Planning for Producers:
Not Business as Usual

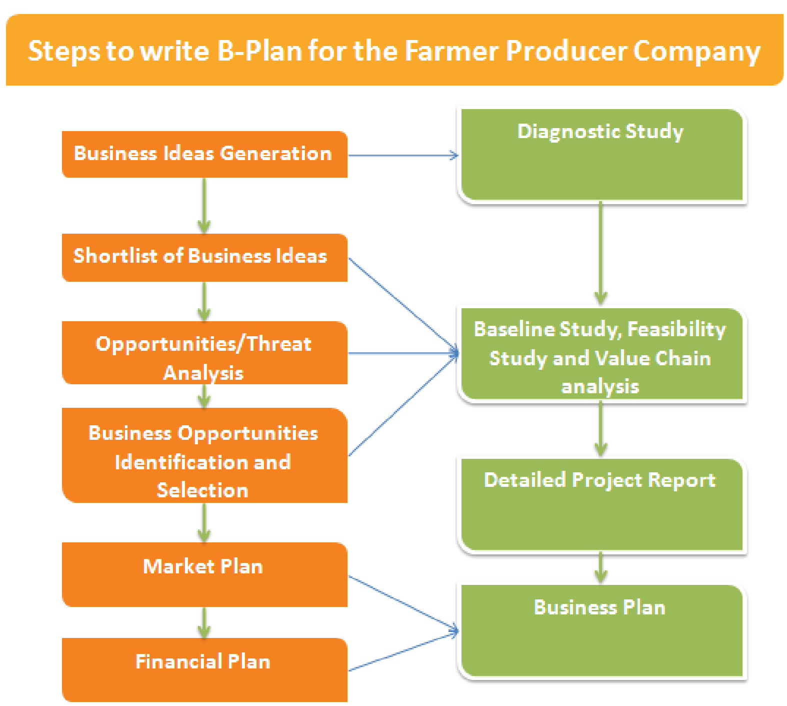
Planning is one of the key components of a business, whether run by an individual or an institution. A realistic and effective business plan covers the following areas:

- Quantification of Strategic Plan
- An actionable path to achieve the Strategic Plan
- Management of different types of resources (financial, human etc.)

1.1 Differences between a B-Plan for a producer organisation and a privately-held enterprise

#	Particulars	B-Plan of privately held enterprise	B-Plan for a Farmer Producer Company
1	Focus	Profit maximization for an individual or a group of promoters	Profit maximization for the community
2	Shareholders	Contribute as per the shareholding	Active contributors in the business as well as consumers of the services
3	Strategies	Mostly outward focused (For eg: market capitalization, market share etc)	Mostly inward focused (For eg: monetary benefits to the members)
4	Fund-raising	Existing channels of funding (eg: Banks) are leveraged	Innovative channels of funding (Crowd, debt etc.) must be explored

1.2 Major steps in writing a B-Plan and how they are applicable for an FPC



1.3 Key underlying principles for designing the business plan for an FPO

a. **Orientation - Community instead of Commodity:** If the ultimate objective of the organization is to create wealth for the community then the focus should be on the community and not on the commodity. The ways to enhance the income of a particular community, either through a specific activity or commodity need to be defines.

b. **Fully Integrated Service Model – Backward and Forward:** Apart from the strategy of directly reaching the market and getting better prices, the incomes can be enhanced by cutting the costs across the value chain, for instance by providing agricultural inputs to the farmers at lower prices.

c. **Compact Area approach:** The cohesiveness of a producer organization largely comes from promoting the organization in a compact area. Apart from reducing the logistics cost, this also increases the possibility of continuous interaction among the member farmers which ultimately increases the participative decision making.

d. **Collectivization and Aggregation – Benefits of Economies of Scale:** Aggregation of commodity and services ultimately reduces the cost of availing them for its members.

e. **Strategic build-up of internal capital:** Various types of savings are implemented by various producer companies such as transaction based savings, weekly, monthly or annual savings, and periodic equity infusion. Such build-ups certainly provide the FPOs with access to low-cost capital in a timely manner.

f. **Targeting of nearest market first:** Nearest market and nearest customer are always targeted first, because apart from saving the logistics cost, it provides real time insights on the product quality.

2 Challenges of writing a B-Plan for a community-owned enterprise

a. **Extensive analysis of ideas required**

Every idea has to be examined and analysed from economic, social, political and legal perspectives. For instance, some members of a producer company collect forest produce which commands high value, but the trading of this produce has some legal implications. So the idea involves both commercial and legal aspects and needs to be understood thoroughly for a positive outcome for the producer company.

b. **What not-to-do?**

Although this question holds equal importance in the case of normal businesses, the stakes are even higher when the community is involved. We face this challenge in each aspect of promoting a producer company. One key example of this quandary is the shortlisting of a business idea. This sector is filled with examples where a producer company started with a particular commodity or livestock and changed tracks later when confronted with unforeseen hurdles. This change of theme causes loss of funds for the company and loss of reputation in the eyes of the members. So, all the components must be analyzed from all angles and using available management tools/lenses such as PESTEL, SWOT, BCG matrix, etc.

c. Business Plan for Consultants?

It is one of the most common and still unaddressed challenges in writing a B-Plan for producer enterprises. Often the resource institutions prepare the B-Plan with only the producer organization in mind and hence miss out on a key stakeholder in the process, the community members themselves. They don't have enough consultations with the community members and hence end up with an average B-Plan. It is important to keep the community members in the loop and give them periodic updates about any changes.

d. Insufficient Provisioning for Risks

More often than not, the risks in operating a business are discounted by consultants. Since most of the textbooks are focused on the inherent risks in a general business, consultants tend to miss out on specific risks associated with the business of a producer company. So, if the consultant who is writing the B-Plan doesn't have sufficient exposure of institution building, then they must take such a subject matter expert on board.

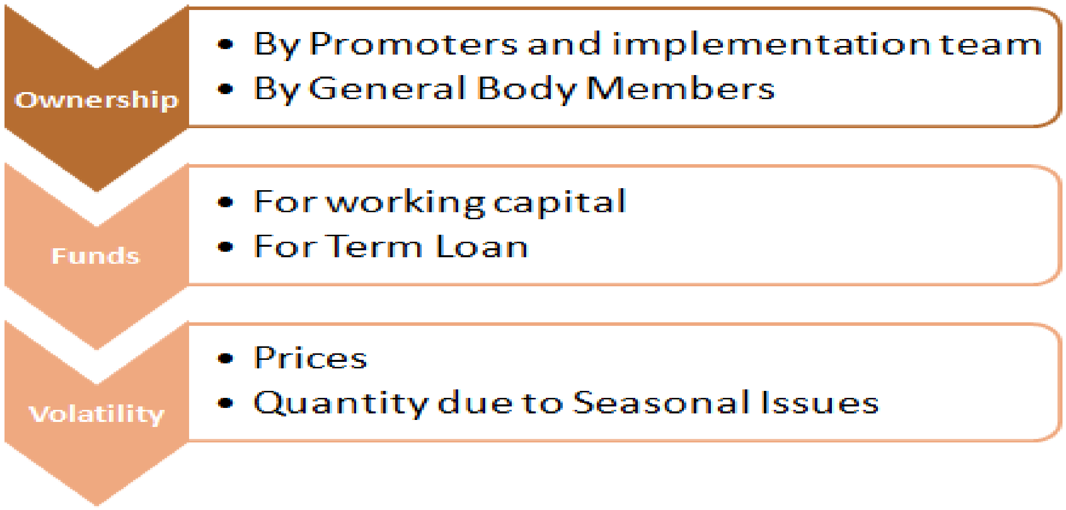
e. Vetting of Financial Plan

Like the B-Plan for producer enterprises, the financial plan is also prepared by the respective resource institutions. It is usually noticed that the vetting from the seasoned bankers, chartered accountants, and government officials doesn't happen in due time which actually leading to problems in the implementation. This can be avoided by involving them in each step of business planning.

3 Issues in the implementation of Business Plan[1]

Ownership: Generally, the members of the producer companies feel that the producer organization either belongs to the government which is funding the whole activity or the resource institution which is collecting the share capital. It has also been noticed that they believe that a handful of promoters of the producer organization control the entire producer organization.

[1] Past experience of promoting a producer company at ALC India



Funds: Producer organizations find it difficult to access funds for the working capital and capital expenditure needs, from the formal financial institutions. The institutions always ask for collateral which producer organisations find difficult to furnish. So, the organization hardly realizes 10% of the funds requirement that too from non-formal institutions which actually charge higher rates of interest.

Volatility: The volatility in the prices and volatility in the quantity are the two major issues faced by a producer organisation. There are some commonly available methods to forecast the volatility in the prices but the volatility in the production which happens mainly due to unforeseeable factors like untimely rain, hailstorms etc. are difficult to factor in.

4 What users at ground feel about the Business Plans for FPCs

Mr. Sharad Pant, Assistant Project Director at ALC India, who implemented nine business plans for nine farmer producer companies across 3 states of the country, feels that generally the business plans don't give much importance to the cropping history of the area which is the main reason it cannot factor in most of the changes in the future. He also feels that generally B-Plans end up looking at forward side of the chain. It tries to capture the volatility in the prices but it doesn't give sufficient information to understand the volatility in the production. He also suggests that conducting consultations at each level of planning can be a major step in addressing all such issues.

Mr. Debashsis Mandal, Assistant Project Director at ALC India agrees with some of these points. He gave some unique solutions to the problems he faced while implementation of business plans. He said that the B-Plan that various RIs prepare right now is quite complex for normal promoters or farmers to understand. He understands that to extensive information in a B-Plan is required by bankers and funder, making it necessary to have a comprehensive and complex business plan. He proposed that two versions of the B-Plan must be prepared, one for the bankers, funders and a simpler one with only critical information for the producers.

Mr. Debashis also says that B-Plan doesn't talk in depth about the market linkages. He feels that before including the market linkages in the B-Plan, those linkages must be verified thoroughly to understand its implication on entire business.

Both of them unanimously agree on one major issue which resource institutions face in implementation of B-Plan, which is the availability of working capital and term loans to invest as per the B-Plan.