Knowing Your Smallholder Customer:
A resource for conducting and using market assessments in the smallholder farmer context
ABOUT FEED THE FUTURE PARTNERING FOR INNOVATION

Partnering for Innovation helps businesses access a hard-to-reach agribusiness market that has more than 500 million potential customers, while giving smallholder farmers access to agricultural products and services that boost their income and food production.

DISCLAIMER

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Background

This resource is designed to provide practical and actionable guidance to businesses about addressing challenges that often arise when introducing and selling agricultural products and services in smallholder markets. It assists businesses to:

Understand Markets: Access difficult-to-find information about smallholder marketplaces. Using such information helps you where and how to reach your targeted market. It helps you understand their buying power, preferences, and how your product fits in.

Build Your Value Proposition: Educate your customer on the benefits of your product in relation to its cost. Effectively demonstrate and promote your product, and the strategies to sell it.

Meet Customers Direct Need: Explore financing options that you can offer to your customers to improve the upfront affordability of your product.

Smallholders

Small-scale farmers, pastoralists, forest keepers, and fishers who manage areas varying from less than one hectare to 10 hectares. Smallholders are typically family-focused and pursue the farm household system’s stability by using family labor for production and part of the produce for family consumption.


Figure 1: Entering and Succeeding in the Smallholder Market

This graphic illustrates the distinct phases of the smallholder business plan development process and in each playbook, highlights the relevant phase covered in the playbook, addressing three fundamental critical success factors of smallholder business: adaptability, affordability and accessibility.
Chapter 1: Market Assessments

Market assessments are an important tool to understanding the size and scope of the commercial opportunity in a smallholder context. When done right, market assessments help optimize and focus investments, contribute to defining the value proposition, ensure improved commercial viability, and minimize business risk. The consequences of market-expansion or entry strategies that ignore or miss important market information will result in more costly startups, lower sales, slower scaling, and a greater risk of failure of the enterprise.

Knowing your End Customer: Understanding how to identify, prioritize, and address the needs of the smallholder farmer, including the fundamental principle that while each customer is unique, most of them recognize commercial value and investment returns and very often follow the leader.

Assessing your Competition: Being able to ascertain if and how a product or service offering can compete with other products on the market in terms of quality, price, availability, and service, as well as addressing customer apathy-- the notion that the customer feels safer by do nothing rather than taking the risk of trying something new.

Customizing your Value Proposition: Knowing your customer against contextual market factors enables you to begin shaping your value proposition. It can be shaped for type – or segment – of customer you are targeting.

Developing the Right Business Model: Evaluating the size and spending power of the market can help you determine product pricing, distribution, customer training and after sales support services, and estimate revenue and costs for supporting sales.

The Market Assessment: A market assessment helps you understand the targeted customers, the environment in which they make purchasing decisions, and the wider business environment in which the company must operate.

The Consequences of Conducting a Limited Market Assessment: An incomplete or poorly conducted market assessment could have the following consequences:

- **Loss of revenue**: Setting too low a price point reduces margins.
- **Lack of sales**: Setting too high a price point or developing an uninformed sales strategy will decrease sales.

A good market assessment includes information on:

- How customers are segmented by income, occupation and product needs.
- Whether to adapt your product to meet customer needs, including scale, design and pricing.
- A product value proposition that addresses the most important technical and financial needs of the customer.
- A marketing plan that effectively demonstrates product attributes, evaluates the competition, identifies business constraints, and targets sales.
- **Inadequate or overdeveloped distribution**: Cost structure and associated infrastructure is either insufficient or overambitious given market demand, leading to lower sales or higher cost of goods sold.

- **Inadequate understanding of competition**: Failure to offer products differentiated from competitors or simply the status quo results in market failure.

- **Regulatory Risk**: Regulations can either help or hinder product adoption and sales.

An understanding of the market includes both qualitative and quantitative aspects. Qualitative relates to an understanding of the smallholder customer and his/her behavior, and quantitative is an understanding of the potential number of customers as well as product costs and benefits.

**The Customer Profile**

Gathering qualitative and quantitative data on the smallholder segment can be difficult, time consuming, and expensive. Nevertheless, a modest understanding of the target customer will not only save time and money, but will ensure more effective targeting, pricing and distribution. Having a plan typically leads to more efficient and structured research and data gathering. This presents a way of thinking about what information is needed when in the field and what types of questions should be answered. While this framework of five elements of customer profiling is used in all markets for consumer goods – including in developed economies – example questions relative to the smallholder segment are provided for guidance. Gathering complete information on all five elements may not be possible given resource constraints – time and money – to do the collection; if necessary, the elements can be prioritized as following:

1) demographic;
2) behavioral;
3) geographic;
4) psychographic; and
5) sociographic.

Companies that are able to fill out all five categories will have a deep understanding of who their customers are and how they live, information that can directly influence other business operations. The example on the next page provides a useful template for filling out typified customer profiles.
Example A: Customer Profile

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Behavioral</th>
<th>Geographic</th>
<th>Psychographic</th>
<th>Sociographic</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 5-7 people per household (mother, father, 3-4 children, 1 grandparent); father literate and head-of household, 37 years-old</td>
<td>- Patriarch makes purchasing decisions with respect to agricultural issues, but heavily influenced by other members of community</td>
<td>- ~20 kilometers from market (need space for grazing cows)</td>
<td>- Community run by chief with democratic decision making at village level for group issues</td>
<td>- Understands that hypothetically there may be improvements to status quo, but long process to be convinced of new methods</td>
</tr>
<tr>
<td>- Grow maize on 1 hectare and raise dairy cows (quantity 5) and chickens for eggs.</td>
<td>- Cows have lower than average production of milk; farmer unaware of low yield</td>
<td>- Some villagers have motorbikes (fuel limited)</td>
<td>- Success by one member of community looked on favorably, others seek to emulate</td>
<td>- Responds best to direct communication of livelihood improvements – usually through higher income; health and education are secondary concerns to food and security</td>
</tr>
<tr>
<td>- ~$200/month income on average: 45% into crop production, 5% into livestock, 25% on food items, 15% on school fees, 5% donated to church and community, 5% remaining (Ability to Pay)</td>
<td>- Risk-averse; must see a product in action and view positive impact of product to purchase</td>
<td>- Village of 20 families</td>
<td>- Income comes 40% in each of two flush seasons, timing dependent on weather conditions, and 20% over remainder of year</td>
<td></td>
</tr>
</tbody>
</table>

For more information, CGIAR’s CCFAFS project has very robust examples of household and village surveys: [http://ccafs.cgiar.org/resources/baseline-surveys#village](http://ccafs.cgiar.org/resources/baseline-surveys#village)
Activity 1: Profiling the Customer

Use this table to guide your market research and complete it as you gather data to arrive at a profile of your target customer.

Next Steps

Upon successful completion of the customer profile, you will be able to use this information to:

- **Establish a competitive price:** Differentiate your product in the market by ensuring your pricing strategy fits within the customer’s ability and willingness to pay.

- **Develop a distribution strategy:** Ensure an effective means by which to distribute the product to your customer.

- **Focus your marketing strategy:** Know how to deploy your marketing resources efficiently, saving time and money, and helping generate sales.

- **Develop a more effective after sales support:** Understand the best after sales support plan that meets the needs of your customers and optimizes the associated costs.
• **Adapt your product:** Ensure that the product is tailored to your customers’ needs and is marketed to them in an effective manner.

**Moving Beyond the Customer Profile: Developing the Customer Sales & Marketing Plan**

While the customer profile provides insights into a typical customer, the customer journey explains the process of mapping out the total customer experience across all the points between the customer and the business (particularly with respect to the product or service). In the smallholder context, this relates either to the process through which a smallholder farmer uses existing products or approaches or how she makes purchasing decisions. For example, imagine the situation of a smallholder farmer experiencing a witchweed (striga) invasion in her field.

• What does the smallholder do?
• Does she first make several attempts at combating the witchweed with traditional solutions?
• If so, does she experience partial or complete crop failure as a result?
• At what point might the smallholder decide to experiment with an off-the-shelf solution?
• Where and how does she learn of the options available?
• Once she learns of the options, how long does it take before the smallholder makes a purchasing decision?
• If the customer’s ability to pay is less than the cost to produce the product, what product re-engineering can be done or financing offered to make the product affordable?
• Once purchased, how does she learn how to use the product effectively? Does she receive instruction, guidance, or after-sales support?
• Does this support ensure the product performs as it should?

These questions build on the customer profile and form the basis of understanding for the development of a customer marketing plan. It also allows you to customize some product features and put in place any needed after sales training and services.
SEGMENTING THE MARKET

One mistake that is often made in marketing to the base of the pyramid is assuming that the smallholder segment is one homogenous market. In fact, the base of the pyramid market is made up of a diversity of segments that may require different levels of investment in product mix, marketing, distribution, support services, and financing. Having acquired an understanding of the potential customer base, look for factors to allow you to further segment your targeted base, focusing on those that result in the largest groupings.

For each segment, a model customer can help to focus your thinking. While model customers are hypothetical characters, they are based on research and data and represent target customers. Each is a detailed profile of an ideal customer in a segment of the market and not intended to be an average of the most common customers. Rather, it should be the profile of a single customer with specific characteristics. As a company works through business planning – developing and adapting the product or service, determining the value proposition and how to communicate it, delivering the product or service to market, offering follow up training and service, etc. – it is helpful to have this model customer as a means to focus your sales strategy.

Why segment the market?
- Better able to target sales and distribution resources.
- Can design products tailored to the segment.
- Develop and implement marketing specific to the segment.
- Measure revenue and cost of each segment independently to more effectively target investment.

### Most Common Characteristics for Segmenting the Smallholder Market

- Crop type (or animal if in livestock/poultry/aquaculture)
- Income level or ability to pay
- Size of land under cultivation by individual or community
- Proximity to market
- Rainfed or irrigated land
- Urban or rural population
- Purchasing behavior – either individually or by the community
**Example B: Customer Segmentation**

**An Example of Customer Segmentation from the Global Alliance on Clean Cookstoves**

This example begins with a divide between household and commercial customers, resulting in two large segments, then separates each segment along the urban/rural divide in consumer groups, and then by four average income groups, resulting in eleven total market segments.

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**Example C: Model Customer**

Abeo is a 28-year-old illiterate male living in a rural Nigerian village supporting a family that includes a wife and three school-age children. He grows and harvests maize in two annual growing seasons on two hectares of land, resulting in a total average income of $275/month. However, this income comes in mostly in two flush seasons – 40% of annual income in each of the two harvest seasons and the remaining 20% spread out over the remainder of the year in lean seasons. The village is 20 kilometers from the nearest market and he does not have transportation. His children are in school during the day and assist him for two hours before and after school. His wife maintains the household, including fetching water, cooking, and cleaning. She typically cooks with a mix of kerosene and charcoal, though often uses wood gathered locally to save money. According to the Nigerian Cookstoves market segmentation, as a “Rural Survivor” Abeo represents 22% of all rural households and 45% of all households.

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2 Global Alliance for Clean Cookstoves Presentation – Nigeria Market Assessment; sources of data: National Bureau of Statistics and Accenture analysis

With a good understanding of your customer, it is now possible to expand your view to the broader market landscape in order to estimate potential market demand.

The Size of the Market Opportunity

Measuring the market opportunity has two elements: volume and revenue. Calculating the number of sales a company expects to be able to capture in the market builds on the segmentation work completed in the qualitative phase of the market assessment. Applying the expected price per unit to this volume results in an expected revenue potential. In this phase, it is important to remain realistic about how much of the market can be reached in a given timeframe.

Figure 2. Calculating the Revenue Potential of the Business
Determining the size of the business opportunity in revenue terms is a process of narrowing down from the total addressable market to a smaller and smaller group of customers to pursue and serve. Once this quantity of product or service to be delivered is determined, the company applies the willingness to pay data to calculate potential revenue. Each step requires data gathered in the Understanding the Customer process as an input.

**Activity 2: Calculating the Size of the Opportunity**

Using this guidance, complete this workbook to calculate the size of the business opportunity in volume and revenue terms.

1. How many customers would potentially purchase your product if all conditions were optimal?

2. What percentage of the total addressable market is the segment you intend to pursue at this stage?

3. How much of this market do you think you can reach, especially considering marketing and geography?

4. Given your internal business operations, especially production and distribution, how much of this demand will you be able to meet in a given time period (annually is preferred)?

5. How many units can you sell to each customer? A customer could be a single person or a village, for example, or could make multiple purchases per month, quarter or year.

6. For this segment, what is the willingness to pay for your product, i.e., at what price will you sell your product and still have a market?

7. Multiply the expected market by the price for the product to determine the projected revenue potential.

8. Insert a percentage here, based on expanding geographic reach or increasing customer base within a market already served.

9. Insert a percentage here.

10. Insert a percentage here – as your product gains traction in the market, will you be able to charge a higher price?

**Next Steps**

Upon successfully quantifying the business opportunity, you will be able to use this information to:

- **Ascertain potential revenues:** Calculate the total value of selling your products to the target customer segment.

- **Understand profitability requirements:** Gain an understanding of the sales requirements required to exceed costs to generate net profit.
• **Develop scenarios:** Analyze how different sales and pricing assumptions impact on revenue forecasts and profitability expectations.

**The Business Climate**

In addition to understanding the size of the market opportunity, companies must take into consideration regulations that can impact the ability or speed that your enterprise can be launched. This knowledge informs business decisions, from whether or not to enter a market to where and how to manufacture a product. The chart below includes the most common issue areas and examples of potential implications for your business.

**Business Climate Considerations and Implications**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Questions</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Workforce Readiness</strong></td>
<td>• Is there an adequate workforce to manufacture and/or sell the product? &lt;br&gt; • What is the skill level of the available workforce?</td>
<td>• Cost to train workforce if it is not skilled and time delays while training&lt;br&gt; • Legal requirements and constraints on expatriate labor</td>
</tr>
<tr>
<td><strong>Tax Structure</strong></td>
<td>• What is the current tax structure for the business? &lt;br&gt; • How are imports or inputs to the product or service (e.g., expatriate labor) taxed? &lt;br&gt; • Are there beneficial tax incentives or subsidies?</td>
<td>• Increased price of product&lt;br&gt; • Competitiveness of product if price increases</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>• What is the condition and reliability of transportation and electricity infrastructure? &lt;br&gt; • What is the availability and condition of processing and warehousing facilities? &lt;br&gt; • What is the availability and reliability of water supply?</td>
<td>• Impacts on logistics and distribution and related costs&lt;br&gt; • Impacts on product operability and/or manufacturing reliability&lt;br&gt; • Impact on value chain efficiency and distribution</td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
<td>• Are there fiscal and/or non-fiscal incentives that can benefit market entry and business development (e.g., subsidized pricing)? &lt;br&gt; • Are there specific crops/stages of product that have been prioritized?</td>
<td>• Changes in demand for product based on alignment with incentives&lt;br&gt; • Decrease in pricing if incentives significantly reduce costs</td>
</tr>
<tr>
<td><strong>Issue</strong></td>
<td><strong>Questions</strong></td>
<td><strong>Implications</strong></td>
</tr>
<tr>
<td>-----------</td>
<td>--------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Labor Law</strong></td>
<td>• What are the labor compliance expectations?</td>
<td>• Potential partnerships with implementing agencies/ministries to increase adoption</td>
</tr>
<tr>
<td></td>
<td>• Impact on cost structure of compliance</td>
<td></td>
</tr>
<tr>
<td><strong>Stakeholder Expectations</strong></td>
<td>• How do local stakeholders view the company? The product?</td>
<td>• Effects on marketing and branding, an element of costs to operate</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td>• What are the legal conditions regarding real estate ownership or leasing?</td>
<td>• Cost of compliance</td>
</tr>
<tr>
<td></td>
<td>• Corporate governance changes</td>
<td></td>
</tr>
<tr>
<td><strong>Donors</strong></td>
<td>• What are the legal conditions regarding real estate ownership or leasing?</td>
<td>• Broader distribution of product or service</td>
</tr>
<tr>
<td></td>
<td>• Cost of compliance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Corporate governance changes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ability to provide subsidized technical assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Improved license to operate and credibility in smallholder ecosystem</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Access to additional financing opportunities</td>
<td></td>
</tr>
<tr>
<td><strong>Market Conditions</strong></td>
<td>• What is the capacity of the primary and secondary value chain actors?</td>
<td>• Easier entry points with smallholder farmers</td>
</tr>
<tr>
<td></td>
<td>• What is the degree of smallholder aggregation and organization?</td>
<td>• Opportunities for collaboration along value chain to increase efficiency</td>
</tr>
<tr>
<td><strong>Political &amp; Institutional Climate</strong></td>
<td>• What is the political stability of the country?</td>
<td>• Increased cost of financing in unstable political environments</td>
</tr>
<tr>
<td></td>
<td>• Is corruption a major factor in the market?</td>
<td>• Compliance with international anti-corruption laws</td>
</tr>
<tr>
<td></td>
<td>• What is the ability of government agencies to enforce regulations and legal infractions?</td>
<td>• Increased risk to operating in country</td>
</tr>
</tbody>
</table>
Understanding the Competition

Understanding the competition in the market includes both direct competitors (e.g., another similar product), or an indirect competitor such as an alternative solution. An example of an alternative solution would be if a customer chose to sell grain immediately instead of using a storage technology. Another competing interest common in these markets is when potential customers prefer the status quo over trying a new product, feeling the risk of purchase is greater than the potential return. An analysis such as the one below can help you better understand the competition, specifically identifying:

- The competitive advantage of one product over another
- Weaknesses in a business model
- Threats in the marketplace

This framework provides a structure to look at the critical success factors in the smallholder market, including suggestions on defining each level low to high. These factors are not all inclusive, varying depending on the product or service offered, or the market targeted, for example. Additionally, the characterizations of low to high should be considered suggestions; these will vary based on the product or service and are offered as a starting point.

Critical Success Factors Key

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>Low-Medium</th>
<th>Medium</th>
<th>Medium-High</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price</strong></td>
<td>&lt;20% of average monthly customer income</td>
<td>20-50% of average monthly customer income</td>
<td>50-100% of average monthly customer income</td>
<td>100-150% of average monthly customer income</td>
<td>&gt;150% of average monthly customer income</td>
</tr>
<tr>
<td><strong>Accessibility</strong></td>
<td>Only available in capital city</td>
<td>Available in large towns/market centers</td>
<td>Available from traveling vendors</td>
<td>Available through local kiosks</td>
<td>Available at farm level</td>
</tr>
<tr>
<td><strong>Brand Awareness</strong></td>
<td>No users know brand</td>
<td>Few users know brand</td>
<td>Some users know brand</td>
<td>Most users know brand</td>
<td>Majority of users know brand</td>
</tr>
<tr>
<td><strong>Sales channel employed</strong></td>
<td>Purchased directly from major company with no personal</td>
<td>Purchased directly from major company that maintains</td>
<td>Purchased in market from sales representative</td>
<td>Sold through agents not part of community, with one-time advice offered</td>
<td>Purchase through local dealer known to community</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Low-Medium</td>
<td>Medium</td>
<td>Medium-High</td>
<td>High</td>
</tr>
<tr>
<td>----------------------</td>
<td>----------------------</td>
<td>---------------------</td>
<td>----------------------</td>
<td>----------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>connections to smallholders</td>
<td></td>
<td>own sales network</td>
<td></td>
<td></td>
<td>offers advice and is trusted</td>
</tr>
<tr>
<td>Market Share</td>
<td>&lt;5%</td>
<td>5-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>&gt;20%</td>
</tr>
<tr>
<td>Usability</td>
<td>Significant / repeated instruction required for proper use</td>
<td>Multiple instances of in-person or phone support needed for initial setup</td>
<td>Initial setup and use requires guide and/or on-call support</td>
<td>Can be set-up with simple guide</td>
<td>Easy to use without any instruction</td>
</tr>
<tr>
<td>Inputs required</td>
<td>2+ inputs/quarter or 7+ inputs annually</td>
<td>3 inputs twice/yr or 5-6 inputs annually</td>
<td>2 inputs twice/yr or 3-4 inputs annually</td>
<td>1 input twice/yr or 2 inputs annually</td>
<td>1 input annually</td>
</tr>
<tr>
<td>Production Output (of crop)</td>
<td>Same amount as no intervention</td>
<td>&lt;25% more than no intervention</td>
<td>25-75% more than no intervention</td>
<td>75-100% more than no intervention</td>
<td>&gt;100% more than no intervention</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>none provided</td>
<td>1 time/year</td>
<td>1 time/quarter</td>
<td>1 time/month</td>
<td>2+ times/month</td>
</tr>
<tr>
<td>Financing</td>
<td>No financing available to assist with purchasing product</td>
<td>Lenders suggested but not facilitated by company, thus typically unattainable</td>
<td>Consumer finance/lending facilitated by company, but with no grace period</td>
<td>Consumer finance with short grace period</td>
<td>Consumer finance with significant grace period</td>
</tr>
</tbody>
</table>
Example D: Competitive Assessment

<table>
<thead>
<tr>
<th>Critical Success Factors</th>
<th>Competitors</th>
<th>Irrigation Company 1</th>
<th>Irrigation Company 2</th>
<th>Irrigation Company 3</th>
<th>Nature (rain/drought)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price²</td>
<td></td>
<td>–</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accessibility</td>
<td></td>
<td>¼</td>
<td>½</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Brand Awareness</td>
<td></td>
<td>¼</td>
<td>½</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales channel employed</td>
<td></td>
<td>½</td>
<td>¼</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Usability</td>
<td></td>
<td>¼</td>
<td>⅘</td>
<td>⅘</td>
<td>⅘</td>
</tr>
<tr>
<td>Net income change³</td>
<td></td>
<td>⅘</td>
<td>–</td>
<td>⅘</td>
<td>⅘</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td></td>
<td>¼</td>
<td>⅘</td>
<td>⅘</td>
<td>⅘</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td>0</td>
<td>0</td>
<td>⅘</td>
<td>⅘</td>
</tr>
</tbody>
</table>

1 Actual companies, though names have been masked
2 Company 1=$350, Company 2=$288, Company 3=$1,967; prices for Company 3 are on average basis.
3 On farmers' net income basis.
Activity 3: How Does the Competition Measure Up?

1. Complete the critical success factors on the left side. These are elements at which the product and business must excel to be successful in the chosen target market. Reference the suggested smallholder market critical success factors and corresponding key, though other factors should be considered as relevant to the product or business.

2. List your product and then competing products or solutions across the top. These can be current ones or those the company expects will launch soon; also include the alternatives, such as “do nothing” (i.e. not addressing the problem or doing so without purchasing a specific solution).

3. Following the key (or adjusting the meanings of low-high to better align with your business), in each cell insert the ball that corresponds with how the product compares with the competition. In cases where there are multiple responses (e.g., a competitor uses multiple sales channels), rate the product based on the best level offered.

This chart, when completed, will illustrate the company’s strengths and weaknesses.

<table>
<thead>
<tr>
<th>Companies</th>
<th>Critical Success Factors</th>
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<tbody>
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Next Steps

Upon successfully mapping your competition, you will be able to use this information to:

- Develop a value proposition that is different from and better for your target clients than that of your competition; understand how your product will need to be different to be competitive in the marketplace.
• Be better able to target your market niche; identify geographic, functional, and/or operational gaps that may help you with market entry, distribution, and marketing strategies.

• Develop a pricing strategy most appropriate to your customers; determine the type of value to provide to the customer (pricing and customer experience).

• Identify partners that can improve your prospects for success; consider if and how to partner with other companies or organizations that will improve access to your target market and could help offer enhanced services.

**Finding Market Information in a Smallholder Context**

Finding data and methods for researching the customer’s purchasing process, including understanding the smallholder farmer segment, is challenging but there are some good data sources available if you know where to look. These sources, discussed below, can provide a baseline understanding of the market. The quality and the scope of information increases as more resources and time are invested in studying the market and target customers. Local business leaders, NGOs, donor projects, government offices, and community groups, among others, can be helpful as primary data sources for new market entry. These four levels of information and the tools associated with each exhibit varying depths of research; the level of depth a company goes into depends mostly on the amount of time and resources the company can and wants to invest into this stage.

**Figure 3. Levels of Data Gathering**
1. **Basic market information**: At a minimum, a market assessment includes understanding basic demographic data and needs of the target customer, the laws and regulations that can affect your sales, the total size of the market, typical customer characteristics, the geographical location of the market(s) that would be a good entry point for the company, and competing products available in the market.

2. **Good**: A good understanding of the market includes demographic, behavioral, and geographic data on the customer, information that typically requires only limited primary research in most countries. This should include knowing how geographically dispersed our customers are, how they get to market to purchase products and what value your product offers the customer. Some differences in your customer characteristics are described. The total addressable market can be narrowed down into those who should be targeted as early adopters/leaders that are interested in trying out the product. If this information is not available in existing sources, surveys or discussions with small groups could be considered. Local NGOs have deep roots in communities and are typically good sources of basic information or can be available to conduct research for a small fee.

3. **Better**: The third level of market assessment moves into the realm of knowing how customers make decisions and how they value trade-offs. You should know what laws and regulations, including pending ones, may impact your go-to-market strategy. Are there programs available – donor, academic or other – that may be available with which to collaborate? At this level, the business will have spent time with the community talking with both individuals and with groups, including conducting market surveys and focus groups.

4. **Optimal**: There is no limit to the amount of data that a business can collect on customers, and as you sell your product in the marketplace, this learning continues. However, in an ideal market assessment, the company will grasp the differences in individual and community decision-making and the roles of household and community leaders in decision-making. This can include other market entry examples of other products, allowing for more accurate forecasting of future market size and timing of growth. In this stage, you will have spent significant time with the customers to understand how they live their lives and be able to better target your messaging/marketing, sales force, and product offering.
Once a business has a basic understanding of the market through secondary research, a plan for diving deeper can assist with guiding on-the-ground research. There are many market nodes that may provide efficient access to numerous customers.

- **Aggregation points**: Grain warehouses, collection centers, and other points to which producers bring their products for storage and/or sale are a fast way to reach a specific group of potential customers. Additionally, the staff working at the aggregation points can be helpful in providing an alternate perspective on this segment of consumers.

- **Community Meetings**: Farmer associations and other community meetings often bring together many potential customers in a single location and offer insight into how the community makes decisions.

- **Middlemen**: Distributors and dealers along the sales chain understand the target customers and can provide insights into both qualitative and quantitative information (willingness and ability to pay).

- **Non-Government Organizations**: In many cases, NGOs have a unique understanding of target customers and consequently can be very good enablers for business building. These NGOs have typically been operational in the location for a long time and have built trust with the consumers. Agribusinesses can partner with them for gaining information and subsequently other business functions.\(^4\) See Appendix I for a list of many that are active in base of the pyramid markets and frequently collaborate.

- **Universities**: Often, local universities have either conducted primary research in the local markets and populations, or have collated secondary information for thesis research and will allow public access. Additionally, many students can assist with field research given the increased likelihood of local populations to trust them; professors may serve as subject matter experts, especially on regional agriculture and meteorological conditions.

- **Private Companies**: There may be other private companies operating in the target market that have information on the target customers. These companies may be amenable to teaming with the business.

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\(^4\) Raman
with other businesses to share data in ways that are mutually beneficial.

- **USAID and other donors:** International aid agencies can be a helpful resource for identifying resources and studies given their work in the markets.

Demonstration sites, which will be described in more detail in a later playbook as an important part of marketing strategies, can also be very helpful in collecting information on a target market. A demonstration site is typically located in a well-traveled area such as an input supply shop, a market, or at a previously established aggregation point that attracts farmers and facilitates one-on-one interviews and focus groups from which data can be collected.
Conducting this thorough market assessment of the customer and broader landscape is key because it flows through to nearly every other business function. Understanding customers and the market landscape affects:

- The adaptation of the product or service; especially in the smallholder market, it is best that the product or service is tailored to the customer’s requirements and constraints, which are understood through the market assessment. Companies may go through several rounds of adaptation, during which they return to the market for further refinement of the assessment.

- Resources – both human capital and otherwise – to devote to selling the product or service, part of marketing and value proposition, based on the company knowing how and where the customers make purchases.

- The extent of training and post-purchase support needed, also part of marketing and value proposition.

- The price of the product or service, which impacts financing and affordability decisions, determined through understanding the customer’s willingness and ability to pay.

- The decision of which segment to pursue and how – the plan for market entry.

- Expected market growth over time.

Combining all of these elements into a Go-to-Market strategy results in a comprehensive business plan for successfully delivering the product into the hands of the customer in a way that meets business objectives.

Finally, a market assessment is never completely finished. As a product or service is introduced into the market, additional information will be gathered through marketing, sales, and training. It is important to continue considering how this new information might influence future iterations of an offering or how the company brings it to market. Flexibility is a key skill to operating in the smallholder farmer market.
Chapter 2: Affordability & Financing Models

INTRODUCING THE GAP AND THE STRATEGIES FOR ENABLING SMALLHOLDER FARMER UPTAKE OF PRODUCTS AND SERVICES

Businesses serving smallholder farmers must think through two very important challenges that require them to know their customers: affordability and financing.

Without doing so, businesses risk having a limited market for their products and services. It is particularly important in rural markets given that traditional lenders often do not want to lend to smallholder farmers due to a number of factors.

This chapter assists partners in understanding the variety of affordability and financing strategies available outside of traditional commercial lending. In many cases, businesses can couple these strategies with product and service delivery to offer a comprehensive solution that increases customer adoption.

If the price at which a company plans to sell its product or service is too high, creating a barrier to the customer, the company must offer its customers affordability and/or financing options that will facilitate product adoption. With information about the customer and the context, the company will be able to evaluate which affordability or financing choice is optimal.

THE STRATEGIES

Affordability refers to decreasing the cost of a product or service, whereas financing refers to providing assistance with purchasing the good or service by offering a choice of how to pay for it, usually reducing upfront costs. Both affordability and financing strategies can be used to scale product uptake, increase company productivity, and generate new financing opportunities for the company. Regardless of the strategy used, the greater the product uptake that results, the stronger the business case is for using it. The approaches to implementing affordability and financing options differ. More often than not, multiple strategies are used given the customer base and the market context. Pairing these affordability and financing strategies with your products or services make them more accessible to your customer. The more accessible they are, the better the sales you will have!

Consider:

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- What the product or service is and what it costs relative to the average income of the target customer.
- The company’s cash flow and tolerance for risk.
- The current market penetration of the product or service.
- The availability of financing in the market.

For example:

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Tools &amp; Light Equipment</th>
<th>Heavy Equipment</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examples: seeds, pesticides, additives, fertilizers.</td>
<td>Examples: plows, bicycles, pumps, storage bags, testing kits, micro-irrigation systems.</td>
<td>Examples: on-farm processors (e.g., huller), irrigation systems, small silos, tractors.</td>
<td>Examples: crop prices, weather data, insurance.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Affordability</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundle products/services as a package to reduce costs</td>
<td>Bundle products/services as a package to reduce costs Bundling</td>
<td>Pay-per-Use (p. 15)</td>
<td>Bundling/Cross-Subsidization (p. 11) No Frills (p. 13) Pay-per-Use (p. 15)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Financing (p. 18)</td>
<td>Consumer Financing (p. 18) Leasing (p. 22)</td>
<td>Consumer Financing (p. 18) Asset Financing (p. 20) Leasing (p. 22)</td>
<td></td>
</tr>
</tbody>
</table>
THE STRATEGIES AT A GLANCE

While there are many ways to reduce the cost of a product or to provide financing to enable a customer to purchase a product that is too expensive to be purchased with cash, this playbook focuses on six widely-used strategies in smallholder affordability and financing.

Affordability

- **Bundling & Cross-Subsidization**: Bundling is a product delivery and marketing strategy through which several products are packaged, delivered, and marketed together for one price. Cross-subsidization uses higher margins on one good to allow charging lower prices for another. Both bundling and cross-subsidization increase product and service access by lowering the total price of one or all the goods and/or by increasing product utility and awareness.

- **No Frills**: No frills tailors products and services by paring them down to meet basic needs of lower income buyers while accommodating price sensitivity and maintaining functionality. Scaled back complexity enables companies to meet the needs of the consumer at ultra-low prices while still generating profits through high-volume sales.\(^8\)

- **Pay-per-Use**: Consumers pay for a single use of a service (e.g., a cell phone call) or of a productive asset (e.g., a tractor) that is owned and/or provided by the company or a third-party. Products or services can be metered, pre-paid, rented, etc., with the company managing equipment maintenance and the associated customer transactions.

Financing

- **Consumer Financing**: Consumer financing refers to a range of interest-generating lending options that enables products and services to be acquired without an upfront (or with a limited) cash requirement. This expanded access to credit is typically backed by some form of collateral and can be extended by a financial institution or non-traditional lender such as an agro-dealer with a financing department.

- **Asset Financing**: Asset financing is a system whereby the asset being purchased and the future income streams expected from use of the asset are considered by the lender as collateral, eliminating traditional collateral requirements. The farmer is the legal owner of the asset while the loan is being repaid.

- **Leasing**: Leasing provides an asset to a customer for a limited period of time and under specific terms of use. The company maintains ownership of the asset, reclaims ownership of it at the end of the lease, and is therefore responsible for the proper use and maintenance of the asset while under lease, while the farmer borrows and pays “rent” on the asset.

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Affordability and financing strategies do not have to be executed by a company alone. In fact, because the companies are often under pressure to fund their own operations and because financing may not be a core competency, they often bring on partners to facilitate financing and share risk, as illustrated below. Additionally, many of these partners are well-positioned through existing relationships to identify farmers who are eligible for financing and to whom products and services can be sold, bringing the added advantage of a new potential customer base.
<table>
<thead>
<tr>
<th>Institution</th>
<th>Motivation</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>• Use lending expertise</td>
<td>• Debt: provide loans to smallholders, or line of credit to company to fund loans</td>
</tr>
<tr>
<td></td>
<td>• Open new customer base for selling other products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Make profit on lending</td>
<td></td>
</tr>
<tr>
<td>Donor</td>
<td>• Accomplish development objectives</td>
<td>• Credit guarantee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Interest rate subsidies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Debt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Technical assistance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Grants</td>
</tr>
<tr>
<td>Non-governmental organization</td>
<td>• Accomplish development objectives</td>
<td>• Credit guarantee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Grants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Technical assistance</td>
</tr>
<tr>
<td>Domestic government</td>
<td>• Develop agriculture sector</td>
<td>• Interest rate subsidies</td>
</tr>
<tr>
<td></td>
<td>• Encourage smallholder farming</td>
<td>• Technical assistance</td>
</tr>
<tr>
<td></td>
<td>• Contribute to domestic food security and nutrition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Assist private sector in gaining market foothold</td>
<td></td>
</tr>
<tr>
<td>Third party/external commercial</td>
<td>• Spread sales and distribution costs</td>
<td>• Bundling</td>
</tr>
<tr>
<td>company</td>
<td>• Increase awareness</td>
<td>• Shared channel distribution</td>
</tr>
<tr>
<td></td>
<td>• Share marketing costs</td>
<td>• Trade credits</td>
</tr>
<tr>
<td></td>
<td>• Use pre-proven sales/distribution channels</td>
<td></td>
</tr>
</tbody>
</table>
If a company does decide to offer financing itself, it should verify that local regulations do not require it to register as a financial institution. Should local regulations or operational limitations prohibit direct financing, the company may need to pursue third-party alternatives. “Soft funding” (below-market capital or grants) may be needed in some financing models to initiate the model, address critical barriers, and scale up.9

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This table, developed by the Initiative for Smallholder Finance\(^{10}\) presents common participants and the roles and responsibilities they can take on to share the risk. If a company wants to decrease the amount of risk it is taking on itself when offering a product or service to the smallholder market, it can consider partnering with one or more of these entities based on the benefits each will bring. Moving down the table, as a participant’s risk increases, the company’s risk decreases.

**Figure 5. The Initiative for Smallholder Finance’s Perspective on Risk Sharing**

<table>
<thead>
<tr>
<th>Risk sharing mechanisms</th>
<th>Likely participants</th>
<th>Benefits</th>
<th>Risk Share (not to scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash deposit / savings</td>
<td>Farmer(s)</td>
<td>• Increases farmer access to financing</td>
<td>Deposit from farmer(s)</td>
</tr>
<tr>
<td>Liquidation of assets(^1)</td>
<td>Equipment provider / input supplier / warehouse</td>
<td>• Increases sales of products, equipment, and services</td>
<td>Resale / remarket</td>
</tr>
<tr>
<td>Insurance</td>
<td>insurance companies</td>
<td>• Increases volume of insurance contracts</td>
<td>Insurance claim</td>
</tr>
<tr>
<td>First loss / risk guarantee(^2)</td>
<td>NGO / social enterprise / gov’t</td>
<td>• Achieves poverty reduction objectives</td>
<td>Guarantee</td>
</tr>
<tr>
<td>Impact investor / DFI / guarantor</td>
<td>Trader / processor / off-taker / input supplier</td>
<td>• Achieves social and financial mission</td>
<td></td>
</tr>
<tr>
<td>Shared loss</td>
<td>Financial institution / investor</td>
<td>• Increases supply of products and farmer loyalty</td>
<td></td>
</tr>
<tr>
<td>Financial institution write-off</td>
<td>Financial institution / investor</td>
<td>• Increases credit portfolio and gains new clients</td>
<td></td>
</tr>
</tbody>
</table>

Allocation of risk is likely to be determined on a case-by-case basis via negotiation among participants.

1) Assets may include movable and/or non-form collateral. 2) First loss guarantees may be introduced initially to incentivise private sector investment and phased out over time as model achieves a successful track record.

Source: Based on adaptation of TechnoServe’s risk share model, as detailed in “Aligning multi-party incentives to deliver input credit to cocoa farmers,” Cracking the Nut Conference 2015.


\(^{11}\) Developed by the Initiative for Smallholder Finance, internal documents.
In addition to sharing risk with partners, risk can be reduced by building factors into the business model that will increase the likelihood of success. The most common of these factors are included in the table below and range from leveraging existing sales and distribution platforms to developing alternatives that build smallholder farmer credit history.

<table>
<thead>
<tr>
<th>Enablers: Making the Models Work</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Sales Channels</strong></td>
<td>Existing sales channels help companies reduce fixed costs, including marketing and distribution, which can lower prices and increase uptake. “Piggybacking products and services on existing customer supply chains [can] enable poor people to afford and gain access to socially beneficial goods.”12 Because distribution arises repeatedly as an obstacle to scale, this can be overcome through:</td>
</tr>
<tr>
<td></td>
<td>• Use of existing distribution platforms.</td>
</tr>
<tr>
<td></td>
<td>• Increasing the sales force’s responsibility to carry multiple products from a single hub deeper into the rural areas.</td>
</tr>
<tr>
<td></td>
<td>• Properly incentivizing all participants in the distribution chain through sales commissions and other strategies.13</td>
</tr>
<tr>
<td><strong>High Sales Volumes</strong></td>
<td>High sales volumes compensate for small profit margins on each unit with sales of high volumes of units. Fixed prices of marketing and distribution are spread out over a large number of units, making each unit more affordable. High sales volumes can also help make the case for external financing by demonstrating that there is a market ready and willing to pay for the product or service.</td>
</tr>
<tr>
<td><strong>Technical Assistance &amp; Training14</strong></td>
<td>Technical assistance and training is one of the most commonly used enablers in smallholder farmer affordability and financing because it can:</td>
</tr>
<tr>
<td></td>
<td>• Improve product performance, thus encouraging repeat purchasing and increasing loan repayment.</td>
</tr>
<tr>
<td></td>
<td>• Enable product and client performance monitoring.</td>
</tr>
<tr>
<td></td>
<td>• Strengthen customer relationship management, reducing long-term marketing and customer acquisition costs.</td>
</tr>
<tr>
<td></td>
<td>• Improve product maintenance so that the asset can be sold or leased again in case of repossession.</td>
</tr>
</tbody>
</table>

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- Expand the model farmer approach through which farmers train others in a way that creates trust, increases product loyalty and customer satisfaction, and expands product uptake.

In addition to training on a particular product pre- and post-purchase, technical assistance can provide smallholders with improved:

- Financial literacy.
- Farm operations.
- Agronomy practices.
- Establishment of market linkages with other market actors such as off-takers.

All of these can contribute to better farm management, margins, and record-keeping, improving a farmer’s ability to pay and leading to an improved loan profile.

| Deep Customer Knowledge | Deep customer knowledge is necessary for understanding how to price the product, which directly affects whether the company should look at an affordability or financing strategy. It also enables the company to design loan terms that are serviceable by the smallholder customer. Customer knowledge informs where the customer will likely make purchasing decisions and therefore through which channel financing should be offered. Additionally, the company should understand if and how a potential customer becomes a paying one and if the customer will be creditworthy. This understanding is fundamental to ascertaining if affordability or financing models will be viable.¹⁵ |
| Value-Based Marketing | Value-based marketing ensures that the potential customer is made aware of the direct and indirect benefits of the product prior to purchase. With risk-averse customers such as smallholders, this is important in encouraging customers to purchase products that may be on the edge of affordability. Value-based marketing is best communicated through lead farmers and demonstration plots, or trainings and demonstrations through agro-dealers. |

¹⁵ For more information on market assessments, including developing customer profiles, see “Who and Where is Your Customer?” the first playbook in this series. May 2015.
Sufficient Smallholder Aggregation

Smallholder aggregation refers to organizations of farmers that are in a similar location and farming the same crops. These groups are most productive when naturally formed and often exist in smallholder markets to share information and resources. Smallholder aggregation is beneficial because it:

- Enables easier identification of individual customers.
- Expands the customer base by selling multiple units simultaneously to many members, rather than reaching individuals separately.
- Eases distribution of finance and payment collection, which can all be done at one aggregation point.
- Can improve repayment through collective accountability mechanisms, increasing the availability of commercial financing.
- Distributes risk sharing by using collective collateral for loan guarantees, increasing likelihood of commercial financing.
- Allows the use of equipment by others in the group, should the first person default.

Accommodating Terms

Accommodating loan and payment terms for smallholder farmer borrowers include:

- Repayment cycles matching income and crop cycles.
- Grace periods on inputs and productive assets to enable income to be generated after purchase.
- Lower interest rates and longer repayment terms.

Credit History

In smallholder markets, credit history is often limited or unavailable. To overcome this challenge, smallholder financing strategies can rely on proxies that can be used to predict the credit worthiness of a potential customer, albeit imperfectly. This can be done through:

- Agro-dealers’ receipt books showing repeat purchasing by customers and the value of these purchases.
- Documentation from output aggregation points, such as warehouse receipts.
- Top-up records from mobile phone companies, showing the income and payment cycles from other transactions.
- Mobile money transaction records.
- Savings records with local institutions or organizations.
- Offtake contracts between producers and buyers.

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16 The Initiative for Smallholder Finance, internal documents.
**STRATEGIES: AFFORDABILITY**

Affordability strategies lower the cost of a product or service to the end consumer and will typically increase access to a product or service. When evaluating affordability strategies, the company should consider the entire lifetime value of a customer, which is the customer’s ability to generate revenue for the company in the long-term as the customer’s buying power increases.

**BUNDLING & CROSS-SUBSIDIZATION**

Companies should use this if...

- **Company has multiple products to offer the market or complementary products are available from another company.**
- **High portion of products’ cost is marketing and/or distribution and there is the possibility for shared distribution.**
- **Products and services have low enough price points that a smallholder would be able to pay cash to purchase.**
- **The combination of products and/or services enhances overall performance (e.g. seeds and fertilizer, inputs and crop insurance).**

Bundling is a product delivery and marketing strategy through which several products are packaged, delivered, and marketed together for one price. Cross-subsidization uses higher margins on one good to allow charging lower prices for another. Both bundling and cross-subsidization increase product and service access by lowering the total price of one or all the goods and/or by increasing product utility and awareness.

**Existing Sales Channels**

Sales force is used to sell multiple goods, spreading and lowering operational costs, and increasing profitability of each good.

**High Sales Volume**

High volumes are needed to compensate for limited profit margins.

**Technical Assistance & Training**

Ensures proper use of products, increasing likelihood of increased income from use of goods, and encourages repeat purchasing or purchase of other products.

Companies can increase success of the strategy by using...
### Example: ACRE

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Value Delivered</th>
</tr>
</thead>
</table>
| Crop failure due to unpredictable weather is the single largest threat to smallholder agriculture in Africa. Existing farmer insurance schemes in Africa are based on actual crop damage or loss, which require laborious and expensive claims processes that make crop insurance in the smallholder sector unprofitable. | ACRE, formerly known as Kilimo Salama in Kenya, offers affordable index-based crop insurance products for smallholder farmers in Kenya, Tanzania, and Rwanda. ACRE bundles insurance and agricultural inputs to make both more affordable for smallholders by sharing marketing and distribution costs. Farmers purchase inputs from agro-dealers and have the option to also buy insurance at a cost of 5% of the inputs’ value. Agro-dealers partner with Safaricom’s M-PESA mobile money service to transfer the insurance premiums to the insurance company. When a weather event like excessive rain or extreme drought is detected by nearby weather stations, it is assumed that crop damage has occurred and farmers receive a payout that is directly deposited into their M-PESA accounts. | • Insured customers have grown from 200 farmers in Kenya in 2009 to 200,000 across Kenya, Rwanda, and Tanzania in 2013.  
• Telecom partner Safaricom has generated a profit from the product through its transaction fees for M-PESA; UAP Insurance expects to generate a profit within the first few years.  
• Insured farmers have invested 19% more in better inputs and technologies and earned 16% more than neighboring uninsured peers.  
• Increased smallholder access to finance: 99% of ACRE customers have loans linked to insurance coverage resulting in 30,000+ Kenyan customers who were able to access $5.5 million in financing because they had insurance. |

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No Frills

**Companies should use this if...**

1. **There is a demonstrated market need** and the product or service would create significant value for a smallholder, but alternatives are unavailable or too expensive.

2. **Product or service is sufficiently adaptable that it can be modified without losing its main functionality and effectiveness.**

3. **Productive goods or services** (e.g., drip irrigation, micro-insurance) can be adapted to be sufficiently affordable so that a smallholder would be able to pay cash to purchase.

---

No Frills tailors products and services by paring them down to meet basic needs of lower income buyers while accommodating price sensitivity and maintaining functionality. Scaled back complexity enables companies to meet the needs of the consumer at ultra-low prices while still generating profits through high-volume sales.

---

**High Sales Volumes**

High volumes are needed to compensate for limited profit margins.

**Value-Based Marketing**

Value delivered to smallholder farmer (not only low cost) should be emphasized in marketing to avoid a perception of low quality.

**Deep Customer Knowledge**

Informs selection of an appropriate price point and minimum appropriate functionality for product or service design.

---

**Companies can increase success of the strategy by using...**
**Example: Driptech**

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Value Delivered</th>
</tr>
</thead>
</table>
| Water is the main constraint to farming. Irrigation provides potential for year-round production but is expensive to install and complex to maintain. Given the gaps in market options, smallholder farmers rely mainly on rainwater, which can be unpredictable or absent, decreasing the efficiency of inputs and overall productivity. Because of the expense to purchase and apply, fertilizer use is absent or suboptimal. | Driptech markets small irrigation kits that combine ease of assembly and maintenance with affordability. Driptech economizes at every stage, from design through manufacturing and delivery, to make its products affordable by lowering the unit cost while maintaining high quality. Driptech’s InstaKit irrigation system reduces smallholder farmer installation time by 75 percent. When reengineering its product to create the InstaKit, Driptech had a deep understanding of its target market: farmers with up to 5 acres of land, operating only slightly above subsistence, and with a recognized need and willingness to pay for technologies that increase output. The company used a high volume and low unit- and after-care cost model to make its drip irrigation kits affordable to smallholder farmers, while driving volumes through effective partnerships with local organizations providing distribution, marketing, and retailing support. The InstaKit also enables fertigation—putting soluble fertilizer through the irrigation system for more effective and lower-cost application. | • The irrigation system is priced 50% lower than other commercially-available drip irrigation systems, enabling more smallholders to purchase them.  
• Smallholders using Driptech kits improved yields by an average of 50% and reduced labor costs related to watering and weeding by up to 80%.  
• In addition to economizing on water, reduced cost of fertilizer by applying through the drip system. |

---

19Feed the Future Partnering for Innovation Commercialization Profile, October 2013.
PAY-PER-USE

Companies should use this if...

Limited use of a higher-priced asset or service is sufficient and economical to derive value and smallholders usually are able to pay cash for a single use.

Purchase of the asset outright or use of the service on a longer contractual basis would be unaffordable.

The need for the product is seasonal or infrequent and thus full ownership is unnecessary and would result in downtime for the asset or service.

Consumers pay for a single use of a service (e.g., a cell phone call) or of a productive asset (e.g., a tractor) that is owned and/or provided by the company or a third-party. Products or services can be metered, pre-paid, rented, etc., with the company managing equipment maintenance and the associated customer transactions.

Sufficient Smallholder Aggregation
Groups enable the asset to be fully utilized over many smallholders.

Accommodating Terms
Small payments and contracts for minimum uses or use over a period of time are determined based on the specific asset or service.

Technical Assistance & Training
Encourages product or service adoption, repeat purchases, and maximizes farmer productivity.

Companies can increase success of the strategy by using...
### Example: Simpa Networks

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Value Delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>One quarter of India’s population, or 306 million people, does not have access to electricity. Because of this, Indian households must either purchase kerosene and generators, which are expensive and have adverse health consequences, or borrow electricity from a neighbor. Borrowing often leads to electricity theft, lost revenue for the power provider, and dangerous situations, such as overloaded transformers and electrocution.</td>
<td>Simpa Networks created a solar-powered unit and pay-to-own model that is affordable and easy-to-use. Customers make an initial small down payment and pre-pay via mobile phones for the kilowatt hours of electricity they can afford and plan to consume. Each payment goes towards owning the unit outright. When the pre-paid amount runs out, customers “top up” by making another payment. Simpa’s pay-per-use model combines the flexibility of pay-as-you-go with the option for customers to eventually be owners of a solar home electricity system.</td>
<td>• Affordable electricity for consumers and progressive purchase pricing that leads to ownership in the long-term. • Mitigation of loss of revenue via Simpa’s prepaid metering system. • Simplicity and reliability of mobile payment. • Renewable source of electricity in place of expensive, potentially dangerous, and illegal alternatives.</td>
</tr>
</tbody>
</table>

---

STRATEGIES: FINANCING

Financing strategies can facilitate access to larger and more expensive equipment. Given the reluctance of commercial lenders like banks or credit unions to provide financing to smallholder farmers, financing schemes are often guaranteed by concessionary lenders such as subsidized micro-finance institutions, donors, and impact investors. Usually the company provides a full buy-back guarantee or related collateral to entice lenders to finance purchases. Once the model is proven and the risk level is demonstrated, the company may be able to remove or reduce the guarantee with the bank, then assuming more of the risk. Successful financing strategies require effective functioning of all steps in the financial services value chain, from customer identification to collection.

---

21 The Initiative for Smallholder Finance, internal documents.
CONSUMER FINANCING

Companies should use this if...

**Company is offering goods and services** where lending is intended to boost sales, product uptake, and increased smallholder production and income.

**When collateral is available** or when an alternative to collateral is available (e.g., customer relationships or credit history).

**Information on customers is available** to assess credit worthiness and likelihood of loan repayment.

Consumer financing refers to a range of interest-generating lending options that enables products and services to be acquired without an upfront (or with a limited) cash requirement. This expanded access to credit is typically backed by some form of collateral and can be extended by a financial institution or non-traditional lender such as an agro-dealer with a financing department.

**Accommodating Terms**
Seasonal or periodic repayment, serviceable interest rates, and innovative collateral options.

**Existing Sales Channels**
Trusted client-facing agro-dealers increase uptake, especially when financing is paired with sales of a product or service.

**Sufficient Smallholder Aggregation**
Loan is made to an individual, but assets or future income of the group may be considered as collateral.

**Credit History**
Developed through aggregators (e.g., warehouse receipts), dealers (e.g., receipt books), and long-term relationships.

Companies can increase success of the strategy by using...
Example: DelCampo

Delcampo Soluciones Agricolas, an agricultural inputs and technical assistance company, realized that a lack of smallholder farmer access to credit was limiting the company’s ability to sell basic irrigation and farming equipment, thus limiting the farmers’ ability to scale production and improve quality. Nearly all the financing in Honduran agriculture is for large, sophisticated agricultural export and production companies.

Delcampo, in partnership with the Inter-American Development Bank (IDB), built a product financing model, under which IDB provided Delcampo funding to expand its loan portfolio and credit products. Delcampo refined its business model, including streamlining its lending processes and instituting a technical assistance program for smallholder farmers receiving loans. Delcampo’s products are designed specifically for each client segment and include:

- Traditional finance with 30-day terms and zero percent interest.
- Agro Facil, a short-term credit line with an 18% interest rate without collateral.
- Long-term loans for equipment and irrigation financing.

- Grew portfolio from $500,000 and 90 loans in 2009 to nearly $8 million and servicing 2,400+ loans in 2013.
- Grew annual sales of irrigation products from $300,000 in 2009 to nearly $1.8 million in 2013.
- New financing model has given Delcampo a competitive advantage over other input suppliers that do not have smallholder financing facilities.
- About half of all loans serve farmers with loan sizes under $1,000.
- Financed the productivity of 1,700+ hectares of high-value crops since 2009, representing about 7% of total national production.

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22 IDB investment report; Delcampo internal documents.
ASSET FINANCING

Companies should use this if...

- **The use of assets that increase income** (through increasing production or minimizing losses), but are too expensive to purchase without financing, and can be repossessed if necessary.

- **Assets can be shared** for a price, generating income to repay loan.

- **A combination of smallholder and provider maintenance can be included to assure ongoing functionality of the asset.**

- **Mature financial services market is present** with lenders that can provide financing using innovative collateral methods and incomplete or non-existent credit histories.

Asset financing is a system whereby the asset being purchased and the future income streams expected from use of the asset are considered by the lender as collateral, eliminating traditional collateral requirements. The farmer is the legal owner of the asset while the loan is being repaid.

- **Technical Assistance and Training**
  Ensures proper product use, increasing likelihood of increased income and loan repayment. Opportunity to “check in” on farmer/borrower and maintain functionality of asset.

- **Sufficient Smallholder Aggregation**
  Reduces repayment risks by spreading liability over a larger number of farmers; increases purchases because asset can be shared.

- **Accommodating Terms**
  Customers pay as they have cash available; repayments are linked to harvest cycles; longer repayment schedules available for harvest cycles; buy backs offered by company or partners to decrease risk to lender.

Companies can increase success of the strategy by using...
80% of Kenyans are engaged in farming as their primary business, while 36% of rural Kenyans, nearly all of whom are farmers, have no access to any form of financial services. The inability of microenterprises and farmers to acquire productive assets is one of the major reasons farming entrepreneurs fail to realize their full potential and do not grow their businesses to a stage at which they are attractive for financing. Small tractors, movable mills, cattle, generators, and irrigation kits are many of the assets that farmers could use to generate additional income, but often cannot access due to the cost of acquiring them. Banks are deterred by both perceived and evident risks from serving this group and these risks have resulted in high and unserviceable interest rates.

Juhudi Kilimo provides asset-based financing so that smallholder farmers can purchase productive assets, such as dairy cows and machinery. These productive assets act as collateral for the loan. Farmers, 20% of whom live below the poverty line, can use the production from these assets, such as milk or higher crop output, to pay off their initial loans or to acquire additional income-generating assets. Juhudi Kilimo conducts farmer assessments, provides training, and structures payment schedules that fit farmers’ cash flows. Typically, there are no upfront costs (e.g., down payments) required of customers and the asset they procure is used as collateral for the loan. In the case of default, the asset can be repossessed and re-sold to another customer.

- Smallholder farmers borrow an average of $400 per loan and maintain a repayment rate of about 95%.
- Customer retention has grown quickly from 44% in 2010 to 85% in 2013, suggesting that farmers find real value in Juhudi Kilimo’s financing products.
- Smallholders have access to productive assets, increasing income.

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Leasing provides an asset to a customer for a limited period of time and under specific terms of use. The company maintains ownership of the asset, reclaims ownership of it at the end of the lease, and is therefore responsible for the proper use and maintenance of the asset while under lease, while the farmer borrows and pays “rent” on the asset.

**Technical Assistance and Training**
Ensures proper product use, increasing likelihood of increased income and loan repayment. Opportunity to “check in” on farmer/borrower and maintain functionality of asset.

**Deep Customer Knowledge**
Enables selection of most viable farmers with crop types relevant to the asset to assure increased productivity and sales to generate income.

**Accommodating Terms**
Customers pay as they have cash available and payment terms are linked to harvest cycles.

**Companies should use this if...**

- **Assets are income-generating**, usually equipment, **maintained by the owner** not by the farmer, and **can be repossessed** if necessary.
- **Asset is too expensive to purchase** outright or only needed for a short period of time. **Down payments and collateral are often not required.**
- **Mature financial services market is present** with lenders that can provide leasing terms using incomplete or non-existent credit histories or are willing to provide working-capital loans to companies that are providing leasing internally.
Example: Development Finance Company Uganda (DFCU)\textsuperscript{25}

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Value Delivered</th>
</tr>
</thead>
</table>
| Securing commercial loans can be challenging for smallholder farmers and small enterprises due to insufficient credit history, an inability to provide collateral for loans, and the fundamental risk aversion of commercial lending institutions that restricts them from serving rural clients. However, the ability to use productive equipment can have measurable impacts on farmer productivity. | Development Finance Company Uganda (DFCU) specializes in leases to small- and medium-size enterprises to purchase agricultural machinery, particularly tractors, milking equipment, harvesters, and agro-processing equipment. As of 2012, approximately 20% of the bank’s agricultural credit was dedicated to its leasing operations and it was one of the largest commercial lease providers in Uganda.\textsuperscript{26} The bank provides up to 80% financing of the total asset, and has a lending period of up to five years, while the borrower is required to provide at least 20% of the asset’s total value as a down payment. Leasing enables smallholder farmers and enterprises to access productive assets while building credit history. Accessibility, interest rates, flexible lease terms for new and used assets, and lease processing times improve customers’ abilities to access productive assets. | • Attractive leasing periods of up to five years.  
• Wide geographical coverage with 45 branches specializing in agricultural assets.  
• Assets are sold to a third party at the end of lease term and the client has the option of ownership.  
• Provides an insurance facility as part of the lease agreement. |

\textsuperscript{25} Sources: DFCU website: https://www.dfcugroup.com/dfcu-leasing.

CONCLUSION

Smallholder farmers offer a large and mostly untapped market for companies and financial institutions. However, companies face challenges with the pricing of products and services to this segment and financial institutions have often struggled with overcoming the real or perceived risks involved. In solving this challenge, one size does not fit all. Affordability and financing strategies need to be effectively tailored to each specific market opportunity, company, or product. This tailoring involves:

- Identifying key risks and success factors that can mitigate the risks.
- Establishing partnerships that can expand the customer base, lower transaction costs, increase product uptake, and share risks.
- Providing technical assistance to ensure successful technology adoption, especially for early adopters.

Specific to financing and partnerships with financial institutions, much of the responsibility for the success falls to the company itself. Financial institutions require:

- Elements of business model maturity; specifically, proof of or the potential for income generation and scale.
- The ability to find reasonable strategies to address the lack of collateral and/or credit history for customers.
- Assurances that the product or service will be able to reach scale and that the company will produce the cash flows to serve this increased demand.

It is also important for companies to involve financial institutions early on to jointly develop financing solutions, including incorporating enablers to reduce risk and to maximize success. If financing is anticipated, companies should engage these financial institutions in planning the business model, rather than only inserting them into the strategy as a last resort.

Using these strategies in collaboration with partners, companies will improve their success in “cracking the nut” on affordability and financing in the smallholder farmer market.
Chapter 3: Defining and Communicating the Value Proposition

Communicating the Value of Products and Services to Smallholder Farmers

By using the strategies discussed below, companies will ensure that they:

- Capture the value proposition of their products, including both the economic and non-economic values.
- Choose the optimal communication methods for reaching their customers.
- Understand how these decisions affect their business operations.

Crafting an effective value proposition contains three steps:

1. Defining “where to play:” this requires conducting a market assessment to determine the target customers and geographies.27

2. Determining “how to win”: this is the development of a value proposition composed of:
   - Advantage
   - Accessibility
   - Affordability
   - Adaptability

3. Developing a communications plan to inform customers of your product’s value.

![Figure 6. The “5 As” of a Smallholder Farmer Value Proposition](image)

Whereas marketing typically considers the “4 Ps” – product, price, place, and promotion – in the smallholder farmer context, marketing strategies are best designed when considering the “5 As,” the first four of which comprise the value proposition and the fifth of which communicates that value proposition.

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27 Reference “Qualifying & Quantifying the Business Opportunity” playbook.
WHERE TO PLAY: FRAMING THE NEED

A company must first clearly understand the need – the problem or gap that exists in the market – that its product or service will address. Given the risk-averse, cash-constrained smallholder farmer market, the product or service should focus on a cost and/or productivity issue.

Figure 7. The Elements of “Where to Play”

Determining “where to play” requires first identifying a gap in the market. Once the problem is defined, the company should then decide what role it will play in addressing the gaps to capture them as opportunities and address the problem. Next, the company can narrow down the customers and geographies it will serve.

A company achieves product or service “fit” when a customer becomes excited about the value proposition; this happens when the product or service addresses important items, alleviates extreme pains, or creates essential gains that customers care about.28

Example 1: The Need for a New Cookstove Brand29

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the problem that needs solving?</td>
<td>Nigerian women need fuel for cooking. Current fuel options are unhealthy and expensive (kerosene) or time-consuming to gather and result in deforestation (firewood).</td>
</tr>
<tr>
<td>What is the current solution to the problem (the “status quo”)?</td>
<td>Firewood: 70% of the population uses firewood. Women and children spend many hours each day gathering firewood. Children miss school to collect the wood and women are unable to spend their time in another income-generating and/or productive use of their time. Firewood is also expensive and is increasing in cost.</td>
</tr>
</tbody>
</table>

29 Global Alliance for Clean Cookstoves Presentation – Nigeria Market Assessment.
### Question

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What are the adverse consequences of this solution?</td>
<td>Kerosene: 25% of the population uses kerosene. Without other options, women expose themselves and their children to harmful chemical fumes. Approximately 80,000 people die annually in Nigeria from this exposure. Kerosene is also subject to severe price and supply fluctuations. Few alternatives to firewood or kerosene are available in rural areas. Power outages and limited infrastructure limit electricity access and use.</td>
</tr>
<tr>
<td>Does the customer understand the problem you are trying to solve or will you need to describe the problem?</td>
<td>The majority of women have accepted current practices as given and are unaware of alternatives. They also do not understand the effects on air quality and health very well.</td>
</tr>
<tr>
<td>Are there externalities to consider; for example, regulations or subsidies?</td>
<td>Subsidies on kerosene lower the price, but fluctuations in price and supply endure.</td>
</tr>
</tbody>
</table>

### Activity 1: Defining the Need – Where to Play

Work through these questions to frame the need for your product or service. Use the results of your market assessment – the understanding of the customer, context, and competition – to inform your answers.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the problem that needs solving?</td>
<td></td>
</tr>
<tr>
<td>What is the current solution to the problem (the “status quo”)?</td>
<td></td>
</tr>
<tr>
<td>• What is the impact of this current solution? Pros, cons?</td>
<td></td>
</tr>
<tr>
<td>• What are the adverse consequences of this solution?</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Does the customer understand the problem you are trying to solve or will you need to describe the problem?</td>
<td></td>
</tr>
<tr>
<td>Are there externalities to consider; for example, regulations or subsidies?</td>
<td></td>
</tr>
</tbody>
</table>

Use these results as the building blocks for the following piece — “How to Win” — a description of the value proposition. From this exercise, you should know specifically what you are selling, to whom, and where, and know what critical issue your product or service is helping solve in your customer’s life.

**HOW TO WIN: CRAFTING THE VALUE PROPOSITION**

The value proposition is a description of the customer’s return on investment from purchasing a good or service, from the initial marketing of the product through the sales process and post-sales support. Understanding the customer’s needs and the role the product plays in addressing those needs are critical to a successful product campaign. Addressing the five A’s will help to tailor this message to your market.

Advantage

**What are the benefits of using your product over current practices?**

A value proposition is comprised of both financial and non-financial benefits, though in the smallholder context, the financial benefits carry significantly more importance. According to the Bain report “Growing Prosperity,” “wealth increase” was the most frequently cited reason for adoption of a new product. Wealth increase is defined as both yield/income increases and cost savings. Non-financial value is something that improves the customer’s quality of life, unrelated to increased income (e.g., improved health, access to education, or safer working conditions) and can also be addressed as part of the value proposition.

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30 *Growing Prosperity: Developing Repeatable Models to Scale the Adoption of Agricultural Innovations*, Bain & Company and Acumen 2014, page 35.
Examples of financial benefits include:

- Increased income/revenue.
- Income stability.
- Increased savings and/or assets.
- Improved productivity.
- Decreased costs (e.g., overhead, inputs, and interest rates).
- Reduced debt.

Financial value is best represented as return on investment to the smallholder farmer and can be calculated, taking into account opportunity costs for costs and labor. The tool in Activity 2 calculates the return on investment, and the SWOT Analysis in Activity 3 will help identify additional product or service benefits (and gaps).

**Opportunity Cost**

The cost that is represented by the benefit that would have been gained had the farmer used the money invested in the product for an alternative use.

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**Example of Financial Value**

Portascience, a medical testing company, developed an early-stage mastitis detection test for dairy farmers. Customers purchased more of the tests when the value proposition was related to income: “if you purchase this product, you will achieve higher income because when you treat your sick cow earlier it is healthier and produces more milk, resulting in higher income.”

**Example of Non-Economic Value**

CTI’s pearl millet thresher decreases the amount of time required to harvest, thresh, and mill pearl millet. By combining the three processes into one mechanized one, female children – typically the ones doing the harvesting and threshing – have enough time to attend full days of school.

“Although advantage, in general, is paramount, the type of advantage also matters significantly. Our research indicates that the extent to which a product is seen to increase financial standing is the most powerful driver of adoption of an agricultural innovation. More than 60% of the farmer responses were related to how a product or service would increase wealth.” - *Growing Prosperity*, page 34.
Example 2: The Return on Investment of a Small Irrigation System

This example shows the net cost (year 1) and net benefit (years 2-5) of a smallholder farmer purchasing a specific irrigation system. It takes into account direct and indirect costs, including the opportunity costs of the money spent on the product or service and the opportunity cost of the time spent going to market to purchase it.

<table>
<thead>
<tr>
<th>Net Benefit (or Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Benefit Expressed in: dollars</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>One time Costs</td>
<td>3523</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurring Costs</td>
<td>756</td>
<td>756</td>
<td>756</td>
<td>756</td>
<td>756</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>One time Benefits</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurring Benefits</td>
<td>3153</td>
<td>3153</td>
<td>3153</td>
<td>3153</td>
<td>3153</td>
</tr>
</tbody>
</table>

| Net Benefit (cost)           | -876   | 2,397  | 2,397  | 2,397  | 2,397  |

Activity 2: Calculating the Smallholder’s Return on Investment (ROI)

Complete the workbook to understand the full economic return on investment of your product or service for a smallholder farmer. The workbook enables you to compare the cost for the smallholder to acquire the product or service, including indirect costs, with the benefits that the smallholder can be expected to gain.

- The cost-benefit analysis is divided into four pages that outline two types of costs: one-time and recurring; and two types of benefits: one-time and recurring. The final calculation sheet at the end that uses previous sheets as inputs to arrive at the net benefit or return on investment to the farmer of the product. The tool is built for a five-year life cycle to calculate ROI over a longer-term.

- The "opportunity costs" section expresses the cost that is represented by the benefit that would have been gained (profit) had the farmer used the money invested in the product for an alternative use.

This tool is helpful when interfacing with prospective customers or when training sales representatives. The company should also use this tool to understand whether a product’s ROI is positive for the company; obviously if it is not, the product offering should be re-designed to achieve a positive ROI. Sales representatives should use this as one tool to communicate with risk-averse customers, demonstrating the income benefits over time of using the product or service, including the payback period.
A SWOT analysis identifies a product or service’s strengths, weaknesses, opportunities, and threats. Because there are few direct competitors to products and services in the smallholder market, risks should also be considered in conjunction with threats. It should consider internal (company-specific) and external (market, context) factors.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Faster than collecting firewood</td>
<td>• Requires purchase of specific fuel</td>
</tr>
<tr>
<td>• Cleaner than kerosene</td>
<td>• New technology requires explanation of how to use</td>
</tr>
<tr>
<td>• No price fluctuations</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growing demand</td>
<td>• Other cookstoves on the market (Envirofit, DEVA, Oando, DARE, Mfaminyen)</td>
</tr>
<tr>
<td>• Piggyback on competitors’ marketing that is generating interest</td>
<td>• Kerosene subsidies from</td>
</tr>
</tbody>
</table>
Activity 3: SWOT Analysis

Use this SWOT analysis to improve your understanding of the value of your product or service to the market. This should reveal gaps in the value, and therefore assist you in either filling the gaps with a more robust offering, or communicate the value proposition in a way that addresses the gaps or avoids calling attention to them.

Use the template to evaluate the elements of your product or service and the plan for bringing it to scale. Consider the following:

- Product or service offering, especially price and fit with the customer’s needs.
- Brand and marketing.
- Staff and their ability to deliver on company plans.
- Finances, including cash flow.
- Market, especially the unique smallholder farmer context and local differences, and including existing regulations and donor programs.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
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</table>
ACCESSIBILITY

Can the farmer get the product or service when she needs it?

The supplier must be able to deliver the product or service to the customer:

- Within resource constraints (e.g., time, costs, and labor).
- Under given market conditions.
- When the smallholder needs it to be available. Because farm products have sensitive timing aligned to seasons and markets, this must be factored into the operations plan.

Market assessment information (see “Who and Where is Your Customer”), specifically where the target customer makes purchases, should be used to determine an effective distribution plan. Are purchases made:

- When a representative visits the community or farm?
- In the market town center on occasional visits?
- At aggregation points, such as a milk cooperative or grain collective?
- From agro-dealer networks?
- On a mobile device, such as for service delivery?

There are two sets of information to consider when constructing a distribution plan:

- Who distributes the product (Figure 3).
- Where the product is distributed (Figure 4).
**Activity 4: Getting your Product to Market On Time**

Timing is a critical consideration. Use this activity to ensure that your company is ready to deliver your product to market on time by working backwards in time.

“Farmers are more likely to consider an innovation when they trust the company and its personnel…Marketing new products and services requires high engagement with geographically dispersed farmer customers, thereby calling for both focus and patience from the company and its backers.” – Growing Prosperity, P34.

To start: when does your product need to arrive in your customer’s hands? Consider crop and weather cycles. Enter a date here: _______________________.

Next, evaluate each step in your logistics to determine the number of days required to produce and deliver your product or service. You may need to include other steps in this timeline (e.g., quality assurance verification; regulatory testing; importing through customs). Modify the exercise as needed for your purposes.

<table>
<thead>
<tr>
<th>Step</th>
<th>Number of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much training time does your product require?</td>
<td></td>
</tr>
<tr>
<td>How much installation time does your product require?</td>
<td></td>
</tr>
<tr>
<td>How long does it take to get your product from distribution point to the customer?</td>
<td></td>
</tr>
<tr>
<td>How long does it take to sell your product?</td>
<td></td>
</tr>
<tr>
<td>How long does it take to transport your product to the point of sale?</td>
<td></td>
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<tr>
<td>How long does it take to package your product?</td>
<td></td>
</tr>
<tr>
<td>How long does it take to manufacture your product?</td>
<td></td>
</tr>
<tr>
<td>Total Days</td>
<td></td>
</tr>
</tbody>
</table>
Add the previous rows together. This is the total number of days from the time your product or service begins its lifecycle to the time the customer is able to use it.

Take the total number of days and subtract it from the day that your product needs to be in use by the customer to determine the first day of your logistics.

- Can these timelines be met?
- What processes and costs will need to be re-engineered to meet these timelines?
- Are there ways to reduce any of these timelines?

You will likely want to add some buffer time to account for any interruptions or unexpected events.

**ADAPTABLE**

Is the product or service – and accompanying support – tailored to meet the unique needs of the target customer and the context in which the customer lives and works?

As discussed in “Who and Where is Your Customer,” the market assessment should inform the features of a product or service so that it is tailored to the target customer. These uniquely tailored features and benefits are essential elements of the value proposition as represented in figure 6 below. Remember the focus on what the customer needs.

Adapting a product or service to the smallholder farmer customer requires understanding what the market and customer needs, then customizing the product or service to meet these needs and conditions. Finally, the delivery of the product or service must be considered as well and adapted to this context.

**Figure 10. Adapting the Comprehensive Product or Service Offering**

Questions to consider for adaptability:

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Product Development for the BoP: Insights on Concept and Prototype Development from University-Based Student Projects in India, Viswanathan, Madhubalan and Srinivas Sridharan, 2011.
• What are the smallholder’s critical needs in relation to the product or service being considered, that if not addressed, would significantly impact his/her livelihood or productivity?

• How can these needs best be addressed and what are the alternatives?

• How can the risk of adopting the product or service be reduced through a comprehensive market offering (e.g., training included with the product).

Key considerations:

• As stated previously, smallholder farmers prefer lower-risk solutions over the alternative, even if they cost more, particularly when these solutions help address a critical need.

• The entire offering to the customer – not only the actual product or service – must address the smallholder’s needs. This may include training or post-purchase service, for example.
AFFORDABILITY

Does the farmer have enough money at the right time to purchase the product or service?

Affordability encompasses the price of the product or service in relation to the income of the target customer and the timing of the payment for it, relative to the cash cycles of the target customer. By using affordability strategies such as pay-per-use or bundling, the upfront cost of a product or service can be reduced, thus improving the prospects for customer uptake. Alternatively, financing can be offered in conjunction with the product or service to enable access to a good that is unaffordable if purchased in a lump sum. Reference the “Affordability & Financing” playbook for further options.

Questions to consider for affordability:

• What percent of annual income of the target customer does the product or service cost? Is this affordable or should the company revisit the design of the product or service to reduce the cost?

• How does the timing of the purchase align with the income cycle of the farmer?

• Does the farmer need to pay at time of purchase or are credit terms available?

• What financing can be offered to assist with purchasing the product or service? Does the company have the internal capabilities or can it partner with financial institutions to offer credit?

Key considerations:

• Affordability strategies such as bundling and no frills are generally used for lower-priced products and services; however, pay-per-use enables single use of higher-priced equipment.

• Financing strategies are used for higher-priced items for which enough cash will not be available for purchase, but companies should offer after-sales service to ensure that the technology performs as advertised and that the customer is able to generate sufficient revenues for loan repayment.

• Establishing enterprises that rent or lease-to-own higher-cost equipment is another strategy that can be useful in increasing affordability.
AWARENESS: COMMUNICATING THE VALUE PROPOSITION

Does the farmer know about the product or service and what is the best way to tell her about it?

Awareness is simply how a company ensures the target customers know about the product or service. This requires a blend of the following and should be highly localized:33

- Incorporation of elements of traditional marketing.
- A trained and properly incentivized agent workforce to educate users.
- Partnering with an organization that already has agents and farmer groups in the target areas.
- Brand ambassadors who will publicize the product or service.
- Finding influencers in communities to act as early adopters.

Most importantly in the smallholder farmer segment, effective awareness strategies requires developing relationships and trust. A company must build relationships with its target customers, either directly or through agents. After initially building trust with the customer, it must be maintained through superior product and service delivery and follow-up.

Channels

There are many communication channels available to companies to drive awareness among smallholder farmers. The most effective channels are those that leverage trusted community members and provide local demonstrations of the product or service. When deciding how to communicate with customers, the company should consider the profile of its target customers. Specifically:

- **Literacy**: customers’ ability to read factors into how to sell products/services and train customers.
- **Language**: often there are many local dialects; choosing the correct one is necessary for comprehension and will also engender trust with customers.
- **Technology access**: ability to communicate by SMS, internet, social media, television, and radio may vary among groups, so connectivity should be factored into marketing plans.

In addition to the distribution points discussed above in Accessibility – all of which can also be used for Awareness – there are a number of other effective communication channels. As with most marketing, there is a direct correlation between the price of a method per person and its effectiveness.

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Figure 11. Cost and Effectiveness of Advertising Channels

Figure 12. The Importance of Trusted Community Members

Company officials are the primary influencers of early adoption by lead farmers, however the influence of friends and relatives becomes paramount with later adopters.

Companies are not only selling the utility of the product or service, they may also need to modify customers’ behavior to adopt the product or service. A new market entry strategy in an emerging market should rely heavily on demonstrations, trainings, and convincing community and farmer leaders first.

PRODUCT DEMONSTRATIONS

The value of demonstrations to reach the potential customer cannot be overstated in the smallholder market. Given the risk-aversion and mistrust of outsiders, demonstrations show the impact of the product or service and the positive difference it could make in customers’ lives. The smallholder gains trust by seeing the product function and by seeing the results. Demonstrations and trainings are often

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34 Growing Prosperity, page 31.
done at aggregation points (e.g., milk cooperatives or grain collection centers) and other areas where there is frequent traffic that can be easily viewed by prospective customers.

**Product Offering**

AGCO and partner GSI offer small customizable metal grain silos to grain traders. They have capacity from 34 to 500 tons and additional space can be added on as needed, offering an appropriate postharvest storage solution for smaller scale production. Financing is offered, including a discount from an NGO and 70% financing from the bank with proof of 50% collateral.

**Demonstration**

Because this is a new storage approach for traders of this size, AGCO chose to establish demonstration sites and training events to explain the advantages of their silos over current practices. The accredited course, held at established grain traders’ locations, includes training on operating the equipment and on the grain management business. The costs and benefits of the storage silos are also explained, as are the options for financing. Following demonstration days, the company designs and custom fits a silo for interested traders, further building the customer relationship.

**Value Delivered**

AGCO has sold four silos in six months, benefitting approximately 300 smallholder farmers. Sales of 25 additional silos are in progress. 30% of maize production is lost postharvest; AGCO’s storage silos greatly reduce this loss and enable traders to spread out sales of grain, achieving better prices.

### Pre- and Post-purchase Support

Pre- and post-purchase support is important to ensuring that the product performs for the customer as advertised and that any problems are quickly addressed. A successful product experience leads to positive word-of-mouth about the company and product, and increases the likelihood of both repeat purchases and new clients as these early adopters become an important part of the marketing campaign. Product performance and reliable customer support builds loyalty to the company and product, reducing the threat of competitors. Customer support is also important when financing is involved in the purchase because this ensures that the technology provides the return on investment as advertised, thereby improving loan payback and lowering the risk of default for a financial institution. By successfully servicing early loans, banks will be more willing to expand future lending. Customer support and training is not always offered by the company itself. Third parties can be engaged in providing training and support, including social sector organizations, donor programs, and government extension agents.35

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35 Reference the “Affordability and Financing” playbook for more information on de-risking and partnerships.
“When we are marketing to anyone, but particularly the bottom of the pyramid, the lesson starts here: if we don’t trust you, we will not buy from you. If we do not trust you, we will not believe that you can make us better. Everything that we do then as marketers is not revolving around the words we choose or the billboards we build or where we get our stuff made, it revolves around the very simple question: do they trust you? If you’re serious about making change then, you must show up as a trustworthy person, a trustworthy organization. You must show up as the kind of organization that doesn’t run away, that doesn’t leave that stands behind what it says. You must do this with extraordinary over delivery.” – Trust in a World of Risks, Seth Godin. September 2014. http://vimeo.com/105773037.

Netafim, in partnership with Kenyan agricultural product supplier Amiran, offers drip irrigation packages tailored to the needs of smallholder farmers. The kits are available in 250 square meter, 500 square meter, and one acre sizes and come with training and after-sales services and starter packages of seeds and fertilizer.

Because of the complexity of drip irrigation, support after purchase has been identified as a critical part of the model. Netafim’s partner Amiran has developed a crop management system that informs its call center of the farmer actions required during different phases of the production cycle. Amiran proactively calls farmers to provide reminders to fertilize and spray, and agents are available if farmers are experiencing problems with their crops or drip systems. Netafim and Amiran using this system to ensure customers are successful with their system and also to market additional inputs and other products, ensuring continued customer loyalty.

The customer call center support increases the cost of product delivery in the near term, but increases the likelihood of smallholder farmer success which will increase the likelihood of repeat business and expand the customer base as neighboring farmers seek to replicate the success.

**CONCLUSION: STATING THE VALUE PROPOSITION**

The 5As help to define a product or service value proposition and look at strategies to effectively communicate it. This plan, like other aspects of your product or service, will change over time as your company gains scale in the market.

It is important to implement a system for capturing customer insights so that marketing plan changes can be made, and adaptations to the product or service can evolve.
• How will the marketing strategy change as the product or service is offered in new geographic regions or customer segments?

• How will marketing change as the product or service gains market share?

Example 4: Value Proposition for Nigerian Cookstoves

“When you become part of the fabric of the community and you understand how ideas spread within the community and you continue to show up and earn that trust by consistently over delivering, then drip by drip day by day – that’s how we change the world.” – Trust and Customer Worldview, Seth Godin. September 2014. [https://vimeo.com/105773037](https://vimeo.com/105773037).

Once you have worked through the 5As of your market offering, craft a value proposition. The value proposition should be a single statement that definitively says what the company is selling and to whom.

“For Nigerian households with average per capita daily income of $1-$10, clean cookstoves provide a safe, inexpensive, and efficient cooking mechanism better than kerosene or wood because the cookstoves eliminate the need to gather firewood, burn more cleanly and therefore safely than kerosene, and liquefied petroleum gas is less expensive than kerosene.”

Activity 5: Stating your Value Proposition

Use this template to write your value proposition while remembering that often in the smallholder farmer market the competition is the “do nothing” approach.

“For (target segment), the (product/service) provides (key benefits) significantly better than (key competitors) because (most important rationale for why it can be provided by the company).”

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<thead>
<tr>
<th>Target Segment</th>
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<table>
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<tr>
<th>Product/Service</th>
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<table>
<thead>
<tr>
<th>Key Benefits</th>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>Key Competitors</th>
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<table>
<thead>
<tr>
<th>Most important rationale for why this can be provided by your company</th>
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</table>
Appendix 1: Existing Data Sources

In addition to the sources listed in the document, these resources often have market data – for example of trade statistics and production quantities – that companies can access for free or for limited fees. These sources are focused more on the market-level rather than the household-level.

**PRICE DATA**

East African Grains Council  

Esoko  
[https://esoko.com/](https://esoko.com/)

FAO PriceStat  
[http://faostat3.fao.org/browse/P/*/E](http://faostat3.fao.org/browse/P/*/E)

FAO’s International Price Monitor  

FEWS Net  
[http://www.fews.net/](http://www.fews.net/)

GIEWS National Basic Food Prices  

Intercontinental Exchange  
[https://www.theice.com/index](https://www.theice.com/index)

International Monetary Fund Primary Commodity Prices  

The Rice Market Monitor  

South African Grain Information Exchange  
[http://www.grainsa.co.za/](http://www.grainsa.co.za/)

Thomson Reuters Eikon Commodities  

United States Department of Agriculture GAIN  
[http://gain.fas.usda.gov/Pages/Default.aspx](http://gain.fas.usda.gov/Pages/Default.aspx)

World Bank Pink Sheets  
[http://go.worldbank.org/4ROCCIEQ50](http://go.worldbank.org/4ROCCIEQ50)

National Ministries of Agriculture  
National Commodity Exchanges

**TRADE FLOWS**

European Commission’s Eurostat  
[http://ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)

FAOSTAT  

International Trade Center  

United Nations COMTRADE  

World Customs Organization  

National Customs Agencies  
National Ministries of Trade

**PRODUCTION**

FAOSTAT
ANALYSIS OF AGRICULTURAL MARKETS

Africa Development Bank


Agricultural Market Information System

http://www.amis-outlook.org/

Alliance for a Green Revolution in Africa

http://agra-alliance.org/

Asian Development Bank

http://www.adb.org/sectors/finance/agriculture/main

GIZ

http://www.giz.de/expertise/html/3354.html

Inter-American Development Bank


International Food Policy Research Institute

http://www.ifpri.org/

International Fund for Agricultural Development

http://www.ifad.org/

Technical Center for Agricultural and Rural Cooperation


USAID


The World Bank


National Ministries of Agriculture

LOCAL STANDARDS:

International Organization for Standardization

http://www.iso.org/iso/home.html

WTO Standards Enquiry Points

https://www.wto.org/english/tratop_e/tbt_e/tbt_enquiry_points_e.htm

National Bureaus of Standards

Reference: Monetization Field Manual, USAID Office of Food for Peace Title II Programs. Revised October 2012
Appendix 2: Bain & Company’s Four A’s Checklist

Bain & Company’s 2014 publication, “Growing Prosperity: Developing Repeatable Models to Scale the Adoption of Agricultural Innovations,” includes only 4As; Partnering for Innovation has added Adaptability to ensure that the product or service is uniquely adapted for the target customer. This list of key questions helps companies systematically ensure that each of the 4As is in place for customers.

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37 Growing Prosperity: Developing Repeatable Models to Scale the Adoption of Agricultural Innovations – An Overview, Bain & Company, Pg 6.
Bain & Company’s Summary of Recommendations for How to Apply the 4As

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Awareness</th>
<th>Affordability</th>
<th>Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand customer’s needs</td>
<td>Strategically target early adopters</td>
<td>Harness volumes to bring down unit cost/price</td>
<td></td>
</tr>
<tr>
<td>Identify value chain constraints</td>
<td>Ensure success of early adopters</td>
<td>Facilitate incremental purchase</td>
<td>Ensure access in the right quantities at the right time</td>
</tr>
<tr>
<td>Put risk-mitigating structures in place</td>
<td>Widely disseminate success stories</td>
<td>Understand cash flow cycles and timing</td>
<td>Consider what kind of distribution network is required</td>
</tr>
<tr>
<td>Use feedback to validate advantage being created</td>
<td>Amplify word-of-mouth (‘promoters’)</td>
<td>Design to optimise unit economics</td>
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<tr>
<td></td>
<td>Sustain brand presence</td>
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</tbody>
</table>

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38 Growing Prosperity: Developing Repeatable Models to Scale the Adoption of Agricultural Innovations – Course Playbook, Bain & Company. Pg 6.