, 1961 under section 10(1) exempts the agricultural income. However, the exemption provided under section 10(1) for the agricultural income sometimes varies based on the agricultural activity carried out The Income Tax Act does not specify any specific tax benefit which essentially provides special tax benefits or exemptions to producer companies by its definition. But subject to the agricultural activity carried out by the producer organization, certain tax benefits and exemptions can be availed. For Ex: Income derived from selling the mushroom is an agricultural income under the Income Tax Act and it is 100 % tax-free. However, if the mushroom are further processed and sold with a brand name, only 60% of such income will be considered as agricultural income and 40% of such income will be taxed.
- Any Company must pay minimum advance tax based on their book profits. There is no exemption for FPCs. It is now 15% of book profits plus the surcharge and cess applicable. FPCs at national level are representing to the Ministry of Finance and Ministry of Corporate Affairs to waive the MAT for FPCs. It depends on how the Auditor recognizes the book profits and applies certain exemptions under The Income Tax Act, 1961 under section 10(1) GST up to Rs.40 Lakhs turnover is exempted to FPOs provided they sell the primary produce without any change in its form directly to the consumers.

Chapter 9: Legal Aspects and Compliance

Background

Compliance in business means adhering to the relevant laws, health and safety standards, or data and security requirements. It is an action that should be standardised as a process throughout the existence of a registered business entity. Regulatory Compliance is related to requirements mandated by various government entities. Therefore, to comply means to meet certain requirements so that FPO may run legally and formally. For instance, any FPO planning to start input businesses must obtain Seed/Pesticide Licenses.

Compliance also speaks of the different responsibilities of BOD and CEO of the FPO. To be non-compliant can result in serious consequences/penalties. Therefore, compliance becomes a necessary action for the FPO as per the norms/ stipulations of their registering authorities. Every FPO must develop an up-to-date compliance calendar with all applicable compliances noted down. In this section, we will consider a few business related compliance for FPOs working on value added products.

FPOs registered under the Companies Act

Books of Account of the FPO (As per 581ZE)

Accounting and bookkeeping have significant legal implications including liability on individual directors of the FPO. As per company act 2013 books of account should be maintained keeping in view of the following –

Every Producer Company shall keep at its registered office proper books of account with respect to -

- all sums of money received and expended by the Producer Company and the matters in respect of which the receipts and expenditure take place
- all sales and purchase of goods by the Producer Company
- the instruments of liability executed by or on behalf of the Producer Company
- the assets and liabilities of the Producer Company
- in case the Producer Company is engaged in production, processing and manufacturing, the particulars relating to utilisation of materials or labour or other items of costs.
- The balance sheet and profit and loss accounts of the Producer Company shall be prepared.

Specific Legalities (Food processing)

In addition to the general legal requirements, there are a few legal requirements that are specific to Food Processing Industries. A food processing enterprise has to comply with several compulsory legal requirements. Implementation of these norms with regard to Small and Medium Enterprises is relatively stringent while cottage and household level units sometimes tend to compromise on such stipulations. These laws include:

- **Prevention of Food Adulteration Act (1954):** It is the basic statute to protect consumers against supply of adulterated food. The Central Committee for Food Standards under the Directorate General and Health Services Ministry of Health and Family Welfare has specified the standards.
- **Milk and Milk Products Order (MMPO):** It regulates milk and milk products production in the country. The order requires no permission for units handling less than 10,000 litres of liquid milk per day or milk solids up to 500 TPA.
- **Fruit Products Order (1955):** It regulates the manufacture and distribution of all fruit and vegetable products, sweetened aerated waters, vinegar and synthetic syrups. The license is issued by the Regional Director of MoFPI located at Mumbai, Delhi, Kolkata, Chennai and Guwahati based on the satisfaction of the concerned officer with regard to quality of production, sanitation and hygiene, machinery and equipment and work area standards.
- **Standard of Weights and Measures (Packaged Commodities) Rules (1977)**: It lays down certain obligations for all commodities in packed form with respect to their quality declaration. The Directorate of Weights and Measures under the Ministry of Food and Civil Supplies operates these rules. Export (Quality Control and Inspection) Act (1963): It is operated by the Export Inspection Council and under this act many exportable commodities have been notified for compulsory pre-shipment inspection unless specifically requested by the importer not to do so.
- **Voluntary Standards**: They are regulated by organizations involved with voluntary standardization and certificates systems concerning quality parameters in food. They are the Bureau of Indian Standards (BIS) and Directorate of Marketing and Inspection (DMI). The food processing industries sector as a whole involves other legislations.
- **Oils, Deoiled Meal and edible Flour Control Order (1955) and Vegetables Products Control Order (1947):** It controls the production and distribution of solvent extracted oils, de-oiled meals, edible oil seed flours and hydrogenated vegetable oils (Vanaspati).
- **Meat Food Products Control Order (1973**): It regulates manufacture, quality, and sale of all meat products and is operated by the Directorate of Marketing and Inspection.

The Board of Directors, the CEO and accountant of the FPO are responsible to ensure that adequate systems are in place to ensure smooth and timely compliances with the laws of the land. An FPO if careless can lose much of its earnings paying penalties for non-compliance. An up-to-date compliance calendar can support the compliance function in an FPO.

Chapter 10: Roles and Responsibilities of BoD and CEO of FPOs

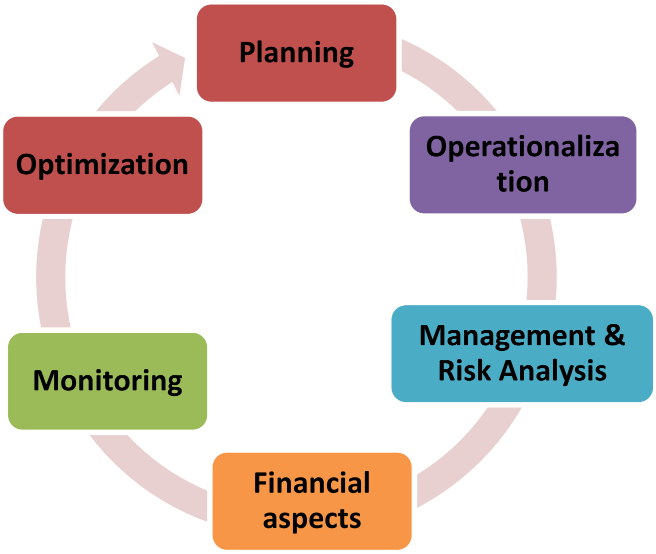
Managing a successful FPO business venture

Networking and Convergence

Background

Financial viability and institutional sustainability determine the health of an FPO. The success of any FPO would largely depend on the skill and commitment of the member farmers, the board of directors (BoD), the chief executive officer (CEO) and the promoting agency (CBBO).

To manage the business of the FPO the CEO and the Board of Directors of the FPO are the prime movers and we need to understand their roles and responsibilities in running the FPO as a business entity. The management processes within FPOs can be seen in the figure below. Let us understand the roles and responsibilities of the CEO and BoD in each of these processes.



The CEO and BoD must ensure various aspects of the FPO's Management Processes are in place.

Planning

- Before starting a business venture, ensure that the FPO has developed a formal strategic plan (Business Plan) based on a baseline survey of the FPO's cluster.
- Ensure that the viability of current and future economic activities of the FPO is studied.
- BODs and CEO should review the same from time to time and identify the potential obstacles and establish an action plan to follow and mitigate the same.

- Conducting a thorough market research about the FPO's business line and the demographics of potential customers of its products a key aspect of.
- Identify the founding team and define their roles and responsibilities. Understand what gaps exist in their capacities and plan how and when to address them. Further, the team should be facilitated to work together for the wellbeing of the members and health of the FPO.

Operationalization

- Based on the business plan, ensure that the FPO operationalises its business activities with a team approach.
- Follow recommended production practices.
- Give proper attention while selecting sites for the FPO's activities – such aggregation and processing business. The area should be less susceptible to adverse weather or pests and have no legal problems.
- Maintain equipment and machinery in good working condition.
- To achieve business success the FPO's functions must be systematic. A good way to be organized is to create daily calendars with to-do list and have a weekly plan, a monthly plan and a quarterly plan.
- Keep detail records of each business activities undertaken by the FPO. By doing so, the BoD and CEO will know where the business stands financially and the potential challenges facing the FPO.

Management & Risk analysis

- Effective time management is a critical part of managing any business. Ensure that tasks are prioritized and effectively organize work assignments. In FPOs – timeliness is an essential component as its members are farmers – depending on annual seasonal cycles.
- BODs and CEO should map the various risks associated with the business activities undertaken by the FPO and they should work out various strategies to minimize/mitigate the risks.
- BODs and CEO of the FPO must be able to effectually lead their FPO in the right direction. Leadership roles involve embedding knowledge amongst members, sharing information transparently, managing conflicts, encouraging ethical behaviour, maintaining good relationship with member farmers, mentoring employees and marketing the business. They must gain the trust of their member farmers, business partners and customers to maintain positive business relationships and successful business transactions.
- Ensure that the FPO works on reducing its reliance on a single market. Work direct marketing efforts to capture a higher share and price.

- BODs and CEO of the FPO should consider purchasing insurance policies as per their business activities to deal with incidents such as property damage, theft, fire etc. They may also need other types of coverage, depending on their location and type of economic activities they are undertaking.
- It is the responsibility of the BODs and CEO that all legal compliances related to the Act under which FPO is operating including income tax and GST are adhered to on time bound manner otherwise the FPO may have to pay penalties as per rules.
- Enter into sales or price contracts with buyers and suppliers.
- Enable the capacity building/hand-holding of member farmers and staff on the use of latest technologies in agriculture and allied activities related to their business activities.
- BODs of an FPO should keep the organisational structure of the FPO as flat as appropriate. They should delegate some responsibilities to skilled staff effectively and avoid micromanaging them**.**
- BODs and CEO of the FPO should inculcate the habit of using the Internet and appropriate apps. It is incredibly powerful and very cost efficient, but it takes time and some skill.

Financial aspects

- Monitor the expenses of the FPO to ensure that it is on track. Understand the types of purchases that make sense for the business of the FPO and avoid overspending on fancy new equipment that won't help in achieving the goal of the FPO.
- Ensure that all financial transactions of the business are routed through the FPO and its accounts only.
- BODs and CEO of the FPO should closely watch the gross profit margin for each of the product of the FPO and they should not hesitate to take corrective actions if things are not going in the desired way. The FPO does not need to take on products with no or low profit margins as they could compromise the FPO’s overall sustainability.
- The BODs and CEO in particular should develop a cash-flow planner to understand the financial health of the business activities undertaken by the FPO. For the purpose, they should record the month-opening bank account balance and all anticipated cash inflows and outflows. Then, track the cash as it comes in and goes out each day. Now you have a tool that allows you to keep close tabs on how your business is doing and can respond quickly when required.
- Whether the FPO requires a loan from a Bank / NBFC or not, it is always better to keep in touch with the bankers operating in your cluster area. Build trust and credibility by keeping them up to date on developments in the business, including realistic short and long-term cash flow projections of your FPO.
- BODs and CEO should always keep a track on the sources of funds and how it can be better utilized to optimize the returns.

Monitoring

- Regular meetings of the BoD are key to steering the FPO. The meetings should go deep into the FPO's management and provide constructive solutions for the staff to follow-up. The CEO and staff should prepare well to inform the BoD of the FPO's performance so that the BoD meetings are effective.
- A Proper monitoring schedule adherence is necessary to make sure that staffs of the FPO have appropriate workloads and to ensure they are performing their duties adequately. It should be analyzed periodically and adjustments can be made to keep up with changing business needs.
- FPO should Identify and map the processes and factors that would have the biggest impact on earnings, if it is disrupted. They should also monitor the critical infrastructure including processes, relationships, people, regulations, plant and equipment that supports the FPO's ability to generate earnings.
- Regardless of the FPO's market position for their products the BODs and CEO have to consistently analyze and monitor their competition's moves, strategies, strengths and weaknesses. Entrepreneurs need to benchmark their activities against the competition and strive to find ways to differentiate themselves.
- Keep track of everything, and manage by the numbers.

Optimization

- Collaborating with other FPOs working on the same and related products and with established brands in the particular domain can be a great way to achieve growth. For the purpose the BODs and CEO of the FPO should also develop networking and communication skill.

- To optimize the business portfolio of any FPO, it should also focus on diversifying their business by finding new customers, opening new markets and adding products and services in their basket.

- To run a successful business, FPO must adapt to changing situations and must be prepared to adjust. As an entrepreneur, our value should lie in solving problems.

- BODs and CEO of the FPO should also think about branding the products and use various channels of advertisement to easily reach the targeted customers.

- BODs and CEO should work to broaden the client base of the FPO and stay close to their customers. Be in touch with your key customers and employees both. Listen to their suggestions and follow up accordingly.

- **FPO should also think about creating their website.** Many customers learn about the products of the FPO through the internet and a website is digital proof that the business exists. It is also a way to interact with current and potential customers.

- Use social media to spread the word about the FPO's business. The best social media platforms to utilize will depend on the target audience.
- Build sound relationship management skills across the stakeholders connected with the FPO.

Role of BoD and CEO in Networking and Convergence

FPOs often start with little capital and their sustainability is not strong – but the various schemes and programmes of the government and support available from private players can greatly enhance an FPO's viability. The CEO and BoD must always be on the lookout for such opportunities and work on accessing them. A key role of the FPO is to link member farmers to various support available (cash/kind) under the various ongoing schemes of the government and other agencies.

Convergence happens when two or more things come together to form a new whole. Networking with various agencies helps an FPO to achieve its goals better.

FPOs need to link up with Institutions:

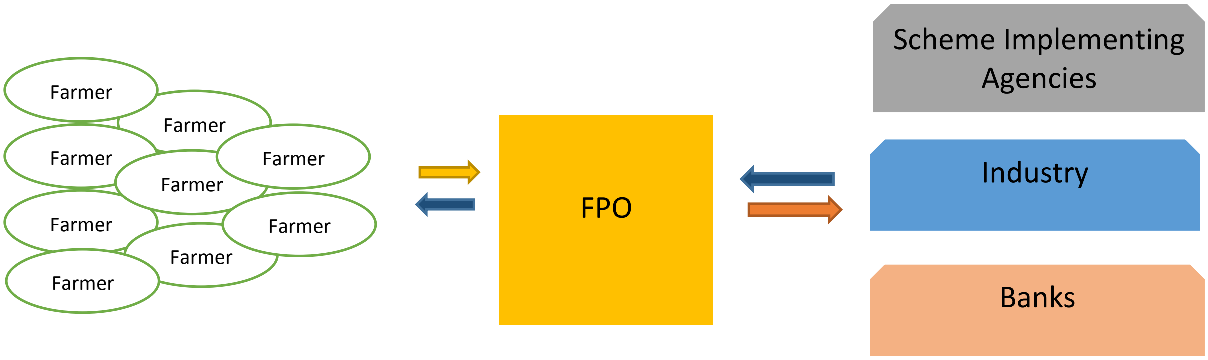
- To mobilise essential resources like finance, agricultural inputs, information, marketing & liaison, value addition and other services required for the activities of FPO and its members
- To have access to new technologies from private and government institutions, academic institutions, etc.

Farmers face challenges such as lack of time or knowledge to access various benefits due to them. The FPO can play a major role in facilitating these linkages and support its member farmers. This will greatly increase the stakes of the farmers in strengthening the FPO.

Convergence efforts can result in the following advantages

- Help in facilitate implementers in identification of right beneficiaries.
- Help individual farmers to take advantage of ongoing programs where FPOs will act as facilitators

- Help in creating opportunities for FPOs for business diversification (setting up of storage facilities, custom hiring centre, soil testing lab, processing units, etc.)



Mapping/Listing of Stakeholders: The FPO must always scan its environment to identify people or institutions that can directly or indirectly influence the FPO positively or negatively. Once these stakeholders are identified, the FPO must attempt to build constructive engagements with them so that the businesses can be expanded. Where stakeholders have a negative impact on the FPO/member farmers, a suitable strategy to manage them should be planned.

Stakeholder Examples		
Primary	**Secondary**	**Tertiary**
• Member farmers • Non-member users	• Local Authority • Direction of Municipality Technical Services • Traditional Authorities • NGOs • Development Agencies • Businesses and Suppliers • Govt. Line Departments • Research Institutions • School and University • Services Providers • Banks	• Financial Institutions • Donors • National Authorities (at all levels) • Opinion Leaders • Civil Society • Foreign Cooperation Agencies • Media

The more the convergence and networking an FPO builds on, the more likely it is to attract capital, credit and market linkages.

Chapter 11: The Business Plan Document

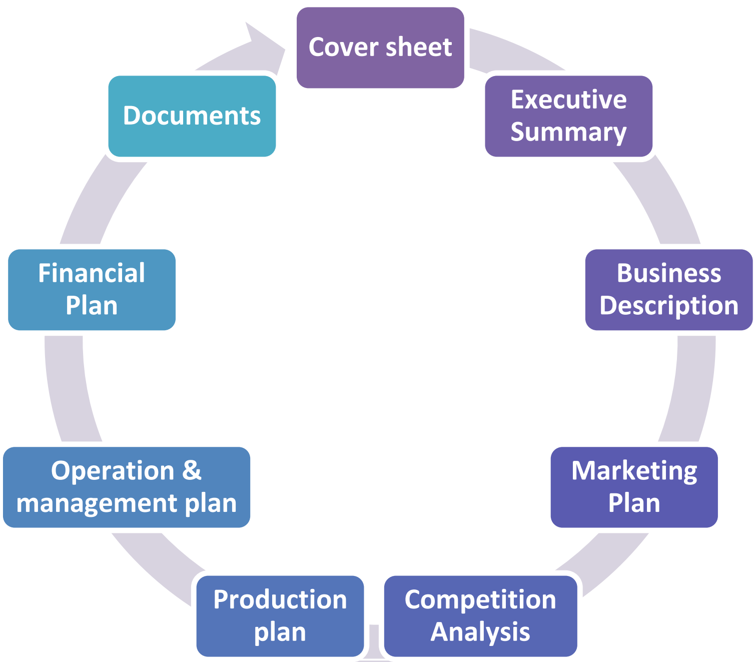
Templates of a model business plan to be submitted to a financial institution by FPO for financial assistance

Way forward for diversification and upgrading business model of the FPO

Templates of a model Business Plan

A business plan is essentially a written description of a business's future. It provides an in depth report on the environment in which the company functions, what the company plans to do in the near future and predictions on its performance. A business plan conveys business goals, the strategies, potential problems that may confront one's business and ways to resolve them, the organizational structure of business (including titles and responsibilities), and finally, the amount of capital required to finance the business of the FPO and keep it going.

The structure of the Business Plan Document may vary slightly – depending on the funding agency – banks/corporate/etc. Always make sure that the most recent format is used. The elements of a good business plan are as follows -



I. Cover sheet

Serves as the title page of the business plan; it should contain the following:

- Name of the Producer Company
- Company address
- Company phone number (include area code)

- Logo (if any)
- Names titles addresses phone numbers (include area code) of CEO/Board of Director
- Month and year the plan was developed and operationalised
- Name of the person/organisation who prepared it
- The current status of the business and financial aspects

II. Executive Summary:

Within the overall outline of the business plan, the Executive Summary will follow the title page. It reflects the entire business plan of an FPO in a concise form and in a nutshell and conveys the value of your proposition.

Key elements that should be included are:

a) Business Concept, the business and market.

b) The management team

c) Business rationale

d) The proposal - what precisely you are planning to do and achieve the intended output.

e) Basis / Reasoning for the success of the business

f) Profitability and financial features

g) Financial requirements

h) Risk assessment and mitigation strategies

i) Current business position and prospects

j) Future Prediction

k) Key conclusions- Based on above the key conclusions for a quick snap shot vision of the whole business plan.

III. Brief description of the business

a. The business background

b. Location and operational area

c. Method of operation

d. Defining the prospective market and the customers

e. Type of business and services offered

f. Statement of viability

IV. Marketing Plan

A marketing plan includes information about the total market with emphasis on the target market. It helps in identifying the target customers and suggests the means to rightly position and supply the products or services to them. It should include following aspects -

a. **Target market:** Identify characteristics of the customers. Tell how the results have been arrived. Back up information with demographics questionnaires and surveys. Estimate the market size.

b. **Competition:** Evaluate indirect and direct competition. Show how one can compete. Evaluate competition in terms of location market and business history.

c. **Place:** Tell about the manner in which products and services will be made available to the customer.

d. **Promotion:** How the advertising will be tailored to the target market? Include rate sheets, promotional material and time lines for advertising campaign.

e. **Pricing:** Pricing will be determined as a result of market research and costing of the product or service. Tell how the pricing structure has been arrived and back it up with materials from research.

f. **Product:** Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.

g. **Timing of market entry:** Decide when to enter the market and how this decision has been arrived at.

h. **Targeted sales:** State the sales targeted for the next 3 years. The first year's sales may be presented month-wise.

i. **Industry trends:** Give current trends about how the market may change and what is the plan to adjust with the changing scenario.

V. Competition Analysis

a) The purpose of the competitive analysis is to determine the strength and the weaknesses of the competitors within the proposed market, the strategies that will provide the FPO business a distinct advantage and any weakness that can be exploited within the product development cycle.

b) The first step in a competitor's analysis is to identify the current and potential competition in the market.

c) Once you have grouped your competitors, you can start to analyse their strategies and identify the areas where they're most vulnerable.

d) The strategy for negotiating the proposed market share may focus on (1) product (2) distribution (3) pricing (4) promotion and (5) advertisement.

e) This section of business plan should include strategies for successful positioning of the business in the competitive business environment.

f) The success of the business significantly depends on pricing policy. To keep the pricing policy competitive, mention the appropriate pricing policy of the FPO.

g) This section of business plan should include the distribution channel used for moving the product from the place of manufacturing to the end users. The type of distribution network chosen will depend upon the industry and the size of the market. Some of the more common distribution channels include direct sales, retailers, wholesalers, etc.

h) The promotion strategy to sell the products of the FPO should be analysed in brief under this section. This includes advertising, packaging, public relations, sales promotion, etc.

VI. Production plan

a) The purpose of the production plan section is to provide a detailed overview of how the actual production will be carried out in the case of a manufacturing concern, or the service performed in the case of service industry.

b) The production plan is very crucial for a manufacturing concern. The production plan should include - production process adopted, capacity planning and task scheduling and cost estimation.

VII. Operation and management plan

a) The operation and management plan is designed to describe just how the business functions on a continuing basis. The operation and management plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operation and management of the business.

b) There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirement associated with its operation.

c) Organizational structure: It should include the personnel deployed by the producer organization like Chief Executive Officer, Accountant, Service Providers, technical officers from agriculture, marketing etc. Details of the key personnel should be appended with the business plan to foster confidence in the financial agencies.

d) Depending upon the organization structure, the personnel requirement at various levels of the organization is estimated. In addition to this, the costs of support services required for the functioning of the organization are estimated. These costs are then used to compute the overhead costs which, in turn, are used in the calculations involved for the financial statements.

VIII. Financial Plan

These are the records used to show past, current and projected finances. The following are the major documents that would be required to include in the business plan. The work is easier if these are done in the order presented.

- **Cash flow statement (budget):** This document projects what your business plan means in terms of rupees. Cash flow statements show both how much and when cash must flow in and out of your business.
- **Three year income projection:** A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.
- **Break-even analysis:** The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total rupees or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.
- **Debt-service ratio:** The Debt Service coverage ratio is a measure of the firm’s ability to meet long term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.

IX. Supporting documents

a) A brief profile of the FPO and Resumes of the key Director, CEO, staff

b) Copies of Leases, if any

c) Letters of Reference

d) Contracts / work order / MoU for selling produces etc.

e) Legal Documents (registration, business license, etc.)

Way forward for diversification and upgrading business model of the FPO

While preparing a business plan, a nascent FPO should also think about the future business opportunities available in the area which they can harness once their financial and managerial capabilities have risen to a certain level. At this stage they can try to diversify their business portfolio by adopting a new business venture or upgrading their business model with the help of new technologies and innovations in the field. Processing (secondary and tertiary), value addition, branding, export etc. are options they can plan from the beginning. In this regard, new FPOs should always keep in mind the following points -

- Business models for aggregation of inputs, collective marketing, primary and secondary processing, and trading businesses should be undertaken in a phased manner considering the aspects like available resource, infrastructure support systems, services and acquired capabilities/skill with progress of FPOs.
- The FPO is a community based organisation incorporated for common benefit of their members. Considering the basic feature of the cooperative structure, the proposed institution needs to be designed, shared and enforced from the start for active involvement of all members and building ownership of the FPOs by the farmer members.
- No single or any particular designed business model would be applicable for all the FPOs. Every identified cluster is different as per the socio-economic-geographical-agriculture background and the subsequent needs should be identified based on human capital and aspirations. Therefore cluster based needs and prevailing value chains must be considered while promotion and nurturing of any particular FPO
- The identification of economic activities, products and services should be based on market demand, scalability and enabling environment in the region.
- Faith and ownership by communities is critical for strength of any institution. A community based organisation or a CBBO in which community has resided their faith; is an enabler for nurturing and handholding support to FPOs during its establishment and maturation phase.
- Formation of FPOs should aim for ownership of the FPO by the community. This may not necessarily mean management of the FPO by the community as running an FPO requires technical and professional management skills that may not be available within capacities of the local communities immediately.
- Continuous skill building, training and learning are the key parameters for making good entrepreneur.
- Convergence with the State and Centrally Sponsored Schemes and networking with corporates would pave the way for business off-take and minimising market and operation risk
- Continuous monitoring and evaluation of the business performance is prerequisite for effectiveness, efficiency and financial sustainability of the FPOs

- To overcome the fixed and operating cost of the FPO during the lean period of agricultural operation, trading in agriculture produce/product should be considered in the business model and marketing plan.

Indicative Format of Business plan DPR to be submitted to Financial Institutions

S.N.	Particulars	Page
	Acknowledgements	
I	Executive Summary	
	Profile of the Farmer Producer Organisation (separate annexure)	
II	Background of the FPO	
	Context of the project submitted to Financial Institution	
	Promoting Agency (CBBO/POPI)	
	Location map of the FPO	
	Project Area – Profile	
	Overall business Prospects of the area	
	Organogram of the FPO – Management and Governance structure of the FPO	
	Employment status of the FPO – Duties and responsibilities of the staff, skill profile of the staff , salary structure	
	Physical Resources and Infrastructure of the FPO	
	Vision and Mission Statement of the FPO	
	Objective of the FPO	
	Key Outcomes expected out of Business Plan	
	Key Performance Indicators	
	Micro plans of the proposed business of the FPO in brief	
	SWOT Analysis	
III	Value Chain Analysis of the proposed business activity/s - scope in the area, key activities	
	Interventions proposed	
IV	Market analysis – Assessment of Market opportunities	
	Risk analysis and risk management	
	Market plan	

	Designing for marketing	
	Networking and Convergence - Support from Government and Corporates	
V	Legal laws applicability and Legal planning	
	Taxation	
VI	Financial Plan	
	Estimates of costs and margins and variables	
	Trading account and cash flow statements	
	Profit and loss account statement	
	Balance sheet (preferably of last 2 years)	
	Analysis of Financial statements – Financial ratios	
VII	Annexures: Copy of Registration, Licenses (GST, PAN, FSSAI, Shop, Seeds, Fertilizers, Pesticides), MOA/AoA, Audited/Unaudited Financials, List of shareholders, working committees, Area Map, Bank Statement, success stories if any, Photographs of Activities	

Chapter 12: Step by Step Preparation of Business Plan

Case Exercise of preparing a Business Plan for an FPO

Background

This exercise essentially builds on the knowledge inputs of the previous chapters and experience sharing. Hence some aspects could be repetitive but are included for clarity as also to reiterate the importance of a step wise approach.

An FPO located in Udala Block of Mayurbhanj district of Odisha is formed in the year 2021 and registered under the Company Act, 2013. The Udala Block has development indices and has a high percentage of tribal population. The literacy rate is 64% and 20% of the total households are living below poverty line. The normal annual rainfall in the district is 1200 mm. About three fourth of the annual rainfall in the block is received during the south-west monsoon. The CBBO with the help of BODs conducted diagnostic study (baseline survey and PRA) covering 500 households in 25 adjacent villages of the block and after compilation of the data collected, following major information were tabulated for feasibility analysis.

Land Use Pattern				
S No.	**Land Particulars**			
1	Total Land (ha)	**1,024 ha**		
2	Total Cultivated Land	**872 ha**	Fragmented or consolidated (No)	Fragmented-65% consolidated -35%
3	Types of land	**Low Land**	**Medium**	**High Land**
		247 ha	410 ha	215 ha
4	Of which, Irrigated Land	156 ha	280 ha	50 ha
5	Source of Irrigation	Canal, well	Canal, well	Canal, well
6	Total Land cultivated	**Kharif**	**Rabi**	**Zaid**
		872 ha	475 ha	100 ha
7	Crops cultivated	Paddy 810 ha, pulses – 62ha	Mustard (230ha), Maize (200ha), Tomato (45ha)	Vegetable – Cucurbits and Tomato
7	Land under perennial crop	Nil		
8		**0-1ha**	**1-2ha**	**More than 2 ha**

	Land holding distribution of 500 HH	360	105	35

III. Cropping pattern, Area and Production (last three years)- Major crops							
Season	Name of the crop	2018-19		2019-20		2020-21	
		Area (ha)	Production (Qtls)	Area (ha)	Productio n (Qtls)	Area (ha)	Production (Qtls)
Kharif	Paddy	800	24,000	790	23,700	810	24,300
	Pulses	72	360	82	410	62	310
Rabi	Mustard	200	1,200	210	1,260	230	1,380
	Maize	235	5,170	225	4,950	200	4,400
	Tomato	40	8,000	42	8,400	45	9,000
Summer (Zaid)	Cucurbit s	50	11,300	70	15,820	60	13,550
	Tomato	50	9,000	30	5,400	40	7,200

Common household animals are cattle, goat and poultry, mostly of local breeds. Majority of the households have 2-3 goats and local poultry birds which supports them whenever they require instant cash. There are large number of small village ponds and a few medium tanks covering an area of 50 hectares. The CBBO has also conducted problem tree analysis exercise and the major issues faced by majority of the farmers are given below –

INPUT LEVEL

- Inputs like fertilizers, pesticides, seeds, agricultural equipment are not easily available in the block and they are not getting the same in the right time.
- Farmers have to depend on small retail outlets for their input need at extra cost of Rs. 10-25 per bag.
- The farmers are not sure about the quality of the seeds and pesticides and they do not know the right dose of inputs as well. (Germination rate is less than 80%)
- Very few farmers (5%) have own sources of farm machines like tractor, power tiller, Thresher, pump set etc. Majority of them are availing such facilities on rent.
- Most of the agricultural operations in larger parts are carried out manually using simple and conventional tools and implements like wooden plough, sickle, etc.
- Paddy is the major crop in the project area and entire crop is being transplanted and harvested manually.

- Majority of the farmers in the cluster area are using excess chemical fertilizers in the ratio of 1:4:6 (N:P:K) against the recommended dose of 1:2:4.

Skill level of the farmers

- Marketing risk and non-availability of resources are the two major constrains for the majority of the farmers as a result they are not undertaking commercial agriculture.
- Since the farmers are unorganized, they are not getting the right information at the right time due to lack of market intelligence.
- There is no other farmers' Institution available in the block s(uch as FPO, Farmers' Club)

MARKETING

- Agricultural marketing is the major problem in the block. Due to absence of an organized marketing structure, private traders and middlemen capture the marketing of agricultural produce and giving low price to the farmers. All these problems are affecting the income level of the farmers.
- 72% of the farmers have 15-20 quintal of marketable surplus of cereals as a result they are dependent on local traders.
- Some of the farmers (7-8%) are going outside the district to sell their product but the transportation cost is very high.
- Two storage warehouses are there in the district head quarter around 60 km from the cluster area. As a result farmers sell their produce immediately after harvesting.
- Farmers do not undertake value additions like primary sorting, grading and packaging to increase the selling price.

Based on the above data/information the FPO analysed the feasibility of the business opportunities available in the cluster area for further refinement as follows –

S.N.	Name of the business activities	Potential for undertaking as business activity
1	Input business of seed, fertilizer and pesticide	In the cluster area no retail shop of seed, fertilizer and pesticides is available. Farmers are not getting these inputs at right time and at right price in general. So, there is good scope for input business.
2	Custom hiring for farm mechanization and other equipment	In the cluster area 80% of the farmers are using traditional method of cultivation. A few farmers are paying rent for availing the services of tractor, transplanter, harvester and other farm implements as a result the cost of cultivation is higher in the area. Therefore, there is a potential for custom hiring business of farm mechanization.
3	Aggregation and marketing of Paddy, maize, mustard, Pulses, Tomato and vegetables	The marketable surplus of cereals in the cluster area ranges from 15-20 quintal per HH in the case of 72% HH. The area is a hotspot for tomato and vegetable cultivation but 75% farmers sell their produce in local market and they do not know off season cultivation. There is a potential for aggregation and marketing of off season tomato and vegetable cultivation.
4	Aggregation and marketing of Goat and poultry birds on commercial basis	There is a scope of introducing scientific method of rearing, breed improvement and transparent market practices for better price realization.
5	Aggregation and marketing of Fishery on commercial basis	In the cluster area farmers are undertaking fish farming activity in traditional way. Pond area in the cluster is approximately 50ha. Scope for commercial fish farming in the cluster. Can be considered later.
6	Bee keeping	In the cluster area farmers are taking mustard crop in more than 200 ha area in rabi season and the area is on the foothills of Simlipal forest reserves – with good potential of bee keeping. This can be considered at a later date.

While selecting the business activities of the FPO the following points should be kept in mind–

- What are the major issues of the farmers in the cluster area? When we select a business activity for the FPO, what are the issues we can address? How will it benefit the member farmers?
- Can we select such activities which can potentially engage and benefit more number of farmers and provide them more number of working days?

- The prioritization of the economic activities should be based on availability of financial resources and capacity of the FPO with minimum risk. In the beginning select 4-5 viable economic activities for better output but provide end to end solution. Other unviable activities to be avoided. An FPO cannot give solutions to all the problems of the farmers.
- Scaling of the business activities should be taken step by step depending on increase in reserve and surplus and capacity of the FPO.

Analysis of Input Business in the Udala Cluster area

Potential business - Seed

Name of the crop	Area(ha)	Seed Rate (kg./ha)	Quantity (Kg.)	Rate (Rs)	Amount(Rs.)
Paddy	800	20	16,000	165	26,40,000
Maize	200	20	4,000	150	6,00,000
Pulses	60	30	1,800	100	1,80,000
Mustard	230	5	1,150	60	69,000
Tomato	100	0.5	50	1200	60,000
Total	1,390				35,49,000

Potential business - Fertilizer

Name of the crop	Area (ha)	N (Kg/ha)	P (Kg/ha)	K (Kg/ha)	Urea (Kg/ha)	DAP (Kg/ha)	SSP (Kg/ha)	Urea (MT)	DAP(MT)	SSP (MT)
Paddy	800	120	40	40	245.22	86.96	275.86	196.18	69.57	220.69
Maize	200	60	30	30	118.70	65.22	206.90	23.74	13.04	41.38
Pulses	60	25	40	30	38.70	86.96	275.86	2.32	5.22	16.55
Mustard	230	40	20	20	79.13	43.48	137.93	18.20	10.00	31.72
Tomato	100	200	60	250	411.31	130.43	413.79	41.13	13.04	41.38
Total	1390							281.57	110.87	351.72
Rate of fertilizers per MT								5360	38000	4500
Total cost of fertilizer in Lakh								15.09	42.13	15.83

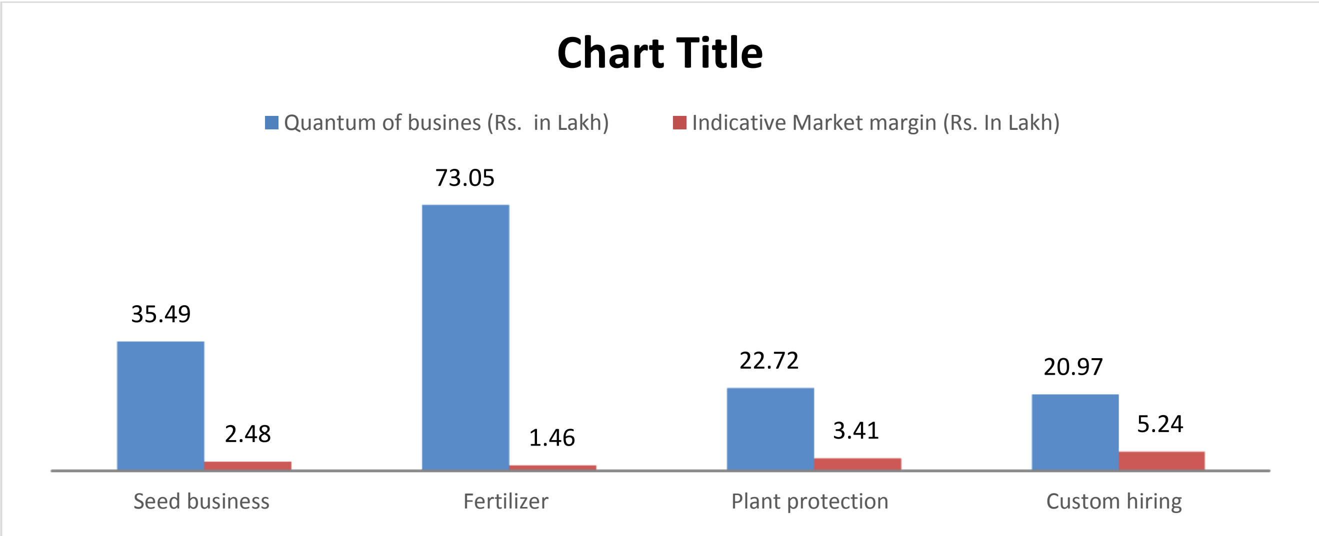
Potential business for Custom hiring (farm mechanization)

Machine / Implements	Cost of machine /Implements	Annual Fixed Cost (Rs)	Variable Cost (Rs/hr)	Hiring Cost (Rs/hr)	Annual Utilization (Hr)	BEP (Hr/yr)	Net Utilization against the BEP (hr)	Annual Profit / Loss (Rs)	Amount Required (Rs. In Lakh)
Tractor	7,50,000	75,000	245	500	1000	600	400	2,00,000	5.00
Paddy Transplanter	1,75,000	25,000	582	1045	240	93	147	1,53,615	2.51
Cultivator	20,000	4,698	120	600	375	10	365	2,19,134	2.25
Disc Plough	25,000	6,576	169	1175	155	7	148	1,74,446	1.82
Harrow	30,000	2,682	103	600	108	5	103	61,561	0.65
Rotavator	30,000	13,551	152	850	651	19	632	5,36,841	5.53
MB Plough	15,000	8,130	136	850	202	11	191	1,62,022	1.72
Trolley	2,00,000	19,478	136	500	298	54	244	1,22,000	1.49
Total	12,45,000					799	2230	16,29,619	20.97

Potential business for Plant protection

Name of the crop	Area(ha)	Estimated expenses of plant protection (Rs. /Ha)	Amount(Rs. In Lakh)
Paddy	800	1,202	9.616
Maize	200	850	1.7
Pulses	60	500	0.3
Mustard	230	2,000	4.6
Tomato	100	6,503	6.503
Total	1,390		22.719

Summary of the potential input business in the cluster Area



Business Opportunities for the FPO as a value chain actor in the Supply chains of various crops-

Name of the produce	Particulars	Distribution of economic rents among the value chain actors under existing supply chains (Rs./quintal)							
		Farmer	Primary trader	Primary Processor	Whole seller	Miller / Processor	Dealer / Trader	Retailer	Consumer
		1	2	3	4	5	6	7	8
Paddy	Economic rent	**1,420**	**105**		**30**	**1,005**	**325**	**418**	**3,303**
Maize	Marketing cost	900	100		200	300	250	200	
	Market margin	200	50		100	400	200	250	
	Economic rent	**1,100**	**150**		**300**	**700**	**450**	**450**	**3,150**
Pulses	Economic rent	4,000		1500		1,100		400	**7,000**
Mustard	Economic rent	**4,500**	**100**		**50**	**1,375**	**725**	**605**	**7,355**

Tomato	Marketing cost	362	83		116			119	
	Market margin	134	58		90			192	
	Economic rent	**496**	**141**		**206**	**0**	**0**	**311**	**1,154**

Potential business opportunities for FPO as a primary trader

Name of the produce	Area (Ha)	Production (Q)	Marketable Surplus (Q)	Potential Business as Primary Trader / CA (Rs. In Lakh)
Paddy	800	24,000	14,400	219.60
Maize	200	4,400	3,080	38.50
Pulses	60	300	180	7.20
Mustard	230	1,380	966	44.44
Tomato	100	18,000	14,400	91.73
Total	**1,390**	**48,080**	**33,026**	**401.464**

Allied Activities (Poultry and Goat Rearing)

On the basis of baseline survey and PRA conducted in the cluster area it was found that-

- 90% of the households in the cluster area are rearing goat (Black Bengal) at small scale (Total goat – 2252) and practicing open grazing. They do not vaccinate their animals annually; as a result the mortality is approximately 10% compared to the average mortality rate of 3%. In the absence of commercial feed the productivity is 10% low compared to the scientific rearing.
- 80% of the households are rearing desi poultry birds (Total poultry birds- 2925). They neither provide them supplemental feed nor vaccinate them - as a result the mortality is approximately 12% compared to the average mortality rate of 3%
- They sell their animals (both goat and poultry) on the basis of visual assessment by local traders and not on the basis of actual live body weight of the animals. As a result whenever they are in need of money they are generally deceived by the local traders.

Potential business for the FPO

Since the FPO is new and it has low fund base, therefore, it can take decision as follows-

- For promotion of goat farming and desi poultry bird activity, the FPO can facilitate backward linkages such as breed improvement, scientific goat/poultry rearing with shed system (local material like bamboo) and stall feeding, vaccination, etc. through capacity building of the farmers and with the help of various agencies like local Animal husbandry department of State government, Heifer International, an international NGO etc.
- The FPO can develop forward linkages for marketing of goats/poultry birds with better price realization through contractual buy-back arrangements. The FPO can be

instrumental in introduction of system of sale by live weight basis in place of prevailing sale on live piece basis based on visual assessment by traders.

Goat/Poultry bird Value Chain in the cluster

Post FPO

- The FPO can participate in the value chain of the goat/desi poultry bird business as an input supplier and primary trader/aggregator by replacing the local primary traders. The FPO can enter into a written contract with wholesalers for direct supply of live goats procured from FPO members on a commission basis which can be 3% commission on the sale value both from the Producer (1.5%) and the Wholesalers (1.5%).

Short and medium term Strategy of the FPO

Period	Activity to be undertaken	Operational Strategy	Remarks/ Outcome
Year 1	Agri Input business Store	Obtaining Licenses and regulatory approvals for setting up agri input store	Providing quality Agri Inputs at cheaper rates to the member and non- member farmers
		Fund arrangement and direct liaison with the Companies for bulk procurement	Timely supply of required agri inputs
		Purchase of agri inputs in bulk and initiation of sales	
	Custom hiring business	Since GOI is providing subsidy up to 40% to FPOs for custom hiring business, so approaching concerned offices and the Bank for the same.	
		Purchase of agri machines and implements	

	Aggregation of produce (Maize and Tomato) and marketing	Developing Standard Operating Procedures (SOPs) for collectivization and selling of the produce through FPO	In the 1st year aggregation and marketing of Maize and Tomato is only to leverage economies of scale and for giving a better price to the farmers.
		carrying out necessary formalities	
		Identification of major markets for identified produce in the region where the produce can fetch maximum price at minimal costs	
	Allied activity - Capacity building of farmers on scientific rearing of goat rearing and Desi poultry bird and business as commission agent	Capacity building of farmers on vaccination, scientific goat/desi poultry bird rearing and construction of sheds for goat through local material.	FPO as commission agent.
		Introduction of the system of selling goat/poultry through body weight.	
		Entering into a written contract with wholesalers for direct supply of live goats procured from FPO members on a commission basis.	
Year 2	Aggregation and marketing of Fishery on commercial basis	Introduction of scientific practices of fish farming (Indian carp), business of fish feed and contract with whole seller for direct supply of fish procured from members at pre decided rates.	
	Aggregation and marketing paddy, mustard and pulses as primary trader	Developing Standard Operating Procedures (SOPs) for collectivization and selling of the produce through FPO	
	Bee keeping	With the help of KVIC, capacity building of farmers on bee keeping, exploring possibilities of providing bee boxes and collection of wild honey from the forest area. Further, exploring possibility of primary processing of honey and marketing.	
	Post Harvest Infrastructure	Setting up minimal infrastructure like small godown and low cost vegetable cooler where farmers can store Tomato and their produce during glut.	Minimization of post harvest losses and better price realization.

Year 3	Processing Unit	Processing unit for animal feed (Goat, Poultry Bird and Fish) with local available material (Maize, rice bran etc.)	Utilization of excess produce
		Value addition and branding of the produce (Honey)	Profit maximization.

Investment requirement

The major costs involved during the initial phase of the FPO would be:

- FPO - registration cost
- Pre-operative cost on diagnostic study, travel expenses etc.
- Cost of various licenses and approvals required for establishing the agri input centre and collection centre
- Administrative cost
- Working capital for initiating agri input centre, custom hiring centre and aggregation and trading of maize and Tomato

Working capital requirement

Category of business	**Name of the Business Activity**	**Quantum of business (Rs. in Lakh)**
Input business	Seed business	35.49
	Fertilizer	73.05
	Plant protection	22.72
	Custom hiring	20.97
Output business	Marketing of maize as primary trader	38.50
	Marketing of Tomato as primary trader	91.73
Desi poultry and Goat rearing	As Commission agent	0
Working capital requirement @20%		56.49
Indicative working capital requirement *considering the cycle of the crop, rotation of working capital, say 30 days advance payment to the agri input suppliers and 07 days credit arrangement with the farmers, etc*		25.00
Share capital contribution from farmers minimum @ Rs. 2000 per farmer from 300 farmers		6.00
Working capital loan from FI or other sources		19.00

Administrative expenses

S.N.	Particulars	Year 1 (Rs. In lakh)	Year 2	Year 3
1	Salary of CEO @ Rs. 30,000, Accountant - @Rs. 15,000, 2 Staff members @Rs. 10,000 per month	7.80		
2	Rent of Office and Store @ Rs. 10,000	1.20		
3	Electricity expenses	0.24		
4	Office expenses	0.10		
5	Stationary	0.05		
6	Travelling expenses	0.20		
7	Transportation expenses	1.30		
8	Miscellaneous expenses	0.50		
	Audit cost	0.25		
	Repayment of loan and Interest	21.28		
9	Audit cost			
	Total	32.92		

Economic benefit of the FPO

S.N.	Name of the Business Activity	Quantum of business (Rs. in Lakh)	Indicative Market Margin (Rs. In Lakh)
A	**Input Business**		
1	Seed business	35.49	2.48
2	Fertilizer	73.05	1.46
3	Plant protection	22.72	3.41
4	Custom hiring	20.97	5.24
	Total	**152.23**	**12.60**
B	**Output business**		
1	Maize	38.50	5.25
2	Tomato	91.73	26.08
	Total	**130.23**	**31.33**
	Grant Total	**282.46**	**43.92**
	Annual Operating cost of FPO		**32.92**
	Annual net profit of the FPO before Tax		**11.00**

CASE – TASK: On the basis of the above the FPO should prepare following Statements for 03 years

1. **Projected Profit and loss Account**
2. **Projected cash flow statement**
3. **Projected Balance Sheet**
4. **Develop a narrative description to accompany these financial statements to include in the Business Plan**

To summarise, this module is an operational cum knowledge framework. Each FPO will have to study in detail its own specific characteristics and then arrive at a business plan. The Business Plan for example, of an FPO located close to a metro would be different from an FPO located in the hinterland or located in a tourism centre. FPOs located in the hills would be developing operation cum business plans different in flavour from FPOs located in the plains.

Inward facing FPOs would be different in planning and flavour from outward facing FPOs, particularly the FPOs targeting the export markets. However, the framework to draw up the plan is essentially as above. Experience and a constant review would enable a learning process and also enable more inputs and knowledge from the stakeholders, provided sound relationship management is there. Increased exposure to the markets would facilitate familiarisation with the prevailing business ethos and mode of doing business and the financial aspects. The financial aspects and understanding of financial terms and the context is of the essence of the FPO and for its BODs and the CEO. This must be well understood, even if it takes an effort to be absorbed and internalised. Lastly, and crucially, each member should be aware about the financial and operational strategy for enabling and fostering a can do collective spirit and focus.

Conclusion

The Business Plan Document is not merely a set of papers, but a blueprint for ensuring the vibrant functioning of an FPO. The care that an FPO takes to think through various issues to fill up the Business Plan Document – will clarify its role and help it develop a realistic understanding of its operations. The Business Plan Document will also inspire the FPO to achieve greater heights. The process of developing a business plan is therefore a serious matter.

It is hoped that the Advanced Module on Business Planning will support the long-term sustainability of FPOs and enable them to improve the lives and livelihoods of their members.

Bankers Institute of Rural Development (BIRD), Lucknow is an autonomous institute promoted by National Bank for Agriculture and Rural Development, the Development Bank of the country. It is a premier institute for providing training research and consultancy services in the field of agriculture and rural development banking in India and abroad. The Institute was established in 1983, for addressing the capacity building needs of stakeholders. BIRD, Lucknow is an ISO 9001: 2015 certified training Institute.

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