Trainee Workbook

Evaluating Inclusive Business Models in Agribusiness

IBTrainer

② Purpose of this manual

Understanding how inclusive a business model is and could be is not done easily or automatically.
It requires a structured way of:
a) assessing inclusiveness in a business relationship
b) assessing the business model of a company, and
c) reflecting on how the business model is built on, strengthened or weakened by any attempt to be more inclusive.

This workbook is for you as trainee following a workshop related to evaluating inclusive business models. Your trainer will have developed a training structure that includes a number, if not all, of the sessions outlined in this workbook. If all sessions are carried out, you will be following a three day training.

You can use the workbook to:
• fill out exercises as you go along, so you have a
• completed reference piece by the end of your training find relevant detailed material online through links provided
• be reminded of key pieces of information.

You can find all sessions in the workbook online at www.seasofchange.net/ibtrainer

Content

4 Session 1: introduction to Inclusive Business Models

Learning objectives

By the end of this session, you will be able to:
• define inclusiveness in a business context
• identify key challenges regarding inclusive business models
• apply concepts to your own business context.

Topic 1: What are Inclusive Business Models?

Inclusive Business Models (IBMs) can benefit the agriculture sector, which is a source of livelihood for an estimated 86% of the worlds rural population (2.5 billion people) and provides employment to 1.3 billion smallholders and landless workers.

A more dynamic and inclusive agriculture sector could dramatically reduce rural poverty, helping countries meet the Sustainability Development Goal. Cross-country econometric estimates show that overall GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country's population as the growth generated in non-agricultural sectors.

Materials:

• Interview:
  Novos Horizontas video
  (http://tinyurl.com/qansxpp)
• Business Case:
  Novos Horizontas
  (http://tinyurl.com/q4ptdzm)
• Research & publications:
  'Is inclusive business for you?'
  Chapter B8 Novos Horizontes,
  pp. 87–96. (http://tinyurl.com/
  ol7jcz4)
• Research & publications:
  "Insights Series 03: Partnerships
  for Inclusive Business
  Development", section 1 and 2.
  (http://tinyurl.com/po9yafl)

The value-chain map enables us to visualise:

• the actors directly involved in the chain
• the roles and functions of these actors and the interconnections between them
• indirect actors and how they support the functioning of the chain
• links, breaches or blockages between the actors
• product flow
• information flow
• price formation
• distribution of benefits
• external influences on the value chain.

Task 1

Watch the video and
read the case study. *[links]*
What are the challenges for IBMs?
List three things that strike you.

Task 2

Draw a value chain of your company
on **flipchart paper** and identify
possible challenges in relation to IBM.
For further information on how to draw
the value chain, see page 38
in the LINK-methodology: *click here.*

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Session 2: LINK Methodology: the New Business Model principles

Learning objectives

By the end of the session you will be able to:
• recall the New Business Model (NBM) principles
• evaluate your business in terms of inclusiveness.

Topic 2: LINK Methodology

LINK Methodology aims to promote the engagement of smallholder producers with markets. This method guides a multi-stakeholder process of shaping or upgrading inclusive trading relationships with the potential to create a win-win situation for all actors involved. Four key tools are used to kick off, implement and conclude a participatory innovation process in the iterative manner of a design-test-check-act cycle. The NBM principles represent a set of signposts to help evaluate current business practices in terms of their inclusiveness and to deliver practical ideas on how to enhance a business's inclusiveness.

Materials Task 4:

Research & publications:
'Is inclusive business for you?'
Chapter B8 Novos Horizontes,
pp. 87–96. (http://tinyurl.com/ol7jcz4)

Materials Task 3:

Research & publications:
Link Methodology: Inclusive Business Model Toolkit,
pp. 1–5, 12–26. (http://tinyurl.com/peba832)

Task 3

Give your own definition of a business model.

Task 4

Identify the activities related
to inclusiveness at Novos Horizontes
after reading Chapter B8 from
'Is inclusive business for you?' [link]

Task 5

Identify activities related to inclusiveness
based on the NBM principles
that you already do in
your business operations.

Task 6

Identify activities related
to inclusiveness based
on NBM principles that you
might pursue in the future.

8 Session 3: Introduction to strategic management and business plans

Learning objectives

By the end of the session, you will be able to:
• explain the importance of strategy and the strategic planning process
• recall the components of a strategic business plan
• apply tools to analyse a company and to develop strategy
• evaluate a company strategy.

Topic 3: Why write a business plan?

'Writing a well thought-out and organized business plan dramatically increases your odds of succeeding as an entrepreneur.' A business plan is a document that describes your business. It covers objectives, strategies, sales, financial forecasts and marketing.

If you need to raise funds for your venture, it goes without saying that you'll have to write a solid, formal business plan. Business owners who want to borrow money or attract investors will be successful only if they have well-written, well-researched business plans. All of your potential lenders or investors will want to understand as much as possible about how your business will work before deciding whether or not to back it financially.

Financial forecasts are a vital part of a business plan, helping you to predict and plan your business finances in order to show potential investors that your business idea will fly. But preparing financial forecasts is a good idea even if you don't need to raise start-up money. The discipline of developing financial projections for your business plan includes:
• an estimate of start-up costs
• a break-even analysis
• a profit-and-loss forecast
• a cash flow projection.

The financial forecasts will help you decide if your business is worth starting or if you need to rethink some of your key assumptions.

In other words, a good business plan will convince you that you're doing the right thing – or not.

(Source: http://www.nolo.com/legal-encyclopedia/need-business-plan-reasons-29758.html)

Topic 4: Components of business/ strategy plans

1. Executive summary

The executive summary outlines your business proposal. Although it is the last section to be written, it goes on the first page of the business plan. It will be read by people unfamiliar with your business, so avoid jargon. The executive summary highlights the most important points and should sum up six areas.

Task 7

Give your definition of a strategic
plan, a business plan, and list the
differences between the two.

Task 8

Write your executive summary here.
This is best done after you have developed
the whole business plan.

Session 3

2.The business

The background to your business idea, including:
- the length of time you have been developing the business idea in its present form
- work carried out to date
- any related experience you have
- the proposed ownership structure of the business.

Define how your product or service:
- will stand out as different from other products or services
- will benefit your customers
- can be developed to meet customers' changing needs in the future.

It is important to cover any disadvantages or weak points you feel the business may have. Be frank about these – it inspires confidence. Also explain any key features of the **industry** (e.g. special regulations, effective cartels or major changes in technology).

Tools: PEST (http://tinyurl.com/34rolj)
Porter's five forces (http://tinyurl.com/ntcl62c)

3.Markets and competitors

Unless there is a viable market and you know how you are going to beat the competition, your business will be vulnerable. You must show you have done the market research needed to justify what your plan. Focus on the segments of the market you plan to target – local customers or a particular age group, for example. You will need to:
- indicate how large each market segment is and whether it is growing or declining
- illustrate the important trends – and the reasons for them
- outline the key characteristics of buyers in each segment (e.g. age, sex or income)
- mention customers you already have lined up and any sales you have already achieved.

What are the competing products and who supplies them?
- List the advantages and disadvantages of all your competitors and their products.
- Explain why people will desert established competitors and buy from you instead.
- Show you understand your competitors' likely reactions to losing business, and demonstrate how you will respond to it.

4.Sales and marketing

How will you position your product? How will your product or service meet your customers' specific needs?
- This is where you show how your price, quality, response time and after-sales service will compare with competitors.
- Quote minimum order figures, if appropriate.
- How will you promote your product? For example, using advertising, PR, direct mail or via email and a website.

How will you sell to customers? For example, by phone, through your website, face-to-face, or through an agent?
- Show how long you predict each sale will take. Many new businesses underestimate the time involved in winning each order. In year one you may spend up to 80 per cent of your time making contacts and selling.
- Will you be able to make repeat sales? If not, it will be hard to build up volume.

Who will your first customers be? Unless you can demonstrate that you have a clearly defined pool of potential customers, starting your business is likely to be a struggle.
- Show which customers have expressed an interest or promised to buy from you, and the sales they represent.
- How will you identify potential customers?

What contribution to profit will each part of your business make? Most businesses need more than one product, more than one type of customer and more than one distribution channel.
- Look at each product in turn. Examine your likely sales, gross profit margins and costs.
- Identify where you expect to make your profits and where there may be scope to increase either margins or sales.

Concepts: Porter's generic strategies (http://tinyurl.com/py34f8h), Ansoff matrix (http://tinyurl.com/y8puyy9)

Task 9

Describe your business according to the points on page 10.

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What are the competing products and who supplies them?

....

How will you position your product?

....

How will you sell to customers?

....

How will you promote your product?

....

Who will your first customers be?

....

What contribution to profit will each part of your business make?

Session 3

5.Management

People reading the business plan need to be given an idea of why they should have faith in the management of your start-up.

Outline the management skills within your team.
- Define each management role and who will fill it.
- Show your strengths and outline how you will cope with any weaknesses.
- Describe the background and experience of each team member.
- Clarify how you intend to cover the key areas of production, sales, marketing, finance, and administration.
- Briefly explain the management information systems and procedures you will use, such as management accounts, sales, stock control and quality control.
- Show how many 'mentors' and other supporters you will have access to.

How committed are you?
Banks and any other potential investors will want to be sure you are committed to the business.

6.Operations

Specify the facilities your business will have and how it will deliver the product or service to the customer.
- Show the pros and cons of the location.
- Indicate the facilities you will need to start (e.g. equipment and machinery). Some start-up businesses only need a desk and a phone.
- Consider any potential limits to production capacity.
- If you are going to manufacture or distribute products, show how and where you are going to warehouse them and for how long.
- Provide a list of the employee roles you need to fill, and the skills required to fill them.
- Show how you selected your suppliers.

7.Sales forecasts

Sales forecasts produced for start-up businesses are often over-optimistic.
Here are some important reality checks:
- How soon can you start selling? Will potential customers hold off for a year before they take you seriously and place an order?
- How often will you be able to sell?
  - How many days can you spend selling?
  - How long will each lead take to line up?
  - What percentage of leads will turn into sales?

How much will you be able to sell?
- What will the average sale value be?
- Will most people give repeat orders or must you find new customers each time?

Task 10

Show how much time and money
each of the management team
will contribute, and your expected
salaries and benefits.

Task 11

Specify the facilities your business
will have and how it will deliver
the product or service to the customer.

Task 12

How long after a sale will it take
before you can collect payment?
How much income can you
realistically expect each month?

8.Financial forecasts

Your financial forecasts translate what you have already said about your business into numbers. A realistic sales forecast forms the basis for all your other figures. Break the total sales figure down into its components (eg different types of products or sales to different types of buyer).

Your cashflow forecast shows how much money you expect to be flowing into and out of your bank account and when. You must show that your business will have access to enough money to survive.
• Demonstrate that you have considered the key factors affecting cash flow; for example, wages and the level and timing of sales revenues.
• Show when you expect to be cash-positive – having more money coming in than going out.

Your profit and loss (P&L) forecast gives a clear indication of how the business will move forward. Summarise the annual P&L forecast for each of the first two or three years of trading.

If you are launching a larger start-up, you will also need projected balance sheets. These will show you the financial state of your business on day one and at year end, perhaps for the first two or three years.
Do not get too protective about your forecasts. You may need to revise them.

9.Financial requirements

The cash flow forecast will show how much finance the business needs. Your assessment of the risks will determine whether or not you need to arrange contingency financing.

Say how much finance you will want, when and in what forms. For example, you might want a fixed-interest loan and an overdraft facility.

State what the finance will be used for. Show how much will be for buying equipment and how much for working capital (financing stock and debtors).

10.Assessing the risks

Assessing risk will help you minimise problems and help build up your credibility with any investor or bank. Look at the business plan and isolate areas where something could go wrong (e.g. if your main supplier closes down). What would you do if that actually happened?

Consider a range of what-if scenarios (e.g. what happens to your cash flow if sales are 20 per cent lower or 15 per cent higher than forecast). If there are serious risks:
• you can arrange contingency funding to cover the finance you may need
• you may decide that the business is too risky and abandon the whole project.

11.Appendices

Detailed financial forecasts (monthly sales, monthly cash flow, P&L) should usually be put in an appendix at the end of the business plan.

Include a detailed list of assumptions. For example, the profit margin on each product, debtor collection period, creditor payment period, stock turnover, interest and exchange rates, and equipment purchases.

You may want to give additional relevant information such as:
• detailed CVs of key personnel (essential if you are seeking outside funding)
• market research data
• product literature or technical specs
• names of target customers
• a list of the external data sources used in your research, which will add credibility to the information.

12.Presenting the plan

The more solid information you can gather for your own use, the better the business plan will be, although a banker or other outsider will not have time to read through all the details.

Keep your business plan short. Most business plans are too long. Focus on what the reader needs to know. Make it professional. Put a cover on the business plan and give it a title. Include a contents page.

Test it. Re-read it. Would reading your plan give an outsider a good feel for your business and a grasp of the key issues? Show the plan to friends and expert advisers, and ask them for comments.

Task 13

For each forecast, list all your key assumptions (e.g. prices, sales volume and timing). Small business advisers at banks and at your local business support organisation will often help you put together your forecasts free of charge.

Task 14

Confirm that you will be able to afford it.

Task 15

Consider a range of what-if scenarios

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Session 4: LINK Methodology: value chain mapping

Learning objectives

By the end of the session, you will be able to:
• define relationships and interconnections between the value chain actors
• identify the flow of products, services, information and payments
• identify entry points or key leverage points to improve the value chain.

Topic 6: LINK Methodology

LINK Methodology aims to promote the engagement of smallholder producers with markets by guiding a multi-stakeholder process of shaping or upgrading inclusive trading relationships with the potential to create a win-win situation for all actors involved. For that reason, four key tools are designed to kick off, implement and conclude a participatory innovation process in the iterative manner of a 'design-test-check-act cycle'.

The value chain map is used to understand the macro context of markets and the businesses that link rural producers with buyers.

Topic 5: Materials

Kapilinsky value chain book: (http://tinyurl.com/p2n2gmf)

Materials Task 16:

Research & publications: Link Methodology: Value Chain Mapping , Pages 31-43 (http://tinyurl.com/peba832)

Task 16

List the key characteristics of a value chain.

Task 17

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Draw a value chain based
on your business.

18 Session 5: Preparation for company visit

Learning objectives

By the end of the session, you will be able to:
• identify the value chain for the companies to be visited
• identify key issues in the sector where companies are operating
• identify potential competitors/strategies
• ask questions that will help you evaluate the company in terms of performance and inclusiveness
• implement an effective and efficient interview process.

Group assignment

• Describe the objective of the visit.
• Review the business plan components and decide on the type of data on the company you would like to collect.
• Develop an appropriate strategy for gathering data and information.
• Distribute research tasks around the group.
• Identify interview questions.
• Present your findings (analysis and key questions).
• Prepare for the interview process.

Topic 7: Guidelines for interviewing

Short text
Annex: Guidelines for interviewing

Topic 8: Team roles during the interview process

Group members need to take on different roles during an interview: the lead person introducing the group, leading the interview process, thanking the others for their time, etc.; the interviewers (by groups of questions); observers (reflecting on the interview process) and note-takers, etc.

Materials:

http://www.designkit.org/methods

Session 6: Company visit

Learning objectives

By the end of the session, you will be able to
• evaluate the strategy of the company(past, present and future)
• identify key challenges and opportunities
• assess the explicit and implicit inclusiveness of the operations of the company.
• recommend strategies to improvement the business.

Group assignment

• Carry out the interview as per agreed tasks.
• Monitor each other whether each person has completed their task fully.
• Help each other by pointing to missing points, open questions, etc.
• Take good notes and pictures (ask permission first).
• Take several time-outs during the interview to collectively review what has been learnt and what still needs to be asked.
• Thank the company. If agreed as part of the workshop process, invite them to hear your group's presentation or agree another way of feeding back to the company..

Materials:

Questions, roles, background material gathered during Session 5

20 Session 7: Group study of company visited

Learning objectives

By the end of the session, you will be able to:
• identify key issues and lessons learnt from the visit
• use the newly-acquired tools
• perform a structured evaluation of the company visited

Group assignment:
Follow the key structure of the business plan:
• mission
• vision
• introduction to company (brief history, size and products or services)
• industry analysis
• marketing mix and strategy
• operations
• financials
• inclusiveness

Group assignment

Session 8: Reflection on company visits

Learning objectives

By the end of th session, you will be able to:
• reflect on your findings from the company visit
• provide feedback on the findings of other groups
• reflect on the interview process; draw from the lessons
  learnt

Group assignment:
After each presentation, reflect on, and specify:
• what the group did well
• what the group missed
• any gaps in the logic
• what the group could have done better
• the challenges the group faced during the interview
• any challenges encountered during the collection of
  data.

Group assignment

(22) Session 9: LINK Methodology: Business model canvas

Learning objectives

By the end of this session you will be able to apply the business model canvas tool (LINK Methodology, Tool 2)

Topic 9: Business model canvas

Objectives of using the tool:
• assess how a key business in the value chain functions
• develop a shared language to describe and assess a business model
• create a baseline for the development of innovations in the business model.

Structure of the tool:
• customer segments
• value proposition
• channels
• customer relations
• income streams
• cost structure
• key resources
• key activities
• key partners.

Key questions:
• Who are my key customers and how do I connect to them?
• What value will I offer my customers?
• How can I create and deliver that value?
• What does it cost, and what can I earn?
• How does my organisation or business function?
• Is the existing business model viable? What change(s) could improve the overall performance of my organisation?
• What are the strengths and weaknesses of the existing business model?
• What external influences impact positively and negatively on the business model?
• Is the buyer's business model open to the inclusion of small-scale producers as providers?
• Does the buyer's business model contain a double-facing value proposition (i.e. both towards their customers and towards their providers)?
• Does the producer organisation's current model make it attractive as a business partner for a formal buyer?

Assignment

Select one of the companies visited to use the tool together with the facilitator.

Materials:

LINK Methodology Business Model Canvas (http://tinyurl.com/peba832)

Session 10: Performance Measurement, Monitoring and Evaluation

Learning objectives

After this session you will be familiar with the opportunities and importance of Performance Measurement (PM) related to inclusiveness objectives. You will also gain knowledge on generally accepted approaches and indicators for tracking performance and inclusiveness.
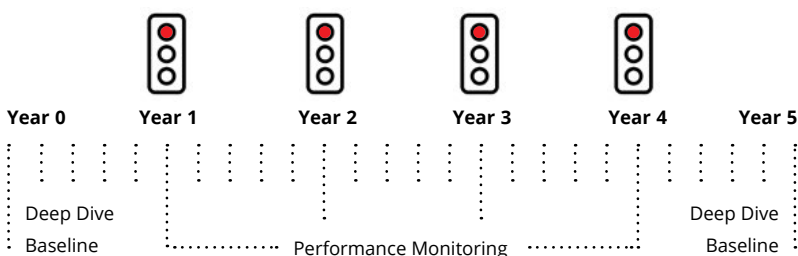
Topic 10: Performance Measurement

Performance measurement is about assessing the current status of a situation/indicator and tracking change over time. The goal is to follow trends in key indicators in cost-effective ways. PM approaches are not meant to provide the in-depth information needed to be able to attribute specific outcomes to specific interventions. This would be done during an evaluation process, however.

Monitoring and Evaluation (M&E) is the structural and regular checking of the progress being made towards pre-set goals. It involves monitoring change while planned activities are being undertaken, identifying the resulting outputs, and evaluating the processes being followed. This process is typically done on a quarterly, semi-annual, or sometimes an annual cycle. Evaluations are usually carried out after two years or more. They focus on the outcomes and, if work has been going on long enough, possibly the impacts of activities.

M&E systems indicate whether the planned activities and processes directly lead to the hoped for results (attribution). If properly designed, these systems are also built into decision-making loops within a project/program/partnership so that changes are made as necessary.

Task

- Make a Theory of Change for a selected case.
- Select indicators and metrics from the PM framework that might be appropriate for key points in your Theory of Change.
- Formulate one or two key indicators for topics that are specific to your case and not covered by the PM framework.
- Describe how you would collect the necessary information for three indicators.
- Outline the decision-making processes in your case, and how your M&E system will inform on-going decisions.

illustrates how performance measurement and (impact) evaluation can be applied in a complementary manner over multiple years.

Materials:

Three key approaches to M&E and performance measurement can be found here:
Performance Measurement framework (http://tinyurl.com/oo9dreq)
DCED Results Monitoring Framework (http://tinyurl.com/p7my54)
Making Evaluations Matter (http://tinyurl.com/orj239l)

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Task 18

Theory of change and indicators.

Ways of gathering information.

Task 19

Decision-making cycle of your organisation,
and where information input is needed/used.

Task 19

Inclusive business means creating profitable business models and strategies that help drive economic opportunities for those who would otherwise be left behind — small-scale farmers, local agribusinesses and the rural unemployed. In practice, inclusiveness requires the right incentives, the building of trust within supply chains, joint decision-making and the transfer of skills. In the big picture, scaling inclusive agri-business is about creating the investments, assets and incentives so that smaller-scale producers and rural enterprises can be effective partners in the business of sustainably feeding 9 billion people.