MINISTRY OF AGRICULTURE
LIVESTOCK AND FISHERIES
STATE DEPARTMENT OF LIVESTOCK

On farm Business training Manual

Smallholder Dairy Commercialization Programme (SDCP)

On farm Business

Training Manual

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Preface

This manual is a tool to guide trainers who are facilitators in enterprise development. The content has been developed based on training needs identified under the Smallholder Dairy Commercialization Programme (SDCP) which is jointly funded by the Government of the Republic of Kenya and the International Fund for Agricultural Development (IFAD). The Programme implementation period is 12th July 2006 and 30th September 2015. While the approach was to address the Programme's design and beneficiaries' needs, the lessons can be applied widely.

The purpose of this training manual is to guide trainers who facilitate in the training of commercially oriented smallholder dairy farmers dealing primarily in milk and dairy products for their livelihood. This guide is intended to provide basic training for business operators to whom farming as a business and the commercialization approach to smallholder dairy operations is relatively new. It is a simple guide that should be easy to use for facilitators who are mainly extension officers in the field of animal production.

The topics covered include identification of business opportunities, starting a business, farm management, financial management, marketing, regulatory requirements and cross cutting issues affecting businesses.

Acknowledgement

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Training areas for farmers

I. Identification of business opportunities in dairy farming
- Selection of viable opportunities – e.g. based on market opportunities
- Analysis of business opportunities – gross margin analysis, situation analysis
- Prioritization (have a tool for prioritization - scoring matrix e.g. on basis of market, labour, cost of production)
- Entrepreneurship skills

II. Starting a business
- Sourcing for information – market information, extension, business development service providers – acquisition of technical skills required for the selected enterprises
- Networking, collaboration, building partnerships, - to identify legal and policy issues, licensing requirements, value chain concept – role of various players, Group dynamics
- Planning – business planning, farm planning, budgeting
- Skills for starting a business

III. Record keeping
IV. Farm management
V. Financial management – simple accounting
VI. Marketing – negotiation, contracts
VII. Regulatory requirements – standards, licences
VIII. Cross cutting issues affecting business

Lesson 1: Introduction to entrepreneurship

The broad objective is to inculcate entrepreneurship skills

Objectives

By the end of the training participants will be able to:
1. Define common terms in entrepreneurship
2. List characteristics of an entrepreneur
3. State 3 reasons why people start business
4. List 5 factors that make businesses fail or succeed

Content

- Definition of terms: business, entrepreneurship, entrepreneur, businessman
- Characteristics of an entrepreneur
- Reasons for starting business
- Factors that make businesses fail/succeed

Methodology: Lecture, group discussion
Duration: 2 hours
Evaluation/assessment: Questions and answers, group presentations

Facilitator's notes

Definition of terms:

Business (1) The work of buying or selling products or services for money
(2) An organization that buys or sells products or services for money (Macmillan)

Entrepreneur - A person who starts a new business, taking the initiative and the risk associated with the new venture, and who does so by creating something new or by using resources in unusual ways to provide value to his or her customers (Holt).

Risk – The possibility/chance of a negative or undesirable event occurring e.g. failure, loss, drought, famine, hailstorm, accident, injury, illness, death, theft, fire

Characteristics of an entrepreneur

- Innovation – entrepreneurs create new things/businesses and are open to trying new ideas and ways of doing things
- Risk taking – entrepreneurs take calculated risk
- Self-drive – entrepreneurs are self motivated and do not require supervision for them to work
- Need for achievement
- Need for feedback
- Diligence
- Networking

Reasons for starting business

People engage in business for various reasons. Among the reasons for starting business are:

- Need for independence – desire to be own boss.
- Self actualization. Owning and operating a successful business gives the entrepreneur a sense of achievement.
- Positive pull factors. These are desirable/positive factors that attract people to engage in business for example, the influence of mentors, profession/skills, availability of resources and opportunities e.g. ready market for milk in a new residential estate.
- Negative push factors. These are negative events which affect people but which create a need for them to start a business for example, loss of a job, death of spouse, divorce and displacement.

Factors that make businesses succeed/ fail

The success or failure of a business is influenced by factors which could be personal or attributable to the environment both internal and external.

- Personal attributes – good manager/leader, self discipline, diligence, persistence
- Environmental factors
  - internal e.g. management, skills, employees
  - external (Political, Economic, Social, Technology, Physical Environment, Legal) e.g. ecological, location, policies

Discussion: Are entrepreneurs born or made?

Lesson 2: Identification of business opportunities

Objectives

At the end of the training the trainee will be able to:

- List at least 5 on-farm business opportunities
- Select 3 viable businesses
- Analyze the selected opportunities using business analysis tools
- Rank the opportunities and pick at least one for implementation

Content

- Generation of business ideas
- Selection of business opportunities/ screening of business ideas
- Analysis of business opportunities

Methodology
Lecture, discussion, group work, demonstration
Duration: 4 hours
Evaluation/assessment: Group presentations, question and answer

Facilitator's notes

Generation of business ideas
Business ideas can be generated through:

1. Spotting a market niche: There could be gaps in a market for example where a product that is required but it has to sourced from far or it is missing altogether
2. Listening to what people say: These could be local conversations or through mass media
3. Observation of the environment and trends
4. Attribute listing
5. Gaining from waste e.g. recycling, sale of manure, preparation of animal feed from crop residues, production of biogas, etc

Screening business ideas

There are many business ideas that can be generated. However not all of them can be implemented and become profitable businesses. There is therefore need to test the ideas so that those which are suitable are identified.

Factors to consider in selection of business opportunities

(1) Business considerations (market opportunities, availability of raw materials, skilled labour market availability, technology, government policy)
(2) Personal considerations (e.g. disability, full time employment, availability, skills, personal SWOT)

Analysis of business opportunities

(1) Gross margin analysis
(2) Situation analysis - strengths, weaknesses, opportunities, threats (SWOT)
(3) Margin and mark up
(4) Prioritization: A ranking matrix is a useful tool in a selecting a business based on the entrepreneur's priorities

Lesson 3:
Starting a business

The goal of this module is to enable the participant start a business

Objectives

By the end of this lesson participants will be able to:
1. List at list 5 requirements for starting a business
2. List at least 5 sources of business information
3. Differentiate between networking, collaboration, partnership
4. Develop a plan for their business

Content

- Elementary skills for starting the business
- Sourcing for information
  - Importance of information
  - Types of information
  - Sources of information
  - Information dissemination
- Networking, collaboration, building partnerships
  - Definition of networking, collaboration, partnership
  - Possible networks, collaborators, partners
  - Advantages and disadvantages
- Planning
  - Importance of planning
  - Elements of good planning
  - Farm planning
  - Budgeting
  - Introduction to business planning

Methodology: Lecture, group discussion, demonstration
Duration: 4 hours
Evaluation/assessment: Questions and answers, presentation

Facilitator's notes:

- Elementary skills for starting the business
- Forms of business – sole proprietorship, partnership, company, cooperative
- Skills required –managerial skills, technical skills
- Sourcing for information
  - Importance of information
  - Types of information required – raw materials, production, legal, market
  - Sources of information – extension officers, internet, newspapers, magazines, radio, TV
- Networking, collaboration, building partnerships
  - Definition of networking, collaboration, partnership
  - Possible networks, collaborators, partners
  - Advantages and disadvantages of networking, collaboration, partnership
- Planning
  - Importance of planning – resource mobilization, meeting customer requirements, risk management
  - Elements of good planning –set objectives, establish procedures, analyze policies, identify governing rules, lay down strategy for achieving objectives, budgeting – resource allocation, scheduling of activities, forecasting
  - Farm planning – farm layout covering various enterprises
  - Budgeting – preparation of farm budgeting
  - Introduction to business planning

Lesson 4:
Farm management

Objectives

The participants will be able to:
1. Identify 5 factors of production
2. State at least 5 records kept in a farm and their importance
3. List 5 functions of a good farm manager

Content

- Factors of production
- Qualities of a good farm manager
- Functions of a farm manager
- Record keeping
  - Types of records
  - Importance of records

Methodology: Demonstration, lecture, discussion
Duration: 2 hours
Evaluation/assessment: group discussion, questions and answers

Facilitator's notes:

- Factors of production - land, labour, capital, time, technology
- Qualities of a good farm manager – leadership skills, communication skills, planning, negotiator, arbitrator, interpersonal skills,
- Functions of a farm manager – planning, organizing - structures, directing, coordinating, controlling, resources allocation, decision making

Record keeping

Our minds cannot store all the important information which we may need to refer to later. We may also not remember all the important facts as and when required even if we have a good memory. It is therefore necessary to document information for reference by the farmer and other parties who work with him.

Importance of records

1. Control of resources
2. Information for decision making
3. Monitoring performance
4. Communication. When we are dealing with other parties they may require information and evidence from records kept e.g. when seeking business development assistance or when we approach financial institutions for a loan.

Types of records

There are various types of records that can be kept depending on the activities and level of operations. Below are some of the records kept in a farm business.

i. **Financial records** - journal, cash book, petty cash voucher, ledgers, receipts, invoices

Income and expenditure records

Date	Description	Receipts (Kshs) (Cash In)	Payments (Kshs) (Cash out)	Balance

ii. **Physical records**

a. Farm plan showing homestead, partitions for various enterprises, unutilized land, pathways, various farm structures and enterprises, other developments

b. Milk production records

Date	Morning	Evening	Total	Calf consumption	Home consumption	Sales	Price	Value

c. Input records such as feeds and drugs, showing the quantity, value, usage, date of purchased

Input purchase record

Date	Input description	Quantity	Value (Kshs)

d. Breeding and calving records

Cow identification: ……………………………………………
Date of last calving: ……………………………………………
Lactation no: ……………………………………………………

Dates on heat			
Service dates			
AI/Bull			
Breed			
Pregnancy test: Date and result			
Date to dry			
Date to calve			

e. Animal health records

Date	Illness/events	Treatment	Cost	Remarks

Vaccination record

	Vaccine type			
Date vaccinated				
Date due				
Date vaccinated				
Date due				

e. Animal health records

Activity	Start date	Completion date	Resources used	Cost	Remarks

Lesson 5: Financial management

Objectives:

By the end of the training participants will be able to:
1. Identify 4 ways of mobilizing resources
2. State 5 reasons why it is important to manage finances
3. Name 5 essential financial records
4. Identify 5 sources of financial services
5. Identify 5 key factors to consider when taking credit

Content

- Definition of terms:
- Resource mobilization
- Financial records
- Types of financial services
- Risk management
- Sources of financial services

Methodology: Lecture, case study
Duration: 4 hours
Evaluation/assessment: Questions and answers, group discussion, presentations

Facilitator's notes:

Key words: finance, resources, capital, profit, loss, liability, credit, insurance, risk, net worth

- Asset – possessions that have value
- Capital – possessions such as money, equipment, facilities that are used to generate income
- Loss – the difference between the expenditure where the expenses are greater than the income
- Profit – the balance after subtracting expenses from income where the income is greater than the expenses

Financial services

Types of financial services:
- Savings – how to save, where to save
- Credit – sources, cost of finance, debt management- factors to consider when taking credit (terms and conditions, expected cash flows, ability to repay,)
- Insurance – types, insurance service providers
  Sources of financial services – banks, SACCOs, insurance companies, development partners, MFIs, DFIs, community based organizations, church based organizations, groups, associations

Resource mobilization

Types of resources - land, labour, time, finance, water

Strategies in resource mobilization

Fund raising (e.g. through proposal writing to donor organizations), merry-go-round, saving, table banking, village savings and loan associations, borrowing, charity, raffles, sale of assets

Proposal writing

Proposal writing is therefore important in resource mobilization. A project proposal is also a useful management and decision making tool besides being commonly used to solicit funds.

Purpose of a project proposal

1. A project proposal communicates the development idea to other parties e.g. development partners who may be involved in the implementation process.
2. A well written proposal can be used to solicit funds.
3. Careful project preparation ensures efficient and economical use of resources.
4. Project selection is based on cost-benefit analysis as the values of expected benefits and expenditure to be incurred are considered before the decision is made.
5. Careful project preparation ensures analysis of potential problems which could emerge.

The proposal should contain answers to the following:
1. What is the proposed project?
2. Why should the project be carried out?
3. How will it be accomplished?
4. When will it be done?
5. How much will it cost?
6. How will it be financed?
7. Who will carry out various activities in the project?

Some donors have specific formats for proposals presented to them. Some are in the form of application forms that have sections for specific information about the proposed project. Such forms ensure that all the pertinent information is included. Below are some important elements of a proposal

Elements of a project proposal

1. **Title page**
2. **Project summary:** This provides a description of the project idea, major components, expected outputs to be generated and project location. It comprises a brief statement of essential elements of the project, rationale, project priorities, objectives, scope, description of beneficiaries, investment period, project organization, financial and economic effects.
3. **Introduction:** This includes relevant information about the project such as the history of the project idea/ concept, parties involved in preparation of the proposal, period of preparation and acknowledgement of parties that make a contribution during the preparatory phase.

4. **Background information**
   - Description of the current situation e.g. poverty levels and other economic factors that are related to the proposed project.
   - Brief on the sector, opportunities and constraints faced.
   - Development and social objectives e.g. poverty reduction, increased per capita income. These objectives should be linked to the area development plans, national development goals e.g. Vision 2030, contribution to millennium development goals, and national strategy for sector development e.g. agriculture sector development strategy.
   - Income distribution and poverty incidence – to give a framework for justification for selecting a particular region or line of action.
   - Institutions involved in development and financing of the project.

5. **Project rationale:** This constitutes a persuasive argument for selecting the project. It includes a discussion of the development opportunities and constraints; technical, social and economic reasons for selecting the interventions as opposed to others; reasons for the project scope; discussion of potential risk and measures to mitigate against them.

6. **Project area**
   - Physical features: geographical location, rainfall, water resources, soils, environmental issues such as deforestation and land degradation if they affect the area
   - Economic base: economic activities, resources such as land, livestock, input supply, product marketing.
   - Social aspects: population and demographic patterns, ownership and control of resources, gender participation.
   - Infrastructure: water, roads, electricity.
   - Institutions in the area e.g. development agencies, service providers e.g. organizations providing financial services.

7. **Objectives:** Statement of broad objectives, specific objectives and specific quantifiable outputs/targets of the project.

8. **How the project will be accomplished:** Methods and technology; resources required; skills required.

9. Activity schedule.

10. **Project costs and benefits:** Estimated capital requirements; operating requirements; annual revenues; cash flows; employment generation; and other benefits.

11. **Financing:** Amount to be invested; resources to be contributed from within; funds required from other sources; how the financing gap will be bridged; if a loan is to be used then the proposed repayment schedule should be indicated; expected payback period. Forecasts of cash flows, income and expenditure statements should be annexed to the proposal

12. **Organization and management:** This section gives information about who will carry out the project. This includes the persons responsible for various tasks and the skills that will be required

13. **Outstanding issues:** These are issues that need to be resolved and which could impact on the successful implementation of the project.

14. **Annexes:** Projected accounts, schedules, copies of registration certificate for group, copy of business certificate, Kenya Dairy Board certification, tables, maps, photographs, results of surveys, market assessments or any other relevant documentation in support of the proposal.

Risk management

Business owners face many uncertainties that can affect their businesses. Risks are events that can occur leaving negative effects. Awareness of such possibilities and preparation for them can help to minimize the negative effects should the event occur. Risks can be managed through various means such as insurance, security and diversification.

Insurance is a promise of compensation for specific potential losses in exchange for periodic payments referred to as premiums. The purpose of insurance is to protect the financial well being of an individual or organization if the event which could result in loss occurs. A business owner can take insurance for himself, his family and his business.

Besides insurance the business owner can manage risks by putting in place security measures, employing competent employees, having record keeping and monitoring systems and making timely decisions regarding the business. Diversification also helps to mitigate the risk of losses affecting a particular sector of the economy.

Lesson 6: Marketing

Objectives

By the end of the training participants will be able to:

1. Define what marketing is
2. Differentiate between marketing and selling
3. Describe at least 4 components of marketing
4. Identify at least 3 market outlets for their produce
5. Describe at least 3 marketing channels for dairy products

Content

- Definition of terms: market, marketing, selling, advertising, branding, publicity, service, product, customer, niche market, competition, competitor, market outlet, marketing channel
- Components of marketing – 4Ps, 2Cs, demand and supply
- Market outlets and channels - intermediaries

Methodology: Lecture, group work, discussions, case study
Duration: 2 hours
Evaluation/assessment: Questions and answer, presentations,

Facilitator's notes:
Key words:
Marketing, market, product, customer, competition, competitor, marketing channel, niche market, selling, advertising, branding, publicity, service

Components of marketing

- The 4Ps of marketing: product, price, promotion, place
- The 2Cs in marketing: customer, competition
- Demand and supply

Market outlets and channels - intermediaries

- Identification of market outlets – neighbours, brokers/traders, institutions, hotels, retail shops, milk bars, agro-vet stores, other farms, cooperative societies,
- General requirements of product marketing – technology, relevant licences from the regulator and local authorities
- Obtaining market information – market research, publications, radio, television programmes, marketing associations, processors, consumer organizations, trade fairs

Lesson 7: Regulatory requirements

Objectives

By the end of the training participant will be able to:
1. List at least 5 regulatory authorities governing their business
2. State the legal requirements of at least 3 regulations
3. State at least 5 reasons why regulations are important
4. State 5 implications of not following regulations

Content

- Definition of terms: law, statute, licence, permit, fine, penalty, regulator, offence, crime, inspector
- Regulations governing dairy businesses
- Regulatory authorities
- Importance of regulations
- Implications of not following regulations

Methodology: Lecture, group work, discussions, case study
Duration: 2 hours
Evaluation/assessment: Questions and answer, presentations

Facilitator's notes

Definition of terms:

- Law – rule /set of rules used to govern/oversee
- Statute – a law passed by a government and formally written down
- Licence – an official document that shows that a person is authorized to conduct the business specified
- Permit – official document giving authority to do something
- Fine – money paid by someone who has broken the law
- Penalty – punishment for breaking rules
- Regulator – official body or person charged with the responsibility of enforcing rules
- Offence – violation of a rule which leads to punishment
- Crime – activity that is against the law/illegal
- Inspector – official whose duty is to check if rules are complied with

Regulatory authorities

Regulatory authorities in the dairy industry include but are not limited to the following:

- Kenya Dairy Board
- Kenya Bureau of Standards
- Department of Public Health
- National Environment Management Authority
- County Governments

Importance of regulations

Regulations are important for many reasons. Among the reasons are:

1. Ensuring health and safety of consumers
2. Setting standards which are important for trade

Implications of not following regulations

- Withdrawal of licence
- Penalties such as fine, jail term
- Closure of the business
- Loss of customers
- Compromising the health and safety of customer

Lesson 8: Cross cutting issues affecting business

The goal of the training is to create awareness on cross-cutting issues that can impact the business and the interaction between the business and the environment (PESTLE).

Objectives

- List at least 5 issues that would affect the business
- Explain how at least 5 of the issues affect the business
- Identify 3 ways the business would affect the environment (PESTLE)

Content

- Environment
- Gender issues
- HIV/AIDS
- Drugs and substance abuse
- Human rights
- Governance

Methodology: Lecture, discussion, video, role play
Duration: 2 hours
Evaluation/assessment: Question and answer, group presentation

Facilitator's notes:

- Introduction of Political, Economic, Social, Technology, Legal, Environment (PESTLE)
- Environment – climate change, carbon credit, pollution, waste disposal, biogas, energy saving devices, water harvesting, how they affect farming activities and how the effects can be mitigated
- Gender issues – gender mainstreaming
- HIV/AIDS – awareness creation on effects
- Disability – empowerment and inclusion of people with disabilities
- Drugs and substance abuse – causes, effects, how to avoid, where to seek help
- Corruption – definition, effects of corruption, prevention
- Human rights – definition, safeguarding human rights in the society
- Governance – definition, how to ensure that there is good governance

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Notes

Notes

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