

Product Marketing Chains for Conservation



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Introduction- Marketing Production Chain

“A healthy local economy can build a healthy environment”

This manual is intended to provide guidance for field staff and the communities in which they work, to determine whether a local natural product is worth marketing. The information is organized into questions and instructions to facilitate ease of use, and is presented in a clear and concise format to maximize user friendliness. Where opportunities exist, the document also attempts to promote access to further avenues of information for a deeper understanding of the natural product marketing production chain.

A sound business plan is the first and most obvious step towards the economic success of a product marketing production chain that benefits both the venture group and the local community. However, what is less obvious is how a successful enterprise and a healthy local economy can contribute to local conservation efforts. Market production chains can work hand in hand with ensuring the integrity of local environments; however, some base knowledge is needed to determine the viability of such a plan. An understanding of the different concepts of economic development, along with the recognition of the unique characteristics pertaining to the local community and environment, will help construct questions, allocate resources, and create a sound plan of action. In order to ensure that conservation and enterprise is concurrently successful, it is essential to follow a Product Marketing Chain approach.

In the pages that follow, the 6 steps of a Product Marketing Chain are presented to help determine whether a particular situation or context presents the opportunity to market a nature resource product while contributing to community wealth and ecosystem sustainability. The six steps are:

- 1. Defining Your Product**
- 2. Product Quality and Quantity**
- 3. Product Price**
- 4. Intermediaries**
- 5. Certifications and Regulations**
- 6. Targeting a Market**

Within each of the six specified market chain steps are a set of questions, suggestions, and concepts that detail the important

aspects associated with successfully marketing a product. The objective of each step is to quickly and efficiently determine whether or not the criteria for creating a successful enterprise have been considered and achieved. Understanding the six steps also helps donors, companies, and organizations analyze the product they plan to market.

This guidance manual is meant to be used by an individual or project team trying to better understand product marketing in the conservation context. This material should take between one to two hours to cover. It is possible that you may not know the answers to all of the questions being asked. You should therefore mark the items for which you require more information, which will help you prioritize and allocate your resources, time and personnel.

Careful consideration of these six steps will help avoid unnecessary failure and misspent commitment of time and resources. If appropriately planned, local communities can work to preserve the integrity of their surrounding natural environments while simultaneously bolstering their own economy. By following this natural product marketing chain approach, environmental principles, conservation planning, and protection techniques can be utilized to develop new economic approaches in threatened natural areas. This approach will also help to ensure new jobs and business opportunities that are environmentally responsible, and provide economic incentives through community-based enterprise development. Thus, these six steps should provide a starting point to encourage communities towards long term resource management.



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Although, it is usually known what product is a logical choice for marketing (Step 1), and the end or desired market that the community would like to reach (Step 6). It is often the steps involved in getting the product to the market (Steps 2-5) that prove to be difficult to understand and can therefore lead to production problems and failure of the product.

Step 1: Defining Your Product



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Assumption: Product choice should support local economic development and conservation within existing government.

Section 1: Choosing Your Product

To assess the viability of a product, imagine what it needs to go through from the time it is harvested until the time it reaches the consumer. Make a list of the main sources of livelihood for the local people. Then make a list of the major threats to the ecosystem you seek to protect and conserve. Do the two lists overlap? How might your choice of product affect and interact with these two lists to achieve conservation goals and encourage local economic development?

Conservation:

What are the current threats to the local environment?

What kind of resource management is already in place?

Does the product and associated enterprise help address existing threats to the ecosystem?

Is there a ban on collection of some potentially marketable species of plants? Will this affect the venture project?

Are people already using the product for subsistence or commercial use and how does this impact local conservation?

Economic:

Can an enterprise around the chosen product be profitable?

How many people can potentially be involved with the enterprise and what is the level of benefit they will receive?

Are there seasonal considerations that determine when income is considered more necessary by the people?

Will the supplemental income from the product convince people to modify environmentally harmful economic activities? How can this be ensured?

Governance:

How can the product choice be combined with pre-existing laws and enforcement to protect local natural resources?

Does the product or enterprise build off existing local skills and value chains, or will training and/or outside expertise be necessary?

Are there specific donor or investor stipulations for the product or enterprise (i.e. must target women, must use local biodiversity, must promote micro-enterprise, must expand country's exports, etc.)?

Reminder: These types of requirements will limit product choices and should be identified, planned for, and made explicit.

Section Two: Defining Your Product in Marketing Terms

Is the product a *common good* (commodity) or a *unique good* (specialty)? Knowing this information will assist you in the process of targeting and finding the most appropriate market.

Is the product *established* (already exists in the region) or *non-established* (no trade exists locally) in local, regional, and/or international markets?

Reminder: A product can be established in local markets, but non-established in regional and international markets, or vice-versa.

There are pros and cons for having established and non-established products:

Established Products:

Pros: Consumer recognition, available information, existing infrastructure, easier to market

Cons: No space for the product (greater competition, flooded market), legal restrictions and costs that make it



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difficult to enter the market (barriers to entry)

Non-Established Products:

Pros: Opportunity to create a new market, price making ability, less competition

Cons: Lack of infrastructure; may require the development of a supply chain (storage, transportation, and trading) for the product to reach its desired market; may require higher marketing costs.

Conclusion:

The product you choose must be both ecologically and economically feasible in order to ensure a successful enterprise. If there are donor stipulations that are not appropriate for your product or your ecosystem, you should address these with the donor and be willing to decline their offer.



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Step 2

Product Quality & Quantity

Assumption: Product quality, along with its maintenance or alteration, must be known or monitored before the product reaches the market.

High quality products are consistent, and often conform to agreed-upon grading standards for a particular type of product. Grading determines the quality of a product and is associated with a certain price. Highest quality or top-grade products may require more work, and therefore can be more costly to produce. However, producing a high quality product does not mean it will reach the market in this form if the market supply chain does not maintain grading and quality control standards along the way. Too often, various grades or quality products are mixed, or can be adulterated as they move to the final markets. This results in uneven product quality and lowest common denominator pricing. In other words, the lowest price is received for the entire bundle of product.

Products that seek premiums for supporting conservation and socio-economic goals for local communities (often referred to as “fair trade” in marketing terms) must also be high quality. For natural products, this includes both the quality harvested and the quality and means of harvesting.

Any sustainable natural product market chain must begin by under-

standing whether a viable supply of raw materials exists or can be introduced. However, before sustainable harvest plans are put in place, a thorough knowledge of the raw materials must first exist. In addition, management is of key importance. The promotion of natural products will not be possible without managing the use of non-natural elements, such as fertilizers and pesticides. Without an analysis of the quantity of natural product that may be sustainably harvested, it will be difficult to ensure conservation.

Section One: Recognizing the Quality Needed for Entering Specific Markets

- Local
- Regional
- International

Determine what your product quality is and how it matches with the target market. What level of quality and grading will yield the highest profit for that specific market?

Most commodity products have established grading systems. Many of these grading systems can be accessed via the internet. Specialty products may use quality standards associated with similar classes of products.

Reminder: Most products vary in quality and thus yield different prices. A system must be in place to qualify the different quality grades of the product to receive the highest possible price and to make each product cost effective.

Section Two: Understanding How to Maintain Grading and Quality Control

- Do you have access to technology that will ensure grading and/or sorting?
- Do you have the infrastructure to implement a sorting system, or do the intermediaries to whom you sell undertake grading and quality control?
- Does the value chain support grading of the product? Does the product reach the market at the same quality at which it was originally sold?

Reminder: If each participant in the chain demands better from the participant below them, and regulations are in place and enforced, then the quality of the product is easier to guarantee.

Traditional market chains combine supplies from many areas, so the end buyer cannot tell if supply came from “sustainable managed areas” that were giving fair returns to producers.

Section Three: Understanding the Difference Between Quantity and Quality

Acquiring a consistently high quality product can be a challenge. Often, providing a smaller number of high quality products (rather than a larger

quantity of low quality products) is the best long-term solution for balancing environment, enterprise, and social issues.

It is important to regulate and correctly monitor where, and under what conditions, the products came from in order to have a consistent reliability.

Before assessing the quantity of the product that can be sustainably harvested, it is necessary to understand the potential environmental constraints and overall ecosystem health within which you are working.

Some key questions to consider are:

Has there been a species inventory? Is the regeneration or growth known?

Is the product source seasonally affected (i.e. wet/dry seasons, year round availability of resource)?

How many operational days per year can your product be harvested or grown?

What kind of resource management is already in place?

A continued assessment of the ecosystem and the resource base of the product should either already exist or be put into place. The resources should be managed proactively using biological monitoring, both on a short time scale to identify immediate short-term impacts of harvesting, and on a long term scale to ensure that the population is not affected by its use. Community knowledge can be a viable starting point for monitoring, and the inclusion of the community in the monitoring is vital for sustainability. To change conservation behavior, biological data and local perceptions must be taken into account (ex. identifying threats, promoting change).

A sustainable supply of the resource base requires the following:

Information: What data/information do we need?

Analysis: How can we analyze this information?

Strategies: What practical steps can be followed?

Action plans: How can we translate the information into an effective action plan?

Information: Knowledge of the natural distribution of species

Frequency of occurrence or abundance

Population structure (age/size/class distribution)

Dynamics of the species (growth and reproduction rates)

Variation among habitats

Analysis: Use of the potential resource base

Determination of sustainable harvest practices

(rate, methods and seasons)

Comparison of supply and demand of raw materials

(current and future)

Consideration of scope of sustainable resource management

Strategies: Means of arriving at a sustainable resource base

Identification and demarcation of the resource base by ecosystem type



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– forest, pasture, farmland, and rock face, etc.

Identification of the resource supply areas for the products and estimation of the supply volume, based on the current trade/use

Sampling of field inventory to assess growing stock and the condition of target products and the ecosystem

Determination of a preliminary sustainable harvesting system

Design of a biological monitoring plan

Implementation of the biological monitoring plan and adjustments to be made as necessary

Action Plans: Creating a sustainable resource base

Creation of an operational plan of natural product user groups, enterprise development plan, especially raw material sourcing plan monitoring plan

Conclusion:

The enterprise must address quality control issues, regardless of how environmentally or socially friendly it may be, and these quality controls may vary depending on the country and the product. The quantity of product you can produce will play an important role in your enterprise. The amount you can sustainably produce will dictate what markets you can enter and whether or not your product can make a profit. Only a sustainable harvest will promote conservation of the ecosystem.



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Step 3: Product Price- Understanding the Production Cost

Assumption: The right market price for a product will yield a profit for the enterprise.

There are many aspects to keep in mind when setting a price for a product. First and foremost, the market sets upper limits on the price that can be charged for a product. Product prices can vary considerably depending on the season, the year, and existing competition. Sometimes people believe they are making a profit but, in fact, are not. This is generally due to a lack of understanding about the costs of production and marketing. Be careful and realistic when estimating costs and revenues, especially when the product is a “*price taker*.” It is essential to understand the initial investment costs and the money needed to begin a business.

Section One: DETERMINING THE PRICE OF YOUR PRODUCT

What are the price ranges for the product (i.e. by quality, target market, season, and historically)?

Are the prices different locally, regionally, or internationally? Is the product a common good (*commodity*), frequently traded or sold in a cash market? (If so, it is likely the product will have to take the price set by the market.)

Is your product unique, or in short supply? (If so, it will have greater price negotiating power compared to a commodity.) Unique products can be specialty products, or commodities that have a “unique selling position” – e.g. fair trade, conservation, organic, etc.

Although it seems that a unique product has more bargaining power, these types of products may require more investment in marketing to maximize the value of their specialty classification. It may also be necessary to compete within larger product categories or against substitute products.

An export market may offer a higher price, but the price needs to be compared against the added costs (including timing and risk of payments) to reach the export market.

Section Two: Components of the Cost of Production, Flexibility and Vulnerability of Price

It is important to list all costs (separating variable from fixed costs) and determine the cost per unit of the product:

Fixed costs are costs you will need to pay no matter how many units you make and sell.

Fixed costs include:

- Purchasing/renting/leasing land, buildings
- Constructing buildings, including storage facilities
- Cost of equipment
- Marketing costs
- Financing costs
- Taxes and business fees

Variable costs fluctuate depending on the number of units produced

Variable costs can include:

- Raw materials needed to make the product
- Packaging for the product
- Labor needed to produce the product (excluding management and finance and administration functions)
- Transportation costs
- Taxes and royalties

First, begin by estimating the variable costs. Do not worry if you are uncertain whether a cost is variable or fixed; it is more important to list the costs and worry about how to classify them later.

Make sure you consider the following:

- Does your initial list of costs and rough estimates of costs per unit add up to less than the expected selling price?
- Does the product have a long shelf life?
- Are there spoilage considerations?

Know the regulatory requirements and options: there may be taxes, royalty payment arrangements, and other benefits or pitfalls that may detract from total revenue.

Financing:

Basic Concepts to consider:

Start-up costs: The capital required to begin production.
Is this available? Must it be paid back?

Break-even point: The amount of product that has to be sold to cover the costs of making/selling product

Working capital: The amount of day-to-day operating cash available to a business to pay expenses due

Sensitivity analysis: The different possible outcomes of what will happen to revenue and expenses when prices or conditions change for the enterprise. This is commonly known as the “what if” game.



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For example:

- What if raw product price goes up?
- What if petrol prices go up?
- What if employees demand a higher salary?

Cash flow management: Even if our product is profitable, do we get paid by the market in a manner that matches our production costs and timing?

Reminder: Insufficient working capital is the largest cause of business failure, worldwide.

Conclusion:

The final price of a product must reflect all the fixed and variable costs that go into its production. However, the end product price is dictated by the market. If the product costs more to produce than the market will pay, your product will not be successful.



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Step 4 Intermediaries

Assumption: Enterprises depend upon a range of intermediaries to bring their products to market. Understanding each intermediary's function, associated risks and the market they serve is necessary in order to determine whether an enterprise should work with a particular intermediary.

Intermediaries are defined as the people or entities with whom an enterprise needs to interact with in order to get their product to market. Intermediaries can include traders, middlemen, distributors, storage and transport businesses, manufacturers, wholesalers and retailers who sell products and services. They typically have market information and experience, and bridge the gap between producers who may be in distant locations, and the market, where products are sold. Intermediaries undertake such tasks as logistics and the handling of sales with large numbers of customers, as well as activities that a local enterprise may find difficult.

Section One: Knowing Your Intermediaries

It is important to recognize who the intermediaries are for a particular product.

First answer the following question:

Who buys your product locally, in the capital or trade centers, and outside the country?

Then, estimate how many intermediaries are at each level (ex. three local traders, two processors in the capital, one exporter, and five major buying countries).

Reminder: Many buyers, such as brand-name commodity-based companies, will buy only through reliable intermediaries who can guarantee on time supply and quality. This is because large buyers need an assortment of goods (ex. a range of essential oils) and/or high volumes that need to be gathered from multiple locations. Large buyers know that it is more cost-effective for them to pay a distributor to collect goods for them, than to deal with dozens of small enterprises around the country or the world.

Services provided and prices paid to the producers by the intermediaries can make the difference between failure and success of the enterprise. Some intermediaries charge extremely high commissions or pay extremely low procurement prices for products. Small enterprises are also often at an inherent disadvantage because intermediaries can typically choose from a range of sellers.

Section Two: What Roles Do Intermediaries Play?

It is worthwhile to carefully study the roles that intermediaries play in the community, as they may not be easily replicable and are not immediately evident (e.g. emergency loans for illness and funerals; provision of transportation to remote areas, etc.) Intermediaries are frequently considered the "bad guys" in marketing however, this is often proven false upon closer inspection.

What are the major functions the intermediaries provide for the product in question?

Is there a cultural dynamic governing the actions of the intermediary?

Does the intermediary possess long-established trading expertise and contacts?

Are they willing to lend money in societies where money lending is taboo, providing safety nets in times of crisis (even if at a high rate of interest)?

Is there a sense of obligation, either financial or cultural, that needs to be addressed?

Can the community accomplish these roles without an intermediary and still ensure a profit?

Perceptions	Debunking the myths
Traders of raw materials attempt to get products at the lowest price.	Although true, seeking the best price value is the reality of business.
Traders will never give producers more margins in their profit, so producers should take on the role themselves and go directly to processors or end buyers.	Producers often do not grade products. Some traders buy all grades available on a cash basis, but they have to pay the lowest common denominator due to the presence of weak products.
Traders make large profits on the off of producers.	Traders take on transportation, storage, product reject, and market price variability risk. Producers need to fully understand the risks and costs of trading before taking on such a role. Financing is also vital in order for producers to assume a trading role.
Traders deliberately keep product and market information from producers.	Traders may or may not understand quality requirements of final markets or where final markets may be willing to pay a premium for better quality products.

Section Three: Exploring Relationships with New Intermediaries

The success of any venture is greatly facilitated by strategic relationships with quality intermediaries. This will bring the producer closer to the final consumer and will potentially improve their knowledge of the market. To achieve this:



Take the time to understand how your product fits into the overall industry (i.e. how does your wood contribute to furniture production; how can your plants be harvested and transported to nut processors and traders, etc.)

Approach the intermediaries with a business proposition, taking the time to discuss the indirect benefits of supporting conservation and fair trade objectives. Stress the quality of your product, know the quantities you can offer, and be able to talk price. Appreciate the risks intermediaries take.

To reach a new target market, you may need to consider new intermediaries with which you do not currently work. Identify venues and groups where intermediaries come together (ex. associations, trade shows, etc.) as opportunities to meet them.

If you are dealing with local traders who do not grade and sell to capital markets, but you want to invest in grading to target the export market for “green” products in other countries, you must seek out an exporter who supplies to this specific market and bypass local traders.

Conclusion:

There may be many intermediaries who ensure that your product reaches the market. Understanding their role in production, and investigating ways in which you can work cooperatively with them, may benefit the community as well as the enterprise venture.



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Step 5 Certification & Regulation

Assumption: Products must meet regulatory standards (usually health and safety based) to be allowed into certain markets, but certification is voluntary and may or may not help in accessing higher value markets.

Various regulations and certification programs aim to provide a set of standards for health, safety, environment, and social standards. While multiple definitions exist, for the purposes of this manual “regulations” refer to requirements for the product that are enforced by the government. Failure to meet the standards can result in product rejection at the border and subsequent prohibition from the market.

“Certification” is used in this document to refer to voluntary programs for product standards. Do not confuse product regulations and certification with product quality requirements. A product can meet all regulations

and have environmental and fair trade certification, but may still lack appropriate quality and can ultimately be rejected by high end markets. Certification may therefore not be worth pursuing for your product if it cannot achieve the market’s quality standard.

Section One: Understanding the Difference Between Required “Regulations” and Optional “Certification”

Certification is voluntary, while regulation is mandated by law. Control procedures are thus created within the industry to ensure that a product maintains the necessary level of quality.

It is thus essential to know the regulatory requirements and options.

The regulatory environment includes:

National and local policies, rules and regulations (formal and informal), and international laws

Your product may need to undergo lab testing and it may be necessary to fill out and register paperwork in order to prove regulatory standards.

Know the certification requirements and options:

Certification depends on marketing objectives and will be product specific. For individual certification traits see the specific information below. Certified products are a good option when considering sustainability, but are still very limited. Most small-scale groups still have difficulty meeting all of the requirements.

It is necessary first to establish phytosanitary conditions before considering any optional certification.

Sanitary and Phytosanitary Regulations:

- Sanitary and Phytosanitary measures are legislation, regulation and official procedures set in place to prevent the introduction or spread of plant and animal disease between countries. They can potentially limit the possibility of international trade for your product.

- The primary rules behind these regulations are determined by standards set by the World Trade Organization (WTO) Members in the Application of Sanitary and Phytosanitary Measures (SPS Agreement).

- The SPS Agreement encourages participating countries to use set international standards established by the Food and Agriculture Organization (FAO) Secretariat of the International Plant Protection Convention (IPPC).

- Import Risk Analyses (IRAs) are done on different countries to

determine whether their production conditions have generated material suitable for export, or whether they might contain pests or diseases that are not endemic to the receiving country.

Further information on Sanitary and Phytosanitary Measures- See Appendix 5

Section Two: Eco-labeling Considerations for Certifying a Product

Eco-labeling and certification help consumers make decisions about the products they buy. They also provide additional marketing tools that acknowledge the environmental benefits of a product by guaranteeing a pre-determined standard of environmental protection.

Examples of Different Eco-labels: Organic, Fair Trade, Forest Stewardship Council (FSC), Bird Friendly, etc.

Organic is currently the most demanded certification by buyers and has translated into the most reliable payment premiums. However, respected certification programs all have associated costs and should be considered carefully, as certification does not guarantee market access or premiums for all products.

Consider: is there a specified buyer who is requesting certification, or has the enterprise conducted research to ensure a higher price for a certified product?

For further information on Eco-labeling: www.eco-labels.org

Third, Second and First Party Certification

Third Party Certification (most stringent): exhibits that a product has an established environmental leadership criterion from an outside regulating body. This is most accepted in international markets. Third party audits and inspections are conducted. *Examples:* Organic, FSC, Transfair

Second Party Certification (moderately stringent): some regulatory body is used to evaluate the validity of product, but the terms may be inconsistent. *Example:* Fair Trade

First Party Certification (least stringent): certification has little to no bearing on standardized or established regulations and can be assessed by an individual who is associated with the enterprise.

For further information on certification criteria see Appendix 6.



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The International Organization for Standardization (ISO)

The ISO has attempted to standardize the principles, practices and key characteristics relating to three major voluntary environmental labeling types –

1. **Type I** - environmental labeling (ex. eco-labels),
2. **Type II** - self-declaration claims
3. **Type III** – environmental declarations (ex. report cards/information labels).

For Further information on ISO and Labeling See Appendix 7

Conclusion:

Products must meet regulatory standards (usually health and safety based) to be allowed into certain markets. Different markets, whether local, national, or international, have different regulations. Certification is voluntary and may be costly. It may or may not help in accessing higher value markets. The costs as well as the benefits of certification must thus be considered.



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Step 6 Target Market

Assumption: It necessary to do a market analysis in order to determine which market is ideal for your product.

Markets exist when there are buyers wishing to exchange money for products, and sellers wishing to exchange products for money. This part

of the market chain depends on determining whether those buyers exist, who and where they are, and how to reach them. To begin, we look at the marketing problem definition.

Finding the gap between what the producer has and what your customer needs, wants, or demands. (Much of this information has already been addressed in earlier steps of the chain, but it is helpful to recap the information, focusing specifically on your target market.)

Section One: Understanding the Market

- What is the product and how was it chosen?
- What quality is the product, and can it be graded?
- What is the break-even price of the product?
- Who are the intermediaries who will get the product to the market?
- What are the regulations and certifications necessary to market the product?

Given the answers to the above questions, what is the best market for the product?

Section Two: Understanding How and When Competition Can Be Helpful or Detrimental

- Who else makes the product?
- Where are competitors located (local and/or foreign)?
- What can you learn from your competitors?
- Are they spending the same amount of money on their product? (e.g. cost of production, transport, efficiencies, etc.)
- What are their successes and failures?
- Are there large producers who could flood the market with low-cost products?

Section Three: Collecting Market Information From Buyers and Sellers

Questions to consider:

- What is the overall supply and demand for this product presently and according to market growth projections?

What are the current wholesale (selling in bulk) and retail (selling individually) prices for the product?

Who will buy the product (individuals, retailers, distributors, industrial users, exporters)?

Who currently sells the product?

What conditions do purchasers require to ensure that they will buy the group's product?

Are potential buyers interested in purchasing the product from a local group? Can the product be marketed in this way?

Given previous research, is it possible to negotiate with donors if some stipulations of funding become difficult to meet?

Section Four: Analyzing the Market

It is necessary to determine the needs of customers, as well as who is most likely to buy the product. From there, a decision about which markets to serve can be made.

Given production costs, can products be sold at competitive prices?

Is there adequate demand at the expected selling price?

Is there a market for the quantity and quality of product available?

Is there an acceptable quality and quantity control?

Does the product have any constraints? How will this limit potential buyers?

How does the cost of materials (ex. packaging) play into this?

Section Five: Determining Sales and Market Strategies

Will enterprise employees or intermediaries do the marketing?

How far away are target customers, and how do they know about the product?

Reminder: Donor requirements and/or stipulations may determine which markets are feasible for your product, so it is important to keep them in mind.

It is important to assess the balance between product and marketing, remembering to position the product in the market that gives it the best



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opportunity to be successful.

Other important points:

- o Follow through on promises (honor orders, payments, and previous agreements)
- o Beware of business bias (some decisions are made because of donor stipulations or cheaper loans)
- o Pay attention to the threat of product substitution
- o Set sales goals for your enterprise

Conclusion:

Targeting your market includes determining if there are interested buyers for your product, who and where they are, and whether or not you can reach them. In addition, knowing the market price, existing competitors, and how you plan to market your product will help you better target your appropriate market.

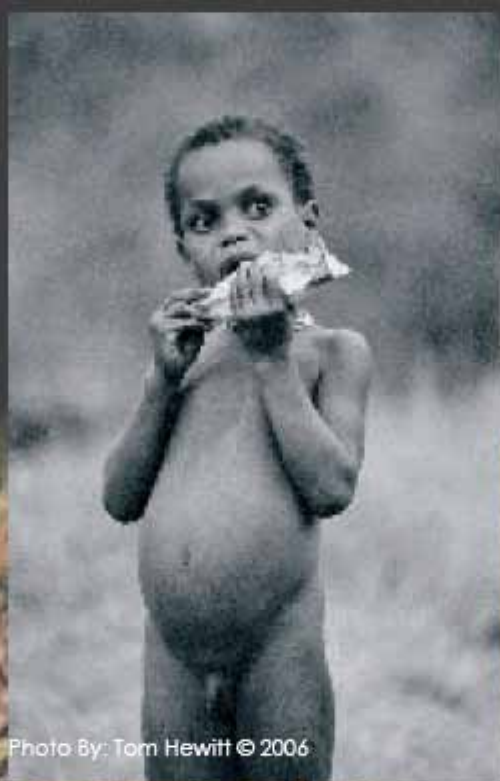


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Stories From the Field

The following 'Stories from the Field' are case examples that are designed to highlight the importance of each step of the marketing chain in a real life context.

1. Defining Your Product

Story from the field: Palm leaves for floral arrangements

The leaves of palm plants from South American forests are in great demand for floral arrangements in the United States. In one community these palms were identified for harvest, and an exporter was identified to buy the palms for sale in U.S. markets. However, community members flooded the forest and started cutting palm leaves regardless of their size or location. Within a few months, community members were fighting over the last few stands of palm plants in the accessible forest area. The plants had been depleted, and in some cases were dying as a result of overly aggressive harvesting. When community members took the palm leaves to the buyer, they found that many were rejected and had to be thrown away

because they were too small or did not meet the grading standard. The community quickly became unable to meet the buyer's quantity demands and the buyer withdrew from the agreement. The community was left with a depleted resource and lost an economic opportunity.

Lesson learned: The existence of a product and a market does not guarantee an enterprise will be successful. Considering the integrity of the environment and product source will help ensure a supply of the natural product which the enterprise can sustainably produce.

2. Product Quality and Quantity

Story from the Field: The Nepal Jatamansi Oil Example

A community in Nepal has harvested Jatamansi oil for many years. Some members in the community have sold high quality oil that is greenish-yellow. Other members of the community have not been able to produce such high quality oil due to lack of storage facilities and a problem with the distillation process; their oil is brown. During the trading process, the two oils get mixed together and result in a low quality product. This oil yields a low price and does not reflect the time and effort that some of the original community put into the distillation process. The community has become frustrated because, despite all their work, they are still receiving a low price for their product. This has resulted in a lack of incentives for the community to continue in this venture, as well as an overall reduced quality product.

Lesson learned: Different qualities of product should remain separate. Mixing them will result in low quality products – will yield lower overall prices. A grading system for both quality and quantity help avoid this.

3. Product Price

Story from the Field: Rattan and the Philippines Manobo Tribal Datus

The Manobo tribe frequently harvests rattan and sells the product to distributors in Cebu. The tribe receives different prices depending on the quality of the rattan poles the produce. The price that the tribe demands for each pole must reflect the cost of production. The final price of a pole, after considering cutting, stocking, transportation, forest charges, taxes and fees, and informal charges, is 11 pesos per pole. To make a profit, the local producers must sell each pole above this cost. The highest quality poles sell for 28-50 pesos, the medium quality poles for 14-28 pesos, and the lowest quality poles for only 9 pesos when grading is used. However, when selling in bulk the tribe receives the lowest price. They cannot cover the initial price of production and therefore the business venture fails.

Lesson learned: In order for an enterprise to be economically successful, it is necessary to ensure a profit. This will occur only if production costs are known.

4. Intermediaries

Story from the Field: Intermediaries in San Fernando, Philippines

The San Fernando community stopped working with intermediaries, particularly their local trader, because they believed they could save money by working directly with the private rattan stockyard. However, the community grew to be increasingly at the mercy of the stockyard's schedule and confusing business deals. In addition, if disagreements arose over the terms of storing their product, the community was unable to readily withdraw the poles from the stockyard, thus being forced to accept the prices offered to them. Had the community continued to work with existing or new intermediaries who had experience, established relationships with the stockyard, and who better understood the practices of other intermediaries, they might have been able to avoid these problems and bargain for a better storage price. Working with an intermediary could have resulted in a lower storage price, therefore yielding higher profit from their product.

Lesson learned: It is essential to understand the role of the intermediary before you choose to work without them. Though it may seem more cost effective to do the work yourself, intermediaries often provide services that are not immediately apparent, and may have cultural connections in place to make transactions occur with greater ease.

5. Certification and Regulations

Story from the Field: The India Medicinal Plants

A small village in India frequently harvests medicinal plants to sell at the local market. They think that they can receive a higher price for the product if it is certified and sold internationally. In order to achieve this, they need to be third party certified. Obtaining this certification raises the price of the herbs so that they are no longer viable on local markets. Unfortunately, the village discovers that their herbs are not legally allowed to be sold on the international market because they do not meet sanitary regulations. Their business no longer has any markets and subsequently fails.

Lesson learned: Certification can increase the marketability and price of your product, but it is important to know all the regulations associated with your desired market before you pursue certification, so that you are not ultimately excluded from both new and old markets.



Photo By: Jonathan Philipsborn © 2007

6. Target Market

Stories from the Field: Ecotourism in Indonesia

After learning about some of the positive aspects of ecotourism, an international donor contacted a local community in Indonesia that is renowned for its biological diversity, to inquire about the possibility of starting a local-run ecotourism enterprise in their village. The community members were interested in the prospect because they knew of other villages that had successfully implemented ecotourism, creating local revenue while protecting their natural resources. The international donor agreed to provide funding and training to the village in order to set up infrastructure for the company, and began construction and training immediately. After 6 months of preparation, they were ready to start running tours, only to find out that there was not large interest in tourism in this specific location due to its remoteness and lack of amenities. Failure to understand the target market resulted in a failure of the enterprise and a loss of funding for future projects.

Lessons learned: Donor funding can come with specific stipulations that are not suitable for the location or product that you are trying to produce. It is essential to know what these stipulations are and whether a market for them exists before starting an enterprise.

Worksheet One

Step 1: Defining Your Product

Assumption

Product choice should support local economic development and conservation within governance realities.

Checklist Questions

Have you picked your product?

Have the environmental constraints associated with the source and production of the product been considered?

Does the product have the potential to make a profit?

Are the parties involved aware of governmental and non-governmental restrictions, requirements and regulations?

Is the product a commodity or a specialty?

Is there an established or non-established market for the product?

Suggestions/ Guidelines

Yes: Proceed

No: What are the major economic and subsistence activities of the project's target community? Does this include a natural product that can be sold?

Yes: Are they sustainable? If so, proceed.

No: Revisit Step # 1, Section 1, on conversation. If you can't answer those questions, seek out local environmental knowledge (NGOs, community, government). Also see Step #2 (Quality and Quantity).

Yes: Proceed

No: See Step # 3 (Pricing). Pay particular attention to Section 2 on cost. Also see Appendix 1.

Yes: Make sure you have documentation. Proceed.

No: See Step # 5, Section 1 on regulations and certifications. Note: this includes laws, rules, policies and regulations.

To help identify, revisit Step 1, Section 2. Understand benefits and limitations of both.

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Worksheet Two

Step 2: Product Quality & Quantity

Assumption

Product quality, and its maintenance or alteration before the product reaches the market, along with the sustainable quantity, must be known or monitoring must be in place to track this.

Checklist Questions

What is the quality level of the product? Can a high quality product be consistently provided?

Is the system to grade a product already in place, or must it be introduced?

Does this product require specific technology in order to grade it properly?

Does the rest of the marketing chain support a grading system and/or maintenance of product quality?

Do you know the quality of product that consumers demand, and can you achieve this standard?

Can you produce desired quantities at a sustainable level that ensures economic and conservation goals?

Does the enterprise have a biological monitoring plan in place to monitor environmental impacts?

Suggestions/ Guidelines

To help determine quality, revisit Step 2 (quality and quantity), Section 1 to identify quality. (NOTE: If quality is not adequate, stop. Identify possible quality improvements before moving forward. If this is not possible, work within existing markets instead of trying to move into new markets.)

If in place, make sure regulations are followed. Proceed. If not, revisit Step 2, Section 2. Make sure the cost of grading is considered in final price of product.

No: Proceed.

Yes: Do you have the capabilities to attain and maintain what is needed?

Yes: Proceed.

No: Identify intermediaries within marketing chain (Step 4).

If yes, can you produce at this quality? Proceed. If you cannot produce at this quality, revisit Step 1 and reevaluate your enterprise. If desired quality is not known, continue research of markets, and revisit Step 6. Once determined, if you cannot produce at this quality, revisit Step 1 and reevaluate your enterprise.

If yes, proceed. (Step 2 Section 3 speaks to identifying conservation goals. Step 3 helps to identify economic goals (i.e. making a profit)).

If no, determine if this is possible. If it is simply not possible, revisit Step 1 and look for an alternative product.

Yes: Proceed.

No: See Step 2, Section 3 on monitoring. Keep in mind, community knowledge can be a viable

Worksheet Three

Step 3: Production Cost

Assumption

Products can be produced at a profit given the price the market is willing to pay for the product.

Checklist Questions

How does the product price range given different criteria? Given the product's type (commodity or specialty) how much price negotiating power does your enterprise have?

What are the variable and fixed costs associated with your product? Have you carefully considered what the total cost will be? (labor, machinery, land, raw materials, transportation, storage, etc.)

Have any additional costs been calculated: taxes, certifications, regulations, laws, etc.?

Has the financing of your product been considered?

Is the product profitable? Can the product be produced for a price that is viable on the market?

Suggestions/ Guidelines

Have you played the "What if game?" See box at end of Step 3 (specifically: sensitivity analysis).

To determine whether your product is a commodity or specialty, revisit Step 1.

If you have already defined your costs, proceed.

If you are unsure as to your fixed and variable costs, revisit Step 3, Section 2 for examples.

If yes, remember that these must be added into your total cost and considered when pricing.

If no, revisit your regulations (Step 5, Section 1), and identify related costs. Keep in mind that international marketing has a higher cost.

If yes, make sure funds will be available at the appropriate time, for the necessary duration.

If no, determine whether there are there potential donors or other means of financing your product. Do not proceed without adequate funding!

If yes, make sure you covered all costs adequately and proceed.

If no, consider the target market, the price available for your product, and whether it is possible to reduce the costs involved in production. There may be added value methods that will increase the price of your product. (See Appendix 1.) If this is not possible, reconsider your venture. Again, do not proceed if the product will not be profitable.

Worksheet Four

Step 4: Intermediaries

Assumption

Enterprises depend upon a range of intermediaries to bring their products to market. Understanding each intermediary's function, risks, and what end markets they serve is key to deciding if an enterprise bypasses or replaces particular intermediaries.

Checklist Questions

Can you identify the key intermediaries who are active in your product marketing chain?

How are the different intermediaries involved along the marketing chain? What roles/services do they provide?

Can the enterprise perform intermediary services on its own and still be cost effective?

If you plan to bypass current intermediaries, what are the standards for quality, quantity, and packaging demanded by the new intermediaries with whom you plan to deal directly? Can these requirements be met?

Suggestions/ Guidelines

If yes, explore options to improve relationships to benefit the intermediaries and your enterprise. Proceed.

If no, find out who is working with the community in product distribution. For examples of intermediaries see Appendix 3.

See Step 4, Section 2 on intermediary roles.

If yes, determine whether the intermediaries perform another service to your enterprise or the community, or if they be eliminated from the marketing chain.

If no, make sure relationships with intermediaries are mutually beneficial.

Revisit Step 4, Section 3. Remember, intermediaries used in the past may be helpful in the future so it is beneficial to maintain positive relationships.

If no, determine if this is possible. If it is simply not possible, revisit Step 1 and look for an alternative product.

Worksheet Five

Step 5: Certifications & Regulations

Assumption

Products must meet regulatory standards (usually health and safety driven) to be allowed into certain markets, but certification is voluntary and may or may not help in accessing higher value markets.

Checklist Questions

Do you know what regulations your product has to meet in its target markets – local, regional, international?

Do local health and sanitary practices allow your products to meet regulatory standards for the product? If lab tests and documentation are required to prove compliance, are there facilities you can access to conduct tests and complete the paperwork?

Are you considering certification? If certification is considered, how meaningful is the label? Is the meaning of the label consistent with the ISO guiding standards by the industry and governments?

What is the cost of certification and the audit and verification procedures? Do you have a sufficient quantity to warrant the additional cost?

What regulating body will verify the certification and how long does the certification process take?

Suggestions/ Guidelines

If yes, make sure you can fulfill these regulations and proceed. If no, seek help from local government entities to identify regulations. Note: International regulation can vary from country to country. Even if they claim to follow one international standard, your product will still have to complete the paperwork and requirements for a given country. (See Appendix 4,5, and 6)

If yes, proceed.

If no, address these issues immediately. Consider costs of lab tests, documentation, etc. carefully before proceeding. Remember your goal of making profit.

Is it because a target buyer is requesting it, or are you guessing the market will value the certification and pay a premium? If it is the latter, make sure you do sufficient research on the market before proceeding with certification.

For questions on labeling and ISO guidelines, see Step 5, Section 2, and insets, as well as Appendix 5 & 7.

Different certifications have different costs, so be sure to review them carefully. Make sure this procedure is economically beneficial.

See step 5, Section 2 and Appendix 6. Remember to identify the regulating body for your product.

Worksheet Six

Step 6: Target Market

Assumption

Marketing exists when there are buyers wishing to exchange money for products, and sellers wishing to exchange products for money. Find the gap between what the producer has and what your customer needs, wants, or demands.

Checklist Questions

Is the product entering an established market or a non-established market?

Has the target market been thoroughly analyzed? (Size, location, competition)

Has a marketing strategy been considered? Who will plan the marketing of the product?

Are the customer's needs and wants understood, and can they be addressed adequately with your product?

Is there any existing competition?

Are there geographical or other limitations to the product?

Suggestions/ Guidelines

To help identify your target market, revisit Step 1, Section 2. Understand the benefits and limitations of both.

If yes, does your research determine an appropriate target market for your product? Make sure to incorporate this information in choosing a market. Proceed.

If no, thoroughly research potential markets in order to sell the product profitably. If there is not a market for this product, revisit your product choice, or consider how to add value to the product. See Appendix 2.

See Appendix 7.

If yes. Proceed.

If not, revisit Step 6 to better understand the market you are targeting. Who makes up the market, and are they looking for the product you are selling. If not, try to locate other potential markets, or revisit Step 1 and identify other potential products.

If yes, make sure you benefit from others' experience and preexisting infrastructure. Also determine whether the market is already flooded with producers to determine if there is any room for your product. If it is too crowded, you may not be successful in promoting your product in this market.

If no, determine the costs of entry and make sure you include these costs in your total cost. Weigh these costs with the potential benefits of being a new product in a new market.

Make sure that you include the cost of transporting your product from source to market in your total production cost.

Resources:

The information in this manual was based off of but not limited to the following manual was based off of but not limited to the following resources.

“Commercial Use of Biodiversity and Equity: Are They Compatible?” By: Bhishma P. Subedi & Hemant R. Ojha

“Review of Community Based Forestry Enterprises in Nepal: Causes, Consequences and Lessons” By: Bhishma P. Subedi, Hemant R. Ojha, Ken Nicholson and Surya B. Binayee
Asia Network for Sustainable Agriculture and Bioresources (ANSAB) and the Netherlands Development Organisation Nepal (SNV Nepal)

“USAID Global Conservation Program: EWV/ANSAB Annual and Final Report (with Lessons Learned)” September 30, 2005

Ford – ATI Project, Grant No. 970-0771 Narrative Report January 01 to April 30, 1999

Case study 3. Creating a Land of Silk and Honey Remote Himalayan villagers encounter technical difficulties with their enterprises, but discover that ancient institutions can point the way.

“Enterprise-Based Biodiversity Conservation: As experienced by EnterpriseWorks Worldwide”

“Nepalese Essential Oils: Product Information and Traceability Sheet”

Case Study 1: Manobo Tribal Datus: Agro-Industrial Development Corporation

“Enterprise Development for Natural Products Manual” Asia Network for Sustainable Bioresources and Enterprise Works Worldwide, September 2000

“Promoting Sustainable Resource Management to Produce the Highest Quality Natural Products” Product Offerings of Himalayan Bio Trade Pvt. Ltd. Date: March 5, 2005

Case Study 2: Sugbu Rattan Furniture Manufacturing Enterprise Sugbu Rattan Workers Cooperative, Inc

“Too Much Business” A rattan handbag production company discovers that being in demand can be a mixed blessing.

Presentation:” Intermediaries - No Longer the Enemy” By: Ann Koontz Enterprise Works/VITA

WTO: http://www.wto.org/English/tratop_e/sps_e/sps_e.htm

FAO: <http://www.fao.org/docrep/W3587E/w3587e01.htm#TopOfPage>

<http://www.fao.org/ag/magazine/0604sp1.htm>

Eco-Labels: www.eco-labels.org

ISO: <http://www.gen.gr.jp>

http://www.earthscape.org/pl/gbe01/gbe01_18.html

FSC: www.fsc.org



Acknowledgements:

Future Research:

This guidance manual is intended to serve as an educational tool to help field staff and surrounding communities decide whether a local natural product will have market success while supporting conservation goals. The information is presented in a question and answer format to facilitate use by a wide range of people with the goal of supplying user-friendly information and when necessary provide information on additional avenues for guidance on natural market production chains.

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