# LEARNER GUIDE

# Marketing

## Level 4

**Copyright ©**

P.O. Box 461, Hillcrest, 3650
(031) 313-3364

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Title:** | | **Participate in the Development and Management of an Agricultural Marketing Plan** | | | | | |
| **Applied Title:** | | **Participate in the Development and Management of a Marketing Plan for Citrus** | | | | | |
| **Field:** | | Agriculture and Nature Conservation | | | | | |
| **Sub-Field:** | | Primary Agriculture | | | | | |
| **SETA (SGB):** | | AgriSETA | | | | | |
| **Skills Area:** | | Marketing | | | | | |
| **Context:** | | Citrus Production | | | | | |
| **US No:** | 116684 | **Level:** | 4 | **Credits:** | 3 | **Notional Hours:** | 30 |
| **Author:** | | L. von Broembsen | | | | | |

Based on the Production Guidelines of:

Supported by:

**Unit standard alignment and assessment tool development:**
Cabeton Training and Development

**Project coordinator:**
Jacomien de Klerk

## Disclaimer

By accepting this document and reading its contents you agree to be bound by the terms of this disclaimer.

The use of the contents of this document is at your own risk. Neither the Citrus Academy nor the CRI or the CGA warrant that the content of this document is suitable for your intended use or that it is free of inaccuracies or omissions. The opinions and advice expressed in this document are not necessarily those of the Citrus Academy, the CRI or the CGA. The Citrus Academy, the CRI and the CGA, their directors, officers, employees, agents and contractors shall not be liable for any loss or damage of any nature suffered by any person as a direct or indirect result of the use of, or inability to use any advice, opinion or information contained in this document, or any misrepresentation, misstatement or omission, whether negligent or otherwise, contained in this document.

You indemnify the Citrus Academy, the CRI and the CGA against any claim by any third party against the Citrus Academy , the CRI or the CGA, their directors, officers, employees, agents or contractors arising from, or in connection with, the use of, or reliance on, the contents of this document. It is your responsibility to determine suitability of the contents of this document for your intended use.

# Table of Contents

# Directions

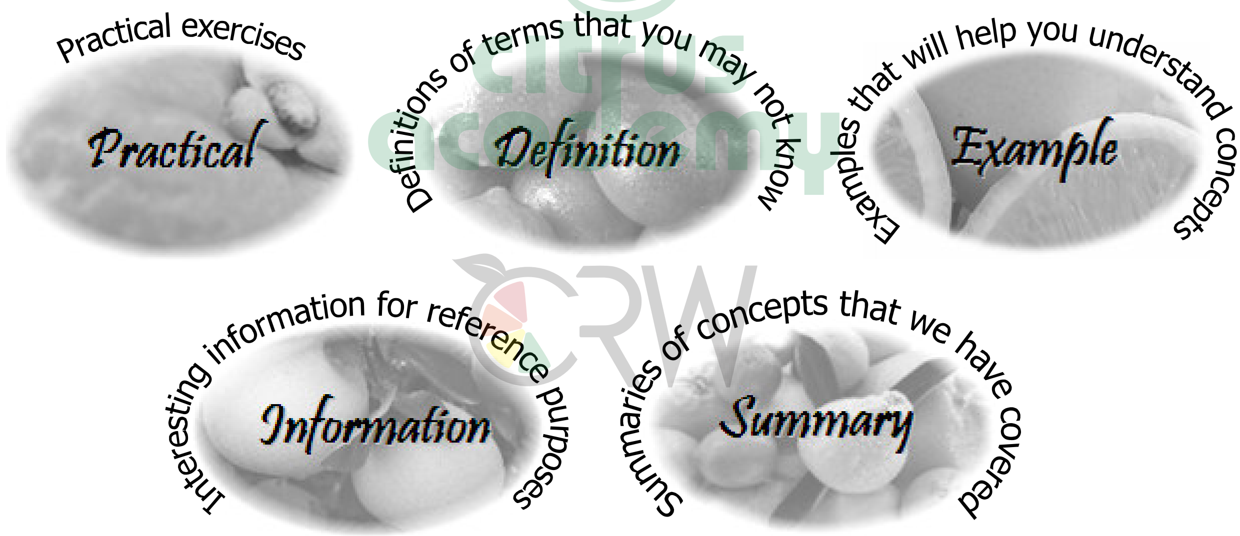
This learning material has been developed to assist the learner wishing to complete this unit standard. The guide contains all necessary learning to ensure that the learner will attain the competencies required by the unit standard.

The learner guide is accompanied by a Learner Assessment Guide. Please ensure that you have access to this guide as well.

The learner guide was designed to be used by a learner during the presentation of a skills program based on the unit standard, and to be kept afterwards by the learner for reference purposes. The learner assessment guide was designed to be completed during and after the presentation of the skills program, and forms part of the assessment process.

Although this learner guide contains all the information required for attaining competency in this unit standard, references to additional resources, both printed and electronic, are provided for further study by the learner.

Information in boxes is indicated by tags that show:



# Introduction

## 1. Purpose

A learner achieving this unit standard will be able to pro-actively analyse, strategise, plan and manage an integrated marketing plan. The learner will also be able to monitor progress and apply corrective measures should it be necessary. In addition, the learner will be well positioned to extend his/her learning into the auditing field, thereby allowing the profession to benefit from the application of strategic and systems thinking within the marketing plan.

Learners will understand the importance of the application of business principles in agricultural production with specific reference to marketing.

They will be able to operate farming practices as businesses and will gain the knowledge and skills to move from a subsistence orientation to an economic orientation in agriculture. Learners will gain the knowledge and skills to access mainstream agriculture through a business-orientated approach to agriculture.

## 2. Learning Assumed to Be in Place

It is assumed that the learner has successfully completed the unit standards listed below:

| ***NQF Level*** | ***Unit Standard Number*** | ***Unit Standard Description*** |
|---|---|---|
| NQF3 | Literacy and Numeracy | |
| 3 | 116259 | Explain the application of marketing principles within an alternative and dynamic agricultural marketing environment |

# Revision of Level 3

## 1. Managerial Vision of Agribusiness

- The vision of any enterprise describes its over-arching, long-term objective.
- Goals are set that are in line with achieving the vision of the enterprise.
- Implementation plans describe what will be done, how by whom, and by when.
- During the planning phase, the resources that are required for implementation are identified, including expertise that may have to be obtained.
- The budget shows the financial implications of implementing a plan. The marketing budget includes costs associated with creating general market awareness of the product and of direct in-store costs.
- The types and sources of information used as a basis for market research and development are largely determined by the size and scale of the planned marketing and promotional effort.

## 2. Variables in Alternative Markets

- Growers must be able to produce the right product efficiently and consistently, and understand the factors that determine the market price.
- External environmental factors are the issues and circumstances over which growers have little or no control, but that must be factored in when long-term planning is done.
- Internal environmental factors are more within the control of the producer and impact on the acceptability of products in the market and thus on the overall success of the citrus venture.
- The impact of external environmental factors depends on the combinations in which they are present.

## 3. Characteristics and Critical Success Factors of Alternative Markets

- Commercial citrus production in South Africa is export oriented and fruit is generally not produced specifically for the local market.
- Export versus local market: production costs, packing costs, distribution costs, quality standards, fruit losses and market prices are the critical control factors; much higher prices for export fruit remains the most important factor.
- Formal versus informal market: prices higher in formal market than in informal market, but costs also increase, especially packing and distribution.
- Different export markets: market access requirements, distribution costs, currency stability, method of selling, volumes, quality standards, and market structure are critical success factors.
- "Non-profit" markets refer to where food products are supplied to the World Food Program or World Health Organisation for humanitarian efforts.
- Consumer preference is influenced by a number of factors, and the grower must understand the preferences and priorities of the majority of the consumer body that he is targeting.
- The behavioural aspects of markets relate to how they perform under varying conditions.

- Factual aspects are those that describe the market in terms of its physical characteristics and its historical performance.

- There is an interaction between the factual and behavioural aspects of a market.

## 4. Marketing Supply Chains for Alternative Markets

- The supply chain consists of procurement (suppliers and service providers), production (farm and packhouse), shipment (export agent, transport and shipment service providers, and importer) and delivery (retailer and supermarket).

- In citrus the most critical function of the supply chain is to ensure that the quality and safety of the product is maintained at all times.

- The general critical success factors in the supply chain are the appointment of appropriate service providers, fruit quality records, reliable employees, appropriate handling of product, adherence to time and temperature protocols, and reliable, relevant information.

- The choice of distribution channel will depend on the market. Reliability and cost-effectiveness are the most important factors when selecting service providers.

- Integrated supply chain management strives to align demand and supply within the resource constraints of the organisation.

- Ideally, the retailers' demand chain and the growers' supply chain must be integrated so that a pallet load can be tracked by both parties all the way along its route.

# Chapter 1

After completing this chapter, the learner will be able to:

**Structure a marketing plan using a systems approach**

## 1. The Purpose of a Marketing Plan

A marketing plan is the entire strategy for selling a product, including its publicity, promotion, sales, and advertising. It is a report detailing the means by which a product will be sold. The plan, if developed properly, will identify the target market, establish how and when the product will be advertised and shown and generally cover the total marketing of the product.

A marketing plan details the actions necessary to achieve specified marketing objective(s). Effective marketing of a citrus product starts with:

- Identifying a **marketing objective**, meaning determining what specific **volumes** into which selected **markets** may be required in order to achieve targeted income; and
- Creating a **plan** of how this will be achieved through, for example, the application of the four Ps of marketing in the most effective manner.

Few fruit producers or companies give detailed thought to exactly what they are trying to achieve through marketing. Clear marketing objectives are needed to aid operational decisions, and these objectives should be:

- Aligned with broader company objectives
- Realistic, taking into account internal resources, such as production capabilities and limitations, and external opportunities, threats and constraints, such as exchange rates and the status of competitive products
- Universally known within the company, so that everyone can relate them to his or her own work and to the broader corporate objectives
- Flexible, since all business decisions have to be made in conditions of partial ignorance
- Reviewed and adapted from time to time to take account of changing conditions.

The marketing plan attempts to understand and characterise the market, the customer, and the environment in which the business is being conducted.

The marketing mix, being the 4Ps of marketing, should be viewed as the controllable part of the marketing plan. The uncontrollable aspects of the marketing plan include unforeseen political, economic and social changes, as well as competitor activities.

## 2. The Strategic Environment for the Marketing of Citrus

To create a meaningful picture of the environment in which the marketing of the product will take place, it is necessary to answer a question such as: What are the critical issues that could impact on the success of this business over the next eight years?

In order to answer such a question effectively, it is often necessary to engage with a variety of people or sources of information. After such wide consultation, the information that has been obtained needs to be assembled and summarised in a coherent way. This can be achieved in different ways, such as for example by using the Participlan® method.


**Participlan®**

The Participlan® process creates a positive environment for the free flow of ideas and constructive discussion. It facilitates the gathering of information and promotes innovation, helping teams to solve problems and to make decisions.

Ideas and opinions are generated onto specially prepared display sheets, thus enabling all participants to focus their thinking through the visual stimulation provided by this technique. Once all ideas are captured, they are visually grouped in clusters.

From a marketing viewpoint, the strategic environment is a term that is often used to encompass all issues and factors that could impact on the marketing of the product in the medium term, being over the next three years. For a long-term crop such as citrus the timeframe could be longer, for example three to eight years.

The citrus marketing environment is however subject to the interaction of a wide range of rapidly changing factors, many of which are cyclical, unpredictable, or unsustainable. As a result, it is not practical to try to look too far into the future. It is wiser to regularly monitor trends and developments and use this information to update and review the existing model.

In practical terms, it is seldom possible for an individual producer to do much more than use the information derived from technical and marketing reports, the Internet and discussions with fellow producers, exporters and importers to formulate a general picture of the marketing environment.

Industry bodies, such as the Citrus Growers' Association, are important sources of information on a variety of strategic issues. These include statistics on production estimates, historical figures on volumes and average prices in different markets, the market access status (particularly for phytosanitary markets), volumes shipped by local exporters and international competitors, planting and production trends, benchmark production and packing costs, freight costs and so on.

Similarly, citrus industry groupings such the Citrus Marketing Forum and the various individual cultivar and marketing focus groups are able to provide producers with important strategic information.

Since strategic marketing information is by nature broad-based, it can and should be shared between growers with similar needs. A means of effectively achieving this is to identify a number of individual growers and outsiders with knowledge and involvement in the subject and bring them together for brain-storming exercises. Such area-based producer study groups presently focus mainly on production issues, but opportunities exist for market-related topics to be included at such meetings.

## 3. Systems Approach to Supply Chains

If the process by which the product is physically moved or transformed from its place of production to the market is to be financially sustainable, it has to be one in which value is continuously added throughout the process, and where the increase in value is greater than the cost of adding the value. In this regard, it is useful to view the process as a number of smaller steps. This is where the concept of a systems approach is useful.

During the Industrial Revolution of the 19th and 20th centuries, formal recognition of the systems approach to management, philosophy, and science emerged. As the level of precision and efficiency demanded of technology, science, and management increased, so did the complexity of industrial processes. This made it increasingly necessary to develop a conceptual basis to avoid being overwhelmed by this complexity.

The systems approach focuses on organisation and interdependence of relationships. A system is composed of regularly interacting or interdependent groups of activities or parts, the emergent relationship of which form the whole.

Four major concepts underlie the systems approach, and they are:

- ***Specialisation*** – A system is divided into smaller components allowing more specialised concentration on each component.
- ***Grouping*** – To avoid generating greater complexity with increasing specialisation, it becomes necessary to group related disciplines or sub-disciplines.
- ***Coordination*** – As the components and subcomponents of a system are grouped, it is necessary to coordinate the interactions among groups.
- ***Emergent Properties*** – Dividing a system into subsystems requires recognising why and how the system as a whole is greater than the sum of its parts.

The systems approach considers two basic components, being **elements** and **processes**. Elements are measurable entities that can be linked together. Processes change elements from one form to another. The elements or processes are grouped in order to reduce the complexity of the system.

In citrus, the value chain can be viewed as a series of elements linked by the processes that transform them. As the product flows through the chain from orchard to retail shelf, it undergoes a series of processes, each one adding value to the product.

In table 1.1, the citrus supply chain is divided into its key elements and processes.

| ***Element*** | | ***Process*** |
|---|---|---|
| Fruit on trees | *undergoes* | Harvesting of fruit into bins |
| Fruit in picking bins | *undergoes* | Transport to packhouse |
| Fruit in packhouse | *undergoes* | Packing process |
| Packed fruit in cartons | *undergoes* | Cartons stacked onto pallets |
| Palletised cartons | *undergo* | Transport to depot / port |
| Containerised pallets | *undergo* | Loading onto vessel |
| Loaded vessel | *undergoes* | Shipment to port of destination |
| Vessel at destination | *undergoes* | Unloading, pallets placed in storage |
| Pallets in cold storage | *undergo* | Distribution to market / retailer |

**Table 1.1: Elements and Processes of Citrus Supply Chain**

Running parallel with this supply chain are a number of critical data-gathering processes that track the progress of each consignment as it moves through the chain. This data is fed into a central database that processes and summarises the data into whatever user-friendly information format may be required by its users, which can be producers, packhouses, or industry organisations.

This facilitates decision-making regarding product destination and enables consignments to be traced from the point of arrival at the market back to its point of departure, packing or even harvesting. This traceability capability constitutes an important aspect of meeting market access requirements.

## 4. A Systems Approach to the Demand Chain

The demand chain can be seen as the supply chain viewed from the perspective of the market. Put another way, while the supply chain is driven by the products and services provided by the producer, the demand chain is driven by the needs and wants of the consumer. (Incidentally, information arising from the implementation of Customer Relationship Management Programmes is often used as a basis for clarifying the specific needs and wants of customers.)

For a sustainable and successful relationship to develop between supplier and market, the supply chain and demand chain should be interactive. The supplier must know what the customer wants, and the market or retailer must know what the supplier is able to provide in a particular production season, given the prevailing production environment.

From a systems viewpoint, the market is not really interested in the elements and processes that are the responsibility of the producer and packer. The market's interest in the product commences once the market or retailer assumes accountability for the product. This point of ownership transfer varies depending on the mode of selling, being consignment or fixed price, and the terms of the agreement between the producer or exporter, and the market or retailer.

Starting with the market establishing the expected demand for the product, the demand chain meets the supply chain at the point where ownership is transferred. The demand chain using a systems approach could look something like in the table below.

| ***Element*** | | ***Process*** |
|---|---|---|
| Product demand / sales projection | *preceded by* | Information gathering |
| Demand plan approved | *preceded by* | Construction of demand plan |
| Place orders according to plan | *preceded by* | Evaluate availability of product |
| Retail shelf space allocation | *preceded by* | Product/sales requirement and estimate |
| Product in port terminal cold store | *preceded by* | Shipment by exporter |
| Product in retailer's cold store/depot | *preceded by* | Transport to retailer's cold store |
| Product on retail shelf | *preceded by* | Transfer of product from store to shelf |

**Table 1.2: Elements and Processes of Citrus Demand Chain**

## 5. Allocating Resources to the Action Plans

The action plans are derived from the processes listed in the examples of the supply and demand chains given above. These processes have to be planned by management and carried out by personnel appropriately trained to do the work.

A useful technique for allocating resources to action plans is to use the so-called RACI (pronounced 'racey') method. This method ensures that for every action item or aspect of the action plan there is clarity about:

- Who is **r**esponsible, that is who will do the work
- Who is **a**ccountable, that is who takes final responsibility and therefore has to give approval
- Who must be **c**onsulted
- Who must be **i**nformed

The acronym RACI is taken from the first letter of each of these critical facets. A RACI chart can be constructed with the first column containing a list of the required actions, and the subsequent columns being headed by the names, titles or initials of those involved in the implementation of the actions.

### Example

**RACI Chart**

| Activity | Tasks | Worker 1 | Worker 2 | Financial Manager | Manager | MD |
|---|---|---|---|---|---|---|
| | Task 1 | R | | C | A | I |
| | Task 2 | | R | C | A | I |
| | Task 3 | R | | C | A | I |
| | Task 4 | R | C | C | A | I |

Once the work requirements have been detailed and agreed to, the cost implications must be evaluated. Only once approval has been given for the expenditure involved can the work commence.

### Summary

**Chapter 1**

- A marketing plan is the entire strategy for selling a product, including its publicity, promotion, sales, and advertising, and details the actions necessary to achieve specified marketing objective(s).
- To create a meaningful picture of the environment in which the marketing of the product will take place, it is often necessary to engage with a variety of people or sources of information.
- The systems approach focuses on organisation and interdependence of relationships, and considers two basic components, being elements and processes.
- Four major concepts underlie the systems approach and they are specialisation, grouping, coordination, and emergent properties.
- The demand chain can be seen as the supply chain viewed from the perspective of the market, and it is driven by the needs and wants of the consumer.
- An action plan is developed from the processes of the supply and demand chains, and resources are allocated to the action plan to enable its implementation.
- A useful technique for allocating resources to action plans is the RACI method, which indicates for every item in the action plan who is responsible, who is accountable, who must be consulted, and who must be informed.

### Practical

Complete activities 1 and 2 in the **Learner Workbook**.

# Chapter 2

After completing this chapter, the learner will be able to:

**Structure a rolling marketing plan for a specific agricultural commodity**

## 1. Selecting and Interpreting Local and Export Marketing Opportunities

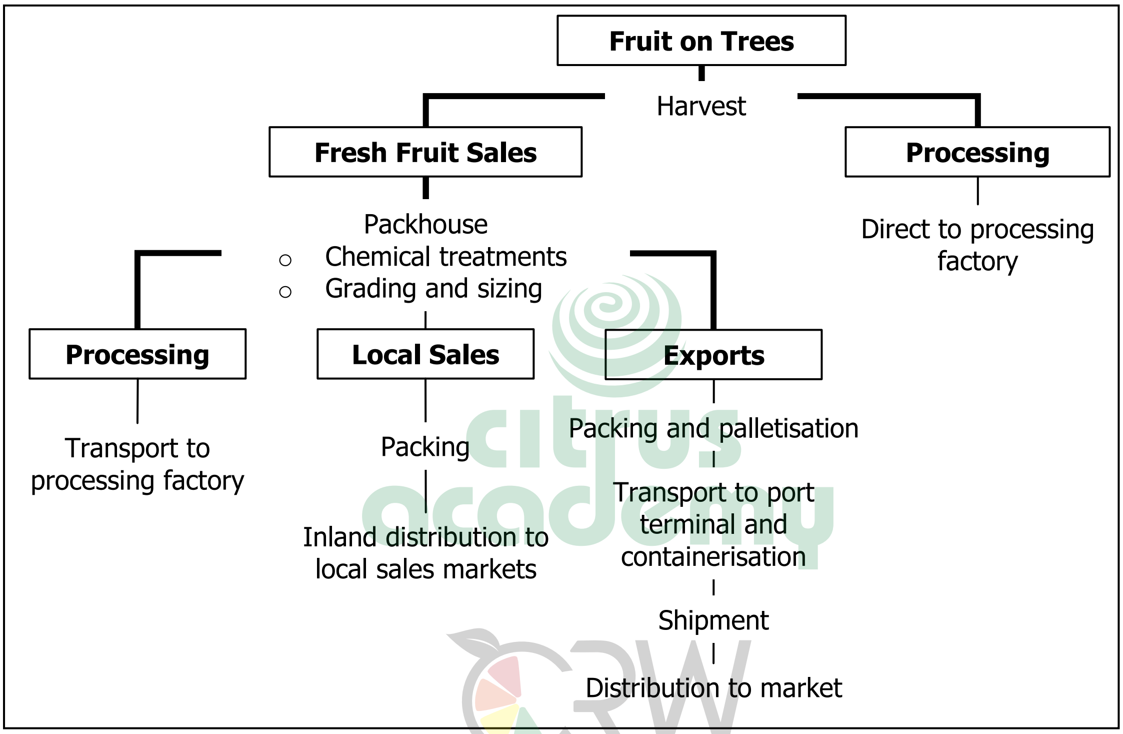



**Figure 2.1: Fruit Distribution in South African Citrus Industry**

Historically, citrus producers have generated more than 90% of their income from fresh fruit exports, even though seldom more than 65% of the total crop produced is exported. Fruit sold through the domestic fresh fruit channels and to factories for processing have mostly paid comparatively poorly.

As a result, the majority of producers have given little attention to actively developing the local market sector of their business. There are however exceptions, for example:

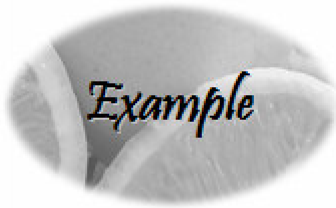
- Large-scale citrus producers in areas such as Groblersdal and Rustenburg that are located closer to city markets, or to large local settlements, and that have relatively low production and distribution costs, can do well out of their local fresh fruit sales.
- The advent of local niche markets for citrus fruit of desired specifications, being of specific qualities, cultivar types, or organic production, has created opportunities for profitable local fresh sales albeit in limited volumes.
- Processing factories that have succeeded in building a local client base for their range of products are prepared to pay competitive prices to suppliers with citrus fruit that meet the desired specifications.

The above, together with such factors as an increase in local consumer spending, a strong Rand and rising input costs, could result in a narrowing of the gap between export and local returns.

A market segment can be defined as a single market within a country, such as Tesco or ASDA in the UK, or as a country, such as Korea or Germany. It can also be seen as a local domestic fresh fruit market or as the local processing market. The decision on what proportion of product to send to which market segment depends on a number of factors including:

- The export market segments to which the relevant production area has access on the basis of phytosanitary considerations. For example if the production area has black spot disease, fruit from that area may not be exported to the USA.
- The predicted volume, fruit quality and size specification of product on the trees, which will determine whether the desired volume and quality requirements of the specific market segment can be met.
- The historical stability and reliability of the market in question, being the risk attached to doing business in that market
- Expected volumes of competitive product.
- Present and predicted exchange rate considerations
- Mode of selling, being fixed price versus consignment, of the respective market segments
- The need to provide discounts or invest in advertising
- The relationship with importers and agents based on past dealings
- Freight and distribution costs to the respective markets
- Speed of payment
- Location of the production unit in relation to local markets and ports
- Range of high quality cultivars that can be produced
- Proximity and suitability of packhouse facilities
- The importance of spreading risk and not being over-dependent on any single market segment

Based on the above, each production area would over time develop its own set of traditional market segments, which could differ widely from area to area. Each market nevertheless will have its peculiar pros and cons depending on circumstances in a particular year.




**Export Market Segments**

A typical export market segment distribution of valencias produced in Letsitele region would be something like 40% into Middle East, 20% Russia, 10% Hong Kong and Korea, 15% Europe, 5% Japan, 5% Canada, 5% UK.

However, the distribution for export Clementines produced in the Citrusdal area would be totally different, with more than 50% going to the USA and a large part of the balance going to the UK and Europe – and only a small proportion going to Middle and Far East markets.

## 2. Identifying and Analysing the Critical Success Factors in the Supply Chain

The supply chain consists of a series of actions or steps that transform or convey the product from its original state to one that is acceptable to the market. The exact nature of the supply chain will therefore depend upon the state of the product at the start of the chain, and the requirement that the market has of the product at the end of the chain.

As shown in figure 2.1, fruit ready for harvesting in the orchard is destined for fresh fruit markets, for processing in factories, or both. In only a few instances in South Africa is fruit grown specifically for processing, one such case being the Magaliesburg Co-op, where growers supply all of their citrus fruit directly to the local processing plant for juice production. Most citrus produced in South Africa follows the fresh fruit sales supply chain route.

All fruit following the fresh fruit sales supply chain is transported to a packhouse where it undergoes a series of treatments to clean the fruit, protect it against fungal diseases and to enhance its appearance through wax application. The fruit is also sized and graded, when the fruit destined for export is separated from that which is only able to meet local market standards. (Note that packhouses differ in requirements and design and therefore there can be variations to this generalised product flow sequence).

The type of supply chain therefore determines the critical success factors that are most relevant or applicable. In the case of fresh fruit export and local market supply chains for instance, the critical success factors would include the following:

- Pre-harvest treatments aimed at optimising the proportion of exportable product
- Harvesting methods aimed at minimising injuries to the fruit
- Appropriate packhouse treatments aimed at minimising chemical residues
- Effective staff motivation, incentives and rewards
- Effective recordkeeping systems
- Effective communication and management systems to facilitate movement of product from packhouse to market
- Negotiations with market agents and importers to ensure penetration of required markets

## 3. Identifying and Assessing Critical Aspects of the Marketing Mix

The various export and local market segments differ widely in terms of product positioning, pricing, packing and transport requirements and the need for promotional activities. For example, most of the product sold into certain markets such as the Middle East is transacted on a firm price basis. This means that negotiations are held between the grower or his representative agent and the importer ahead of the season to agree volumes, quality specifications and prices for the different varieties arriving at different times.

Under such circumstances the producer is not involved in market promotion strategies as these are the domain of the importer. In some cases the importer will provide shipping and therefore the fixed price is paid for the product delivered by the grower to the port and ready for loading. In this case the producer will be paid a free-on-board (FOB) price. Discounts for on-arrival quality or condition problems will normally be negotiated with the importer.

In other cases, such as exports to supermarket chains in the UK, the producer's market agent(s) will negotiate on behalf of the producer regarding required specifications, volumes and timing and a price range. Quality defects will result in price discounts that will be passed onto the grower. Decisions on in-market promotions will also be negotiated.

When fruit is delivered on consignment, it means that the producer owns the fruit until it is sold on the market. This implies that the producer takes all the risk associated with the exported product. The producer or his agent will negotiate freight rates and all other processes and supply chain costs. The producer takes the risk that the fruit could be discounted for quality or condition reasons.

## 4. Structuring the Marketing Plan

The marketing plan is based on an evaluation of the current situation in respect of the macro-environment, market analysis and consumer analysis. To define the marketing objectives for a particular citrus operation it is necessary to consider:

- **Product**
  - Product mix
  - Product strengths and weaknesses
  - Brand
  - The product portfolio

- **Market share objectives**
  - By products
  - By customer segments
  - By geographical markets

- **Price**
  - Pricing objectives
  - Pricing method, for instance cost plus, demand based, or competitor indexing
  - Pricing strategy, for instance skimming or penetration
  - Discounts and allowances

- **Promotion**
  - Promotional goals
  - Promotional mix

- **Distribution**
  - Geographical coverage
  - Distribution channels
  - Physical distribution and logistics

The producer needs to have a thorough understanding of the costs relating to alternative service options in the supply chain so that proper financial planning can be done. Even so, variable factors over which the grower has no control, such as exchange rates and the impact of competitive products on market prices, can make accurate long-term forecasting impossible.

For this reason, the producer needs to constantly keep track of the movement of competitive products, for example shipments from other suppliers to the same market. Using this and other information, such as exchange rate movements, the producer should periodically review and when necessary adjust his marketing goals and budgets.

## 5. Marketing Plan Timelines

As mentioned before, citrus is a long-term crop and the planning horizons for the production and marketing of citrus therefore also have to be long term. In addition there is the importance of relationship building and the development of a long-term structure for the allocation of product to different markets. Customers have to be looked after and sound relationships have to be developed.

Marketing planning for any given season is largely determined by the experiences of the past. However owing to the dynamic nature of the fresh fruit trade, flexibility and change-agility are very much part of the process.

Marketing goals and targets can be agreed and budgets allocated as much as six months ahead of the crop being harvested. For early maturing cultivars, such as navel oranges, satsumas and clementines, this could mean negotiating volumes and prices with exporters and importers before the trees have even set the crop. This is a necessary demonstration of commitment by both parties and provides comfort regarding the prospective outcome for the following year.

Production, marketing and logistic factors can change the situation dramatically closer to harvest time, resulting in the need for ongoing negotiations on volumes, grades, logistics and prices.

*Summary*

**Chapter 2**

- A market segment can be defined as a single market within a country or as a country, and it can also be seen as a local domestic fresh fruit market or as the local processing market.
- The type of supply chain determines the critical success factors that are most relevant or applicable.
- The various export and local market segments differ widely in terms of product positioning, pricing, packing and transport requirements and the need for promotion activities.
- To define the marketing objectives for a particular citrus operation it is necessary to consider product, market share objectives, price, promotion, and distribution.
- The producer needs to have a thorough understanding of the costs relating to alternative service options in the supply chain so that proper financial planning can be done.
- Citrus is a long-term crop and the planning horizons for the production and marketing of citrus therefore also has to be long term, but owing to the dynamic nature of the fresh fruit trade, flexibility and change-agility are very much part of the process.

*Practical*

Complete activities 3, 4 and 5 in the **Learner Workbook**.

# Chapter 3

| |
|---|
| After completing this chapter, the learner will be able to:<br><br>**Structure a risk plan to accommodate variables and uncertainties in a marketing plan for a specific agricultural commodity** |

## 1. Introduction

Variables and uncertainties accompany or result in risk. Risk relates to the meeting of expectations. There is invariably a cost attached to expectations not being met, because the supply-demand chain can also be viewed as a customer service chain.

In effect each link in the chain represents the action of receiving the product at an expected time or in an expected condition, before adding value to the product and then passing it onto the next party who also has an expectation of the product he receives. It follows that even a relatively small defect in the product or its timing of delivery can have a cumulative effect along the supply chain, resulting in the ultimate customer not being prepared to accept the product, or demanding a discount for it.

Risk should therefore be seen in the context of how various issues or factors can affect the acceptability of the final product and thereby enable it to meet the expectations of the final customer.

## 2. Risks that Impact on Citrus Marketing

Risks that impact on the marketing of citrus can be categorised in different ways. For example, there are controllable and uncontrollable risks. Then there are risks associated with the supply of the product and those associated with the demand for the product.

For the purpose of this section, it is appropriate to view risk in relation to the supply chain from a grower's point of view. From this point of view, there are various risks, which can be broadly categorised as controllable and uncontrollable risks.

### 2.1. Uncontrollable Risks

Uncontrollable risks are associated with factors that the grower cannot exercise control over, but that must be taken into account when the market plan is developed. The grower can take steps to mitigate the danger that uncontrollable risks hold for his enterprise, but he cannot change them.

Climate poses the greatest uncontrollable risk to supply. Climate embraces temperature, wind, humidity, water availability, and the influence of these factors singly or in combination on the crop. This is an extremely complex interaction that affects such factors as:

- Crop load
- Fruit size
- Disease and pest pressure
- Fruit quality and maturity time (as manifested by internal quality factors and fruit colour)
- External fruit quality (proportion of fruit that is exportable)

Up to a point, production practices and management systems can ameliorate the consequences and impact of adverse climatic conditions. These production practices and management systems can however be costly and are not always effective. It pays to lower the risk by ensuring the best possible match between climate and cultivar. Cultivars planted in marginal areas pose ongoing management challenges, often at high cost.

There are a number of factors affecting the demand for South African citrus, and these are also beyond the control of the grower. These factors are in effect the marketing risks associated with citrus exports, while some of them are also applicable to the local market. These factors include:

- Worldwide oversupply
- Mismatches in supply and demand
- Currency fluctuations
- The performance of competitors' currencies
- The status of the economies of importing countries
- Competition from new entrants
- Competition with other food kinds
- Foreign government assistance and subsidies
- Uniform exporters and export agents
- Unforeseen global crises
- Stricter quality and food safety standards
- Changes in consumer fruit preferences
- Consolidation of overseas supermarket chain stores

Most of these factors are beyond the control of the producer, but it is important that the producer is aware of the marketing risks that are attached to the business. Such factors should also be factored into decisions on spreading risk by exporting to a range of different countries rather than placing too high a proportion of product into a single market segment.

### 2.2. Controllable Risks

Controllable risks are associated with factors over which the producer has some control. Examples of such factors are:

- Cultivars selection
- Pest and disease control measures
- Recordkeeping
- Choosing an export agent
- Food safety and quality

There are also risks involved in the packing and packhouse operation, which relate to:

- The design of the packing facility
- The suitability and reliability of packhouse equipment and machinery
- The adoption of the recommended processes, systems and procedures
- The responsible use of chemicals

These are largely controllable factors though they are subject to financial constraints.

Transport, cold storage, distribution and logistics are functions that are normally contracted out to third parties. Some of the critical functions are monitored by statutory authorities and covered by insurance contracts. Consequently, the risk of incurring irredeemable losses during this part of the supply chain is relatively low.

## 3. Incorporating Risk into the Marketing Plan

The marketing plan is a live document, meaning that it must be continuously reviewed and amended based on the risk status of the various production, packing, distribution and marketing scenarios. It is also important that all forms of risk are spread to minimise the chance of a single season wipe-out. Examples of such risk management strategies are:

- The producer should not base pest and disease strategies on a narrow range of control options. Also, the grower should employ various crop prediction systems so that problems likely to occur as a result of adverse climatic conditions can be foreseen and acted upon.

- The use of packhouse capacity must be carefully managed to accommodate parallel packing of different cultivars and avoid unnecessary in-season peaks and troughs.

- Competitor activities, shipment information and price trends should be monitored continuously and the information used to continuously inform distribution and marketing decisions.

## 4. Information Sources to Manage Risk

Information is the single most important tool that the grower needs to manage risk effectively. Information includes static information that pertains to the market segments in which the grower operates, such as location, demographics, and so on, and to dynamic information that pertains to a specific season or time period, such as weekly fruit deliveries to various market segments. Information must be from reliable sources and must be timely.

The Citrus Growers Association of Southern Africa (CGA) is an important source of information on a variety of production, marketing and strategic issues. The PPECB captures data on fruit passed for export and the volumes shipped. This is of great potential value to exporters and growers alike, and important information sources for the management of risk.

Citrus Research International (CRI) conducts and coordinates citrus research, and provides grower advisory and disease and pest diagnostic services. These services, together with those offered by various private consultants and commercial companies, place citrus producers in a position of being able to understand and predict factors that could impact unfavourably on the crop, this putting them in a position to proactively carry out appropriate interventions.

To assist producers in their market-related decision-making, the CGA also provides statistics on amongst others:

- Production estimates
- Historical figures on volumes and average prices in different markets
- Market access status, particularly for phytosanitary markets
- Historical volumes shipped by local exporters and international competitors
- Planting and production trends
- Benchmark production, packing and freight costs

Similarly citrus industry groupings such the Citrus Marketing Forum and the various individual cultivar and marketing focus groups are able to provide producers with important strategic information.

All of the larger citrus export companies have their own in-house information gathering systems. These are based on data and trends monitored on various Internet sites and are most useful in the management of their product flow.

Since strategic marketing information is by nature broad-based it can and should be shared between growers with similar needs. A means of effectively achieving this is to identify a number of individual growers and outsiders with knowledge on and involvement in the subject and bring them together for brain-storming exercises. Such area-based study groups presently focus mainly on production issues but opportunities exist for market-related topics to be included at such meetings.

## 5. Other Risk Management Methods

As mentioned above, risk is reduced through the spreading of functions and services between outside service providers such as production consultants and logistic service providers.

**Mode of selling** provides a further method for managing risk. Here, the grower can decide:

- What proportion of the product should be sold on a fixed price basis;

- What proportion of the fixed price sales should carry a minimum guaranteed price;

- What proportion should be sold under a conditional selling arrangement, where, for example, the producer will sell one variety providing the buyer also takes a certain volume of another, perhaps less popular, variety; and

- What proportion would be sold on a consignment basis

**Forward exchange** cover is another method of reducing the risk attached to fluctuations in currency values. It is a type of foreign exchange transaction where a contract is made to exchange one currency for another at a fixed date in the future at a specified exchange rate. By buying or selling forward exchange, the grower or exporter can protect themselves against a decrease in the value of a currency they plan to sell at a future date.

This is normally managed through the finance division of the exporting company and can lock the selling price in local currency values and therefore protect the grower against the hardening of local currency relative to that of the buying country's currency.

Note that this is different from **forward cover**, which is the purchase in the cash market of the difference between what you are obligated to deliver in a forward contract and the amount of the asset you own. For example, if you agreed to sell 100 pallets of citrus in September in a forward contract, but you only have 60, you need to purchase the outstanding 40 to cover your obligation.

Risk can also be spread through using different exporting agents in accordance with their areas of expertise, experience and their track-record in specific market arenas. Risk is also managed by means of delegation, linkages and out-sourcing. This is because the business is too complex and specialised for one person to carry out all functions and bear all the associated risks alone.

Nevertheless, it is important to realise that it is the manager who decides to whom he will delegate the risk, what linkages he will make and which functions to outsource. The primary producer in effect carries all the risk associated with the production and marketing of his crop. This is because he accountable for all of the decisions – even though he will not and cannot be responsible for making all decisions.

There are many decisions that he will delegate to his managers and supervisors, and many decisions that will be taken by parties that are outsourced to act on his behalf, or that are employed as service providers. The production manager will for example approve the appointment of a technical adviser to compile pest and disease control programs. He could also delegate to his marketing manager all negotiations with exporters, even though he may insist on signing off all final contracts.

This is a form of risk management: allowing experts in their fields to make recommendations or take decisions.

The manager will also establish linkages with selected individuals and organisations so as to build sources of information for decision-making. The manager will for example link in with internet-based sources that provide statistics on the movement of competitor products.


**<u>Chapter 3</u>**

- ➢ Risk relates to the meeting of expectations and there is invariably a cost attached to expectations not being met.
- ➢ Risk should be seen in the context of how various issues or factors can affect the acceptability of the final product and thereby enable it to meet the expectations of the final customer.
- ➢ Uncontrollable risks are associated with factors that the grower cannot exercise control over.
- ➢ Controllable risks are associated with factors over which the producer has some control.
- ➢ The marketing plan is a live document, meaning that it must be continuously reviewed and

amended based on the risk status of the various production, packing, distribution and marketing scenarios.

- Information is the single most important tool that the grower needs to manage risk effectively.
- The South African Citrus Growers Association (CGA) is an important source of information on a variety of production, marketing and strategic issues.
- Risk can also be reduced through spreading functions and services between outside service providers such as production consultants and logistic service providers.
- Mode of selling, forward exchange, delegation, linkages, and out-sourcing are further methods for managing risk.


Complete activities 6, 7 and 8 in the **Learner Workbook**.

# Chapter 4

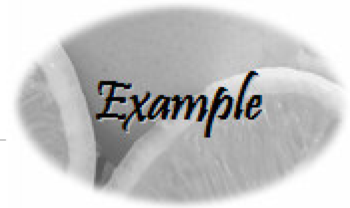
After completing this chapter, the learner will be able to:

**Monitor the marketing plan and apply remedial actions**

## 1. Monitoring Marketing Action Plans

Marketing action plans are derived from the application of the 4 Ps, being product, place, price and promotion. Most of these plans, such as the type of product and its specifications and the time and place of delivery, will be agreed well in advance of the actual supply of the product.

Marketing action plans arise from the agreed processes that have to be carried out in transforming or conveying the product from its original state to its required state. Put simply, this means that a set of action plans is required for each step of the supply chain, starting at the point where the fruit is produced in the orchard and ending when the product is delivered to the receiver, importer or market.




**Monitoring Action Plans**

A producer, as part of his larger marketing strategy, has agreed to supply a Middle East buyer with 30 pallets of Valencias of a particular size and quality specification at a given date and at an agreed FOB price. The price and product specification have been negotiated and agreed in advance. The trader does not require the grower to be involved in the promotion of the product. Since the buyer provides his own shipping, the grower's responsibility is to have the 30 pallets in the port terminal cold stores and available for loading onto his vessel on the agreed date.

In such a case, the monitoring of the action plan would involve:

- Confirming at least 2-3 weeks in advance of harvest that the orchard(s) from which the fruit will be harvested is suitable, taking into account crop performance factors, maturity indexing results and the product specifications required by this market segment.
- Ensuring that the appropriate harvesting date is identified and that harvesting proceeds as planned.
- Ensuring that the packing and packaging specifications are understood and carried out by the packhouse manager. Here, special attention would for example be given to any chemical treatments prohibited by the market, and the required carton specifications, being quality assurance functions.
- Checking that there is conformance to the required product and packaging standards before the pallets are dispatched, being a quality control function.
- Checking that the required number of pallets is stacked and ready for transport to the port in good time.
- Checking that the consignment has arrived at the port, that it is in cold storage and ready for loading.

Note that while the execution of the marketing action plans involves other parties, the overall control of the process is usually the responsibility of the general manager or marketing manager. In practice therefore, the individual accountable for monitoring the timeframes of the action plans will depend on the size and structure of the production, packing and marketing functions in the organisation.

## 2. Monitoring Spending

Budgets are only as good as the management support they are given. It is no use having a budget unless there is an ongoing comparison of actual expenditure against the budget.

It is common practice for budget reviews to be conducted quarterly particularly for those items with recurring and relatively small-scale costs such as communication and travelling expenses. The commissioning of activities that involve large-scale once-off costs, such as using out-sourced advertising contractors, will usually require special approvals where it is confirmed that provision has in fact been made for that level of expenditure.

The monitoring of the budget is usually the responsibility of the marketing manager or, in a smaller concern, that of the owner of the business.

## 3. Monitoring the Human Resource Allocation

Citrus production and marketing is a seasonal business. During the harvesting and marketing period from March to October, depending on region and cultivars, most of the orchard and packing operational activity takes place. Market planning and budgeting is carried out during the off-season and detailed market plans are usually completed at least eight weeks before harvesting of the relevant cultivar commences.

The allocation of human resources is aimed at meeting the operational needs of the different times of the season. Citrus enterprises usually have permanent staff responsible for managing the key functions of the operation, for example production, packing, finance and marketing.

Commonly, seasonal or contract staff will be taken on during the harvest and packing season. At various times, specific tasks or projects may be outsourced to specialists in the respective fields. For example, payroll, recruitment or training functions could be obtained from outside contractors.

It is important that human resources are allocated with the aim of optimising efficiency. However this has to be done in line with labour legislation and in the interests of maintaining a satisfied and stable workforce.

## 4. Identifying and Applying Remedial Actions

Citrus production and marketing are dynamic processes. Both are affected by many factors that are beyond the control of the producer. For this reason, marketing plans have to be flexible and able to adapt to meet changing circumstances. This requires corrective or remedial actions when circumstances dictate.

For example, the producer may have committed a certain portion of his crop to a market with specific quality and packaging requirements, only to discover that owing to unforeseen climatic factors, for example flood or drought, the product is not forthcoming, or its quality is compromised. This calls for the immediate revision of plans and the communication of the impact of this to the affected parties.

Similarly, market circumstances may suddenly change owing to the unforeseen arrival of competitive products or the dumping of inferior quality fruit. Here too, flexibility is called for. The marketing manager must be able to act quickly and decisively in switching product from one market to another, or holding product in cold storage while waiting for market conditions to improve.

Such flexibility must be built into any marketing plan, by having a so-called 'plan B' that can be invoked if and when necessary.

Summary

**Chapter 4**

- While the execution of the marketing action plans involves other parties, the overall control of the process is usually the responsibility of the general manager or marketing manager.
- Budgets are reviewed on a quarterly basis, particularly for those items with recurring and relatively small-scale costs such as communication and travelling expenses.
- Marketing plans have to be flexible and able to adapt to meet changing circumstances, which requires corrective or remedial actions when circumstances dictate.

Practical

Complete activity 9 in the **Learner Workbook**.

# Bibliography

**Publications:**

**The Trade Chain of the SA Fresh Fruit Industry**, Fresh Produce Exporters' Forum, Book 6 of 9, 2003

**Websites:**

http://silvae.cfr.washington.edu/ecosystem-management/Systems.html
http://www.tsicanada.com/systems_approach.htm
http://en.wikipedia.org/wiki/systems
http://en.wikipedia.org/wiki/Marketing_plan
http://financial-dictionary.thefreedictionary.com/Currency