How to develop your business in the Agro-Food Sector

RURAL AGREE

Erasmus+

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INTRO

Our global society is rapidly evolving. Enterprises in the agro-food sector need to adapt swiftly to differing seasons, market and price fluctuations, changing regulations and the environment. There is a very quick exchange of information over the internet. Information is widely spread, so that for companies it is difficult to be different from others. As a consequence, employees and employers in the sector need to be dynamic. Enterprising competencies such as customer orientation and communication, innovation, efficiency and planning ensure growth in the sector.

Enterprising competencies are skills and qualities which are not necessarily part of any professional qualifications. They form a set of skills, knowledge, attitudes, and behaviour that are transferable and universally applicable, and are necessary for everyone to succeed, both in their professional and private lives.

Professional training should deal with these competencies through interactive training and coaching, rather than focusing exclusively on specific knowledge and practical skills. Generally, these are lectured using a one way didactic approach (trainer to trainee). It is these competencies, mastered through interactive training, that can make or break your success in the job market.

This practical guide will give you insight on how to improve these enterprising competencies for managers and their teams in the agro-food sector.

In the first part we offer you as training provider some practical advice on crucial training methods such as questioning, giving feedback and reviewing which help you to give interactive trainings.

In the following chapter, we give practical based cases on each of the following domains to develop the know-how, skills and competences required to become an entrepreneur in the rural agro-food sector;

- Marketing and distribution
- Development and quality of product
- Management capacity in rural areas
- Finance
- Internationalisation

To support the development and personal learning on these domains, the professionals in the agro-food sector will develop their virtual businesses via the game X . In this game, you will be challenged through every day cases in the sector. Starters will enhance their capabilities as managers without even knowing it and have fun doing it!

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1. TRAINING METHODOLOGY

We all need motivation, to be willing to learn and develop. That is why the training and learning process should be interactive and fun. This manual will give you as a training provider, the ability to organize training with a high return on the floor, whilst the trainees have enjoyed themselves in the process!

This training methodology is based on the principles of active work exercises. The participation method of practical cases is preferred to the traditional form of lecture. Active learning is promoted, with communication between the trainer and trainees, cooperation, quick action and improvisation being very important.

A. USE OF PRACTICAL CASES FROM THE AGRO-FOOD

Using practical cases is a very effective method to train people for the real thing, in practice. In the case method, the participants are given a situation, which is based on real business events. They will have to analyse it in group or individually. Finally, participants present their own views and opinions, and through this case discussion solutions are found. The trainer is the facilitator and structures the case discussion.

The case is describing in some detail, the situation, problem or event in a business context. The trainees get all of the necessary information for the analysis, such as graphics, reports or observations.

In this manual, you will find a number of practical cases per domain of the agro-food at the end of every unit.

B. HOW TO USE CASES IN TRAINING

B.1. WHAT CASE?

As a trainer you can either use the cases in the manual or develop cases yourself or. If you want to develop your own cases from work experience, firstly, you need to formulate the learning objectives. Search for sources for the case, such as your own or colleagues' experiences, news, apprentices, etc. Assemble the necessary information and make the link with the learning objectives. Then, determine the level of complexity. You can give the trainees the case and the solutions and ask them whether the solution is the right one. You can also opt to give trainees the problem with the problem analysis and ask for potential solutions. Or you can just give the case and ask trainees to analyse the case and come up with a solution.

Reflect on how you want to introduce new terms or concepts in the case. You can decide to formulate tasks and questions yourself during the case or not and let the participants come up with this.
This is how you can develop a case. Every case is unique. A case can be short (A4) or very long (several pages). We refer to the annex with a diversity of business cases.

B.2. INSTRUCTION

Explain the business case to the trainees so they know what's expected. Mind the following aspects:

- ➢ Justification of the choice of this method
- ➢ Case-analysis: plan of action, timeframe, individually or in group(s), coaching, report, etc.
- ➢ Case discussion

Give the instructions on paper to the participants.

B.3. ANALYSYS OF THE CASE

Trainees prepare the case individually or in group(s) or a combination. You can let them prepare it before the session or incorporate preparation time in the session.

B.4. CASE DISCUSSION

Trainees discuss in group about the problems, the method to handle the problems and/or solutions. Several opinions and views are expressed. Trainees can compare the arguments or use them to come to a solution. Sometimes there is no solution at the end and participants still have a mix of solutions and questions. When the business case is based on a real event, you can present how the problem was resolved in reality. You as a trainer can then add your opinion on the case.

Your role as a trainer is to structure the input of the trainees and facilitate

- ➢ the discussion by asking questions and giving statements
- ➢ summarize the thoughts and opinions of trainees, possibly writing this down in front on blackboard/flipchart
- ➢ make connections of inputs of trainees
- ➢ link to the learning content
- ➢ provoke
- ➢ questioning in depth
- ➢ manage the discussion
- ➢ stay within timeframe
- ➢ possibly give your own opinion/view on the case

B.5. ADVANTAGES FOR USING A CASE

Advantages for the trainee

- clarifies the link between theory and practice
- learn to use knowledge and understanding in practice
- stimulates critical and creative thinking
- stimulates problem solving, communication skills and decisiveness
- knowledge through cases is better remembered
- motivational
- creates an opportunity for active participation;
- possible to share experiences and ideas

Advantages for the trainer/manager

- illustrates a model or theory
- illustrates the relevancy in business
- exercise to assimilate learning content

B.6. DISADVANTAGES FOR USING A CASE

Disadvantages for the trainee

- requires time to prepare the case

Disadvantages for the trainer/manager

- developing a good case requires time and effort
- better for bigger groups

Hints and tips

- As a trainer/manager you can give your opinion or solution but make sure you do not present this as the most ideal one but rather as a possible solution.
- Cases can also be used in the evaluation of the session where another method was being used.

C. TRAINING METHODS IN USING PRACTICAL CASES

We cannot stress enough that although it is mostly teamwork, each individual needs to be approached individually. The style of training should:

- ✓ be direct, leading the participant all the time
- ✓ adhere to procedures and methods described in the manual

- ✓ be positive, continuously encouraging, appreciative of correct attitudes and any visible progress
- ✓ be delivered step by step
- ✓ concentrate on the individual even when working with a group, be fair in showing attention to each participant – the rule of automatic rotation
- ✓ incessantly promote the ultimate goal, i.e. the development of key competences leading to improved chances of success in the labour market

Here we present some important training styles for you as trainer/coach

C.1. QUESTIONING

As a trainer you will ask the participants questions. Your question can have different functions:

- trying to discover the trainees' prior knowledge
- trying to discover misunderstandings
- checking whether trainees understand (pace, level)
- push the trainees to participate and/or support the learning content actively

How?

As a trainer you will ask a question and give trainees time to think before answering.

1. Ask a question : focus on asking 'open' question as they force the trainee to give information

- Formulate your question clearly and adjusted to the target group
- Ask one question at a time so trainees know which question to answer. Don't try to modify, rephrase and widen your question because this will cause confusion.
- Ask challenging and interesting questions. Practical, concrete questions are more interesting than theoretical ones
- Trainees should be able to answer at least part of the question

2. Time to think

Give the trainees time to think (over) the question. The level of difficulty will determine the amount of time. For more complex questions, you can give trainees the opportunity to discuss with others.

3. Trainee(s) answer the question

Point out a voluntary trainee who wants to answer. If there is no volunteer, it can help to ask the question again by rewording.
When a student is replying to a question, do not interrupt him/her. The answer needs to be loud and clear for everyone.

Give feedback and appreciation for the answer to the trainee. This will encourage trainees to answer questions.
When the answer is not (entirely) correct, try to not to give the answer yourself, next time, the trainee might not bother to answer. By going deeper into the question, splitting the question or passing to another trainee, they might get the answer. Negative reactions are not appropriate. When the answer is unclear, you can ask for a further, more in depth explanation. You don't need to repeat a good answer for the group because when the group knows you're repeating the good answer, they might become 'lazy'.

Advantages for the trainees

- ➢ Questioning encourages participation: thinking, reasoning, problem solving
- ➢ Questions direct and support learning
- ➢ Questions increase the involvement

Advantages for the trainer/manager

- ➢ As a trainer you get insight into prior knowledge, interest, level of trainees

Disadvantages for the trainees

- ➢ eluctance to answer for the group
- ➢ Chance of let-down with wrong answers

Disadvantages for the trainer/manager

- ➢ Good questioning is not simple and requires preparation

Hints and tips

- ➢ Trainees ask questions

Trainees should be able to ask questions during the session and not solely at the end. Give trainees this opportunity at regular intervals. This will give you feedback and avoid the one-way communication.

General questions such as 'Are there still questions?' don't work. Rather refer to topics where trainees can ask questions?

When a trainee asks a question, it can be useful to repeat this question in order to check whether you have understood the question and make sure everyone has heard the question. Here, you can pass to question to another trainee instead of answering directly.

- ➢ In a bigger group, few trainees are active

Some students might not want to ask a question in bigger group because they feel uncomfortable. One method of getting everyone involved is by 'voting'. As a trainer you make a statement or ask a question (can also be from a trainee) and the trainees have to vote (yes/no, multiple choice). Every trainee has to answer one by one.

C.2. GIVING FEEDBACK

We see the correct use of feedback as one of the key skills of the trainer.

Feedback is supposed to provide the trainees with information about themselves, and how their behaviour or actions affect other people. The purpose of training is to not only identify the weak points that need working on but also the strengths that need to be noticed and maintained. It is very important to make the feedback constructive; only thus it is valuable and helpful to the trainee. Giving feedback is an essential tool for learning effectively, personal development as well as management.

Important points and recommendations for giving feedback

- Before you start using feedback, you should stress to the trainees that it is all about getting to know themselves better by taking in the remarks, opinions and findings of the trainer as well as the other participants. First, they will have gained valuable information about their performances. If they do something well, it is helpful to know: consequently, one's confidence rises and it becomes obvious that it is desirable and right to continue the way they have done so far. On the other hand, realizing one's mistakes and shortcomings is just as important, and feedback is something that will help identify and remove the weaknesses.
- Receiving and giving feedback is a hard task, calling for mutual trust and respect between both parties, together with mutual understanding and consideration. To be of any help, it is instrumental to make the feedback constructive; with personal tough.
- Feedback must be timed well. Generally, it is best to provide it right after the performance and/or action. This is known as "FAST" feedback;

F	Frequent
A	Accurate
S	Specific
T	Timely

- Feedback must be acceptable to the recipient. Suppose we want to use it to draw someone's attention on a mistake they are making. To make the recipient more amenable to accepting criticism, it is helpful first to mention the good things, positives and successes. Just as constructive feedback should be the rounding off, following the the 3 ‘K’ or ‘sandwich’ approach; Kiss, Kick, Kiss.

- When giving feedback, it is advisable to concentrate only on the recipient’s behaviour, to deal with what he or she has done or not, instead of bringing up their personality or making absolute judgements. Feedback focused on shortcomings only,, that the person is unable to control, leads to frustration. That is why the trainer ought to focus on observation on the obvious, not on second-guessing. Feedback must be clear-cut and specific.

Examples:

Bad	**Good**
No doubt you like hearing yourself speak since you always have to give your opinion.	In the last quarter-hour, you have interrupted others four times.
You sound boring, lulling everyone to sleep.	Your intonation does not change much when you talk, which may lead the listener to switch off.
You are too submissive, as if you had no opinion of your own.	You tend to accept other people’s views. In this exercise you have always agreed with Mr Smith.
I did not like it at all.	How about trying it differently?
Your writing is horrible. Doubtless, you failed your grammar classes.	It would be advisable to improve your written expression. It is usually good to ask someone for help.
While working in a team, you never pay attention to other people’s ideas. You do as you like, dealing with everything just your way.	During the teamwork exercise, twice you failed to react to suggestions of Mr Smith and Mrs Brown; when she tried to put forward her solution, you did not even let her speak.
Your performance was lamentable.	You have made the following mistakes:
You were terribly nervous.	Watching your behaviour I had the feeling you were rather nervous. Am I right in this perception?
You are lazy.	Unlike others, this time you have made no effort to contribute to the task in hand.

- The purpose of feedback is to bring change, an improvement in a person’s performance. The trainer should focus on using feedback as beneficial to the recipient.

It is best for the trainee to realise what the trainer has done right, and what needs improving. Consequently, the first thing to do having finished an exercise is to ask the trainee questions. In most cases, they will realise the shortcomings and/or mistakes themselves.

Suggested questions:

Are you happy with the way you have handled it?
How do you feel about it?
Why exactly do you feel this way?
How do you feel after your performance?
What do you think you have done well?
What did you like?
What was reassuring for you, and why?
Did anything upset you?
Do you have a problem or a difficulty?
How do you perceive it?
Is there anything you are not happy with, and why?
Next time round in a similar situation, what are you going to focus on?
What are you going to do differently next time? How will you do it?
What do you think will be advisable to do differently?
What measures can you undertake?

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- The trainer never apologizes for constructive feedback
- The trainer needs to make sure that the feedback given to the trainee has been useful. That is why the trainer should ask the participant at the end whether everything in the feedback was clear.

Suggested questions:

Is what you have learned useful for you?

Do you understand everything I am telling you?

Watch out, though, for being perceived as lecturing. Ideally, the trainee should assess for themselves what they have learned from the feedback provided, and what the key points are. This way, the trainer will be getting their own feedback.

- The trainer should explain the rationale of feedback to the trainee, but also tell them how to accept it. There are five criteria for this:

1. Distinguish the message you receive in feedback from the messenger. Pay attention to them, of course, but concentrate on what the trainer says.
2. Try to be positive towards them, and open to the contents of the feedback; its purpose is to help you, not to upset you.
3. Make sure that you are clear on everything that is being said to you. Paraphrase back (summarize in your own words) what you have just heard, and ask for more observations and/or suggestions. Ask questions and demand detailed explanations and elaborations.
4. Do not accept an individual's opinion as absolute and generally valid; find out about the opinions of others as well.
5. Have a clear idea of how you are going to use the information you have received, and consider all available alternatives.
6. Do not be offended by feedback and refrain from aggressive and/or hurt posturing. Always maintain a detached position, and be grateful for what has been presented to you.

We only give feedback to a specific participant. This means we address them directly and use their name. The usual mistake on the part of a trainer is to be impersonal.

Example:

Bad	Good
Sue has performed well, managing to capture listeners' attention …	Sue, you have done really well. You have managed to capture …

C.3. REVIEW

“Review” is an English word meaning looking back, recalling, inspecting, surveying mentally, or revising. This training is based on experiential learning, by which we understand looking back at the activities that have taken place. It is necessary to distinguish review from feedback because there is no evaluation of the students and/or their groups, be it by the trainer, mutually, or one another. The purpose of a review is to make the students jointly rationalise, generalise and transform their subjective experience into experience they can apply in their life.

During the review, the trainer´s role changes: he becomes a facilitator, a person enabling the trainees to acquire knowledge. Thus it is not a supervised debate but a free discussion between participants. The trainer/facilitator only provides motivation for them to look back and realise what has taken place; it is up to them to identify important principles and provide observations. The trainer/facilitator mostly listens in silence and leaves the arena to the trainees. He only joins in when it is necessary. His main task is that of providing direction so that the trainees:

- Think about what they have gone through in the training and define the critical moments
- Consider both their successes and failures, and whey they happened
- Take stock of their current experience, attitudes and solutions
- Share and describe both their feelings and experiences
- Clarify their views
- Bring into the open any problems they noticed
- Find parallels between the current training activity and everyday life, and this way, they realise how the latest experience can help them in the future
- Make notes about all this

The right time for review is just after an activity has finished, and as the trainer sees fit.

2. BUSINESS DEVELOPMENT IN AGRI-FOOD

Today, farmers and sme's in agro-food are confronted with many changes in their environment. The European Agricultural Policy is under systematic reform, social expectations regarding agro-food sector are evolving and the sector has to deal with scarce resources in production. Taking the appropriate decisions regarding the production processes and operational management are no longer sufficient skills for the agro-food manager. A agro-food business nowadays requires marketing and real entrepreneurship.

This manual gives insight in the key competences for agro-food businesses in the 21th century. Entrepreneurs need to detect (inter)national opportunities and make them beneficial to create added value for their business. This marketing approach requires a business strategy (see. Chapter A. Marketing and Distribution) which in turn will impact the management of external (B. Management capacity in rural areas) and internal resources (C. Development and quality management & D. Finance).

Globalization has a big impact on market prices in the agro-food sector. In the last chapter, we explain how to benefit from this trend through the principles of exporting products.

A. Marketing and distribution

A.1. STRATEGY

To compete on the market, a business needs to manage both the external environment and its internal resources. It will develop a strategy to determine what the business will sell to which target group and how it differentiates itself from competitors. The answers to these questions will help the business get on the right track for the future and decide; in what direction to go with our company? What are the company goals and maybe most important? How are we planning to reach those goals?
Business strategies can take several forms. In the agro-food sector, we distinguish the 3 main strategies;

- Cost leadership
  This strategy aims at developing a low-cost-production position based on experience, seize en/or efficiency. The companies' strategy is to focus on economy of scale and intensifying the production to reduce the production costs and increase margins. Processes of specialisation, automation and efficient use of labour are characteristics. The choice of this strategy often determines the distribution channels. Generally we see long market channels dominated by processors and wholesalers with emphasis on standard and homogene products.

- Differentiation
  Here, the business strives for an unique perception (of the product) by the consumer. Differentiation is based on the quality of the product or exceptional packaging or processing which provide added value. These products often require bigger investments (i.e. guarantee of quality, branding, …), are difficult to replace and require a long-term marketing approach.
  Generating additional revenues apart from the traditional core activity of the agro-food business (multifunctional business) is another form of differentiation. Broadening the business activities can be done via
    - ✓ Socio-tourism activities (eco-tourism, day trips, educational packages, …)
    - ✓ Production and sales of products and services (farm products, new consumer goods)
    - ✓ Outsourcing of production factors such as land, machines, animals, human capital.

  A long-term strategy can be a means to differentiate through efficiency of marketing and market development as well as a focus strategy.

- Focus strategy
  With this strategy the company choses to service a small and well-defined niche. This is the case for product differentiation when a product is made for a very specific segment in the market.

Another example of focus strategy are business which market the balance of price-quality of a product. A farmer produces products for a specific market for a reasonable price according to the requirements and standards of the client, such as delivery and quantity. Accreditation of quality systems (eg. BRC, EurepGap,…) can be a means to guarantee quality for the consumer and sales for the producer.

It can be a strategy to have no defined strategy but to react to the opportunities which occur. In this case, the business sees no competitive advantage to develop its business or product according to a strategy. Generally, this short term approach makes the business more vulnerable to market changes as it has no strategy to develop a market.
If the strategy does not work, an adaptation can be necessary. This involves (re)defining goals on which the previous strategy was based to a more realistic level.

A strategy can only have effect if it's implemented in the business operations and activities. All long-term decisions have to match this strategy (production process, organisational structure, human resources, …). How the business will approach the market, is dependent on the strategy.

A.2. MARKETING

A.2.1. Background

For years, protectionism of European Agricultural Policy guaranteed a stable eco-system for farmers.
Farmers were encouraged to maximise production thanks to price subsidies, closed markets and other regulations. Due to the liberalization on the world market and the decrease in EU-subsidies, business in agro-food are now confronted with increasing price-fluctuations and risks. High production is no longer a guarantee for an acceptable income for the farmer.

The primary sector is evolving from a supply market to a demand market. Farmers need to produce products to the demand (requirements, price, …) of the consumer. This shift to market-orientation is a huge challenge for many business in agro-food. Business need to innovate and anticipate on the market. Marketing is key for survival and growth.

A.2.2. What is marketing?

Marketing starts with a strategic market approach when accessing the market with a product or service. Marketing is a broad concept, but covers the following:

- advertising and creating promotion
- being friendly to your customers and creating a good atmosphere
- segmentation and innovation
- positioning

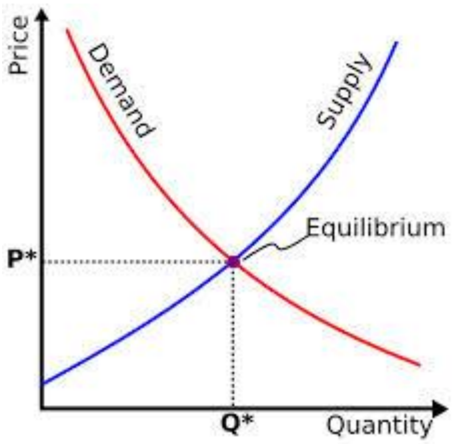
- analysing, planning and controlling
- customer orientation

A market analysis gives the manager insight in what he wants to do. He is familiar with the strengths and weaknesses of his business idea/company and is aware of the environment the company will be operating in. A market analysis is the basis to draft a marketing plan and act on the preferences of the target audience.

The marketing plan determines what price the entrepreneur will ask for his product or service and where he will access the market. He will define what the product will look like and how the promotion campaign will be organised. This is the marketing mix.

A.3. INSIGHT IN THE MARKET

Before setting up a marketing mix, it is important to understand the concept of 'the market'. It is the relation between supply and demand and how they are organised. This formula is essential to understand the working of every type of market. Price and quantity are related to supply and demand, and the other way around.



Source: economics.stackexchange.com

- **Demand:** all buyers of the products and services

- **Supply:** the company and its competitors (active in the same sector or developing a similar product or service)

The number of competitors will determine how a company will be organised and how it will position itself in the value and supply chain and towards competitors. There are several market types.

A.3.1. Market with perfect competition

In a market with perfect competition, the customer can choose from a wide variety of equal suppliers. There is no shortage and there are (almost) no differences in quality. This type of

market occurs with homogeneous products: the product offer of one supplier hardly differs from the offer of other suppliers. If there are a lot of similar products, the customer always chooses the cheapest product there is. It is almost impossible for the supplier to make a profit.
→ Most SMEs are active in other environments, so try to avoid a market with perfect competition.

A.3.2. Monopoly

In this type of market, the customer has no choice: he can buy the product from only one supplier, and has to pay the set price. If he is not willing to pay that price, he cannot buy anything. The supplier can set his price with no limitations, with the highest profit possible.
→ An entrepreneur should not fall into the trap of setting the price too high, a customer will look for substitutes.

A.3.3. Oligopoly

The market is controlled by a couple of suppliers that all have an equal market share. It is not easy for new suppliers to enter the market. In this type of market, there is the constant danger of price competition. If one supplier lowers his price, other suppliers will follow. Price wars are more common than in other market types, and will lead to a price collapse: good for the customers, not so great for the supplier.
→ The entrepreneur should try to distinguish his product on another level than price; better quality or extra traits can persuade customers to buy your product. An example is Coca Cola versus Pepsi.

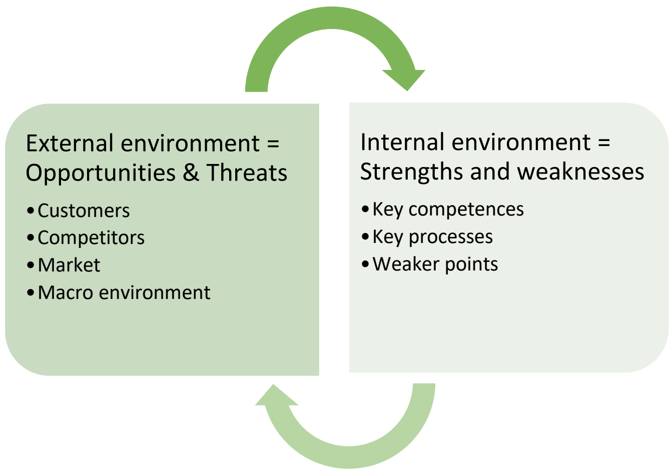
A.3.4. Monopolistic competition

This sounds like a contradiction: how is it possible to have a monopoly with competition? You have to make a distinction between the total market and the unique offer from your company. Every company or organization tries to stand out from their competitors, i.e. a wider choice, an exclusive product, an excellent service, … This special trait is your Unique Selling Proposition (USP). A USP gives you the possibility to build a loyal client database, that you can offer your unique product to. That makes you a monopolist, but at the same time you stay in the competitor position: if your price gets too high, your customers will no longer appreciate your USP and look for substitutes.
→ A lot of SMEs are active in this type of market, try to stand out from your competitors by having a USP (Unique Selling Proposition). A Unique Selling Proposition focuses on the uniqueness of your product or service, the difference between your product or service and other similar products or services, provided by your competitors.

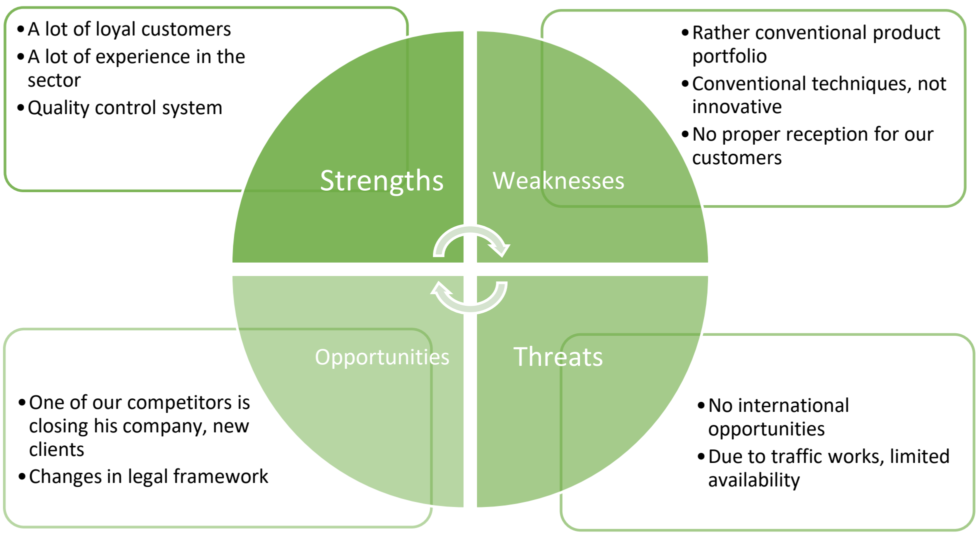
A.4. SWOT

A SWOT analysis gives an overview of the Strengths, Weaknesses, Opportunities and Threats of the environment and the business idea.

These aspects are linked to the external environment and the internal environment. Opportunities and threats are linked to the external environment: this is the position of the company in the market. The position in the market depends on the relationship the business has with his customers and competitors and how he relates to the macro environment. Opportunities and threats are also influenced by the type of market the business is active in.
Strengths and weaknesses are related to the personality of the entrepreneur. The internal analysis determines how the entrepreneur reacts on threats and opportunities in his environment. It is okay to have weaker points, but the entrepreneur has to be aware of them in order to tackle them.



An example



Use of a SWOT analysis:

A. Opportunities versus Strengths
Strong points of the company versus the opportunities in the market.

B. Opportunities versus Weaknesses
   Try to counter the weaknesses in your company by turning it into to an opportunity and benefit from it.

C. Threats versus Strengths
   Compare the strengths of your company to the threats and see how you can anticipate those threats in the future by using your strengths.

D. Threats versus Weaknesses
   This is the Achilles heel; you need to act here. It is really difficult to act on the threats from the external market.

A.5. SEGMENTATION AND POSITIONING

To distinguish a product or service from competitors, the entrepreneur needs to segment, position, target the product. It is a core principle of marketing. By doing so, the entrepreneur will be able to

- Find harmony between your product or service and the market;
- Adapt the distribution and price setting according to your target group;
- Adapt messages to your target group.

A.5.1. Segmentation

A segment is a homogenous group of customers with the same needs and problems. In traditional marketing a target group is defined by socio-demographic variables. Most relational features are: price and income, sex, geography, age. But also personality, concept, involvement, cultures and subcultures.

It is very hard as an sme to serve all segments of the market. An entrepreneur has to choose from several segments. That is targeting or focusing. This segment needs to be attractive enough, big enough, easy to reach and be profitable. A small segment, oriented toward specific needs, is a niche.

Today the target group is homogenous, but does not necessarily act homogenously. The definition of a customer is not objective anymore. Nowadays, a business has to take into account the way the customer sees himself, how he thinks and what or who he wants to be. With these aspects in mind, the definition of a target group becomes more dynamic, because a person can become part of the target group in several different circumstances or buying moments.

Segmentation criteria in modern marketing:

- lifestyle: hobbies, interests and way of life
- congenial minds: despite age and sex
- values and standards: opinions, way of life, eating patterns

- customer value: who is a good customer, what are the cost drivers and how can we regenerate revenue
- customer loyalty: ambassador of the brand or business
- buying behaviour: who ordered what for a certain period and with what revenue
- wishes and needs: information, easy to use, availability, customer service, …

A.5.2. Positioning

The entrepreneur needs to understand the spirit and perception of the consumer to position products his product of service accordingly. Positioning is based on a unique value propositions of the product/service towards the customer. Through value proposition, the perception of the customer about himself is as equally important as the value proposition of the product or service. Positioning is the basis of the brand policy (business, brand): brand knowledge, brand image and brand value.

Positioning and value proposition
Positioning is based on perception via the value proposition, it is not based on facts. Taking on a certain position in the market, implies that the entrepreneur can transpose himself into his customers' brains. He has to be able to answer the questions that clients would ask, only then he can build a positive image for his target group around his product or service.

Steps in positioning

1) Describe the features of the product or services of the business ;
   What occupies clients the most? For what purpose can the product or service be used? What problems will it solve? Every product has different features, and can be related to a person.

2) Determine the most important features, different from competitors, that offer the most advantages?
3) Determine positioning, taking into account;
   Is the product or service unique? How are the wishes of customers met in accordance with the needs of the market
4) Communicate the positioning through value proposition

A.5.3. Targeting

After the entrepreneur has segmented his market, he will determine which segments to focus on. This is targeting. When targeting, he keeps in mind the objectives of the company or the evolution and attractiveness of the segment. He can also take into account the position of his competitors, or specific characteristics of a potential target group.

By analysing potential customers, the entrepreneur can define target groups. There are two types of clients:

- Private persons (B2C)
- Businesses (B2B)

The following characteristics define the target groups;

- Geographical (local, regional, national, international?)
- Personal (age, generation, sex, family size, single/married,…)
- Socio-economic (job, leisure, religion, culture,…)
- Motivation for buying (comfort, prestige, functionality,…)

A.6. THE MARKETING MIX

How will the entrepreneur access the market with his product or service? Before launching a product or service on the market, the starter needs to define the marketing options in terms of Price, Product, Promotion and Place. These 4 ‘P’s of marketing are targeted towards the needs or demands of the target group and all have an impact on the business. "Marketing mix" is a general phrase used to describe the different kinds of choices organisations have to make in the whole process of bringing a product or service to market.

A.6.1. Product: a total solution

Without a product (or service), there is no business. A product has several variables. The entrepreneur should be as concrete and complete as possible when defining the product.

Product variety

If one offers more than one product or service, he has have an assortment of products. The composition of an assortment has 4 dimensions:

- in width: the amount of product groups offered
- in depth: the varieties offered in one product group
- in length: the amount kept in stock for every product group
- in height: the average price of the assortment

The assortment can also be divided according to its share in revenue:

- core assortment: the articles of services that are essential for the revenue and the market share
- side assortment: extra products or services related to the core assortment

Quality

Not everyone experiences 'price-quality' the same way. Customers want value for money. But what is value? The customer not only has an eye for the technical quality of the product or service, but also for the predicted value: that feeling is different for every customer. It can be about perception of value of quality.

Service

Providing a service is targeted at maximising the user-friendliness of a product. It is an activity with value for the buyer. There are 3 forms:
- Service before sales: information, demonstration and advice
- Service during sales: quick delivery, placing and installing and providing credit
- Service after sales: delivery of accessories, maintenance, repair and support

Warranty

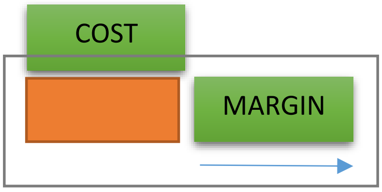
The term 'warranty' has a juridical meaning, but can also be a sales argument. In the juridical meaning, the statement on paper of the supplier gives the customer the legal right to be reimbursed when there is a defect in a product. Warranty becomes a sales argument when it is voluntary: it makes the customer believe that he deals with a quality product.

A.6.2. Pricing: a marketing instrument

Price is one of the most important and less understood instruments from the marketing mix. It is the least sustainable instrument and the only one that costs nothing. Price is the amount that is paid by the customer for a product or service (narrow definition). Or price is the sum of all values that customers are willing to pay (broad definition).

Price setting

An entrepreneur wants to set his price as high as possible, but he also has to be aware of the effect of the price on the volume. The rule here is; make the margin between revenue (price x volume) and the costs as high as possible, because that margin is the profit.



PRICE

Every entrepreneur has to decide on the price of his products or services. Following aspects determine the price:

- Asking price
- Discounts
- Bonuses
- Credit conditions
- Terms of payment

Price setting: 2 different approaches

→ *On the basis of costs*

→ *On the basis of value*

Price setting is contributing to marketing objectives

1. Survival objective: low price, mostly meant for a start-up
2. Profit objective: mostly meant for maximising profit (margin oriented)
3. Volume/Revenue objective: the objective is the increase of volume and market share, a steady market share
4. Show product quality: higher prices to cover high R&D costs, brand policy, development of image, quality and exclusivity
5. Promotional: this only has an impact in the short term

Basic pricing models

1. Competition basis pricing

Competition based pricing means that the price of the product or service is set based on what competitors are charging. This model is used by businesses selling similar products. Moreover, this pricing method is used when the price of a product or service is more or less steady, because there are many substitutes for one product (usually the product is not new).

2. Cost-plus pricing

Cost-plus pricing means that the price of the product is calculated based on the direct material cost, direct labour cost and the overhead costs, plus a (retail) markup percentage. The markup percentage is an increase in the cost of a product, to arrive at the selling price.

3. Value basis pricing

Value-based pricing means that the price is set according to the perceived value of a product or service. Value-based pricing is often used when products or services are sold based on emotions.

Rules of thumb on pricing:

- ✓ Customers value a product, service or business on more than price alone
- ✓ Price covers the whole perception of products/services/businesses according to features, packaging, brands, usefulness, availability,…
- ✓ The knowledge of the pricing level by an average customer is far from good: it only generates a feeling about the price and value
- ✓ If you constantly focus on the price, the customers automatically start to focus on the price and you push them towards the lowest price
- ✓ A low price is a bad competitors advantage
- ✓ Few customers are able to give a right evaluation of the price, let alone the relatively high price (differentiated prices)
- ✓ Low prices influence the image
- ✓ Price is what you pay, value is what you get

A.6.3. Place: right place, right time

Marketing is about putting the right product, at the right price, at the right place, at the right time. It is critical to evaluate what the ideal locations are to convert potential clients into actual clients. Place is determined by: how will the products or services reach the customers? Place is also important when it comes to the actual place where the entrepreneur is starting his business: in town, in the countryside, … Place also is an important aspect in determining how to organize the buying process and do the distribution of products. Distribution affects the price of products and services; does the entrepreneur import, or buy from a wholesaler?

The selection of the location of a business is determined by:

- ➢ Distribution channels
- ➢ Assortment
- ➢ Locations

- Transportation
- Stock

A.6.4. Promotion: talk of the town

Promotion is about how to disseminate relevant product information to consumers and differentiate a particular product or service. Promotion includes elements like: advertising, public relations, social media marketing, email marketing, search engine marketing, video marketing and more. Each touch point must be supported by a well-positioned brand to truly maximize return on investment.

Promotion equals selling and equals communication. Marketing communications are the messages that are told on and off the ‘market’. Clients have to learn about the product, via different channels. Promotion almost always comes last; an entrepreneur has to determine first the other ‘P’s’ in order to create his promotion plan.

Brand name

A brand policy is very much subject to change. Brands can be divided into three types:

- A-Brands: this is a brand from a well-known supplier in the (inter)national distribution chain because of the huge marketing campaigns. A-brands usually have a large quality image and are very often more expensive. Everyone can sum up some A-brand products right away.
- B-Brands: this brand does not have one or more characteristics that A-brands do have. Customers value B-brands less than A-brands: they have a lower quality level and are not related to feelings that much. A B-brand is cheaper than an A-brand.
- C-Brands: this brand is nearly famous among people. The price is low and there is no (positive) image related to the brand. The supplier does not invest in marketing: the initiative is with the distribution. These brands are often imported brands.

Corporate branding, the image of a business

A brand is a name, a synonym, a design or something recognisable that increases the value of the product, service or business above its original value because it contains supplementary advantages. A brand diversifies the products and/or services of a business.

A brand exists of emotional associations on how your business, product or service is being promoted. The image/value of your brand depends on:

1. Trust and honesty
2. Engagement
3. Presence
4. Tradition
5. Authenticity
6. Innovation

Develop a broad client base

A shortage of customers and a too small portfolio of clients is another important reason for start-up failures. The entrepreneurs needs to make sure that when his biggest client leaves, he doesn’t fail.
The start-up should try to **diversify** his client base as quickly as possible. A golden rule is that one client should not make up more than 20% of turnover. If this is the case, it is wise to seek new clients to build up a buffer for a potential loss of customers.

Rules of thumb on promotion:

- ✓ The name of the business is part of its capital. Negative links are excluded
- ✓ Personal face, use and personal brand
- ✓ Unique slogan. Baseline is important
- ✓ Consistent storytelling and communication while paying attention to own values

A.6.5. The marketing mix: who's the client?

A marketing mix is important to determine how to organise a business but for a costumer, it is equally important. The 4 Ps will determine his consuming behaviour;

- Product: the **value** of a product of service, from a client's point of view
- Price: the **cost** (or price) for the client before, during and after the purchase
- Place: as the **comfort** or accessibility to a product or service
- Promotion: how does the client **experience** the communication

Rules of thumb on increasing sales via a marketing mix:

- Check which variables are most important to reach the marketing targets. Discuss with a sparring partner, a fellow entrepreneur is even better
- The customer is always right and has to be centre of attention, that goes for marketing too
- Always try to establish direct and personal contact
- Service, quality, dedication and care determine the success

A.7. MEETING CUSTOMERS' NEEDS

Nowadays, the competency for meeting customers' needs is one of the key requirements for entrepreneur. Yet we can also make use of it in our private lives. Customers are essential to any business, and the same might be said about the whole society. There is a lot of competition all around and customer satisfaction can have a significant impact on a company's success. Thus the competency for meeting customers' needs is one of the key requirements placed on business. But how do we do so? An entrepreneur needs to

- Get in the position of the client
    - Show empathy
    - Ask the right questions
    - Active listening
    - Show your passion and expertise
    - Summarise the conversation at intervals
    - Make notes
- Draw to focus on the advantages for the client instead of the product/service itself
    - Show the total concept
    - Justify the differentiators/added value
    - Reduce cost for your customers
    - Valorise benefits/advantages/margins for the clients sales or for their customers
- Need to build up rapport with the client (relationship manager)
    - Good preparation
    - Kind (smile)
    - Show respect

    - Say what you will do and do what you promise
    - Honesty and authenticity
    - Solve problems
    - Follow-up via e-mail/call
    - Summarise and validate what was discussed during the meeting
- Surprise the client
    - Pamper the client by showing the best possible service
    - Good feeling (experience): “nice to be here”
    - Take time for personal contact
    - Be able to do something for the client which is not business related
    - Ask for feedback
- The appearance needs to match the image of the business: order, precision, clean and cared for outlook

Rules of thumb on customer orientation:

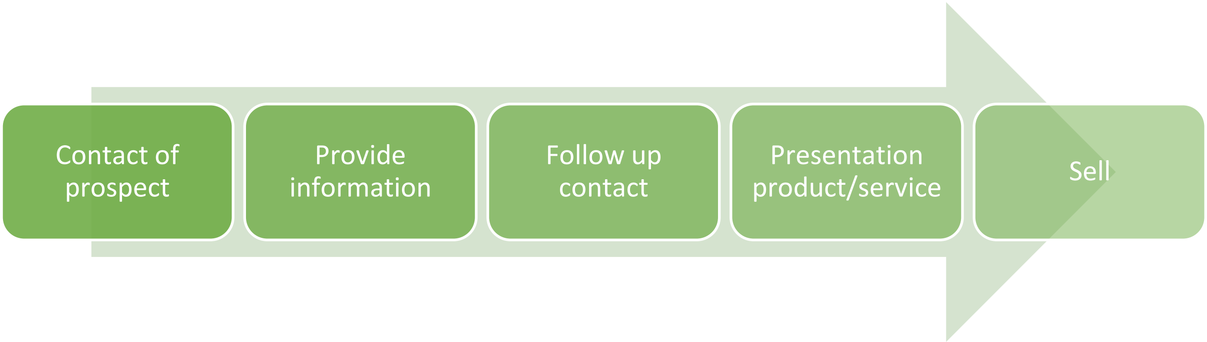
- Welcome the client and greet them face to face
- Be polite and show the client respect (turn off your mobile, don’t start talking to another person…)
- Give quick service. Don’t let the client wait too long and make sure waiting is done in a pleasant environment (magazines, papers, music, TV, children toys…)
- Thank your client (for the visit, the call, the complaint…)
- Conclude in a friendly manner. Wish your client a nice day.

A.8. THE MARKETING STRATEGY

A.8.1. Marketing model

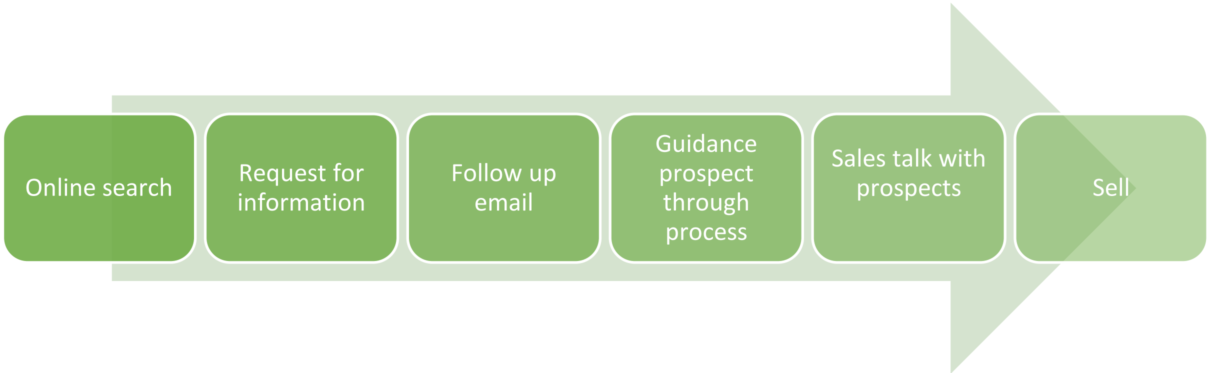
Today, clients have already done 70% of the buying process before they get in contact with a sales representative. He has searched and compared the offer online, has consulted his personal network, has checked references,… Only when the client confirms he/she is ready to buy, does a sales manager come into play. A modern strategy deals with the delay of this personal interaction as one of the final stages in the sales process. Compared to previously, it is now the client who determines the timing. He is in the driver seat. In the old model, sales and account managers spent much time with their clients. The sales managers were in charge of the timing of the sales talk.

Traditional model:



The available data of the client however ensure that the sales manager is now much better prepared to answer questions for the client. The seller nowadays needs to have **expert knowledge** of the product/service and have **empathy** and has (online) tools at his disposal to who the client before the sales talk.

Modern model:



Although traditional outlets have difficulty competing with online sales, there still is a big future for outlets and retails shops. The outlet needs to be aware of its added value compared to e-commerce, being

- ✓ Kind and customer oriented personal service
- ✓ Personal approach and tailored approach
- ✓ Atmosphere and brand of the outlet
- ✓ Image and approach of expertise centre

The client expects his preferred supplier

- ➢ to **think together** with them, and believe he understands his needs
- ➢ to deal with them **professionally**
- ➢ to provide correct **information**
- ➢ to be treated **respectfully and honestly**
- ➢ to respect the arrangements and agreements
- ➢ to take initiative and be **pro-active** for the **benefit of the customer**
- ➢ to **solve his problem** (this is not the same a product or service)

- ➢ to buy the product/service in an **quick, easy and pleasant** manor (possibly via internet)
- ➢ to **identify** with their outlet/brand. Buying is seeking an identity

A.8.2. Communication

Communication is crucial in marketing. It is not possible to 'not' communicate. If the entrepreneur doesn't communicate (no website, no contact point,…), he is out of business.

Traditional communication techniques are out! Screaming out that your company is the very best does not have any impact. The aim is to inform customers, build a good image and increase the visibility of the business. The customer values the opinion of other customers, before the opinion of enterprise. Focus on open conversations, hearing targeted messages is important for the individual. Advertising in a traditional way is not authentic anymore. Everyone promises the same thing. Now, the entrepreneur must have relevant content. Authenticity, honest and simple. The starters tells his story via several channels in a consistent and creative way. Only then, will he stand out from the crowd and the information overload; he 'forces' people to hear his message.

The customer does not want to be questioned as in the early days, they like to decide for themselves. Laptops, smartphones, desktop computers, TV and radio are sources of content. They decide what is important and cascade the information on to their community: an online forum, a membership organisation, …

Rules of thumb on communication:

Content of the message

- ✓ Content is spreading relevant and useful content (a story), adapted to the target group
- ✓ Content is not a means to push products or services. Content seduces the target group to be involved in the business and to talk about it

What is the story?

- ➢ Seek out human emotions
- ➢ Talk about the mission and values of your company
- ➢ Let customers create their own stories and help them with that

A.9. THE MARKETING PLAN

The marketing plan is an action and result oriented working document, for a period of 3 years. When drafting a marketing plan, an analysis of competitors on the market is key. The entrepreneurs will take into account what the competitors do and are planning to do.

The 4 types of competitors

Competitors are all the other suppliers in the market. To know them, a starter has to be sure in what type of market he is (or want to be in) to sell his products or service. The market can be selected according to the following criteria:

a) **Location:** if the entrepreneurs decides to consider one village or town as 'his' market, does he also take into account the competitors that are only a few miles away? His potential customers can also buy from that particular supplier.

b) **Content***:* this is a more qualitative criterion where we distinguish 4 types;

- competition on company level: competitors with a similar assortment appealing to the customers
- product competition: competitors with different product types in a certain product group
- generic competition: competitors that fulfil the same needs (for example: people can choose between going to a restaurant or have a home delivered meal)
- necessity competition: competitors that fulfil different needs (for example: people can choose between taking a vacation, have dinner in a fancy restaurant or redecorating the house)

Competitor or colleague?

The distance between two businesses is not the only determining factor when defining whether someone is a competitor or a colleague. Someone who has a similar business let's say next door, can be much more of a colleague than someone who has the same business in another town. It is the understanding the entrepreneur has with that person, that defines your relationship.

When starting up a business in an environment with lots of businesses in the same sector, it is important to make contact with neighbours. Try to create a network, and become a member of an employers' organisation or sector organisation. Try to get an insight into how they run their business, maybe you can learn from them!

Competitor analysis check list

The starter can conduct his own analysis by using his checklist;

Product	**Analyse the range of competitors**
Price	What price do competitors ask for their products? Check this information when setting price. Customers will eventually do the same!
Place	What are the pros and cons of the location and the location of competitors? Are their businesses easy accessible? Are their windows attractive?
Promotion	What do competitors do to recruit their customers?

Target group	Who are the competitors' customers? Are there similar characteristics between your own and their target groups?
Image	What image does the competitor have with the clients?
Conclusion	What are the competitors added values? What are their weaknesses?
End conclusion	What has the entrepreneur learned from this analysis and how will he use the information to position himself better in the market.

B. Management capacity in rural areas

Over 80% of agro-food business in Europe are small-scale family business and fully depend on their own resources (land, capital, labour) to grow their business. As a result, many self-employed are not focused on growing their business, but managing and safeguarding the organization to pass on to the next generation.

The agro-food businesses which do grow and scale up are confronted with new challenges. Consumers and wholesalers/retailers require guaranteed deliveries of consistent quality which means the agro-business needs consistency of supply through contracts with raw material or packaging suppliers.

The larger production volumes require managing and production-planning. Efficiency and productivity are key in this. Barriers to efficiency can be external or outside influences, independent of the company (e.g. traffic jam, insufficient tools, adverse weather,…). They can also be internal and come from within the organisation.

In this module, we tackle the business operations an entrepreneur will be confronted with as well as the management techniques to do so.

B.1. PRODUCTION MANAGEMENT

If you fail to plan, you plan to fail! Production planning is essential both in the (pre)development of a product or business as well as in the day-to-day production to guarantee output.

Poor planning can results in shortage of materials (crops, seeds,…) or packaging or lack of staff to produce the amount of product required in the time available. Every problem in the production will lead to an extra cost. Proper production planning is paramount for customer satisfaction. Failure to meet delivery requirements creates negative impression to customers and decrease turnover which will affect cash flow problems which in turns can have its effect on the supply.

Planned and efficient production is a characteristic of any sustainable agro business.

B.1.1. Preparation

For a new product, the estimate of production should be part of a business plan with a detailed sales estimate. An under-estimate leads to an investment in equipment that is too small and cannot make enough products to meet the demand. Worse, an over-estimate of sales will mean your equipment is too expensive for the limited production units. Cash flow will shrink and profit of company is in danger.

The business and marketing plan will therefore determine:

• the type of equipment and production capacity needed to achieve the planned production level;

• staff required for what time;

• level of stock (raw materials, ingredients, packaging, …)

Preparation in planning may identify potential bottlenecks in a process and improve productivity.

B.1.2. Production capacity

To set up the production process, the planner has to decide which parts of the production will haveto be mechanized, and which will be done manually. Equipment will need to be in line with the production capacity plan. The equipment's seize and it's throughput will determine how much products the company is able to be produced per time unit (hour, day, week,…).

Automatization

Some processes, such as oil extraction from nuts or cleaning crops, are difficult and time-consuming to perform manually and product yields are low. They are usually mechanized and these processes therefore require greater start-up capital than most other types of agro-processing. The reliance on machinery also means that the management of maintenance and a spares inventory are important aspects of operating these types of business. Staff numbers are smaller than some types of agro-processing, but training is required to correctly operate and adjust machines to achieve maximum yields and productivity.

In other processes, there are stages that are time consuming and highly labour intensive, and introducing small machines can substantially increase throughputs for a relatively small investment. Examples include slicing fruits or bread, separating cream from milk, filling packages, and mixing dough. When planning production, a processor should therefore compare the costs of employing workers to do a particular job with the investment of buying a machine.

Maximizing capacity

When investing in equipment, you have to know what should be the capacity of the equipment. Capacity is the volume of production of resources by the equipment in a specific time period. Sales information can be used to find the daily production rate which is then used to plan the amounts of raw materials, ingredients and packaging that have to be ordered.

Production rate (unit per day) =

Amount of product made per month /No of days of production per month

Production through put (units/hour) =

Amount of product made per month (units) /No of days of production per month x No hours worked per day

Eg. Production a month of mini-toast is 15.000 units. The baking machine works 12 hours a day and 5 days a week.

Production rate = 750 toast per day (15.000/20 days)

Production throughput = 63 toast per hour (15.000/20*12)

Installed capacity is the maximum throughput that can be achieved with the available staff and equipment. To achieve high productivity, the processor must ensure that machinery is properly maintained so that it operates at the designed throughput and prevents breakdowns and downtime. In processes that require skilled operators, the management and organization of the enterprise and in particular the responsibilities and incentives given to staff, are more important in achieving high productivity.

Other ways of improving productivity are:

- reducing operating costs (e.g. reducing idle machine time and waste, increasing the amount of food produced by each operator per day)
- improving procedures for buying materials or changing suppliers of raw materials;
- changing the design or layout of the production facilities to reduce unnecessary movement of foods, staff, or equipment, and making as few journeys as possible to deliver products to wholesalers or retailers;
- finding buyers for waste or by-products;
- reducing energy use by switching off lights and electrical equipment when they are not being used or using solar water heating (e.g. for pre-heating process water or washing equipment).

To assess whether productivity improvements have taken place, it is necessary to keep records that include amounts of materials, labour etc. used in the production process. This information can then be used to calculate the amount of packaging, labour and energy per kg or unit of product. Results need to be compared to data calculated before productivity improvements were introduced.

Machinery

When investing in machinery, it is important to compare prices and suppliers on the market. Information on types of equipment, specifications and costs is accessible online. When bench marking the different types of suppliers, it's important to take into account maintenance and spare parts (delivery, costs, service contracts, …) by the supplier and give the following details;

- ✓ specify exactly what is required (many manufacturers have a range of similar products);
- ✓ describe the throughput required in kg or litres per hour and the type of food to be processed;
- ✓ give other information such as model number of machine, single or three phase power, number and types of spares required.

B.1.3. Production planning

Proper production planning starts with the amount of each product that a processor expects to sell and the levels of stocks to be held. Next, the processor calculates the necessary:

- ✓ weights of raw materials and ingredients to be bought;
- ✓ amount of packaging to be ordered;
- ✓ numbers of extra or temporary staff to employ (if necessary).

The production plan is often made per week. The manager will assemble information from sales and compare these with the stock and orders from retailers/wholesalers to decide on the amount of production for the following week.

Based on the production plan, the manager will calculate the weights of raw materials and ingredients that will be required each day using a standard recipe (or 'formulation') for every product.

Eg. calculation of ingredients needs for 100 mini-toasts;

Ingredients	Input need per unit	Calculation for 100 toats	Amount per 100 mini-toats
Bread	50 gr	50 gr x 100	5 kg
Butter	25 ml	25 ml x 100	2,5 l
Cheese	13 gr	13 gr x 100	1,3 kg
Ham	18 gr	18 gr x 100	1,8 kg

Lean management

In a production process, raw materials and ingredients will be wasted. This can be from spoiled raw materials thrown away during sorting, from spillage during filling into packs, or from food that sticks to equipment and is lost when it is washed down after processing. Therefore, the calculated amounts of raw ingredients are not the amounts actually needed for the production because at losses during processing.

Lean management is the method of systemic minimizing losses of materials, time and work during the production. The further in the process chain, the more important lean management is because problems arising at the end of the process, at the most expensive (added value of product, previous production time and cost). Particular care should be taken to handle final products carefully to avoid damage. To maintain profitability, it is important to reduce losses as much as possible. Ideally below 10% in production and 5% in packaging. Buying only good quality raw materials and training staff to reduce wastage by careful processing can achieve this.

Waste disposal is an operating cost to the company, but in some cases, 'waste' can be turned in a 'by-product' for the market and generate extra income. Oilcake that remains after oil extraction has significant amounts of nutrients. This makes it a valuable animal feed, or in the case of hygienically produced groundnut and coconut wastes, a valuable food for humans.

Inventory

Managing stock is particularly important for food processing. Once the production plan is set, it is crucial to have sufficient raw materials and ingredients for the production to prevent production stoppages. The stability and storage life of the raw materials and ingredients will differ from product to product. Oilseeds and cereals have a long storage life, whereas fresh fruits, vegetables, and especially animal products, have a much shorter storage life. Animal products have to be processed immediately to prevent spoilage.

The company needs to keep adequate and permanent inventory of stock to guarantee stable and sufficient inputs for the production ('base stock') and outputs to provide supply to the client. Keeping too big of stock however can have direct, negative impact on cash flow of the business. Because value is added to foods as they progress through a process, the value of stocks of finished products is even higher than other stocks. The disadvantage of keeping stocks is therefore that money spent on them is tied up for many weeks until they are used.

Depending on the type of stock, checks can be made daily, weekly or monthly. Stock sheets are used to record the date when the checks were made, the type of stock, the amount and value of the stock and who did the check.

Results of stock checks should be compared to production records or maintenance records to ensure that all materials are accounted for. The management of stocks should also ensure that materials are used before their quality deteriorates. This is most easily done using a FIFO (first in first out) system, and storeroom shelves should be designed to assist this. For example, shelving can be positioned so that staff have access to both sides. They are then trained to place new stock at the rear of the shelves and remove old stock for use in processing from the front of the shelves.

B.1.4. Packaging and labelling

Protection is one of the key functions in food packaging. The package protects food products from outside influences and damage and contains the food. The package will also provide information of the ingredient and nutritional information for the consumer. Traceability, convenience, and tamper indication are secondary functions of increasing importance. The goal of food packaging is to contain food in a cost-effective way that satisfies industry requirements and consumer desires, maintains food safety, and minimizes environmental impact.

When packaging for the consumer, the producer has to consider the following items;

- User-friendliness; make sure the package is solid and products the food but is also easy to handle by the consumer (carry, open,…)
- Ecologic; packaging needs to be environmentally friendly. Maximise re-usable materials in the package such as carton, paper,… were possible.
- Attractiveness; package is part of the branding of the product. It makes your product unique and distinctive. Pay attention to colour, style and recognition when selecting the package
- Labelling; should mention the ingredients, energy values, lot number, expiry date, bar code, ℮ -icon

B.2. THE ENTREPRENEUR AS MANAGER

A business manager has to manage the company resources (property, capital and labour) in order to efficiently organize the production process. Apart from production management, the managerial skills will influence the organisation and capacity of the business. Through economies of scale and widening of business activities, insourcing of (seasoned) labour is a trend in the agro-food sector. The business manager becomes an employer which means that his/her human resource and self-management is crucial for the success of the business. Here, we focus on key skills for the agro entrepreneur as 'manager'.

B.2.1. Priority management

A manager has a variety of objectives. What is vital for the business and what is not? He will only be able to deal with a limited number of aspects at a time so it's crucial to focus.

To focus on what is important, the manager needs to formulate clear goals. Every organisation or person has priorities or key objectives, but few realize them. Why? Because the priorities/objectives haven't been properly defined. Every goal should fulfil certain criteria. When defining goals, you can use the simple yet effective SMART-method. The acronym stands for the basic characteristics that a goal should have;

Specific; be as concrete as possible: who, what, where, when, how(much)?

Measurable; means that we can control it. It is set in such a way that we know how and when we have achieved it. The impact and effect of the goal are also quantifiable.

Acceptable; a goal needs to be accepted as well as acceptable. This means it should be understood and accepted by the person responsible for its accomplishment, but it also means that it should be accepted by other people – it should not directly harm the interests of others.

Realistic; a goal also needs to be very realistic and possible to achieve. It should be realistic with respect to the person who needs to achieve it. Everybody is different, and what one might regard as an opportunity to show off, another might not be able to handle at all.

Time bound; have a set time within which to achieve the goal. You should set a time limit by which a goal needs to be reached. In this way, we are ensuring that it can be verified.

In addition to the final deadline, it is also good to split the implementation process into individual stages, especially in the case of a long-term aim. So once you set up your priorities, you can start planning. Set temporary deadlines or milestones by which partial goals/ subsidiary aims can be completed. This way demotivation and loss of enthusiasm that may occur in the implementation process can be avoided. This applies to long-term aims, where a lot of work is done, yet the goal is still unattained.

By implementing all these points, a good foundation is laid for turning goals into reality; however, this is not the only requirement for successfully achieving what you set forward as objectives.

B.2.2. Planning

After setting objectives and priorities correctly, the manager needs to determine how to accomplish them. He will devise a plan, because with a plan everything becomes specific and measurable. It will be easier to monitor progress, how far the tasks have been completed and what else still needs to be done.

A plan is a list of all the tasks we need to do in order to accomplish our aims. A plan always includes:

- ✓ Timetable, containing all tasks necessary for achieving the goal. These tasks should also be specific, measurable, accepted and acceptable, realistic, and with a deadline for completion.
- ✓ Information on all that is needed for reaching the goal. For example: information, people, finance, equipment, etc.
- ✓ Extra time built into the schedule for unforeseen circumstances (contingencies).

Plans can be created with a long-term outlook. This is known as strategic planning. It is also useful to plan our ordinary daily life, using the so-called operative planning (see C.3.1).

A often used framework for effective long-term planning, is the Gantt-chart. Gantt charts indicate the start and finish dates of tasks and the outcome of these tasks by milestones. Often the chart shows the dependency and relationships between activities as milestones can be necessary input for other activities. (example in annex)

B.2.3. Time management

Many managers spent half of their time in business dealing with mails, phone calls, urgencies and incoming questions from colleagues while they don't have time for the 'real work'? On top of that, there are the meetings which takes a big chunk of daily work time.

Time in business is valuable. Managing it is an important aspect of successful management as. Lack of time is the most important problem mangers and entrepreneurs are confronted with. Time management consists of a number of techniques through which you are able to use time more efficiently. The goal is to realize more, in less time. You will plan and spend your time in a planned manner to guarantee you can deal with your priorities as well as daily circumstances.

Tasks can be charted in the following scheme to distinguish urgent and important tasks;

	Urgent	**Not urgent**
Important	I	II
Not important	III	IV

If you don’t manage your time well, you will stay in the first block ‘I’. Always busy busy with last minute and urgent things (calls, complaints, …) to deal with. Temptation is high to give priority to these urgent ‘last-minutes’ above your planned work because an performed task will give immediate feeling of success. Only after a series of ‘quick wins’ one realizes that there is still a huge amount of important work to deal with. You should ask yourself if a task is really so urgent or if it is rather an excuse to deal with the real work?

The objective in time management is to organize time as such that most of work happens in the second block. Here is the real, important work. Of course you will still need to deal with the urgencies, but these are under control by checking first if it is really urgent and if you need to do it yourself.

Not all activities in ‘II’ are as important. Some are very important because the business depends on it compared to others. Administration and office management are typically tasks on which you shouldn’t be dealing with all the time but for which you can reserve and plan time at fixed moments (e.g. Friday afternoon).

Take a critical look at those tasks which are not important but seem urgent. Is it really important you attend that urgent meeting? Should you answer that question of your colleague today? If the answer is ‘yes’, then deal with it. If not, look for alternatives (delegating, make arrangements on fixed meetings, …)

Tasks which are not important and not urgent should be skipped. This requires a certain level of assertiveness but will help you on focusing and prioritizing your work.

B.2.3.1. Putting time into practice

Some people are always late; they forget what they are supposed to do and cannot be relied on for anything. In spite of this, we cannot say that they are lazy and do not do anything. Often they do not stop working during the day. You recognize this problem (for yourself)?

This problem is time management. The first step towards solving this issue is recognising that we cannot blame our problem with time on others (clients, colleagues, suppliers, family). If we have a problem with time, we only have ourselves to blame!

Amongst the tasks that we do not seem to manage are often those we do not like or are cause us concern. The solution here is to spend ten minutes every morning on deciding which tasks we have to complete that day and which ones we would like to do if we had some time left over. Ideally, jobs that we find boring should be placed on top of the list. Immediately afterwards we can focus on tasks that we find interesting and enjoyable.

Here are some simple rules that will help you plan time;

- ✓ Spend ten minutes every morning on deciding which tasks have to be completed that day and which ones you would like to do if you had some time left over.
- ✓ If you are faced with an order or task you have never done before, you can make a mistake when estimating the necessary time needed. To avoid this, you can seek advice from people who have already worked on a similar task. Perhaps also ask others who are going to be involved in the project to make their own estimate of timing.
- ✓ Check that you have all the information needed and that you are clear on how to proceed.
- ✓ If it becomes obvious that you cannot meet the deadline, inform the organization/person who assigned you the task as soon as possible.
- ✓ When setting a deadline, take your other responsibilities into account – other tasks that you need to fulfil.
- ✓ Do not be a perfectionist; define exactly what the task involves, what is useful, and what has to be done.
- ✓ If you need stress for maximum performance (eustress, a positive and stimulating kind of stress), move the final deadline forward by 10 to 15%.

Some time-savers;

- ✓ Do not get interrupted. Try to work in stretches. If you are interrupted or distracted from your work, you will have to exert more effort and time to “get back“ into it again.
- ✓ Carry out similar tasks en bloc, one after another. If you have a minor task that is not urgent, it is best to wait for other similar tasks to accumulate and do them all at once.
- ✓ Split large tasks into smaller ones. If you have a big task and its results will be visible only after a long time, try to divide it into smaller parts and assign deadlines to each

of these. After completing each part, you will feel a sense of self-satisfaction that will motivate you to complete the overall task.

- ✓ Take a break in time.
- ✓ Perform routine activities on a regular basis. This will prevent disorganised piles of paper etc. from accumulating. You will be able to find relevant paperwork more quickly if your filing is up to date. Do this work regularly; the best time to do this is at the end of the day before you go home.
- ✓ Schedule important activities in the morning. Try to do at least some of the most important daily tasks first thing – even before sorting out e-mails and meetings... Your mental energy is usually at its best in the morning, so you can get ahead and work hard to finish important tasks early on in the day; this will give you a strong sense of achievement and motivation for more work.

B.2.3.2. Barriers in time management

Time management is basically simple but poor planning often has deeper causes;

- ✓ We postpone tasks because we're afraid to fail
- ✓ We don't know how to start on the task
- ✓ We don't dear to say 'no' even though our agenda is full

Before you can deal with these barriers, you have to recognize what the problems can be.

a) Postponing

Those aspects which have a high priority, we often tend to postpone. Why? Often these are the aspects which are new. Which we're not familiar with. We don't like to start and work on them, especially if they involve a lot of work. The result is that these tasks become bigger in scope as time passes and that resistance to start on it, grows.

Try to find out the cause of the resistance. Is it become of the risk to fail? Perfectionism?

b) Perfectionism

A perfectionist is, often, in the first place sevre for himself. He will keep on finetuning and modyfing while struggling with deadlines. Make sure you put limits. The clock or planning will help in making sure you keep to the foreseen time and move on.

c) Seeking appreciation

A compliment motivates but make sure that the urge for appreciation of others doesn't put your own priorities aside. Rather than to work on personal goals, we tend to deal with 'urgent' matters of others. This gives us immediate appreciation. People who are sensitive to appreciation can be involved in tasks of others and lose grip on their on work. In the long run, the immediate appreciation will give room to stress.

Make sure you formulate personal goals en work in a planned manner to achieve these goals.

d) Saying ‘no’

It easier to say ‘yes’ than ‘no’ because we want to be helpful. To do tasks which are not ours and promise to do things which we rather wouldn’t do. In some cases this also reveals that we don’t have our own priorities clear. If we don’t have our own tasks and priorities clear, then how can we argument to say ‘no’ to others…
Set your personal goals and communicate them to others. This way, you are transparent on what you’re busy with.

B.2.4. Operative planning

For strategic planning, the Gantt-chart is an effective method (see above). A operative planning per week can be very effective to organize your work per day and per week. Operative weekly planning is much more effective than monthly planning because we tend to organize our lives through habits during the day or the week. A week gives more room for flexibility and is better to organize than a day. Day planning can be very rigid and strict which is the reason many people stop with it after some time.

Once you’ve defined your objectives and goals (priorities), you will structure your tasks and operative planning according to them. If an activity does not contribute to your objective, you can skip it. Use the week planning not as a rigid scheme but as a work file which it the base for realizing your goals and objectives in time (*insert table priority weekschedule*).

In setting up your week planning, you can make the distinction between ‘A’ and ‘B’priorities;

- ✓ A-priorities; these are part of your core-business. Do you want to expand on your sales this year, than marketing and prospection is an A-priority. You need to finish ‘A’s’. When you do them is not so important as long as you finish them by the time you had planned. Make sure you make a realistic planning. There’s no use to set objectives and a planning which in reality is not possible to realize.
- ✓ B-priorities; can be your administration. Submitting proposals and paying invoices in time is important, but you shouldn’t deal with it every day. Plan to do this at fixed moments in the week.

B.2.5. Dealing with stress

A stressor is something that triggers a stress reaction. It can be any change inside or outside our system. In a stress situation our subjective ability to control our responses is reduced. A stress reaction manifests itself in a certain behaviour, in our physiology (system), emotions and thoughts.

The most frequent sources of stress in a workplace are:

- ✓ time pressure and deadlines
- ✓ being overworked
- ✓ trying to keep abreast of new technology, methods and processes
- ✓ working long hours

- ✓ taking work home with you
- ✓ working at the expense of social and personal life
- ✓ holding views incompatible with those of the organisation or colleagues
- ✓ inappropriately defined responsibilities, lack of power and control
- ✓ doing work that is below the level of your competencies and abilities
- ✓ frequent work trips
- ✓ taking part in meetings
- ✓ inadequately trained personnel, collaborators etc.

Everyone knows examples of stress. Stress is simply part of our life and is strongly individual. Excessive pressure for one may be quite common or even pleasant for another.

We distinguish between eustress (positive stress) and distress (negative stress). Without realising, each change is stressful for us. Some changes and certain degree of stress can have positive outcomes. The main difference between positive and negative stress is to what extent it affects us. Stress raises us, it makes us work better/harder, makes us stronger; it makes us feel better once the task is over – we have managed to achieve something, and we may feel pleasantly tired. This is eustress. With the negative stress, on the other hand, we feel tired, and sometimes this stops us from falling asleep or resting.

There are two kinds of stress: acute and chronic.

The most common reaction to acute stress is what is known as the type-A acute stress response or the "fight or flight" response. When feeling overwhelmed or caught off guard by something, we tend to fly off the handle, verbally or physically, or pretend that nothing has happened.

Chronic stress can be likened to the "straw that broke the camel's back". Chronic stress may cause a physical illness or the burn-out syndrome. The effects of stress often go almost unnoticed which is why you should learn to listen more to what your body and mind tell you.

But what should you do if you find yourself in a stressful situation which is upsetting, makes you feel tense or totally paralysed? What do you do if stress becomes unbearable and rather than stimulating hampers your performance and turns into hell? How do you control acute stress?

Some hints in case of acute stress can be;

- ✓ Do not make any big decisions when you are in acute stress except if you are really forced to perform.
- ✓ Concentrate on calming breathing - breathe in deeply, with longer expirations.
- ✓ Count to ten calmly.
- ✓ Reduce the importance of the stressful matter within yourself. Try to realise that if your life or health are not at stake, then it is not worth endangering them because of the problem.
- ✓ Get up and walk around; try to go out, in a corridor, to a toilet, somewhere where you will be on your own.

- ✓ Wash your face with cold water.
- ✓ Slowly and calmly drink a glass of cold water, concentrating on your swallowing.

Chronic stress often has deeper causes than acute stress and requires a more fundamental and long-term approach. A first step, is making a personal SWOT-analysis. Strengths and weaknesses are both internal factors. These factors are completely dependent on us; where we go, our strengths and weaknesses follow. If we decide not to deal with them, then nobody else can help us.

Nevertheless, there are many external influences which are not dependent on us. Usually we cannot influence them at all, yet they have a big impact on the results of our actions. Each of us is presented with various opportunities (good influences) throughout our working or personal lives, or conversely, we find ourselves under the pressure of various threats (bad influences).

B.2.6. People manager

B.2.6.1. How to motivate?

Of all the different resources needed to operate a business in agro food, staff are the most important because they have unlimited potential if they are properly trained, managed and motivated. However, many small business owners refuse to train their staff because they think that a more skilled worker will ask for higher pay, or they will be tempted away by a competitor. Both attitudes are short-sighted, and the correct selection of staff and investment in their development are keys to the success of a small processing business.

Before selecting staff, it is important to clarify the role and function of the staff member in the organization. This will be described in the job description. This description will help selecting the right candidate according to skills, qualifications or experience which are needed to do the job. The job description is also a reference for the staff members to (better) understand his/her role and tasks and one of the elements to motivate staff. They see how their own individual activities can help the enterprise achieve success.

Providing necessary tools, skills and working conditions and resources to enable workers to do their jobs properly is also essential. The manager can do this by setting clear targets for the amount of work and the quality standards that employees are expected to achieve, by assessing performance fairly, by giving constructive feedback and by rewarding successful employees with increased responsibilities.

When staff are supported in their work by the manager, they are more likely to be motivated and improve their productivity.

B.2.6.2. Teamwork

Teamwork and team spirit is key to success. To more participative and open the work environment, to more productive is the organization. As a manager, you need to promote cooperative spirit between staff and management and avoid the adversarial behaviour. This approach will help staff to become more committed to their long-term future with the business. Team management involves

- involving team members on changes to work and consult them regularly;
- relating pay to an employee’s performance;
- set achievable deadlines or targets for the team, and check on progress regularly
- carefully recruiting and training, as well as fair treatment;
- integrating staff management policies with other policies such as production, marketing, and sales.
- giving systemic feedback
- organize team activities apart from the production
- give credit for initiative and intelligence, and show appreciation for a job
- discuss weaknesses with individual staff members and make suggestions on how to improve.

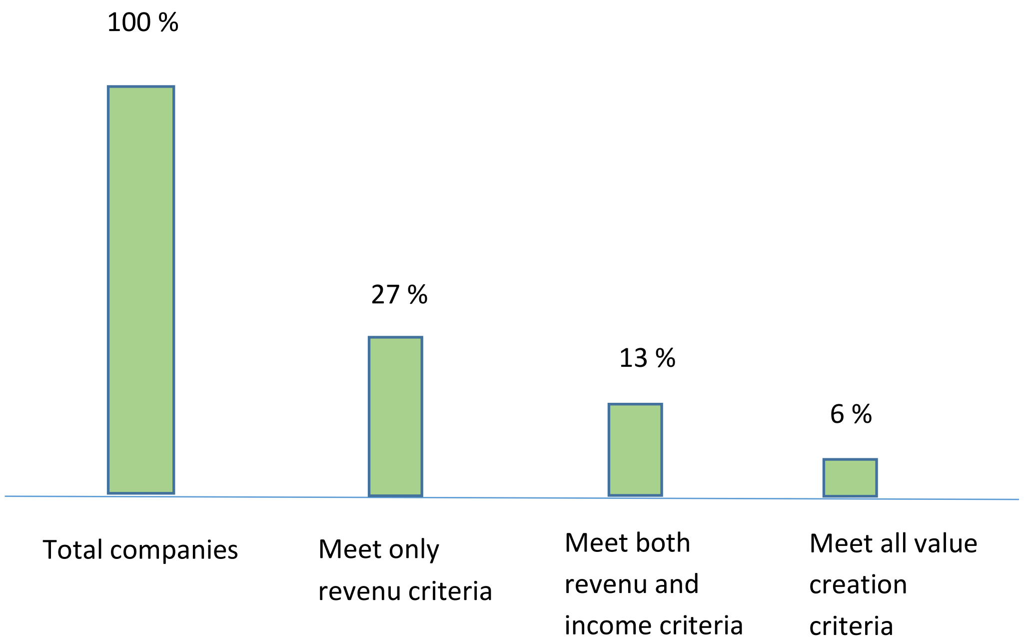
Team management aims at staff being able to operate flexible and adapt to different jobs or changing work arrangements. Experience has shown that businesses with a strong ‘team’ culture have higher productivity than those with authoritarian-style staff management.

C. Development and quality of product

C.1. DEVELOPMENT – A MATTER OF INNOVATING

C.1.1. Growth as a reason to innovate

Sustained growth is growth in both revenues and profits over an extended period of time while total shareholder returns exceed the cost of capital. Even in the best of times, nine of ten management teams fail to grow their companies profitably.



According to research, 91% of executives and managers across all industries believe that increasing their company's capacity for innovation is critical to creating future competitive advantage and earning profits. The proportion of new products and services is a key indicator of corporate success both in terms of revenue enhancement and total shareholder returns. There is a major gap between high and low performers. High performers average 61 % of turnover from new products as compared to 26% for low performers. Nearly 25% of all companies were generating 10% or less of their turnover from new products and services. High performers are characterized by the following competences;

- ✓ commercialize 3 times more new products and services than their competitors;
- ✓ insert 3 times more, new technologies in their products/processes than competitors,
- ✓ succeed to launch new products twice as fast on the market than their competitors,
- ✓ are present in twice as much of product ranges and markets

Asked to identify key business levers or tools to help their businesses capitalise on these opportunities, 25 % point to innovation.

Innovation is a simply a must to survive and grow your business in the agro-food.

C.1.2. Marketing as a reason to innovate

Philip Kottler, the American marketing authority, once stated there are three types of companies :

- ✓ companies that make things happen
- ✓ companies that realise things are happening
- ✓ companies that wonder things are happening

In the first group there are the big producers , who have over the past decades managed to achieve a solid and indisputable position in the market. They are mostly selling A-brands, which are internationally known, which stand for good quality and which can profit from an excellent acceptance by the consumer.

For small and medium sized companies, this isn't always the case. Some of them belong unfortunately still to the companies that are wondering things are happening and changing. Fortunately more and more companies follow the evolution in the market and try to catch up with the developments the bigger companies make.

They want to build an image of a company driven by marketing, much more than by production. They try to give a solution for the changes the market is going through. That evolution of the market is therefore a reason to do innovation. Over the last years the food market has gone through a big transition. And this has had important influences on sales and marketing, and hence also on product development.

We have left the PUSH-market, in which the supplier side dictated the market. It was production that decided on expanding the product range. Management had worked out rather strict rules that had to be followed in developing new products and concepts. Basis for the development was not market research. It was rather the 'technical and technological' possibilities a company had. New products or product lines were created and it was the task of sales to push these products into the assortment of their customers and consumers.

Today we have arrived in a PULL-market. The market doesn't accept any longer that producers 'push' their products and novelties into the market. The sales dimension has made a big change. Sales and marketing people have to listen to the market in order to detect what the real needs of the market are. On basis of that market information, product development is working out new items.

We shouldn't forget that in recent years the food market is challenged by quite some trends. We will deal with that later on in this chapter. Important is that some of these trends not only have consequences for the composition of the product, but also for the organisation, the equipment, the investments, etc.

C.2. TYPE OF DEVELOPMENT

Product development is a part of the innovation policy of a company. Innovation is much wider than creating new products. Innovation may also have to do with :

- ✓ **Production processes**
  Production equipment should guarantee more flexibility than before
  - Special techniques of freezing, like dry freezing
  - Packs with different flavours in one pack
  - Creating added value by adding sauces and inclusions to products
  - …

- ✓ **Packaging**
  Packaging is very much important with regard to the protection and the conservation of the product. Over the past decades packaging has gone through a big evolution.
  - In the fifties and sixties packaging had to meet with technical requirements. Its function was in first place protecting the product.
  - In the seventies stores started displaying the products more than in the past. The marketing aspect of a pack became important. Packaging became a means to seduce the customer and therefore had to be nice and appealing.
  - Later on the environmental aspect came along. The search and development of recyclable material was hot. Taxes made the packaging industry think of new materials to use.
  - In the nineties, due to increasing consumption, a lot of companies started automation projects. Speed and a better efficiency became very important. Packaging had to fulfil the needs of the technological evolution. The production and the packing process were organised in one line and were fully automated.
  - Nowadays we see that packaging has to meet with all the above requirements. And even today the evolution has not stopped. Packing industry has to innovate day by day.

- ✓ **Distribution and market approach**
  Digital development has had big consequences for business and trade. The classical distribution patterns are changing, due to mobility and customer's convenience:
  - Storage costs money. That's why stocks have be kept at a minimum.
  - JIT-deliveries.
  - Lay-out of stores

- ✓ **Technique and equipment**
  Product development can only be done if it is technically possible. That's why suppliers of equipment are constantly looking for more efficiency, flexibility, etc…

Innovation is therefore much broader than product development. In developing new products we have to make a distinction in :

- Line extensions. This means that you elaborate the product lines you have. You deepen your assortment with new flavours, new colours, etc…
- Me-too products. You make copies of existing products in the market.
- Totally new products and concepts.

The latter will be the most complicated and most challenging.

It is important to mention that innovation and product development always have to contribute to the objectives the company has put forward. If there is no gain, there is no innovation or product development. Innovation and product development always have to be a combination of creativity and efficiency.

Finally there are a couple of dangers one should take into account.

- The life cycle of a product. At a certain moment, new products and concepts will come to a standstill. It is therefore important that pay back of the development is realised when the product has come to maturity and before the decay of the product starts.
- Competitors have the same interest as yourself. By copying your product they may see an easy way to gain new market share. Registration and patents can help you to protect your development work.

C.3. MANAGING PRODUCT DEVELOPMENT

In this chapter, we will focus on the steps in product development. As explained already above, innovation has to do with new developments on a higher level. In food companies, we will mostly deal with product development. For other innovation (packaging, distribution, etc.), we will profit from the (technical) evolutions our suppliers have invested in.

It will be the company's mission and vision that will be the drive of product development. In its mission statement the company will indicate what customer needs it wants to fulfil. The vision of the company will explain more about the values that are to be respected in deploring activity in the market.

If we are a company, wanting to develop new products and concepts, it will belong to the DNA of the company that the staff follows the market, tries to have an insight in the customer needs and knows what price the customer will want to pay. The basics for product development should already been present in the company. Those basics will be in line with the mission the company stands for; the company policy, the targets, the marketing mix, the segments the company wants to reach.

If that knowhow is present in the organisation, there will be from the start onwards a clear direction for the staff involved in product development. If the company wants to be known as creative and innovative, it will no doubt have procedures in place already to drive the development activity. In that procedure, moments of evaluation will see to it that an innovation project can be stopped (quickly) if the results are not there. We shouldn't forget that not many products become certainties in the market and that developing new products and concepts cost quite some money.

A good briefing based on the company mission will also enable us to evaluate every step in the development. After every steps the company will have to decide on 'go on', 'adapt' or 'stop'.

Developing products is a dynamic process. The development phases sometimes are overlapping.

C.3.1. Generating ideas

To bring innovation and creativity to your customer, you need to have new ideas, concepts or techniques. There are many ways to generate new ideas and only a handful of ideas will be selected eventually.

The ideal situation is that you can think 'out-of-box' and have as little barriers and limitations in your thoughts as possible. However, as we mentioned already above the mission, vision and policy of the company will often define the borders within which new ideas have to be generated.

There are different ways to come across new ideas and products.

a) Market research

The most important source of innovation in companies is market knowledge and insight in the evolution of the market. Starting point is that the market is in constant motion and that customer needs are changing. Here is an important task for the sales and marketing people in the company. They have to be kept informed on new products, services or suppliers through branch magazines, branch fairs or online. Watching the market has to be done with an open mind and an open view. Often, tendencies and innovation is also inspired from examples, successes or experiences in other countries. Innovations in other sectors can all be an inspiration for new products, business models and services in your branch.

If you watch the market closely, you will be surprised how many new trends you discover. It is clear that the press influences these tendencies very much. This list of food trends is not complete at all:

- The consumer eats less meat and replaces meat by vegetables.
- Sugar has to be avoided or has to be replaced by sweeteners that are better for health
- There is a tendency to restrict salt in products
- Frying snacks in oil is more and more avoided
- The customer likes products with a story
- Some supermarkets have started selling vegetables that are not perfect in shape in order to avoid throwing away products

A company that is eager to follow the market will be in constant contact with it. The feedback coming from the market is important to have a good understanding of the customer needs and of the products that could fill possible gaps. That feedback can e.g. be obtained by organising consumer focus groups.

b) Brainstorming

Brainstorming is a method in which a team is stimulated to exchange their ideas on a certain topic. A problem or a situation is being resolved through stimulating ideas coming from the participants. They are encouraged to say whatever comes into their mind regardless of whether the ideas are feasible or not. The more ideas generated, the better chance of you getting good ideas. All ideas are visually written down. It is important to keep all the ideas in a record. You never know that one of the ideas can be worked out later on. A good example are the organic products. Companies that have been launching organic products in the nineties were not really successful at that moment. Today organic has become a real trend.

After the brainstorming, the ideas will be analysed and evaluated based on criteria such as feasibility, effectiveness, quality, etc.

c) Media

The media can be a real inspiration for new ideas. Food is present in the media everywhere. A lot of attention is given to healthy topics. Food is always one of them. Every channel has its cooking program in which the consumers learn (new things) about food.

d) Inspiring books

In many households the book shelf is full of books on food. Recipes (classical and modern versions) of dishes and food preparations. People are shown how easy it is to cook. Attention is given to products that are not so well known (forgotten vegetables e.g.). In other words, a lot of idea are to be caught for free in the market.

C.3.2 Feasibility of the ideas

Generating ideas is one thing, especially if we can think out-of-the-box. However not every idea can be realised. Therefore, before going to the next step in our development, we will have to make a selection of ideas on basis of the possibilities our company has.

For there will be limits in product development. We have already mentioned that 'the degree of innovation' determines whether an idea has a chance or not. If it is just developing an extension of our range it will be more realistic to realise than a totally new product, the company has never produced. Don't forget that the development of some products requires huge investments. That's why it is best to study the feasibility of the ideas with people of several disciplines.

'Testing' the ideas will be done by checklists the company has at its disposal, internal focus groups and screenings of the various aspects of the development.

There may be quite some obstacles in the development of new products.

- **Financial**. Does the company have the financial means to go for the new development? What about the return of investment of the development?
- **Process**. Does our staff have the skills to realise the project? Do we have the appropriate equipment? What are the consequences with regard to the environmental aspect e.g.?
- **Product**. Does the product we can make respond to the demand of the customer? Taste, colour, composition, shelf life, convenience, texture, etc.
- **Marketing**. Do we dispose of the appropriate distribution network? Do we have the means in house to communicate with the market?
- **Company**. Do we have enough knowledge of the market? What about the technical know-how? Do we have to involve third parties?
- **Ethic and legal**. Can we fulfil all product safety prescriptions? Do we respect the principles of good commerce? Does the product comply with food standards?

Based on this survey, we will be able to decide on the feasibility of the ideas that have been formulated and we will know which product we can propose.

C.3.3. Market study

After the generation of the ideas, a lot of companies start making a prototype of the product. It is however important that we first confront the market with the ideas we have selected.

In this phase of the development, we want to check the potential of the new product in the market. How feasible is it that the consumer will be interested in the product and will buy it? And above all, is that consumer intention big enough to go on with the development.

The issue here is to gather all possible information. This can be done by talking to people in the market: potential consumers, potential buyers, focus groups, interviews, test panels,…

What will be the result of this market study?

- It will give a lot of information on the target groups for our product in the market. In which segment(s) may our product be successful?
- We will have a more objective opinion. Staff starting up with a new product are very enthusiastic and they look at the development in another way than a potential buyer.
- We will gather a lot of marketing information that may be useful for future products.

On the basis of this study we will get an answer on questions like:
- Are there enough segments that show interest in the product?
- What about the competition?
- Do we already have enough knowhow?
- Will the development costs exceed our budget considering what the consumer wants?

C.3.4. Product specifications

With all the information we have gathered so far, we will start describing the product we want to develop. The specification is an accurate description of the characteristics of the product we want to develop. The information to use in the product specification is based on

- ✓ Market research
- ✓ Generation of ideas
- ✓ The feasibility
- ✓ Market study

The specification combines the expectations of the consumer with the possibilities of the company (financially and technologically).

Depending on the type of product we want to develop, specifications can be complex. They have to include e.g. :

- ✓ Production methods
- ✓ Ingredients
- ✓ Cooking process
- ✓ Packaging
- ✓ Quality aspects (assurance and control)
- ✓ Targeted group(s) in the market

C.3.5. Checking the feasibility

In this phase we want to discover is the specification is realisable technically speaking and if profit is likely.

First, the technical implications will be studied. Does the company have the correct material and equipment? Does it have the knowhow in house to realise the project or do we have to appeal to third parties. The technical analysis will of course have impact on the total cost of development.

In developing new products, the production process is of course crucial. Do we have to adapt things in our production? Do we have to change the lay out in our production? Does the new product complicate our production organisation? Do we need and train new production methods? Do we have to put in more staff? Do we have to change things in function of the quality and food safety standards? …

At the same time internal and external elements will be studied, such as

- ✓ Selection of suppliers
- ✓ Communication strategy (marketing cost)
- ✓ Time frame
- ✓ Cost QA and auditing

Here, the financial aspects of the development process will be analysed. Especially when bigger investments have to be done, it is be important to know what the break-even point is. What is the sales volume we have to realise for all development costs to be paid? Sales forecast and total cost of the development will be compared with each other to have an idea of the return of the project.

C.3.6. Prototyping

Prototyping is the iterative process of building, testing and adapting the selected idea or solution based on the defined business goals. Generally prototypes start with preliminary sketches of your solution. The simple act of drawing or designing by hand, regardless of fidelity, can be a highly effective way to initiate the prototyping process. In food prototypes will often be samples of the product we want to bring into the market. In an earlier stage, food companies will probably start with handmade samples, so that customers have a good idea of what the product will be. There can be various types of prototypes;

A. Proof of concepts; seek to answer the most important question for a new product/service: will it have the impact expected? This approach can take multiple forms (clinical research validation, efficiency studies, …) and should support the creation of quantitative data showing the innovation's impact. The process will depend on your project, leveraging the major questions that surfaced during the selection phase.
B. Form & Visual Representation; utilizes sketches, wireframes and app layouts to communicate your idea — perfect for innovators with limited technical knowledge. It enables rapid iterations toward your final platform.
   Wireframes represent a software technology as intended for display to users. They can represent a variety of interfaces, including a mobile app, website, portal or dashboard, balancing market research with your own innovative designs.
C. User Experience & Interaction prototypes; seek to understand how users will interact with your product and how they will interpret the functions. Observing how multiple stakeholders react to your innovation provides valuable feedback for your innovation, especially when that feedback is repetitive through numerous user tests.
D. Functional prototypes are robust prototypes. They allow users to try out your innovation before you sink too much time into fine-tuning features that your clients many not like or use.

As you create prototypes and iterate, be sure to define clear deadlines and a maximum number of iteration cycles — otherwise you'll get bogged down in endless design changes. Revisit your project goals frequently to prevent losing focus.

It is clear that a visual presentation will enable the consumers to form a better opinion of the novelty. It is a more objective means to check the acceptance of the product. In food the advantage is also that people can taste the product, so that they have a look and feel of the product.

Food companies should be aware of the difference between production runs on a test scale and industrial production runs. An industrial run may result in a product that may be quite different from that of a test run :

- ✓ Ingredients may behave differently
- ✓ Dosing can be different
- ✓ Length of the production process may change
- ✓ Storage condition may vary
- ✓ Packing the product may need a different approach

C.3.7. Testing

The aim of testing the product is to go deeper into the market. So far we have only approached customers with a number of ideas. Now it is time to present them the full picture. The result of the testing phase should be that we know whether the product is the correct realisation of the customer's needs.

Don't forget that the evaluation of the samples may differ from one country to the other. Taste may differ. In food you can seldom do a copy-paste, except perhaps for a number of price lines. The testing phase is also the good moment to have the sample controlled on the legislation that is typical of the market.

Create and test prototypes to help you model each potential area of failure. This will enable you to identify and solve problems and future roadblocks in advance. Let potential clients and users (family, friends,…) test-drive your prototype. Pay attention to their feedback, as well as any difficulties they encountered.

Testing can be done for aspects like design flaws (package) and ease of use, two things that are critical if your product is going to be a success. You need to make sure everything works the way it should -- and that your customers can figure out how to make it work, too.

One of the reasons for this is that time is a huge factor in product development. One producer's great idea could also be cooking in the head of a competitor the very same moment. Having the first product to hit the market has a number of benefits -- as long as it's a good product. Consumers will pay more for it, they'll develop stronger brand loyalties for it and you'll make a lot more money. This is another way rapid prototyping can be a huge boost: the time it saves in the prototyping process can really jumpstart your product development timeline.

One other thing to keep in mind about prototypes is that they can also be useful if you want to start pitching your idea to investors, upper level management and other interested parties before you have a finished product. Having an actual functioning prototype in hand can be a lot more persuasive than something on a piece of paper.

Safety testing is important as well. You want to make sure the product isn't inherently dangerous or dangerous if misused. If there is any risk associated with the product, you must determine how high the odds are and how serious the outcome would be. Can the risk be avoided or diminished? What warnings will you need to label the product with? Do the warnings and instructions need to be accessible to users of various skill levels and languages? Before your product heads for the market, it's crucial to know everything is going to go off without a hitch.

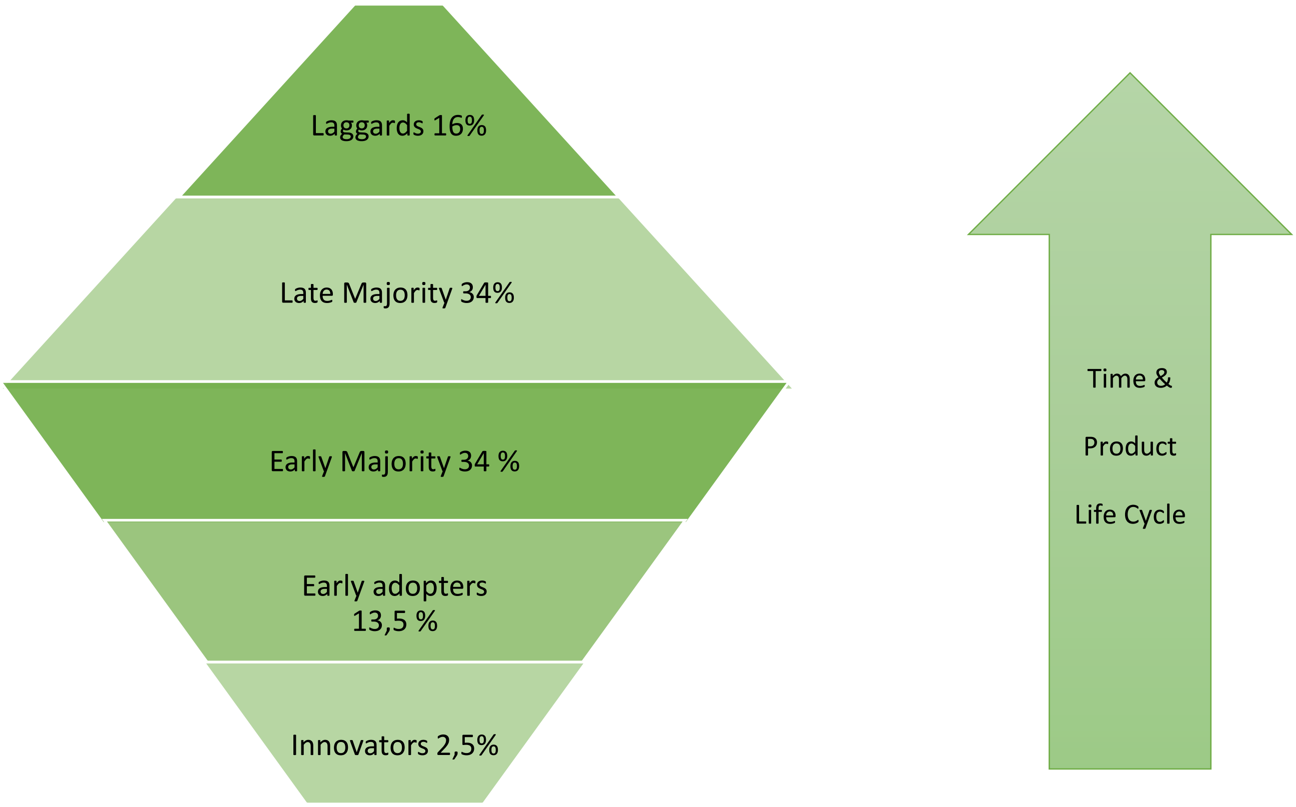
The result of the testing phase will be that the last fine-tuning can be done :

- ✓ balance in the ingredients
- ✓ packaging and design
- ✓ conservation of the product
- ✓ instructions on the use
- ✓ mouthfeel
- ✓ etc.

C.3.8. Product launch

As you tested and updated the prototype to a final product, you will launch it to the market.

Your product will first be used by the clients who are the ‘innovators’ in the market. They are the once how are open to try new products and services. These lead users are an extremely valuable cluster of customers and potential customers who can contribute to identification of future opportunities and evaluation of emerging concepts. 'Lead Users' face the needs that will be general in the market place, but face them months or years before the bulk of that marketplace encounters them.



C.3.9. Post launch evaluation

So make sure that you get feedback from these Lead Users in the first year your new product/service is on the market and modify or adapt where possible so other customers will follow the innovators in the main stream

Launching the product doesn't mean the end of the development process. Once the product is distributed it is always useful to check if everything is according to plan. Only then the acceptance will be clear. Don't forget that people buying the product mostly don't react if the product doesn't meet their expectations. They will simply not buy it any more. The post launch evaluation gives you information on possible steps to take in order to safeguard sales of the new development.

C.4. MANAGING INNOVATION

C.4.1. Change management

Creativity and innovation highly dependent on human factors. Here are the most important reasons why innovation is a difficult process;

- ✓ Most people choose security and avoid risk. Innovation means risk and risk means innovation. In general, 15% of employees are open for innovation and change.
- ✓ Some colleagues might be tired and fed up with the changes in strategy and rounds of efficiency in the business.
- ✓ When people don't get appreciation and feedback on their ideas or initiatives, or these are neglected, they will drop out. When this happens over the years, these employees will only execute their task and won't think and act to improve and develop.
- ✓ Cooperation/communication between departments and people than be difficult.
- ✓ One doesn't cooperate on new ideas/projects if there are still problems during the process.
- ✓ Quality and innovation are difficult matches. People responsible for quality have to control strictly and make sure the procedures and standards are met. Innovation requires new methods and techniques, out-of-the-box, breaking with rules and standards.

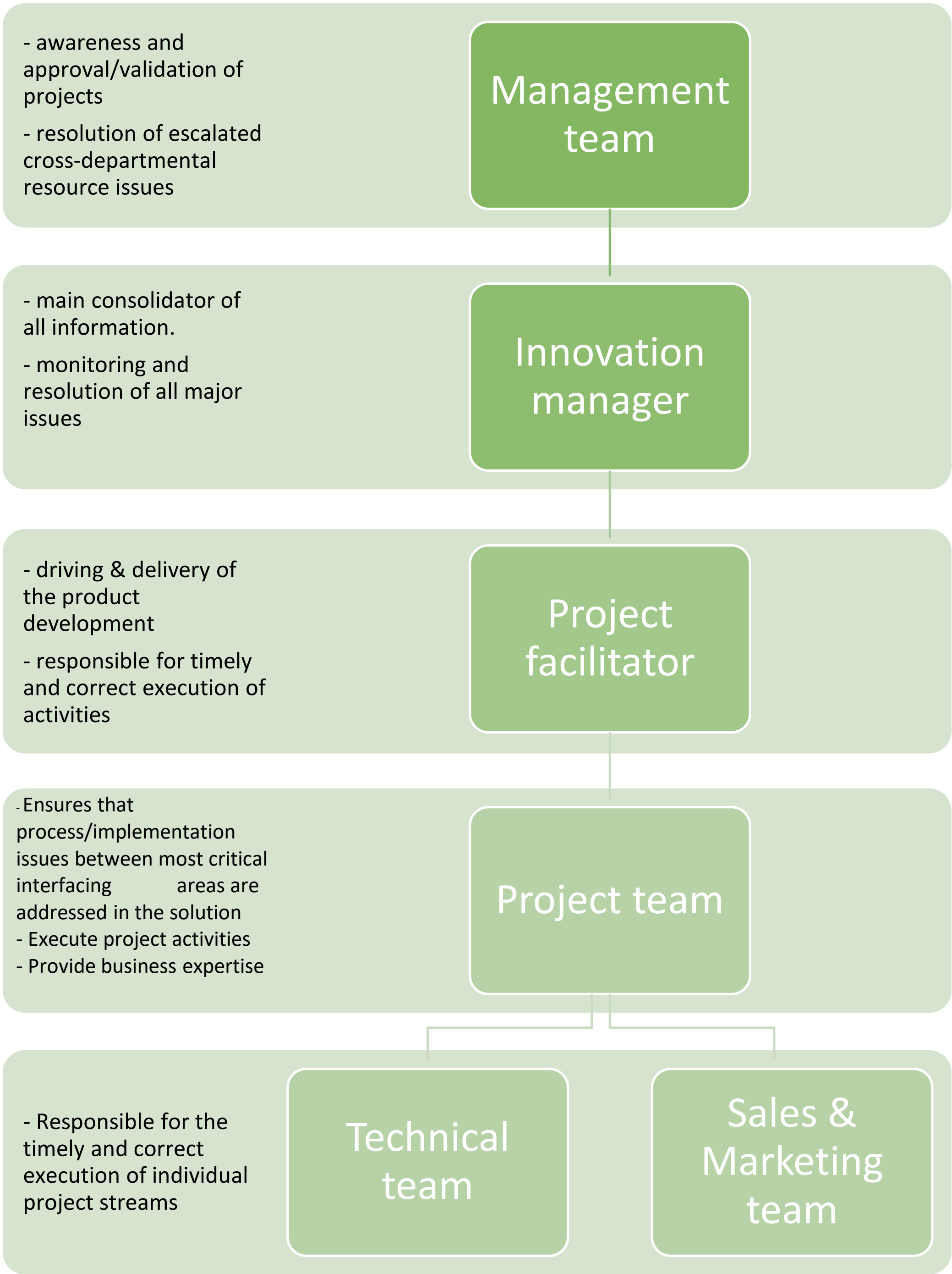
In order to implement new ideas or products, proper change management is needed. Eight steps to successful change are ;

1. Increase urgency - inspire people to move, make objectives real and relevant.
2. Build the guiding team - get the right people in place with the right emotional commitment, and the right mix of skills and levels.
3. Get the vision right - get the team to establish a simple vision and strategy, focus on emotional and creative aspects necessary to drive service and efficiency.

4. Communicate for buy-in - Involve as many people as possible, communicate the essentials, simply, and to appeal and respond to people's needs. De-clutter communications - make technology work for you rather than against.
5. Empower action - Remove obstacles, enable constructive feedback and lots of support from leaders - reward and recognise progress and achievements.
6. Create short-term wins - Set aims that are easy to achieve - in bite-size chunks. Manageable numbers of initiatives. Finish current stages before starting new ones.
7. Don't let up - Foster and encourage determination and persistence - ongoing change - encourage ongoing progress reporting - highlight achieved and future milestones.
8. Make change stick - Reinforce the value of successful change via recruitment, promotion, new change leaders. Weave change into culture.

C.4.2. Project team

Innovation requires project management which deals with the preparation, planning, communication, implementation and evaluation of the project. For the purpose of ensuring successful and rapid development and launch for new products and services, a typical ‘project organization’ has been identified with a project team. The following organigram is typical for bigger organization. For sme’s, the various roles and tasks will be spread among fewer people.



The product development team has a very important role in developing new products. From the above it will be clear that different disciplines are present in the team. It is necessary that the team reports to the management on a regular basis. Not only in the final phase of the development, but already from the beginning onwards. As there is a cost involved in product development, it is necessary that the company can judge after each phase if the project is worth to be worked out. Stopping as soon as it is clear that there will be no real result, prevents the company from spending unnecessary money.

The elements of the reporting should be :

- ✓ Which decisions have to be taken?
- ✓ What results do we need to take the appropriate decision?
- ✓ What do we have to do in order to generate outcome?
- ✓ Which technical devices do we need to realise the project?

With this information not only activities can be planned in a systematic way. Also the process of developing will be driven forward efficiently.

C.4.3. Open innovation

Rather than relying entirely on internal ideas to advance the business, an « open » approach to innovation leverages internal and external sources of ideas. Rather than restricting innovations to a single path to market, open innovation inspires companies to find the most appropriate business model to commercialize a new offering – whether that model exists within the firm or must be sought through external licensing, partnering or venturing.

Three features for the future make alliances essential:

Many of the great opportunities of the information age call for the melding of skills and resources that few individual companies now possess entirely.

The new globalisation and technology revolution is more and more built on « seamless » networks that must be standardized across vast expanses and complementary applications.

The uncertainty inherent to the information economy calls for alliances also because of combining insight and understanding to reduce uncertainties and accelerate learning

C.5. QUALITY OF THE PRODUCT

C.5.1. Quality Management

Processors and producers need to standardize the quality of their products and ensure they are safe to eat. This is because consumers expect food to be nutritious and produced hygienically, and also because there are serious penalties for those who contravene hygiene and food safety legislation. Quality Assurance (QA) is an essential component in your production. It is a system that helps companies to prevent that a product in the end has to be rejected because of insufficient and bad quality. To implement a QA system, the company should work to identify where factors exist in a process that could affect either product quality or safety before developing measures to monitor and control these risks.

For safety, a component of QA named 'Hazard Analysis and Critical Control Point' (HACCP) involves the following stages:

- ✓ identify potential risks (or 'hazards') in a process and assess the level of risk;
- ✓ design and implement procedures for monitoring and controlling hazards;
- ✓ train all staff in the procedures;
- ✓ develop appropriate monitoring and reporting procedures.

C.5.2. Quality Policy

In the processing of food we should be aware that quite some things can go wrong if we don't pay enough attention to the cleanness of the production room, the equipment, storage rooms, etc… Problems can turn up during the process of cooking and pasteurisation, the cooling, the ph level and the moisture activity. However, not only the epuipment and the ingredients are crucial in the process, also the personal hygiene of the staff can be the reason why things go wrong. Human beings carry quite some bacteria that can in one way or the other influence the quality of the product.

Training and coaching of staff is therefore a very important issue in food processing companies. Employees should be aware that food is a delicate product and has to be produced in the safest possible way. A good hand hygiene, for example, is a must. Wearing the appropriate outfit guarantees on the one hand safety for the employees, but it also prevents contamination to be spread into the production area. Employers should invest not only in good and safe equipment or buildings, but also in the training and coaching of staff.

During the development of a QA system, processors should identify sources of contamination, the effect of contamination on the process and product, and the probability of microorganisms surviving the process and growing in the product. Examples of factors that should be examined in a process are the formulation of ingredients, the types of microorganisms that may contaminate the raw materials, the acidity or moisture content of the product and any preservatives that are used. Monitoring and control procedures can then be developed to prevent contamination.

In order to be sure the QA-policy is working, a company will, on a regularly basis, carry out quality controls. QA foresees in a repetitive sequence of quality checks before, during and after the production. The frequency and intensity of those quality checks will be defined in the QA-procedure. Before production starts, quality staff can inspect the tidiness of the equipment and the belts. During production, samples of the product can be taken to weigh and measure them. On a regular basis, the check-weighing and the metal detection system will be tested. Finally, production control is being done of the pallets. There is of course a temperature monitoring system for the (cold)stores in the company. Reports are being held and archived. Swaps can be done in order to check the hygiene of the premises and the staff. There should be no cross-contamination between different ingredients. This enumeration of quality checks is of course not complete.

Below you will find an example of a checklist of quality procedures.

DAILY	✓ check raw materials; ✓ check processing conditions; ✓ check packaging materials, fill weights and quality of seals; ✓ clean processing equipment and factory floors; ✓ clean toilets and washrooms
WEEKLY	✓ check equipment for loose or worn parts ; ✓ clean storerooms and other non-production areas; ✓ check and clean drains; ✓ send protective clothes to laundry ; ✓ check stocks for signs of damage.
MONTHLY	✓ clean windows; ✓ check machinery for service requirements; ✓ do full stock check of ingredients and packaging materials; ✓ check measuring equipment to ensure it is accurate.
YEARLY	review QA procedures, staff training and recording systems to ensure that they remain appropriate to the needs of the business

C.5.3. Quality Assurance Plan

The phases in which something can go wrong with the quality of the product have to be detected before setting up a quality assurance system. They are called critical control points (CCP). There are three different types of CCP's:

- Physical risk: wrong cooking procedure, wrong composition of the product, foreign body, etc..
- Chemical risk: presence of pesticides, gmo, etc…
- Biological risk : presence of bacteria

The QA-policy of a company avoids these types of problems by detecting pro-actively what can go wrong and by taking preliminary measures to prevent these problems.

The parts of a process that affect product safety and their controls are, as we have explained above, known as ‘Critical Control Points’ (CCPs). The processor sets a target for each control point and also the limits (or tolerances) that will be allowed. An essential part of a QA scheme is checking that targets are achieved. It is also necessary for a processor to decide:

- ✓ who is responsible for checking that CCP targets are being met;
- ✓ who ensures that they are doing it properly;
- ✓ how are the results of checks recorded;
- ✓ what to do if CCPs are not within tolerances?

It is important for results to be recorded so that the processor can be sure that the product is of good quality when it is sold (e.g. in the event of a customer complaint).
Other components of a QA plan include:

- ✓ cleaning schedules for buildings and equipment to prevent contamination;
- ✓ cleaning procedures to remove wastes from processing rooms as they arise;
- ✓ planned maintenance of equipment to prevent parts falling off into foods;
- ✓ training operators in correct personal hygiene and food handling techniques.

Proper cleaning of equipment, floors, tables etc. is essential to all food processing and this can be monitored and controlled using cleaning schedules as part of a QA plan.

The schedule records:

- ✓ which cleaning jobs are allocated to each worker;
- ✓ the time required;
- ✓ the cleaning materials involved in doing each job;
- ✓ the expected standard of cleanliness to be achieved.

The company should initial the schedule report when a cleaning job is finished and checked and it should then be countersigned by a supervisor, manager or business owner.

Food legislation is becoming even stricter than it used to be. Legislation on allergens is common sense today for everyone producing and selling food and beverages. This is also reflected in the trends we see in the market. Companies selling their products on other continents should be vigilant that their products should be in accordance to the national legislation. In same countries (the USA e.g.) there is the FDA (Food and Drug Administration) that keeps a close eye on the market.

C.5.4. Tailored approach

Apart from the internal QA and HACCP system, customers can impose their own requirements to producers and distributors of food. Some supermarkets still carry out audits themselves, even audits that have not been announced before. These audits sometimes come on top of the audits by external organisations, like BRC and IFS. These have become a must for all companies that are involved in the production and distribution of food and food ingredients. IFS is the standard that is widely spread and accepted on the continent. BRC is the standard that is preferred by the Anglo-Saxon food industry.

In this survey we cannot give you a ready-made QA-procedure for the food and beverage business. Every product is different, very production site has its own characteristics, every products requires a different treatment. There is a difference between industrial and artisanal production. It is up to every company to work out its own system and implement it.

D. Finance

Is your business profitable? Many entrepreneurs are not able to answer this simple but fundamental question. Sure the accountant can give advice, but he doesn't know the market, the suppliers, the target group, … Nor will he brand the business, negotiate with suppliers, … Basic financial knowledge makes the difference between failing or growing.

In this unit, we explain the basic principles of financial management of an sme in order to get insight in the profitability of the business.

D.1. OPERATIONAL COSTS

To know whether the business is profitable, one has to calculate the production or operational costs. Unfortunately, too many entrepreneurs in agro-food dependent on the bookkeeper for this. However, understanding the different costs in business is paramount to understand the business itself. It shows which products are (most) profitable and how increase of these could benefit the business. For a business to operate successfully, it must be profitable over the long term. This means that the income must be greater than the total expenditure.
Costs are not the same as investments. Costs are all the money your business spends to make and sell your goods or services. Investments are assets that are bought once for a longer time of use. There are two types of costs: fixed or indirect costs and variable or direct costs. We explain in this chapters the difference and importance of these costs.

D.1.1. Fixed costs

Fixed costs are constant, regardless of the production volumes or sales. The monthly rent for a food shop or barn will be fixed and is not related to how much is sold. Even if sales are nil, rent will have to be paid, as well as the electricity or heating. Fixed costs are also known as indirect costs.

Fixed Costs can change sometimes. For example your rent may increase. But reasons for the change are not related to the production or sales volume.

A business needs make an account of all of its fixed costs per year. These costs can include:

- Housing; rent, maintenance, cleaning, heating, water, garbage collection, ….
- Administration; mail, internet connection, papers, post, bookkeeping, …
- Marketing costs; promotion, branding, sponsoring, …
- Machinery and equipment; repair and maintenance, rent, permits, ...
- Staff costs; wages, social benefit charges, training
- Transportation; insurance, tax, fuel, …
- Financial costs; bank charges

Depreciation is a type of fixed cost. The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. Machinery, equipment and vehicles are some examples of assets that are likely to depreciate over a specific period of time. Opposite of depreciation is appreciation which is increase in the value of an asset over a period of time.

Accounting estimates the decrease in value using the information regarding the useful life of the asset. This is useful for estimation of property value for taxation purposes like property tax etc.

Example:
You buy a new ploughing machine. The machine costs € 50.000 and you will use it for at least 10 years. You will be able to declare the costs of the decreasing value of the machine as a really fixed costs for 10 years for the amount of € 5.000 (50.000/10).

D.1.2. Variable costs

Variable or direct costs fluctuate proportionally with the production volume or revenue. Raw materials, packaging and wages of production workers are all variable costs. When a business has sold twice as much as planned, the purchasing goods or commodities will also be twice as much.

The buying price of a product, the essential raw materials and supporting materials are always categorized as variable costs. Purchase goods are typically for the consumer goods (clothes, shoes, mobile phones, cars, bikes, …). In agro-food business these can be ingredients for processed foods. Other variable costs include;
- energy use
- transport costs
- temporary personnel
- packaging costs

The variable costs are calculated as a percentage of your revenue. The amount of variable costs vary according to the revenue, but the percentage will always stay the same.

Example:
For a producer of plants and hedges, the producer pays € 12.000 to its supplier for the seeds and young plants and sells the fully grows plants and hedges three years later to the wholesaler for € 45.000. The variable cost of seeds and young plants here is 26% (12.0000/45.000 = 0,26).

MIND!
The lower the percentage of variable cost, the higher the amount you can pay for the fixed costs and make profit.

D.1.3. Price setting

The market price will not only be set based on the operational costs for the product. The price depends largely on what clients will accept to pay for and the price that competitors are charging. A judgement must therefore be made about how much a product can be sold for in a particular market and whether the costs of making it will produce an acceptable profit. A company should have a policy on how the prices of its products compare with those of its competitors. It may simply follow what competitors do, cutting or raising prices when they do (competitive pricing).

Alternatively, it may have a low-pricing policy to increase its market share, or a high-pricing policy to create a perception that its product is of better quality or is more prestigious than competing products.

It is important to know what customers are willing to pay. Customers do not buy a product simply because it is cheap. Some customers believe that a low price is evidence of low quality. They buy a product because of a specific want, and they may prefer to pay a higher price for an identical product if they perceive that the quality is higher.

On occasions, a company may price a product below production cost to reduce stocks or to gain a greater share of the market. In some countries the price for basic foods such as cooking oil or bread is controlled by legislation, and under these conditions processors must carefully manage production costs to ensure a profitable operation.

D.2. CONTRIBUTION MARGIN

The contribution margin is the amount of money that remains after deducting the variable costs of your revenue. It is the sum that is left to pay your fixed costs and eventually make profit.
To calculate the contribution margin, the following formula is used:

Contribution margin = 100% - percentage of variable cost

Example of the dairy shop :

For the yoghurt (50%) and the cheese (45%), the average contribution margin is 52,5 % [100% - (50% + 45%/2)].

→ For an entrepreneur it is logical that all costs of the production are covered when selling a product. During difficult economic times or when specific problems occur, an entrepreneur can be satisfied with selling at a price that equals the variable cost of the product. This is only possible for a short period of time.
Fixed costs on the other hand are much harder to influence. In agro-food sector, small producers have little margin to increase the sales prices for little added value products towards distributors (e.g. milk). Therefore diversification is key in agro-food to spread risk and develop new segments with higher contributions.

D.3. BREAK-EVEN

Break-even is that production level where revenues are equal to the costs. A business running break-even, has just ample revenue to pay all costs (fixed and variable) but makes no profit. It is the critical point where the total gain equals the total costs, and there is no profit. The level of production should always be above this level to ensure that the business is profitable.

For a starting entrepreneur it is very important to estimate the revenue as accurate as possible and to sell at least at break-even point. Businesses which don't succeed in realizing break-even, make loss.
To calculate the break-even point, one needs to calculate the contribution margin and the fixed costs.

$$\text{BREAK EVEN} = \frac{\text{FIXED COSTS}}{\text{CONTRIBUTION MAGIN}}$$

Example of the diary shop:

After calculation of all the fixed costs (rent, electricity,…), it turns out that these are € 24.000 per year. If the dairy shop would only sell yoghurt and cheese, the minimum of revenue the shop would need to get all costs covered, is:
€24.000 /52,5% (or 0.525) = € 45.714,28

From revenue above €45.714,28, the diary shop makes profit.

D.4. PROFIT/LOSS

D.4.1. Variation of inventory

Variation of inventory is the change between the last period's ending inventory and the current period's ending inventory.

Increase of inventory

If the current inventory is higher than the last one, it means that not all purchase goods have been sold in the last period. Part of the goods have been kept in stock. The difference between last and current inventory is the increase. This has to be added to the turnover.

If last period's ending inventory was € 50.000 and the current period's ending inventory is € 65.000, the inventory change is an increase of € 15.000. The cost has to be added to turnover.

Decrease of inventory

It is possible that apart from new purchased goods, goods from the inventory/stock have been sold in the last period. The decrease of stock is reduced from turnover.

If last period's ending inventory was € 50.000 and the current period's ending inventory is € 35.000, the inventory has decreased to with € 15.000. The difference has to be reduced from turnover.

D.4.2. Profit/loss account

The profit-loss account gives an general insight in how the company makes profit or loss. In six steps, you calculate the net profit/loss, i.e. profit after taxes.

TURNOVER (total products/services sold)
- VARIATION IN INVENTORY - OTHER OPERATING CHARGES (goods that will not be sold to the consumer such as office equipment, water,… and all paid services which are seen as general costs such as hire, telecom, electricity, maintenance, insurance, promotion, transport,…) - COSTS OF MATERIALS & CONSUMABLES (goods that will be sold or the raw materials and commodities which are processed in the consumer product/service)
ADDED VALUE
- STAFF COSTS (total of gross wages of employees)
GROSS OPERATING PROFIT
- DEPRECIATIONS
NET OPERATING PROFIT
+ FINANCIAL INCOME (received interests on assets) - FINANCIAL CHARGES (interests paid)
PROFIT/LOSS on ordinary activities (tax base)
+/- EXTRODINARY INCOME/CHARGES - TAXES ON PROFITS
NET PROFIT/LOSS AFTER TAXES

D.5. WORKING CAPITAL

Working capital is the money you need to pay for the expenses generated when your business starts production. Some businesses will need enough working capital to cover all costs for a few months or even a year or more. You must estimate how long it will take before your business will receive sufficient revenues to cover your on-going expenses. Plan to keep a bit more working capital than you think you need.

Many profitable business in agro-food fail because they are not able to pay the bills. Working capital (or 'net current assets') includes:

- ✓ stocks of raw materials, part-processed foods and finished products awaiting sale;
- ✓ amounts owed to the business by customers for sales made on credit;
- ✓ cash in the bank.

The working capital needs to cover the following:

- ✓ promotional activities
- ✓ salaries
- ✓ rent
- ✓ insurance
- ✓ loan or lease payments
- ✓ payment of orders (raw materials, ingredients,…)
- ✓ other costs

Strategies to improve working capital can be:

- ✓ increase credit lines with suppliers i.e. amounts owed by the business to suppliers of raw materials and services;
- ✓ set budgets and monitor actual expenditure against them;
- ✓ control stock levels and minimize the amounts of materials held as stock;
- ✓ check the credit worthiness of customers and improve credit control methods (e.g. follow up debtors regularly to shorten payment times and restrict the amount of credit that is offered to customers);

D.6. CASH FLOW

Turnover is important, but being paid is even more important. Cash flow relates to the cash flows in your business and indicates how much cash come into the business and how much goes out.

A company can realize big sales but still go bankrupt because of shortage of cash flow. Profits of a book year can include sales which haven’t been paid yet. Cash flow indicates the level to which a company is able to pay expenses and debts. Investors (e.g. banks) will keep a close eye on the cash flow to see whether a company is able to pay back interests.

CASH FLOW = Profit/loss – taxes on profits + depreciations

This cash flow should be at least able to pay back your interests of debt within one year.

D.7. BALANCE SHEET

The balance sheet shows the financial position of the business at a particular time. It gives an overview of all assets and liabilities and debts of a company, including own capital. The assets are all what the company owns. Everything what the company owns, has so be paid. So the total of all assets and the total of all liabilities have to be equal or in balance (hence 'balance sheet').

D.7.1. Assets

The assets on the balance sheets indicate for what the liabilities are used:

- Fixed assets: these stay in the company to guarantee its activities. They comprise
    - Intangible fixed assets (eg. licences, ,…)
    - Tangible fixed assets (e.g. buildings, machines, materials,…)
    - Financial assets (warranties, shares in company,..)
- Current assets: the assets that are not permanent in the company;
    - Inventory
    - Debtors/clients that will pay within one year
    - Debtors/clients that will pay after one year
    - Cash at the bank or in hand
    - Others current assets

D.7.2. Liabilities

The liabilities show how the assets are financed. It can originate from:

- The entrepreneur(s): this capital is known as subscribed capital
- Reserves from previous profits which hasn't been paid to shareholders
- Profits or loss which is not paid to shareholders (yet)
- Other parties can provide financing. This financing is limited in time and has to paid back, such as
    - Long or short term non-bank debt (e.g. suppliers provide goods which have to be paid later)
    - Long or short term bank debt

D.7.3. Balance sheet scheme

ASSETS
1. Subscribed capital unpaid
2. Fixed assets
2.1. Intangible fixed assets
2.2. Tangible fixed assets
2.3. Financial assets
3. Current assets
3.1. Inventory
3.2.1. Debtors due within one year
3.2.2. Debtors due after one year
3.3. Cash at bank and in hand
3.4. Other current assets
Total assets
LIABILITIES
4. Capital and reserves
4.1. Subscribed capital
4.2. Reserves
4.3. Profit and loss brought forward
4.4 Profit and loss brought forward for the financial year
5. Creditors
5.1.1 Long term non-bank debt
5.1.2. Long term bank debt
5.2.1. Short term non-bank debt
5.2.2. Short term bank debt
Total liabilities

TOTAL ASSETS = TOTAL LIABILITIES

E. Internationalisation

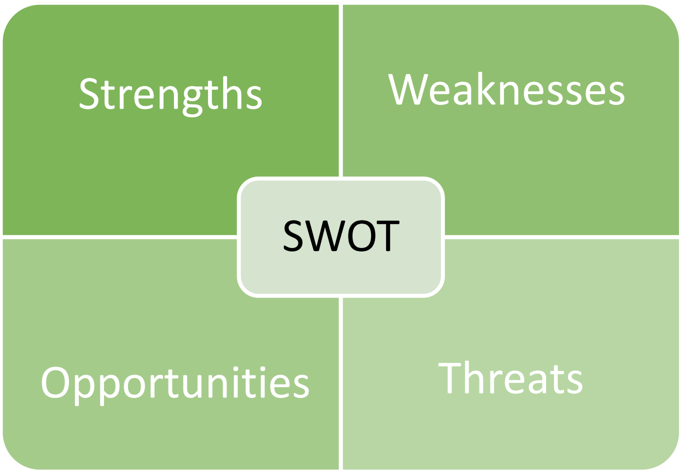
E.1. PREPARE

A good preparation is vital before going international. Is your company ready for foreign trade? Is there enough capital? Are you prepared to invest ample time to analyse your future export market?

E.1.1. Analysis

A SWOT analysis will give you the opportunity to check to what extent your company is ready for export. The Strenghts and Weaknesses refer to your own internal strengths and weaknesses. The Opportunities and Threats, on the other hand, are the external factors that (can) influence your business. This SWOT analysis allows you to determine your strategic position on the foreign market. You can make a SWOT on the following area's:

• Product and service;
• Market and competition;
• Human potential;
• Machine park and accommodation;
• Financial situation;
• Management and Organisation.



By analysing the export market beforehand, you get an overview of the possibilities and the possible bottlenecks. A lot of information can be found on the internet, on European databases or on the sites of domestic and foreign trade agencies.

E.1.2. Barriers

Some markets are inaccessible to foreign products due to high import taxes or quantitative restrictions (= import restrictions). Countries sometimes impose these kinds of restrictions to protect their own economy. The WTO (World Trade Organization) tries to minimize these tariff and non-tariff barriers. Trade with countries which are member of the WTO is, in general, easier. It might be useful to check whether your foreign market is on the WTO list. Mind that trade among EU countries doesn't imply import taxes or quantitative restrictions.

Whether there are import duties applicable for your product for a specific country can be found on the European database Taxation and Custom (http://ec.europa.eu/taxation_customs), based on your customs tariff code (TARIC). The TARIC or customs code is the basis for any correct information on all aspects of customs regulations and import rates.

In addition to tariff obstacles, there may be legal barriers too. You have to find out what regulations your foreign market applies to your product. How can you meet the packaging and labelling regulations? Does your product need testing? Take in account the potential cost of having your product analysed and tested. The European Market Access Database (http://madb.europa.eu) gives an easy and detailed insight in any regulations for a product to a foreign market.

Unfamiliar business environment and practices as well as cultural and language differences can be other obstacles, especially in trading outside Europe. However, also in the EU there can be big differences, even between neighbouring countries.

Apart from these external obstacles, the SWOT-analysis might have detected internal barriers, such as;

- inadequate quantity of and/or untrained personnel for internationalisation
- shortage of working capital to finance exports
- limited information to locate/analyse markets
- lack of managerial time to deal with internationalisation
- inability to contact potential overseas customers
- ability to develop/adjust products for foreign markets

E.2. Export Strategy

Going for international trade is a fundamental decision with high impact and requires continuous effort, time and structured approach and endurance as return takes much more time. To go international, is a choice not to take overnight.

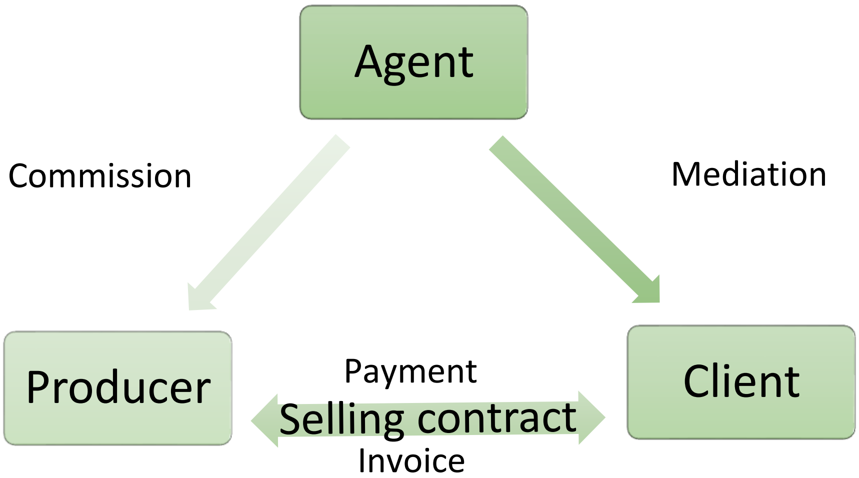
There are several ways to approach an export market, with a bigger of smaller involvement of the exporter, directly or indirectly.

How your products/services will be sold in the foreign markets, is one of the most important aspects to deal with. You can either sell your product directly on the market through staff, or sell your product/service indirect via a partner (sales agent, concessioner or commissioner).

Indirect trade	
Advantages	**Disadvantages**
small financial risk	dependent on your partner
limited investment/fixed costs	sharing of profits
partner knows the market	limited flexibility
easier access to the clients	limited product knowledge
complementary	no direct contact with the clients

E.2.1 Sales agent

Working with a sales or commercial agent is a widely used way to access a new market. The commercial agent lives on the spot and knows the local needs and customs. He is therefore the ideal person to create new customers. The commercial agent works on an independent basis. He gets usually a fixed fee, linked to a commission for new customers. European commercial agents enjoy certain legal protection (e.g. in case of resignation) based on the European Directive (86/653 / EEC), supplemented by provisions from the national law of the Member States.



A commercial agent is a person (possibly a company) who sells the goods for the account of the principal (= exporter). Liability and any risk is at the principal. The invoice to the end customer will be sent by the principal, the agent in return bills the principal for his services. The main characteristics of commercial agency are:

- ✓ independence of the agent;
- ✓ durable character;
- ✓ agent's mediation role;
- ✓ fee (commission or commission);
- ✓ works in name, at the expense and risk of the principal;
- ✓ contract can be written orally or in writing

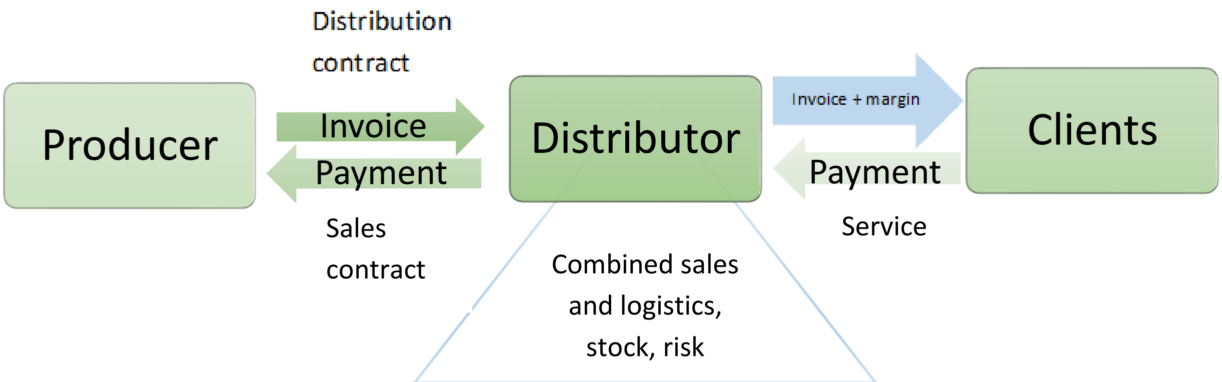
A good contract protects the interests of both parties. In the absence of a contract, the agent will benefit for maximum protection of the European directive in case of conflict of ending of the agreement. A good agency contract contains at least the following parts:

- ✓ details of both parties and who is liable to VAT (the agent or the principal);
- ✓ content and extent of the assignment of the agent (geographical area, nature of the services and description, general sales conditions of the company, existing customer base in the region where the agent will be active, concession of sole sales and the possibility of ending,…)
- ✓ contract period;
- ✓ options, terms and consequences for early ending;
- ✓ base on which the agent's commission is calculated (e.g. percentage of the price of the goods or services sold, fixed salary or combination with additional bonus from a particular revenue realized by the company thanks to the agent's activities ...);
- ✓ reimbursement of expenses incurred by the agent for the company (fleet);
- ✓ clear description of the duties of both parties;
- ✓ minimum turnover to be realized by agent;
- ✓ obligation of the agent to the exporter to inform on local circumstances;
- ✓ procedure for appointing any sub agents;
- ✓ description of the agent's abilities/powers;
- ✓ conditions on which the exporter has the right to refuse an order made by the agent,
- ✓ determination of the agent's confidentiality;
- ✓ restrictions on the use of trade names, features, logos, ... from the principal by the agent;
- ✓ rules on communication through the internet by the agent;
- ✓ formalities to be met upon termination of the agreement;
- ✓ procedures of non-compliance with the agreement by one of the parties;
- ✓ court competent for any disputes;

- ✓ possibility of adaptation or addition of the contract.

E.2.2. Distributor

A distributor buys the goods of the exporter and sells them in his own name and for his own account. He is fully responsible for selling the goods/stock and carries the risk. Opposed to the agent, there will be two invoices: one of the exporter to the distributor and one of the distributor to the client. Unlike the commercial agency contract, the distributors contract is only subject to the international commercial law and not to the European directive. Both parties have higher freedom of agreement which means more possibilities toexpand or limit rights, duties and risk of both parties.

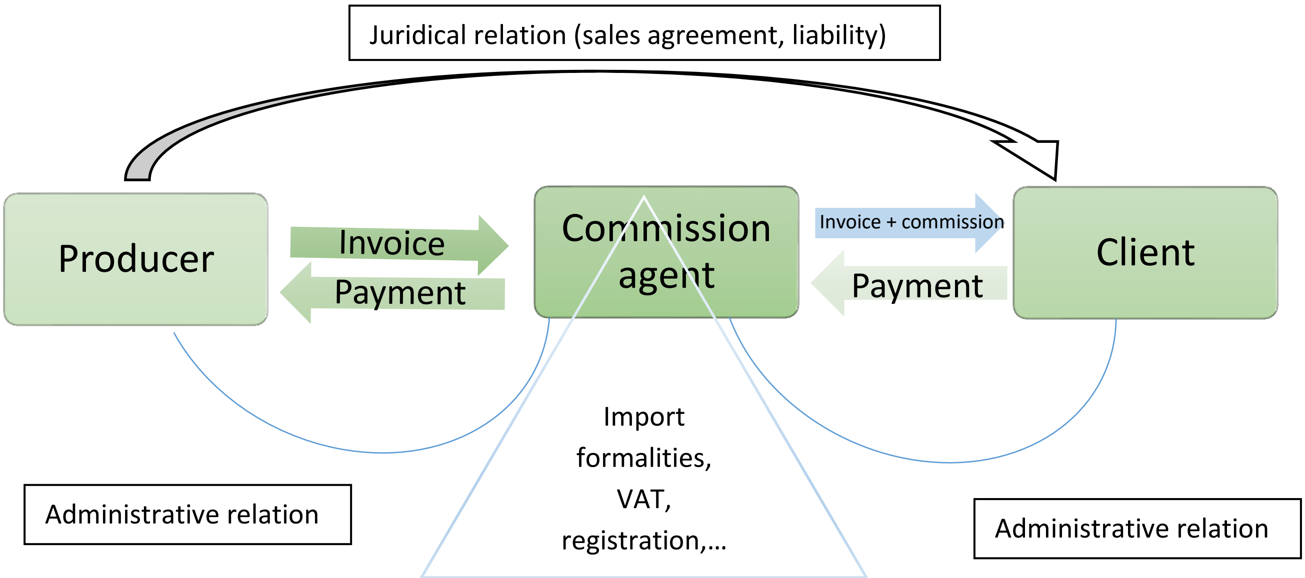


It is recommended to take specialist advice on drawing up the contract. The following items must be mentioned in the distribution contract:

- ✓ signing parties;
- ✓ object of the contract (products, contract area ...);
- ✓ exclusiveness (under which conditions?);
- ✓ obligations of both parties related to minimum turnover, mutual information requirements, confidentiality;
- ✓ terms related to delivery, payment, pricing;
- ✓ warranties and exceptions;
- ✓ patents/industrial and intellectual property;
- ✓ competitve provisions (specifically related to competing/complementary products);
- ✓ what about promotion via internet, mailing;
- ✓ duration of the agreement;
- ✓ termination of the contract;
- ✓ applicable law/competent court

Note! A producer can work with a commission agent to get the product/service to the client. The commission agent can vary according to the location. It is the producer who does the promotion and mediation and is responsible for the customer service.

A commissioner works as follows;



E.2.3. Rep office

If the producer/exporter expects high sales and wants full control over a market, he will have to set up a representative office (rep office) in the export market. This office will be permanent and manned with staff of the exporter. The exporter will be fully responsible for business development (promotion, representation,…) as well as the customer service (delivery, logistics, guarantee,…). The commercial risk is high, with full control of the market (client base, service,…). A rep office is often a result of earlier indirect representation in a grow market. The commercial representative(s) act(s) as an employee(s) of the exporter. He is under the authority of the employer and enjoys all the rights of the workers' statute. Within the European Union, the EURES Network (https://ec.europa.eu/eures) is the point of contact for questions about intra-comminatory occupational mobility.

E.2.4. Comparative summary of direct and indirect trade

	Agent	Distributor	Rep office
Advantages	Quick access to clients (specialist, complementary agents)	One single debtor Grouped deliveries	Direct control of operations

	Variable costs (commission based on sells) Direct contact with clients Control over price and production	Stock	Ownership of client database Profit in distribution is for producer/exporter
Disadvantages	Commercial risk/debtors Formalities of customs and transportation Independent operation (agent often represents other companies) Liability	No control over promotion and sales market Higher profit for distributor No contact/knowledge of final client	Fixed costs Labour regulations Commercial risk/debtors Formalities of customs and transportation

E.3. RISK MANAGEMENT

Export always brings additional risk. This will differ according to the country, the distance, the nature of the transaction, the familiarity with the country and the partner,.... As an exporter, you should estimate the possible risks in advance and try to set up solutions in advance.

E.3.1. Political risk

Political risks can affect trade for certain countries, especially outside EU. A political risk is a risk which occurs beyond the will of the parties and makes the implementation of the agreement impossible, such as war, terrorism, currency issues (prohibition by government to carry out payments, ...). Cash payment is the best payment method for the seller to protect against a political risk. In many cases, however, this is not commercially feasible. Credit insurance companies insure and reinsure the political and commercial risks in commercial transactions.

E.3.2. Commercial risk

The commercial risk is the risk if one of the parties doesn't comply to its contractual obligations or withdraws without legitimate reason. If you work with a new trading partner for the first time, it can be wise to choose a safe payment method. As you do business with a partner over time, you can built up mutual confidence and switch to more simple and thus cheaper forms of payment.

To get more certainty about the solvency of a (potential) customer, you can request a credit report at a specialized company. In most case, you will have to get a contract on a yearly basis with these companies.

E.3.3. Transport risk

Every transport involves a risk. The nature and the extent of the risk depend on the type of transport. We can add the time risk which is the amount of time it takes between departure and arrival of the goods. Especially in the agro-food sector, this a risk to consider since you work with perishable goods. The use of Incoterms here is of a particular importance to define the responsibilities of both parties. Part of the transport risk is carried out by the carrier. There are specific international documents to determine the responsibility of the carrier such as CMR (Convention Internationale de Transport de Marchandises par Rout) and the TIR-document which enables cross-border road transport outside EU. Mostly the 'price' of risk is calculated by a fix franchise on weight. In addition, depending on the value of the goods, it might be necessary to take an additional transport insurance. Make sure you have a full cover on the transport and make a distinction between the liability and goods insurance. Do not forget to pay attention to packaging, labeling and packing lists.

E.3.4. Exchange risk

The exchange rate risk for the exporter is the risk of a decline of the foreign currency in which the counterparty pays against the euro. A first way to cover this risk is a transaction in euro. If this is not possible, you can deal with the exchange rate risk by entering a term contract with the bank. The exporter who has covered the exchange rate risk via a term contract, has the risk that the foreign currency increases against the euro. Your bank can inform you about the options against exchange rate risks.

E.3.5. Legal risk

The legal risk can be covered in the sales contract (see above under E.1.2. Barriers). It is always advisable to have your contracts checked by a specialized lawyer. Important elements in a contract are

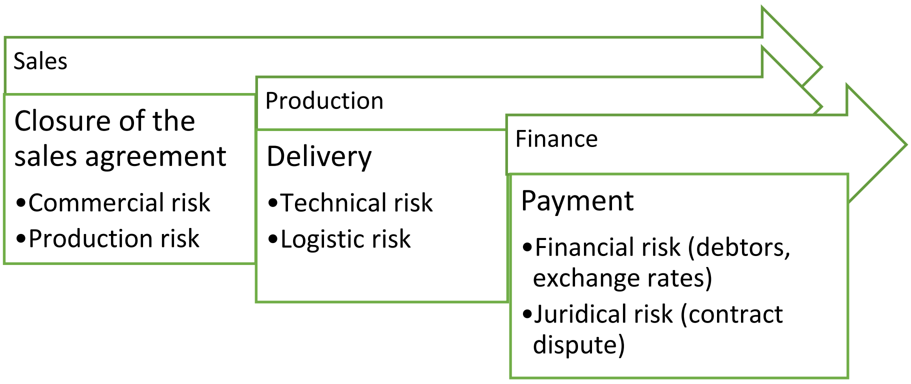
- ✓ who are the contract parties and what are their respective rights and obligations;
- ✓ description of performance with delivery, billing and payment information (cf. incoterms);

- ✓ by which court and according to which (national) law will the disputes be settled.

A good contract implies a precise and clear determination of the arrangements between the parties as to avoid misunderstandings, frictions or legal procedures.

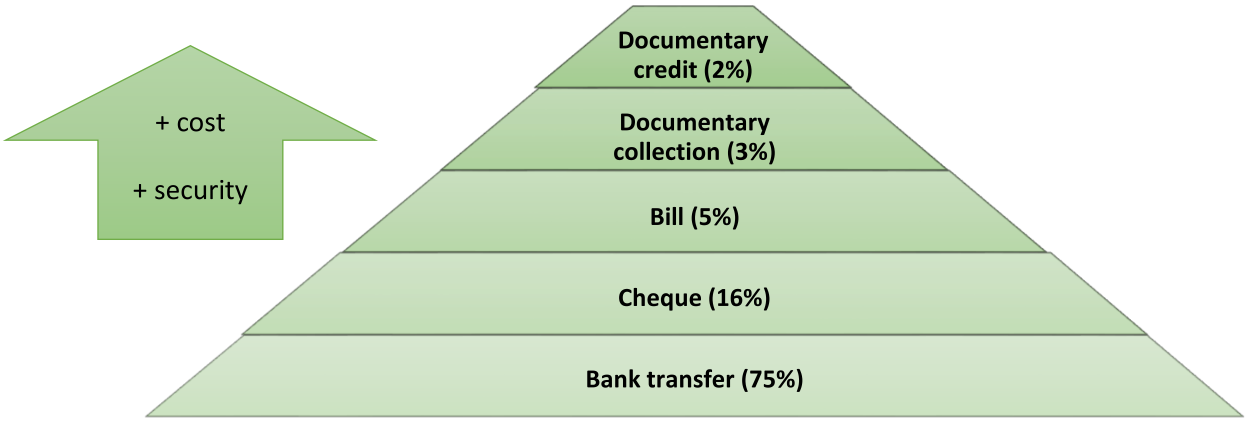
E.3.6. Financial risks

The crucial part of a successful export transaction is the correct and timely payment. Once the goods have been delivered, the exporter comes to the risk that the goods will not be paid. That's why it's important to secure the payment as good as possible and to make sure you get the money on your account. There are various payments and/or financing techniques, adapted to the nature of the transaction (new or known customer), to the goods and the risks inherent in exporting.



There are several payment methods for international sales agreements. When there is a high trust/confidence between the parties, bank transfer and cheque will be used. These are known als 'clean payments.' There are no specific documents required for the invoice. This is majority of the transactions between European companies.

For trade deals outside Europe, bills and documentary collection and credits are most used. These are the 'documentory payments'. Here the buyer needs documents to accept the goods and/or the exports needs proof of delivery of the goods.



Payment terms are becoming an competitive factor for foreign trade. If you as an exporter want to maintain or increase your market, you will have to add payment methods in your proposal.

Type of risk	What?	Solution
Commercial risk	Market prices increase (e.g. ingredients, raw materials, wages,…)	Clauses in contract
Production risk	Risk that the contract is broken before the goods are delivered and paid for.	Prepayment Letter of Credit (L/C) Bank guarantee Standby Letter of Credit (SBLC)
Logistic risk	Risk of damage or loss during storage, transport or clearance of goods.	Transport insurance
Financial risk	Risk of non-payment due to refusal of goods, insolvency client, disputes,…	Credit insurance Prepayment L/C SBLC

In an international sales agreement, the buyer and the exporter/principal, have conflicting interests. The buyer wants;

- ✓ guarantee of delivery of the goods
- ✓ receiving proper goods
- ✓ delivery within terms
- ✓ payment as late as possible

The exporter/principal wants;

- ✓ guarantee of purchase before production
- ✓ financing of production
- ✓ payment as soon as possible

E.4. PAYMENT METHODS

In order to find a mutual agreement and deal with potential risks, there are various payment methods ranging from limited (transfer, cheque) to high (documentary credit) payment guarantee. Here we give an overview of the most important techniques;

E.4.1. Transfer

For a bank transfer, you fully rely on the initiative of the counterparty to receive payment within a certain period. This is therefore the least secure form of payment (except you can agree on prepayment or shipping of goods once payment is received). Sometimes an advance is and the balance upon delivery.

E.4.2. Cheque

For foreign trade, a cheque it still more used than for domestic trade. There are two types of cheques: trade checks and bank checks. They differ to the extent of certainty they offer.

A trade cheque is a payment order of a certain amount to the beneficiary mentioned in the cheque. A trade cheque is not guaranteed method of payment. Payment is done through a bank. The bank will receive the cheque for collection or settle under reservation. If the cheque is accepted for collection, the bank will first collect the money from abroad before you get payment. Such a collection often takes some time, which means that you as an exporter, lose interest. Payment 'under reservation' give the advantage for the exporter that the cheque is credited by the bank immediately. If no foreign payment is followed for the bank, the amount paid will be debited from your account again.

The bank cheque is a written, unconditional payment order and offers a higher guarantee. The paying party has already paid his bank before offering the cheque to the exporter.

E.4.3. Bill of Exchange

A bill is an unconditional assignment of the creditor to the debtor for a certain amount to the beneficiary on a certain date. The expiry date has to be indicated on the bill. Payment of the debt is done by acceptance of the bill. On the front of the bill, 'accepted' must be written, accompanied by a date and signature. Payment of the bill can be guaranteed by drawing for 'aval'. The bank of the payable party will then put 'good for aval' on the front.

Bills can have different periods of duration. Bills which are payable immediately after receipt are called sight drafts. Often, however, the bills are payable on a certain future date (e.g. after 3 or 6 months) (long-term draft or usance draft). These long-term drafts can be exchanged immediately from the bank even before the due date. The bank then calculates the 'cash' value of the bill. The 'cash' value is the amount of the bill minus the interest compensation (for the advance by your bank) and minus bank charges/commission. It is important in advance to have clear insight in these costs so you can incorporate these in the selling price.

One of the most important advantages of an accepted bill is that the payment is guaranteed and no procedure is required to be determined in case of non-payment. This simplifies business if enforced payment through court is needed. Another advantage is that the payment duration isn’t postponed in time. The client must have paid by the expiration date.

A bill must contain the following information:

- ✓ wording ‘Bill of Exchange’;
- ✓ the buyer, the party that has to pay (debtor = drawee);
- ✓ the due date, the day on which payment must be made (maturity date);
- ✓ the amount in numbers and letters, with the mentioning of the currency;
- ✓ the place where the bill is payable;
- ✓ the beneficiary: the drawer of the bill. The addition of "order" behind the drawer means the drawer can forward the bill to another party (endorsement). A declaration needs to be signed on the back side of the bill for this;
- ✓ date and place of drawing;
- ✓ signatures of the involved.

E.4.4. Scheme of Documentary Credit

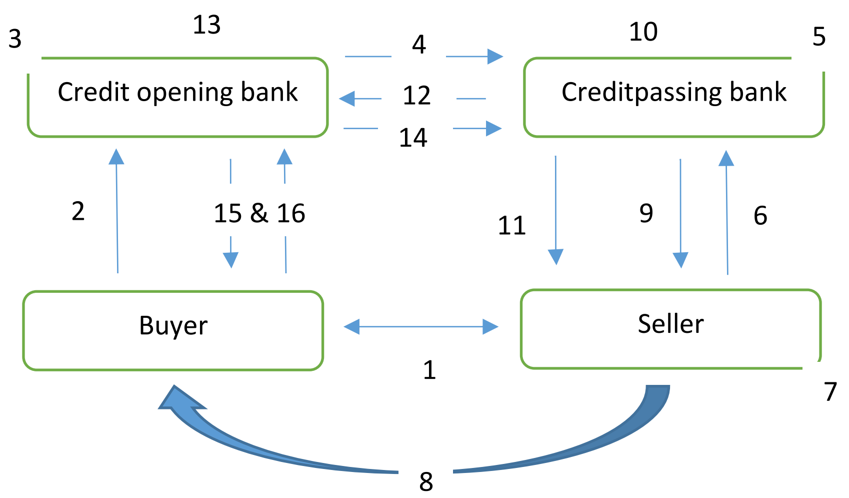
With this form of payment, multiple parties are involved: the buyer (importer), the Credit Opening Bank and the beneficiary (exporter) and his bank (credit passing bank). By closing

Documentary Credit, the bank irrevocably binds itself to pay the exporter (or accept a bill of his) when the exporter can provided particular documents which are defined beforehand in the agreement of the Documentary Credit. These documents may include a commercial invoice, a transport document, an insurance document or a certificate. This way, the importer secures himself of the delivery of goods while the exporter is certain of payment against submission of the conform documents.

It’s important that the Documentary Credit is fully independent as a contract between the client-buyer and the credit-opening bank and the underlying commercial contract. Even though the buyer might suggest that the goods are not in compliance or that there is fraud, the bank will be able to pay the exporter upon submission of the conform documents. The commissioning of a bailiff or quick trial can offer a solution for the importer.

Sometimes the Documentary Credit requires the intervention of a third bank, usually located in the country of the beneficiary. This bank can then advice and check the submitted documents without obligation to paid or accept. As confirming bank, in addition to the commitment of the credit-opening bank, it can commit irrevocably to payment or acceptance upon submission of compliant documents.

A documentary credit is an engagement of the credit opening bank in accordance to the request and terms of the buyer to settle a payment to the seller based on documents which give proof of the sending of goods or fulfilment of services and as far as all others terms of the documentary credit are met. The engagement is separate from the contract with the seller.



1. Contract negotiation
2. Request opening credit
3. Risk analysis
4. Opening credit
5. Risk analysis
6. Advice
7. Risk analysis
8. Sending goods
9. Submission documents
10. Check documents
11. Payment
12. Sending documents
13. Check documents
14. Payment
15. Submission documents against
16. Payment

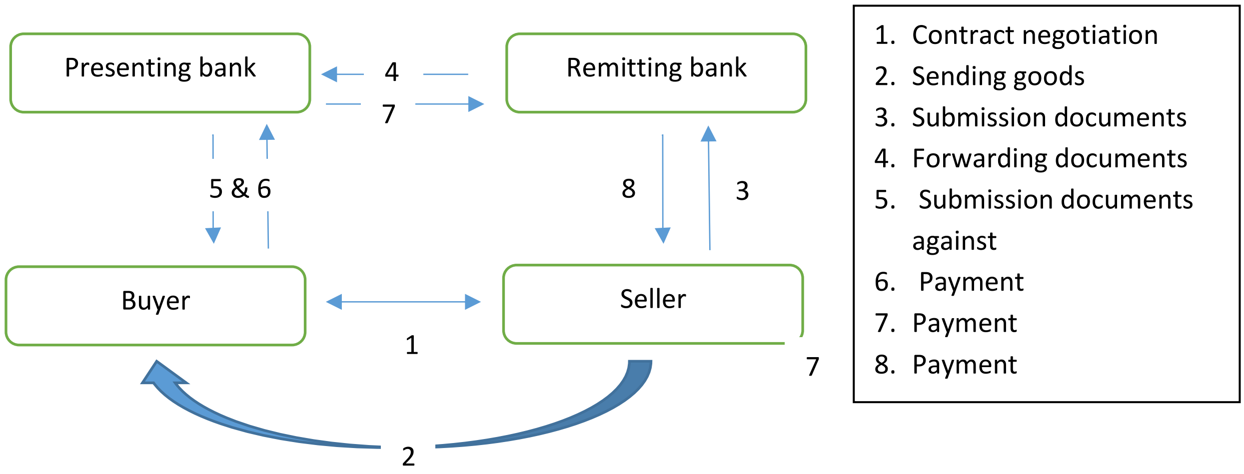
As a seller, you need to pay special attention during these stages in the process;

(1) Negotiating the contract;
   a. Who is the strongest party commercial-wise and is able to set the terms to his own hand?
   b. During the negotiation you should determine which documents and terms are required in the documentary credit
   c. You can ask the buyer a copy of the draft of the Letter of Credit before the opening of the credit
(2) Receipt of the documentary credit;
   a. Is the documentary credit conform the contract (check yourself)
   b. Can all documents be provided and can all terms be met? If not, change the L/C via the buyer!
   c. Ask advice/check at your bank at this stage
(3) At submission of the documents;
   a. Take utmost care in setting up the documents
   b. Inform all parties that you work with a L/C
   c. Assistance of specialists (e.g. bank) is required to get the documents right

E.4.5. Scheme of Documentary Collection

This technique is similar to that of the a Bill of Exchange, except that the bank will provide certain documents to the importer against payment or acceptance of the bill. If applicable, a connossement certainly will be part of the documents in the documentary collection as a connossement applies as a title of ownership. Thus, the exporter will keep the goods until the importer has paid or accepted the documentary credit. The exporter still runs the risk that the buyer rejects the goods (after their arrival) and doesn't pay. The buyer then still has possession over the goods, but for a far location, this can involve high costs.

A documentary collection is a payment method ranging between a documentary credit and an open account. There is no bank guarantee from the seller but only the guarantee that the buyer does not receive the goods or services without payment or acceptance. The banks act as creditors for their clients by sending or releasing the documents against payment or acceptance.



A documentary collection is only useful with representatives export forms (Bill of Lading, i.e. buyer can only receive good is he pays). Proof via copy of documents is pointless as they give no evidence of control of goods. In case of copy of goods the goods are already in the possession of the buyer before payment/acceptance…

The remitting bank is responsible for forwarding the proper documents as in the instructions while the presenting bank is responsible for presenting the documents against payment. In case of problems, the presenting bank will follow the instructions of the remitting bank to protect the goods or follow the procedures of the protest.

E.4.6. Comparative overview of payment methods

Type of payment	Characterics	Advantages	Disadvantages
Bank transfer	Most between EU-countries In Europe: SEPA Outside: SWIFT	Fast and cheap Safe Once on account definitive payment	Initiative of the buyer – moment of payment?
Cheque	Not so frequent anymore between EU-countries	Claim notice by the buyer Unbalanced cheque = fraud For the buyer a cheque is positive for work capital (cashflow)	Expensive for seller (inning in country of sale) Processing time (negative on working capital for seller) Exchange rate (under reservation or for collection) Administrative follow-up Security of payment only after acceptance sufficient funds by bank
Bill	Popular is some sectors (carpentry, textile, construction,…) Can be combined with Letter of Credit	Claim notice by the buyer In case of non-payment = buyer on black list	Expensive Administration Need of credit line (discount)

	or Documentary Collection	Possibility of discount	
Documentary Credit		Guarantee of receipt payment Positive on working capital for buyer (receipt payment based on documents) Uncancellable by parties	Expensive Administration (documents)
Stand-by Letter of Credit	Sort of bank guarantee for documentary credit in case of non-payment of DC.		
Documentary Collection	Is subject to the Uniform Rules for Collections Bank is only intermediary in forwarding of documents and receiving of funds	Stronger guarantee for the seller as banks strictly follow the collections instructions of the seller Less expense than DC for buyer	Administrative

E.5. FROM ORDER TO DELIVERY

At the closure of a commercial deal, the following phases will be taken. Not every phase results in a document;

- Market exploration;
- Request;
- Quote/proposal;
- Negotiations;

- Order;
- Confirmation of order;
- Delivery (and billing).

E.5.1. The proposal

After a first contact, the proposal is a next step in the realization of an export order. Not every call for proposal will lead to an order. A potential customer generally asks several quotes/proposals from different companies to choose the most suitable one. In the proposal you will determine the conditions and the price by which you are willing to supply the goods. A quote must provide the potential customer with clear details on the products, prices, delivery-, payment- and shipping terms.

We can make a distinction between several types of proposals;

a) Fixed: the seller doesn't sells the product to another customer and doesn't change the fixed price before the customer decides on the proposal
b) Non-binding: the restrictions as above do not apply here. However, they may not be big differences with the proposal.
c) Sampled proposal: a quote with a small amount of the offered good so the potential customer can check quality.

In principle, all proposals are non-binding unless otherwise mentioned. Potential customers can ask the exporter for a quote but an exporter can also provide quotes out of his own initiative and try to increase sales this way. A proposal/quote must have the following data:

- ✓ clear description of the product (quality indication, type, catalogue number ...);
- ✓ the amount, measures, weights and packaging material;
- ✓ the total price;
- ✓ the unit price;
- ✓ the delivery terms;
- ✓ the payment terms;
- ✓ the shipping method;
- ✓ the delivery period;
- ✓ the manner of packaging;
- ✓ the country of origin (if relevant);
- ✓ the validation period of the quotation.

Rules and regulations on proposals can vary from country to country. Therefore it can be advisable to check on the rules regarding proposals in the foreign country.

E.5.2. The price

A first step towards a successful export is a clear and unambiguous quote. But how can you calculate a correct export price? Mind that in your price, you should include the additional costs involved in getting your goods delivered abroad, such as ;

- ✓ additional production costs to adapt the product to the foreign market, costumed labelling and packaging, user manual, quality controls;
- ✓ internal and external costs to comply to administrative obligations;
- ✓ commission of intermediaries;
- ✓ all costs to which the exporter commits in the sales contract (transport, insurance, customs clearance ... this is usually settled via an Incoterm);
- ✓ cost of coverage;
- ✓ cost of finance.

Pricing related to foreign trade is driven by more factors however. There are, of course, the market factors. You will not sell your goods in a foreign market if the price is not acceptable. It is therefore important to analyse the perception, expectations, opportunities and competition of potential sales in the preparation phase. In addition, there are your own expectations, objectives and strategic goals. An analysis of all involved factors is required for a proper price policy.

E.5.3. The international sales agreement – international purchase right

E.5.3.1. From international sales agreement to written contract

The sales agreement is the point of reference for all other agreements related to an international transaction (transport, payment, ...). In practice, however, the sales agreement is often not put on paper but remains an oral agreement based on mutual trust. Take in mind that even if nothing is on paper, there is a contract! Often, there is not a sales agreement between the parties, but rights and duties are stipulated in the terms and conditions on the invoice.

It can be useful though to take time to draw up a conclusive, unambiguous and written contract. The advantage is that both parties then are obliged to consider the different aspects of the negotiations so that misunderstandings, communication problems, technical uncertainties are easier identified beforehand. A contract can also be required for fiscal or financial reasons.

E.5.3.2. Applicable law with international contracts - The Vienna Convention

Each country operates according to its regulations and rules of law. Taxation, accounting legislation, exchange regulations, customs regulations ... All these differ from country to country. For export, parties are brought together not only with different languages and cultures, but also with different legal traditions. If a dispute arises between an exporter and his foreign customer, each party will seek a solution according to his own legal order. A judge will have to settle in mediation based on international law.

To settle the differences between the national legal systems, a number of international trade treaties have been agreed up. The post important one is the Vienna Treaty or the CISG (United Nations Convention on Contracts for the International Sale of Goods) closed in 1980. So far, it has been signed by 74 countries. The treaty offers a uniform international trade law. It is an important back-up in case it's not clear what is the applicable national law. The Vienna Convention can be explicitly excluded from the contract or the terms and conditions. It is only applicable to B2B sales or consumer goods.

E.5.3.3. The pro forma invoice

When the customer agrees with the quote and both parties come to an agreement, the customer will place an order. For an international transaction, the client will often ask for a pro forma bill, by which he will be able to request import and exchange authorizations.

There's no date of shipment and carrier mentioned on a pro forma invoice compared to the normal invoice. It must be clear on the invoice that it is a pro forma invoice. This invoice should not be paid. Once the order has been received, the order needs to be compared with the proposal and the agreed payment terms need to be checked, as well as the agreed price and the currency. Based on the pro forma invoice, the customer can open documentary credit with his bank. The pro forma invoice will be issued on the template of the commercial invoice, mentioning 'pro forma' in the heading.

E.5.3.4. General terms and conditions

General terms and conditions are valid for any agreement by the company. This can be about payment terms and delivery terms. When drafting terms and conditions, the company will set up the terms from its own perspective. After all, every company is different and conditions do not apply everywhere. Therefore, terms and conditions can differ from company to company. A company can set up its own terms and conditions or rely on the terms and conditions that are standard in the sector. Keep in mind that the buyer/importer can apply his own conditions, which can conflict with those of the seller/exporter.

The following topics are usually included in the terms and conditions:

- ✓ delivery and acceptance;
- ✓ qualities/quantities, products that meet certain minimum standards or quantities;
- ✓ delivery terms;
- ✓ delivery conditions (it is recommended to use the Incoterms);
- ✓ packaging;

- ✓ ownership reservation;
- ✓ intellectual property rights;
- ✓ acceptance and advertising;
- ✓ warranty and liability;
- ✓ payment terms;
- ✓ force majeure;
- ✓ applicable law;
- ✓ dispute resolution.

Advantages of the terms and conditions:

- ✓ there is no need for a sales agreement to negotiate on delivery terms and prices
- ✓ the potential buyer knows directly under which conditions he can receive the goods.

In some countries there are legal rules regarding terms and conditions. Terms and conditions usually should be drawn in a clear language for the recipient (or the language of correspondence) and they must be handed over in time. Often, the terms and conditions are printed reverse the letterhead (proposal, invoice). There has to an explicit reference to the general terms on the front page.

Informing the buyer on terms and conditions through the invoice, is too late because the agreement has be closed already. The counterparty should be informed earlier. When the parties have been doing business for some time, and the counterparty is thus aware of the general terms, the terms and conditions on the invoice will be applicable however.

E.5.3.5. The invoice

The export invoice is an important document in international trade. First of all, it is a tax document but is can also be considered as;

- ✓ a reference document for Customs;
- ✓ base for the calculation of the due import duties and exchange regulations;
- ✓ contract document (if no sales contract);
- ✓ document/certificate of origin;
- ✓ proof for court.

The export invoice is subject to a number of rules. Since 2004, the same rules for data on paper and electronic invoices apply throughout the European Union.

Here are some items which are relevant to mention on the export invoice and in some countries, are compulsory (consult with your importer, a previously submitted pro forma invoice can help here):

- ✓ number of copies/duplicates - number of pages;
- ✓ signature and firm stamp;
- ✓ country of origin/origin;
- ✓ authentication ("certified correct and true");
- ✓ feature and date of import license or of shipment license;
- ✓ contract number and date of agreement;
- ✓ delivery conditions and Incoterm;
- ✓ customs Tariff Number;
- ✓ payment conditions;
- ✓ freight, packaging and insurance costs;
- ✓ country of final destination;
- ✓ goods description and Taric code;
- ✓ port of departure and arrival/name of the carrier;
- ✓ brand names;
- ✓ Visa of a control body (Veritas, SGS ...) or chamber of commerce.

E.5.3.6. Packing list

A packing list is an annex to the invoice and gives an overview of the goods with the contents per package. Once the goods are spread over several packing units, it is necessary to specify the contents per package. This way, the customer can check the goods. The packing list contains:

- supplier's name;
- customer name;
- reference to the invoice.

Per packing unit:

- ✓ exact specification of the content;
- ✓ gross and net weight;
- ✓ measurements;
- ✓ brands;
- ✓ numbering of the colli/packages;
- ✓ totals of measurements and weights.

It is not always necessary to add a separate packing list. Sometimes the description on the invoice is sufficient. In some countries, Customs requires a detailed packing list. Here again, we refer to the Market Access Database (http://madb.europa.eu). A forward pro forma invoice can help the customer as well to ensure that he has all necessary information for a smooth clearance of the goods.

E.5.3.7. Incoterms

In order to clarify the responsibilities of both parties (buyer and seller) regarding the export procedures, Incoterms (International Commercial Terms) are often used in the sales agreement. Incoterms are international agreements, set up by the International Chamber of Commerce. The settle the rights and obligations of both parties with regard to the transportation, customs declaration and insurance. They determine who carries the risk and who takes care of the documents. Incoterms are used to make clear agreements and, in case of a dispute, clarify who is the responsible party.

Incoterms are divided into 4 classes. Here are some of the Incoterms as a matter of clarification on the principle:

- ✓ E-Class (e.g. EXW, “Ex Works" or "Factory"): the seller puts the goods at the disposal of the buyer at his own business premises.
- ✓ F-class (FAS, FOB, FCA ...): place of destination such as FOB "Free on Board"; the seller has to deliver the goods on the indicated place, aboard of a, by the buyer, named ship.
- ✓ The C-Class (CFR, CIF, CPT ...): CIF "Cost, Insurance and Freight"; (only for sea freight applicable) or CIP "Carriage and Insurance Paid to ..." (this is a multimodular incoterm for a combination of transport means). The seller is responsible for all costs up to to the place of destination and that the seller has insured the goods in name of the buyer.
- ✓ The D-Class (DAF, DDU, DDP ...): DDP: "Delivered Duty Paid": franco delivery at the agreed location, including payment of all costs (customs, import). DDU: "Delivered Duty Unpaid": franco delivery at the agreed location without payment of all rights (import duties ...).

ANNEX – CASES

Hereby you will find a list of practical case with can help you in identifying solutions for realistic, concrete topics and situations when doing business in the agro-food sector.

These cases have a training methodology approach, but can also be used in a team exercise within a company.

CASE 1	
Selection competence	Marketing and distribution
TITLE	Exploration and Production Strategy
Problem	Is it works to open a new shop?
Related domain	Strategy development
Aim	Identify strategy. Evaluate strategy. Identify potential handling actions to reach your goal. Describe the chosen strategy.
Expected timing	Identify strategy (15 min) Evaluate strategy (15 min) Identify potential handling actions to reach your goal(15 min) Describe the choosen strategy (15 min)
Location	Indoors
Resources & materials	Computer, cards, black board or flipchart
Description of the method	Brainstorming
Risks & recommendations	Company strategy statements Number of products Consumer needs Needs from different regions (knowledge)
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	You are the leader of a large and well-established enterprise from sweets industry.

Case 2

Selection competence	Managing capacity in rural areas
TITLE	Succession in agribusiness
Problem	The next-generation is not interested to be a successor of a rural business.
Related domain	Risk identification, risk analysis, risk prioritization
Aim	Identify risks, evaluate risks, identify potential handling actions to risks, choose risks to handle
Expected timing	Identify risks (15 min) Evaluate risks (15 min) Identify potential handling actions to risks (15 min) Choose risks to handle (15 min)
Location	Indoors
Resources & materials	Computer, cards, black board or flipchart
Description of the method	Brainstorming and experience-based learning
Risks & recommendations	How you can manage the pass the baton activity as the next generation?
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Focus on a senior management position in agriculture! Difference between the senior (current CEO) and next generation (next CEO).

Case 3

Selection competence	Development and quality of product
TITLE	Use of organic manure
Problem	By-products of animal origin include the carcasses of animals perished due to natural causes or various diseases, waste materials from feeding and the produced organic manure. These materials are also considered to be hazardous waste.
Related domain	Risk identification, risk analysis, risk prioritization
Aim	Identifiy risks, evaluate risks, identify potential handling actions to risks, choose risks to handle
Expected timing	Identifiy risks (15 min) Evaluate risks (15 min) Identify potential handling actions to risks (15 min) Choose risks to handle (15 min)
Location	Indoors
Resources & materials	Computer, cards, black board or flipchart
Description of the method	Brainstorming and experience-based learning
Risks & recommendations	Lack of information and professional knowledge, agricult & food sector, farming Imagine that you are the CEO of a poultry meat processing plant.
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	How you can use the animal by-products in order to gain more profit?

Case 4

Selection competence	Development and quality of product
TITLE	Gluten sensitivity/gluten intolerance
Problem	More and more people are affected by food allergies as gluten sensitivity. There aren't any delicious gluten free product on the market. What are the risks of producing gluten free bakery products?
Related domain	Risk identification, risk analysis, risk prioritization
Aim	Identifiy risks, evaluate risks, identify potential handling actions to risks, choose risks to handle
Expected timing	Identifiy risks (15 min) Evaluate risks (15 min) Identify potential handling actions to risks (15 min) Choose risks to handle (15 min)
Location	Indoors
Resources & materials	Cards, black board or flipchart
Description of the method	Brainstorming
Risks & recommendations	Lack of information and professional knowledge
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	http://www.glulu.hu/

Case 5 & 6

Selection competence	Development and quality of product
TITLE	A new customer
Problem	How to deal with the requirements of retailers in the agro-food sector.
Related domain	Risk analysis
Aim	Identifiy risks, evaluate risks, identify potential handling actions to risks, choose risks to handle
Expected timing	52 minutes Presentation of the case (2 min) – hand out only part 1 Individual brainstorming (15 min) Group discussion (15 min) Analysing and presentation by trainer (10 min) – hand out part 2 Evaluation and summary (10 min)
Location	Indoors
Resources & materials	Case print outs per participant of the cases situation 'Part 1- A new customer' or 'Part 1 – Fruit & vegetable juices' and 'Part 2 - How it ended'
Description of the method	Brainstorming
Risks & recommendations	Too big eagerness of selling to retailers and emphasize on volume and not differentiation.
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	

Case 5 - PART 1 – A new customer

Ready Meal Ltd is a company that has been founded by the sales and production director of a large producer in ready meals. They have left the company, because they didn't agree any longer with the company strategy and because they felt the company wasn't innovating enough.

The knowhow, skills and contacts are present in the company to make the company successful. The production manager has more than 30 years of experience in food production and technology. The sales director has contacts with all the major ready meal buyers of the retailers in Europe. From the start they could present a good business plan, so that the first person they contacted to invest in their business agreed to put money into their project. Everything was prepared and the moment they could start their production, they had already a couple of agreements signed with buyers.

One of the supermarkets that had reacted immediately asked them to produce a range of baby food in plastic cups of 80 ml with top seal. There would be 4 different menus. The products would be sold in a mixed pack of 4 cups (1 cup per flavour). With all their experience *Ready Meal Ltd* had immediately foreseen to do that type of packaging. It was just a matter of ordering the ingredients. The production and packaging process had no secrets for them at all.

The product :

- a range of 4 different baby menus, mixture of vegetables and meat
- the meat arrived in cases, so that it had to be cut by hand and then minced into a cutting machine : afterwards it had to be cooked.
- the vegetables arrived in bags of 20 kilo ; they had to be washed, cooked and made into puree
- the vegetables and the meat had to be mixed together and filled into the cups

As the retailer was one of the major ones in Europe it opened a perspective on the longer term. Therefore they decided to do everything they could to correspond to the requirements of the supermarket.

The supermarket sent them the full specification of the products :

- List of ingredients
- Specification of the cup, the seal and the cardboard
- Cleaning procedure of the equipment and ingredients
- Quality control tests that had to be carried out
- Conservation prescriptions of the finished product
- …

YOUR OPINION, PLEASE

- ***Seen the complete information that was given to the producer, do you think there are still things that can go wrong? What could still go wrong in your opinion?***
- ***Are there additional measurements you would take in order to have the full satisfaction of the customer and the consumer?***

Case 5 - PART 2 – A new customer. How it ended.

The first production run never arrived in the stores. As baby food is a delicate product, it was the supermarkets procedure to carry out an income control on that type of product. The result of the income control was that in three of the cups they found traces of detergents. The traces were found in the cups in which meat was used. The product was therefore rejected.

What had happened was that the quality manager of Ready Meal Ltd had got instructions from one of the directors that they couldn't make any mistakes as the customer was top priority in the growth of the company. The quality manager had therefore talked things through with his supplier of detergents, who had advised to use a particular detergent in addition to the prescriptions of the customer on the table on which the meat was cut by hand.. Of that detergent traces were found in the finished product.

Case 6 - PART 1 – Fruit & vegetable juices

George is a man of 30 years old, who has always believed in healthy food. A lot of veg and fruit, preferably fresh, meat and fish only now and then. No excesses at all. A couple of years ago he has had a terrible accident in the factory where he was working. It really took a long time for him to recover. In the end it became clear that he wouldn't be able to do the job, he did before, any longer. He came to an agreement with his boss and after some time of reflection he decided to start his own business.

He took some time to study and observe the market and was triggered by everything that had to do with health. As we have already mentioned, health was an important issue for Georges. He wanted to start making fresh fruit & vegetable juices. He started experimenting and pressed and mixed the juice of various fruits and vegetables in order to find products he could sell into the market. He then took them to his family and friends to try. They were all very positive and keen on his products.

As George had always been interested in healthy food, he was also looking to preserve the nutritional aspect of the fruits and the vegetables as much as possible. That's why he looked for production methods in which nutritional values were maintained. He had once read on article on the pressing of olive oil. A process which had as characteristics chilled atmosphere and slow pressure. In that way nutritional values could be maintained.

Georges had a spare room in his house where he could install the pressing machine. The fruit and vegetables could be kept cool in the garage.

On the internet George found the equipment he needed to start pressing fruit and vegetables in the way virgin olive oil is pressed. The price the seller asked was 5.000 euros. The capacity of the equipment was 5 litres per hour. George had always stood up for nature. The moment he had decided to run his own business, he had decided on the following things.

- The juices had to be pressed like olive oil, as literature said that nutritional values were kept
- He wanted to fill the juices in glass bottles of half a litre.
- The bottles had to be returned to be used again. He had therefore worked out a system that the bottles would be placed per six in a basket. Once the bottles were empty they were to be put in the basket again and returned to him.
- He would present himself on the market with ' juices with a story '. He had made an agreement with a fruit and vegetable wholesaler who could supply him with products that weren't fit for the sales in traditional commerce : deformed veg and fruit, too big, too small… He would tell the consumer the story of avoiding throwing away vegetables and fruit.
- George had decided he would sell the juice at 20 euro per litre.

Bottling the juices could be done by hand. He thought of pressing about 50 litres a day. His fridge was big enough to keep the product cool. The year before he had bought a dish washer of a well known brand. So the washing of the bottles wasn't an issue either.

YOUR COMMENTS, PLEASE…

What are the pitfalls for Georges' business?
What can cause problems if the business grows?
Case 6 - PART 2 – Fruit & vegetable juices. How it ended.

The start of the business was rather difficult for Georges. The first couple of months he couldn't even sell the quantities he had foreseen. It was only when the owner of five regional supermarkets decided to sell the product in all the stores that his business started running. There were expectations of the supermarket owner he had to commit himself to.

- The supermarket owner wanted Georges to deliver 5 standard juices the whole year round. Now and then he could add another flavour on a temporary basis.
- The supermarket belonged to a franchise system, which means that they had to follow the prescriptions of the mother company with regard to quality and hygiene.
- The supermarket announced that the mother company was also auditing the smaller suppliers once a year. They couldn't tell when they would come to audit Georges' business, but in any case an audit would follow.

Although the first sales results were very promising, Georges lost his courage when hearing the expectations of the supermarket. He couldn't sleep well any more and thought of giving up his business.

UP TO YOU AGAIN…

What are the problems Georges is confronted with due to the announcement buy the supermarket owner?

How would you solve this?

There were indeed a couple of issues to be solved :

- Supplying 5 standard juices the whole year meant that he had to be sure of the supply of the vegetables and fruits every day of the year. Could the idea of ' juices with a story ' survive?
- The quantities he had to supply would be much higher than he had first thought of and the supermarket owner was very demanding.
- Delivery of the product couldn't be done with his own car any longer.
- The system of exchanging bottles didn't work any longer.
- In order to be accepted as a supplier he had to organise a separate production and storage room.

Georges had saved some money, but not enough to cope up with the changes he had to make. He finally talked it through with his accountant, who also believed in the product. Together they contacted the bank and possible investors. It was just when Georges decided to stop his activities that they could convince a third party to invest in his business. Georges could use a separate room in a company filling milk drinks. The milk drinks company was also prepared in investing together with Georges in more efficient equipment. On the longer term they were also willing to look at synergies between the two companies.

Georges had to forget a couple of his ‘green‘ ideas, but he could well carry on with his project.

Case 7

Selection competence	Development and quality of product
TITLE	Great desserts
Problem	How to deal with increase of volume offers for retailers.
Related domain	Risk analysis
Aim	Identifiy risks, evaluate risks, identify potential handling actions to risks, choose risks to handle
Expected timing	52 minutes Presentation of the case (2 min) – hand out only part 1 Individual brainstorming (15 min) Group discussion (15 min) Analysing and presentation by trainer (10 min) – hand out part 2 Evaluation and summary (10 min)
Location	Indoors
Resources & materials	Case print outs per participant of the cases situation 'Part 1- Great Desserts ' and 'Part 2 - How it ended'
Description of the method	Brainstorming
Risks & recommendations	Quality Management in the production process is vital.
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Any problem in quality or safety can lead to claim by retailer for a big order. Avoid risks by proper contracts with terms and conditions.

Case 8

Selection competence	Finance
TITLE	Mechanisation
Problem	The olives must be harvested directly from the tree without the use of abscission products or shaken down in the traditional way using a long pole, or by falling naturally or mechanically, and caught in nets or other receptacles beneath the tree.
Related domain	Analysis of the factors
Aim	Identify the quantity of a product and the capacity of the workforce
Expected timing	Identify the quantity of a product (10 min) Identify the capacity of the workforce (10 min) Decision making (15 min)
Location	Indoors
Resources & materials	Computer, cards, black board or flipchart
Description of the method	Internet, Brainstorming
Risks & recommendations	Factors: capacity, quantity, quality
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	The manual labour remains a large element of the cost. Does the mechanisation a cost-saving factor? http://www.paolobonomelli.com/olivefarm.eng.html

Case 9

Selection competence	Internationalisation
TITLE	Planning
Problem	A Chinese trade agent wants to order a container 40 foot of your special juices and have it delivery within 12 months. So far, you have not the capacity and machinery to produce such amount.
Related domain	Strategy development Planning and organizing Efficiency Financial knowledge
Aim	On finishing this activity, the participants will have • Insight in how to balance market opportunities and investment and return on investment
Expected timing	52 minutes Presentation of the case (2 min) Individual brainstorming (10 min) Group discussion (15 min) Analysing and presentation by trainer (25 min) Evaluation and summary (5 min)
Location	Indoors
Resources & materials	Cards, black board or flipchart
Description of the method	Brainstorming
Risks & recommendations	Company strategy statements Number of products Consumer needs Needs from different regions (knowledge)
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Exporting or not? Risk analysis

Case 10

Selection competence	Internationalisation
TITLE	Export
Problem	How to deal with foreign orders from new prospects?
Related domain	Strategy development Planning and organizing Efficiency Financial knowledge
Aim	On finishing this activity, the participants will have • insight in risk management involved in international trade
Expected timing	52 minutes Presentation of the case (2 min) Individual brainstorming (10 min) Group discussion (15 min) Analysing and presentation by trainer (25 min) Evaluation and summary (5 min)
Location	Indoors
Resources & materials	Cards, black board or flipchart
Description of the method	Brainstorming
Risks & recommendations	Incoterms Payment Consumer needs Regulations and customs
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Exporting or not? Risk analysis

Part 1 - Export

National organisations for the promotion of food often stimulate food companies to participate in foreign trade fairs and missions. Trade fairs like Anuga in Germany, Sial in France, PLMA in the Netherlands, are well known among producers and distributors of food. In Western Europe however there is a trend to participate in trade fairs everywhere in the world : in Dubai, the States, etc….

In the company *Food Distributors*, the young generation has taken up the management of the company. *Food Distributors* has always concentrated its activities on the local, national market. They had developed a range of own products under the company brand '*Yummy*' with the standard languages (local language and English) on it.

The new management feels the moment has come to start activities in other countries. Their first participation in Sial in Paris has been very successful. Over the whole fair they have met with about 50 interesting companies, spread over a number of countries.

At their return a meeting is planned with management to decide how they will cope with all the contacts they have had. After a long discussion they decide not to exclude anyone and make offers for all the prospects they have met at the trade fair. If they can use all these foreign customers as a reference, they will build up their name into the market and it will no doubt open new doors in the future. They are too enthusiastic to notice the big sigh and the comment of their father : ' Be sure that you are well informed on all aspects of the business before you make offers. '

The new management (brother and sister) are aware of the workload answering all requests for prices will bring about. They also realise that their sales representative for the local market only speaks the local language and French. Therefore the decision is taken that one of them will do the follow up of the prospects of Sial. They have taken accurate notes of the demands of the prospects and they start making offers for the products the prospects are interested in.

It has taken a while to collect all the information like transport prices. The prospect in the Emirates has been informed that his prices will be ex works, but that – when interest from his side – *Food Distributors* will give him delivered prices. For Israel they have got prices from a container company that has offered their services some time ago. For Morocco they have given the two options : transport by road or by sea.

It is with proud that a couple of weeks later management announces that they have managed to start business in the United Arab Emirates, Israel and Morocco.

The order from *Emirate's Distribution Company* is in total six euro pallets of frozen brownies. The Israel order is 1 full container of dairy ice cream. The container for Morocco has to filled with different sorts of frozen bakery products.

IT IS UP TO YOU NOW. With the information Food Distributors have :

- ***do they have all the information needed to export their products in a successful way?***
- ***what information would you like to have in addition in order to handle the orders properly?***

Part 2 – Export. How it ended.

United Arab Emirates

They first thought of cancelling the order. Food Distributors realised that :

- it would take at least 2 months to have new packaging, suitable to export to the Emirates as there had to be Arabic on it
- it was not easy to find transport for six pallets

Because the customer insisted they had to convince him to buy a full container at once, on which he agreed in the end. Finally the container left the company and was delivered well in the Emirates, but with serious delay.

Israel

The order had to be delayed as the product had to be kosher. The producer of the product had first to be certified as a producer of kosher products. A sticker had to be put on the packaging with the product information in the appropriate language.

On the arrival in the harbour the customer rang Food Distributors to say there was a problem, as the container could not leave the ship. Contact with the container company revealed that the product had been sold CFR, which means that the costs to get the container off the boat and have it plugged in in the harbour are at the expenses of the receiver of the goods. The customer thought he had paid for taking it from the boat and plugging it in. So there was a discussion on the extra costs.

Morocco

In a networking activity they had met the CEO of a company who had had a bad experience with his Moroccan customer at the first delivery. He had given him payment terms of 30 days from the date of invoicing. It had taken almost three months before he had been paid. This had caused a lot of frustration and anxiety in the company. Therefore they had decided only to sell products with pre-payment, based on a pro forma invoice.

As the value of the container sent by Food Distributors exceeded 100.000 dirham, it was not possible for the customer to pay in advance. This is a legal issue for companies doing business with Morocco. The only possibility was to cancel the order.

FINALLY AGAIN YOUR TURN…

United Arab Emirates
What is the risk Food Distributors is taken, when proposing that solution to the customer?

Israel
How can you get around the problem to maintain the customer?

Morocco

Which possibilities do you see to solve the problem of payment without running a risk yourself?

Case 11

Selection competence	Comprehensive
TITLE	CO-CREATION PROJECT OF TWO FOOD COMPANIES
Problem	How to manage partnerships?
Related domain	Strategy development Efficiency Financial knowledge
Aim	On finishing this activity, the participant will have • Insight in how to balance market opportunities and investment and return on investment for strategic partnerships • Risk management
Expected timing	52 minutes Presentation of the case (2 min) – part 1 Individual brainstorming (15 min) Group discussion (15 min) Analysing and presentation by trainer (10 min) – part 2 Evaluation and summary (10 min)
Location	Indoors
Resources & materials	Case print outs per participant of the case situation 'Part 1- Co-creation of two food companies' and 'Part 2 - How it ended'
Description of the method	Brainstorming
Risks & recommendations	Company strategy statements Consumer needs Needs from different regions (knowledge)
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Partnership or not? Risk analysis

PART 1 - Co-creation of two food companies

It is often after a day of hard work at international food fairs that companies set up daring plans. This was what happened some years ago, when the sales people of two food companies were having a beer at the end of the day. On the one hand there was *The Biscuit Specialist*, specialized in high quality semi-artisanal biscuits. The biscuits were very well known in the European market. The company only sold their products under their own brand. On the other hand there was *Ice Delight*, an ice cream company with European name in the production of private label ice cream. Both companies were located in the same region, so that exchange of information was easy. Both companies had a very good organisation and were financially solid.

The idea was to start a project of co-creation, combining the strengths of both companies. After the fair the sales directors informed their managing director and very soon a meeting was set up. It was decided that the meeting would be attended by the managing director, the production director and the sales director. After a meeting of about 1 hour, green light was given to start working out the project. A briefing was made to distribute among the staff involved in the project.

The product : a thick layer of rich dairy ice cream will be extruded between the two popular and bestselling biscuits of *The Biscuit Specialist*. In order to keep the biscuit crispy a thin layer of chocolate will have to be sprayed on the side of the biscuit that comes into contact with the ice cream. The product will be dipped halfway in a rich Belgian chocolate.

To do's for *The Biscuit Specialist* :

- Design of the packaging
- Tests if the biscuit could be frozen
- Shelflife of the frozen biscuit

To do's for *Ice Delight* :

- Looking for a machine to produce the product and to dip it into chocolate
- Looking for a machine to put the product in a paper and in the box
- Making prototypes of the product
- Study on where to put the machine in the production area, so that it is in line with the internal logistics
- Making a product specification

During the following meeting the results of the to do's were exchanged between the directors. The major problem was the technical one. *Ice delight* didn't have a machine that could be adapted to make that type of product, as it was too different from the products they were producing already. The technical people had been pro-active and had found a second hand machine, that could be adapted. The cost of the machine was 500.000 euro and it had to be transferred from Ireland to Belgium. The directors decided that the head of the technical department could plan a visit to the company, selling the machine. The managing director of *Ice delight* would accompany him. On their return a week or so later the managing director announced that the machine had been bought and could be transferred to Belgium.

As it was already November and sales wanted to have the product for the summer, the product was to be ready for selling within 5 months. It would be working very hard.

YOUR COMMENTS …

How would you deal with the above project? Please have a look at the case from different sides :

- ***financial***
- ***sales***
- ***marketing***
- ***product development***
- ***production***

Part 2 - Co-creation of two food companies. How it ended.

The product was launched just before summer. Sales could only start presenting the product at the end of January, when the development had been finalised and the packaging was ready. So time was too short to convince the buyers to make room for it in the freezers. One buyer was very enthusiastic and wanted the have the product. He was however only prepared to take it under the brand of his supermarket.

Once the product had been launched, there was quite some reaction form the market. A couple of examples :

- The weight of the product (150 grams per piece more or less) was too much for an impulse ice cream.
- The consumers could not see on which side of the product there was chocolate. When they opened the paper, they often had their fingers on the chocolate and not on the biscuit
- The chocolate covering cracked when you ate it, as it was real chocolate, that is : with low elasticity. Chocolate bits fell on the clothes of the consumer.
- The price of the product was too high. It was more expensive than some products of the market leader.
- …

The result of the introduction was that only approximately 200.000 boxes of 3 pieces were sold and that the product disappeared from the market after the first year already.

Some years later a competitor of *Ice Delight* came with the same product on the market, but in a smaller version, a lighter type of ice cream and a smoother chocolate coating. The product is still in the market today, although it is not really a top seller.

HOW COULD THE COMPANIES HAVE FORESEEN THESE OBSTACLES?

Case 12

Selection competence	Comprehensive
TITLE	A company looking for new activities
Problem	How to develop products for the consumer?
Related domain	Marketing Customer orientation Planning and organizing Product development
Aim	On finishing this activity, the participant will have • Insight in how to deal with the development of new products and bring it to the market
Expected timing	52 minutes Presentation of the case (2 min) – part 1 Individual brainstorming (15 min) Group discussion (15 min) Analysing and presentation by trainer (10 min) – part 2 Evaluation and summary (10 min)
Location	Indoors
Resources & materials	Case print outs per participant of the cases Part 1 and 2.
Description of the method	Brainstorming. Discussion
Risks & recommendations	Company strategy statements Number of products Consumer needs Needs from different regions (knowledge)
Feedback (suggested questions for participants, reminders, correct solutions, additional examples, etc.)	Customer orientation in development is key.

PART 1 – The company looking for new activities

The Veg Specialist is a producer and packer of frozen vegetables and fruits. The market is very competitive. The company has gone through some very important changes as the family owners have decided to cut costs. Because of a couple of (although minor) quality issues, the company has lost a significant customer. A couple of other customers have engaged for less volume than the previous year *The Veg Specialist* has not succeeded in supplying them with the volumes they had agreed upon.

The family board has come together in a strategic meeting and has decided that priority should be given to solving the quality issues in production and packaging. However, this should be done at the lowest possible cost.

In the weekly sales meeting one of the sales people, responsible for the French market, informed the meeting on the demand he got from one of their customers, a company with an A-brand in the French market. The company was thinking of launching a new range of stir-fry ready meals in the market. As they didn't have an own production facility to make that type of products, they had decided to outsource the activity. Later on, when the consumer tests they had done were confirmed by good sales figures, the plan was to invest in the equipment to do it themselves.

As the sales person had a very good contact with the buyer and the category manager of the French company, he had told them that the family board of his company had decided to go for innovation. The production of this product could be a step in that direction. As the French company had confidence in *The Veg Specialist* and as the relation with the sales person was optimal, they decided that *The Veg Specialist* was to be their partner in the project. The pricing would be done on an open book basis. The management team of *The Veg Specialist* was happy with the chance they got and confirmed that they agreed with the requirements of the customer. A confirmation in writing was signed by both parties.

Two products were to be launched to start. Later on the range would be expanded.

- Product 1 :
    - 150 grams of the spring vegetable mix the customer had in its range. The product was supplied to them by *The Veg Specialist*, so that no supplier had to be involved.
    - 150 grams of marinated and prebaked strips if poultry breast. Product to be supplied by the French company.
    - 100 grams of basmati rice, to be supplied by *The Veg Specialist* as they had it in their range
    - 4 cubes of curry sauce, to be supplied by the French company.

- Product 2 :

- 50 grams of white of leek in strips, supplied by *The Veg Specialist*
- 50 grams of mini corn, supplied by *The Veg Specialist*
- 20 grams of shitake mushrooms, to be supplied by *The veg Specialist*
- 30 grams of Chinese cabbage, to be supplied by *The Veg Specialist*
- 100 grams of penne, to be supplied by the customer
- 8 tiger prawns, to be supplied by the customer
- 4 cubes of fish sauce, to be supplied by the customer

The products were to be packed in a microwavable film.

When seeing the recipes that had to be packed, production had a serious problem. There was no machine in the company that could pack the products automatically. The family manager realised that it wouldn't be easy, but his board had told him not to do new investments, as long as the situation of the company wasn't better. On the other hand he had signed the agreement. He decided that they would go for a solution of manual and automatically packing of the product. To the customer he would give the impression that all the equipment was present to do the job without interference by hand and he would on the other hand try to get the best possible price in the open book calculation. It was an investment in future business. As the customer had just come to the company for the annual audit some weeks before, the family manager was sure there would not be an new audit soon. Once they managed to pack the quantities required, the manager would have enough arguments to ask for investments to his board.

YOUR TURN NOW…

- ***What is your general feeling when reading through the project?***
- ***List up the elements that make you eventually doubt about the project.***
- ***How would you deal with the relationship with the customer as you can not disappoint him?***

PART 2 – The company looking for new activities. How it ended.

Once the product was on the market, customer complaints were a daily reality for the customer. Complaints had mostly to do with the fact that the ingredients had been mixed in the wrong quantities : variable number of tiger prawns, an ingredient had been forgotten, etc…

After one production run the customer decided to stop selling the product and withdrew everything from the market. In the discussion that followed the customer also realised that *The Veg Specialist* didn't have a license to store and use meat in his packing facilities.

WHAT DO YOU THINK ARE THE CONSEQUENCE OF SUCH AN INTRODUCTION FOR :

- ***the customer***
- ***The Veg Specialist***

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