

**Good Practices in
Marketing
for Micro and Small
Enterprise Products:
Cases from Latin America**

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Washington, D.C.

1999

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Introduction and scope of work

It has been established that access to profitable markets is a key factor which determines the long-term success for all businesses. For small and microenterprises, however, various constraints limit this access, such as inadequate technology, geographic isolation, lack of raw materials and inefficient production. By providing ways to overcome these constraints, marketing service providers play an essential role in developing the businesses of small and micro producers. Marketing service providers are specialized intermediaries that facilitate access to profitable markets, whether through direct sales or via brokering or sub-contracting. In addition these intermediaries offer a variety of ancillary services, and although the demand for these services may vary depending on the targeted sector and market, this study will show that ancillary services often prove just as essential as market access.

Based on three case studies of marketing service providers dealing with handicrafts, non-traditional agricultural products, and household goods, this study will focus on the possibility for short and long-term sustainability of marketing services. The study will discuss the impact ancillary services have on the ability for partial or full cost-recovery and for institutional sustainability, and the business strategies adopted by each marketing service provider.

The study will further draw from a survey that was distributed to more than 500 marketing service providers in Latin America and the Caribbean. The survey results are presented in annex I, and will offer a picture of the current market for marketing services, types of services, and the manner in which they are provided

Marketing Intermediaries and Their Function

To producers wishing to penetrate new markets or improve their position in the current market, the use of an intermediary may significantly reduce marketing costs, provide important consumer feedback, and open up access to a larger client base. The time-consuming tasks assumed by marketing service providers include identifying new clients or markets, consolidating existing ones, sourcing good raw materials, or figuring out how to ship various kinds of goods to different destinations by various means of transportation. From working in specific sectors, marketing service providers often become experts on relevant issues, such as consumer preferences, new trends and designs. This expertise translates into important feedback for the producers in terms of what to produce and how.

Greater value is added to a product with each transaction that takes the product further from the source, and with each process that transforms or alters the form of the product¹. When carrying out a number of functions, marketing service providers can shorten this value-added chain considerably by limiting the number of actors. Both producers and consumers are interested in keeping the chain short and reducing the costs of bringing the goods to market.

What are Marketing Services?

For the purpose of this paper, marketing services are characterized as services related to different stages of production and sale, when offered as a package by the same service provider. The various services may be offered separately, and then may not necessarily be characterized as marketing. The variety of marketing services can be divided into an input phase, or the phase prior to production, and an output phase, which is the phase after production.

Marketing Services in the Input Phase

The input phase includes activities such as technical assistance or training, product development and design, provision of raw materials, or credit for production.

- ❖ Training and technical assistance are services for which it is perceived that there is a large necessity, and consequently many institutions providing business development services offer technical assistance or training in some form. Whether provided to groups or to individuals, training for which there is a demand, and which help the entrepreneurs develop their skills or their businesses, may be provided for a fee. A number of demand-driven training programs claim high levels of cost-recovery.

¹ Grey, Jason: "Some General Principles and Strategies for Developing Markets in North America and Europe for Nontimber Forest Products". In Plotkin, Mark and Lisa Famolare (eds.): "Sustainable Harvest and Marketing of Rain Forest Products", Conservation International, Washington DC.

- ❖ Product development and design are services that are especially important where products or markets are constantly changing, such as in the case of handicrafts. These services may be provided through advice or suggestions for change or development of a product, which makes it difficult to measure the exact cost or benefit. In other cases, outside consultants may be brought in for shorter periods of time, and thus the exact cost may be calculated.
- ❖ Access to raw materials is limited for many small producers. By grouping together, or by developing special arrangements with buyers or marketing service providers, purchases can be made in bulk at lower prices. Some marketing service providers provide raw materials instead of credit, with a surcharge or added interest at the time of payment.

Marketing Services in the Output Phase

The output phase includes activities such as quality control, packaging, transportation, and market information.

- ❖ Quality control can be performed at different stages of production and delivery. Marketing intermediaries exercise quality control independently of production and may thus enforce consistent quality standards. Depending on the product, performing quality control objectively and critically can be a very time-consuming and expensive task, and could be priced accordingly. One example is the time involved when examining handicrafts from different producers that must comply with certain pre-set standards.
- ❖ The need for packaging and transportation very much depends on the nature of the product, and the final destination. When required, both services are costly. These are functions that could be separated into isolated cost-effective functions (one of the case studies will show how one organization is attempting to let producers take over the separate function of packaging).
- ❖ By making available to the producers information on prices, consumer preferences, competition, new raw materials, and potential markets, the marketing service provider adds transparency to the market, and gives the producers the opportunity to make intelligent decisions about future production.

Table 1 summarizes examples of activities performed by marketing providers. The three sectors represented in the matrix correspond to the case studies, and to the sectors selected for the survey.

Table 1. Examples of Ancillary Services by Sector

	Handicrafts	Agricultural Prod.	Textiles
Input phase:			
<i>Technical assistance/ training</i>	<ul style="list-style-type: none"> - production techniques/technology - cost management 	<ul style="list-style-type: none"> - seeding, harvesting, natural fertilizers etc. - technology - cost management - production techniques 	<ul style="list-style-type: none"> - use of new machinery /technology (soft ware for pattern design, fabric cutting machinery, etc.) - cost management - production techniques
<i>Product Development and design</i>	<ul style="list-style-type: none"> - changing colors, shape, form, materials according to trends - introducing new designs 	<ul style="list-style-type: none"> - developing quality seedlings for organic growth 	<ul style="list-style-type: none"> - introducing new models and materials according to trends - developing of new patterns
<i>Raw materials</i>	<ul style="list-style-type: none"> - selecting and providing required quality - buying in bulk 	<ul style="list-style-type: none"> - providing seeds/seedlings, 	<ul style="list-style-type: none"> - buying fabric in bulk - providing required quality
<i>Financial services</i>	<ul style="list-style-type: none"> - provision of raw materials in advance - advance pay for production - invoice guarantee 	<ul style="list-style-type: none"> - provision of raw materials - advance pay for production - invoice guarantee 	<ul style="list-style-type: none"> - provision of raw materials - advance pay for production - invoice guarantee
Output phase:			
<i>Quality control</i>	<ul style="list-style-type: none"> - setting standards before production - rejecting non-compliance, low-quality 	<ul style="list-style-type: none"> - checking quality in terms of size or freshness. 	<ul style="list-style-type: none"> - setting standards before production - checking quality, conformity, sizes
<i>Packaging</i>	<ul style="list-style-type: none"> - providing uniform and attractive presentation of handicrafts - preventing damage to fragile goods 	<ul style="list-style-type: none"> - providing uniform presentation - preserving freshness 	<ul style="list-style-type: none"> - providing uniform presentation - bulk packaging
<i>Transportation</i>	<ul style="list-style-type: none"> - providing bulk transportation 	<ul style="list-style-type: none"> - bulk transportation - refrigerated storage and trucks 	<ul style="list-style-type: none"> - providing bulk transportation
<i>Market information /penetration</i>	<ul style="list-style-type: none"> - identifying new buyers - participation in trade fairs - market research 	<ul style="list-style-type: none"> - identifying new buyers - market research - information on prices - contacts to buyers 	<ul style="list-style-type: none"> - identifying new buyers - market research
<i>Paper work/ Legal assistance</i>	<ul style="list-style-type: none"> - exportation logistics - taxes/customs 	<ul style="list-style-type: none"> - certification of organic products - exportation logistics - taxes/customs 	<ul style="list-style-type: none"> - exportation logistics - taxes/customs

How Should Marketing Services be Provided?

Given wide differences in products, producers, and economic sectors, it is difficult to develop generally applicable guidelines for providing marketing services. A set of principles for good practice has been established for how best to deliver non-financial or business development services to micro, small and medium enterprises². These principles are in general applicable to marketing services, and include:

- providing the service in a business-like and demand-led manner;
- aiming at long-term sustainability;
- specializing in a service or related set of services; and
- providing sub-sector specific services (tailoring programs to specific needs).

The first two principles are related to the issue of sustainability and the last two to the development of a strategy.

Sustainability

The long-term sustainability of the services provided depends on the level of cost-recovery. The service of buying and selling, or brokering, can generally be provided in a sustainable manner, using a simple mark-up mechanism. But some of the ancillary services may be less viable, such as training or the provision of market information. These activities are often subsidized, for a number of reasons: clients may be unwilling to pay because they do not foresee any short-term benefits; clients may have limited ability to pay, or past practices by service providers may have created a situation where these services are expected to be provided for free. The combination of services, or an integrated service package, may therefore prove less profitable, and may narrow the margins of the marketing service provider. By charging fees, service providers can enhance cost-recovery as well as obtaining important feedback about the demand for the service - the client's willingness to pay is an indicator of the relevancy of the service. In the short term, full cost-recovery for additional services may be difficult to obtain, at least in the short-term. Business interests can be compatible and complementary with development needs on a long-term basis, however, and as markets develop, higher levels of cost-recovery can usually be reached.

As will be seen from the case studies presented, a mix of services may be provided, of which some are profitable and others not. Providers may choose to provide unprofitable services to their clients, and then cross-subsidize with revenues from more profitable services.³ Unless the provider calculates costs and revenues for each service, the level of cost-recovery or profitability of these activities can only be estimated.

² Committee of Donor Agencies for Small Enterprise Development: "Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions", January 1998. Goldmark, Lara, Sira Berte and Sergio Campos: "Preliminary Survey Results and Case Studies on Business Development Services", IDB, 1997.

³ This is a strategy used by other types of business development service providers, as well as marketing service providers. See Goldmark, Lara, *Sorting Out the Truth: The Financial Viability of Business Development Services*.@

Market Strategy BMarketing Strategy

Even if financial profitability is not readily obtained in the short-term, marketing services must be provided in a manner that guarantees long-term access to markets on the part of small producers.

This implies developing a strategy based on the particular demands of a specific market, whether local, regional, or international, which then determines which services are necessary to assist producers in meeting that demand. Such demands may be identified by the marketing service providers through an exercise such as a sub-sector analysis. A sub-sector analysis is used to map out various players in the chain of events from producers to consumers within a sub-sector, and identify where the constraints to meeting market demands exist⁴. The marketing provider may then try to seek possible solutions to specific problems, such as shortage of raw materials, lack of storage facilities or market information, through the provision of integrated marketing services. This approach also seeks to find ways to capture more links in the value chain of the economic activities in which small producers are engaged, to the producers' benefit.

Which services to provide, how, and for whom, are questions the marketing service provider addresses when defining its own strategy. Strategies serve to reach certain goals, such as profitability or social development. Successful providers of marketing services, like successful businesses, aim to develop unique strategies, which allow them to reach these goals. Aiming to assist small and micro producers in increasing their production and sales, service providers may choose to provide services at all levels, from the provision of raw materials to quality control to transportation of the goods, and meet all needs of the targeted clients. Institutions aiming for higher levels of cost-recovery may adopt a minimalist strategy, in which a limited number of clients are provided with a small number of critical services, for which cost-covering fees are charged.

Case Study

The three case studies presented in this paper have all to a certain extent followed the good practice guidelines listed earlier. The services of all three marketing organizations are focused on specific sub-sectors, and they are specialized to meet the demands of their clients. The three case studies presented here show that when working with low-income producers, institutions may choose to provide certain services without full cost-recovery, at least in the short-term. This is not to say that the institutions do not have goals of reaching sustainability in the long-term. All three organizations have been successful in providing a long-term commercial outlet for their clients' products through effective strategies of market focus, and through a careful determination of which services are required to ensure that producers successfully penetrate the market.

⁴ Lusby, Frank, *The Subsector/Trade Group Method: A Demand-Driven Approach to Nonfinancial Assistance for Micro and Small Enterprises*. GEMINI Working Paper No. 55. Maryland, 1995.

Colombia - Serving the Local Market

Created in 1983, the objective of *Promotora de Comercio Social (PCS)* was to provide marketing services to approximately 1,000 micro and family enterprises. PCS was one of four projects carried out by the IDB to increase the sales of small and microenterprise products in Colombia. While the other three projects failed, PCS has managed to stay in business, and PCS is currently planning to extend its services to other parts of Colombia.

PCS works with a large number of low-income producers, providing them with a market for high volumes of low-price products. By following a strategy of local market focus, PCS has been able to position itself very well. It has built up a network of buyers - mostly department stores and supermarkets - both locally and nationally, and in addition occasionally obtains subcontracting assignments from the local textile industry. Instead of working with just one product or sector, PCS has used a methodology of diversity, both in terms of products and services provided, and currently provides practically all of the services needed by producers in four or five sub-sectors.

Marketing services

PCS generates its income through the provision of two main services to micro and family enterprises: a) buying goods directly from the producers, and reselling at a price that is low enough to be competitive in the market, while still high enough to allow for a certain margin, and b) sub-contracting, where PCS participates in bidding processes, competing for large orders from the local government or department stores. When receiving an order, PCS assumes all responsibilities for required quality, quantity, and timely delivery. They then subcontract the work to a number of microentrepreneurs.

Additional services include design and development of new products, packaging, and technical assistance related to cost-management and quality improvement. Another important service is that of quality control. A sample of all merchandise passes through the PCS building for final acceptance, and sometimes the whole order passes through. Although these services are costly, they are all currently offered for free, which seriously affects the overall economic situation of the institution. Working with low-income micro and small producers, PCS view the provision of free services as necessary because of the inter-dependence between producers and broker, something that must be provided in order to get the required quality and quantity they need to secure a sale. With sales, PCS can then cover the cost of these free services.

The services provided by PCS are divided into programs according to sector: food products, manufacture, leather, handicrafts, and miscellaneous (i.e. jewelry, seasonal ornaments, etc.). The majority of PCS' suppliers are micro enterprises with less than 10 employees, and from 1996 to 1998, the total number of enterprises has grown from 400 to 1,000, representing a total of 4,250 persons, of which about half are women. Formalization is not a prerequisite for working with PCS, and close to 50% of the enterprises is informal.

Financial services

PCS offers financial services in the form of an advance payment of up to 50% of total order (used for buying raw materials). To finance these operations, PCS used a low-interest loan from the IDB to set up a revolving fund, and the interest income from this fund is transferred to PCS. This is a very important service for the entrepreneurs who cannot pay up front large amounts for raw materials or transportation, and all of the entrepreneurs currently use this service. The service has also proved important to the PCS, generating sufficient income to increase the overall surplus.

Performance

15 years of effort has been put into developing certain levels of production quality and quantity, a solid market basis, and business relationships with various buyers, the result of which is current net sales of US\$3.4 million. PCS has been able to cover operational costs since 1994. PCS managed to fully cover administrative costs in 1997, generating profits of US\$93,485. Greater surpluses are projected for 1998 and 1999. The operational and administrative costs of offering complementary services are very high, however, and the margin between total income and total costs is approximately 3%.

PCS applies an average sales markup of 11% (calculated as difference between buying and selling price), but most of that markup is eaten away by costs incurred before reselling the product. PCS guarantees the producers a minimum price, and then resells the product adjusting the markup to whatever it can charge while remaining competitive: PCS operates with a 15.5% markup on handicrafts, whereas manufacture only carries a markup of 7.9%. Costs are not calculated by sector, or by service, so PCS has no knowledge of profit levels by sector. Management has an intuitive sense that some sectors are more profitable than others are, but in fact they cannot verify that cross-subsidization is taking place. A more accurate costing system could enable PCS to operate based on where they are losing and gaining. Along these lines, PCS is currently planning to introduce a specific service fee for packaging, since this service represents a clear value added for the producers, and is easy to calculate.

Nicaragua - Penetrating the International Market

*PROARTE*⁵ is a private, for-profit company, which serves as a commercial intermediary between approximately 100 Nicaraguan artisans and international buyers. Originally founded as an NGO in 1993, PROARTE made the transition to becoming a private for-profit company in 1996. Perhaps more profit-oriented than PCS, the services provided by PROARTE are oriented towards

⁵ Case on PROARTE is based on case study in Goldmark et al. (1997), and on presentation made by PROARTE at the IDB Conference: Foro Interamericano de la Microempresa, March 1998.

securing sales in the international market or maintaining good relationships with current buyers. PROARTE's first contacts were Alternative Trade Organizations (ATOs), or the so-called **Asympathy market** in Europe, but realizing that this market could prove very limited in the long-term, they have moved on to other international buyers, mostly commercial wholesalers which are identified and courted mainly at international trade fairs. Commercial wholesalers open up access to a much larger market, but also operate with stricter terms and imply different risks.

Market and Product Focus

Quality handicrafts are produced in many developing countries where labor is fairly cheap, and the PROARTE answer to that challenge has been to concentrate on producing what is uniquely theirs: traditional Nicaraguan pottery and hammocks. The focus on this line of production has enabled PROARTE to position themselves with certain international buyers, who recognize the products and the quality when visiting PROARTE on a yearly basis at the same fairs. PROARTE works mainly with family enterprises and microenterprises with less than five employees. Most are low-income artisans, and 30% are women. The criteria for selection of producers are based on type of product, quality, design, price, and capacity for scale. PROARTE does not guarantee any continued affiliation with their organization, but lets its own standards and demands decide who will be their clients. PROARTE will set standards for the products they need, and upon buying rejects products that do not meet quality or standard requirements.

Ancillary services

Acknowledging the fact that its suppliers cannot otherwise access the types of services needed to insure the continuity and quality in production, PROARTE offers some ancillary services. PROARTE checks the quality when buying the goods, administers transportation and customs formalities, provides good quality raw materials, carries out market studies, provides some product development, and participates in international trade fairs. The latter is a very costly activity, but may be a wise investment in the long-term, since the international market pays much higher prices for goods.

Performance

The cost of PROARTE's marketing services is covered by a markup of approximately 50% on all goods. A differentiated mark-up mechanism could be introduced, estimating which products are most popular and could potentially render the highest margin. With effective calculations of costs of marketing the product, PROARTE would then have knowledge of which product lines are most profitable, which are most costly, and consequently which product lines to focus on.

Founded with the help of grants and soft loans, PROARTE today is not dependent upon subsidies, but still receives limited assistance for specific purposes, mostly for covering costs in connection with its participation in international trade fairs. Also, PROARTE has received financial support from the Nicaraguan government as an incentive for exporters of non-traditional products. If PROARTE manages to hold onto its position in the international market, and can

continuously develop their products and designs according to the demands of this market, both PROARTE and its artisans should be able to benefit from a very profitable market. In the long-term, even costly participation in international trade fairs may be covered by the PROARTE budget, and considered a wise investment in developing new markets.

El Salvador - Developing a Market Niche

*Sociedad Cooperativa de Productores y Exportadores del Salvador de R.L. (PROEXSAL)*⁶ is a cooperative which was created in 1994 with the purpose of serving as a marketing channel for member producers. PROEXSAL works very closely with CLUSA, an NGO that provides technical assistance to small producers wishing to cultivate organic or other non-traditional agricultural products. CLUSA works very intensely with the producers, preparing them for the stage where PROEXSAL gets involved in the marketing of their products, at which point CLUSA phases out their services and technical assistance to the producers. PROEXSAL develops services at strategic points in the distribution chain, including packaging centers, refrigerated storerooms, and refrigerated trucks. The cooperative's strategy, however, is to gradually turn many of these functions over to its members. Where PROEXSAL originally had to supply seedlings for the production of organic fruits and vegetables, producers have now invested their own money in greenhouses to cultivate the seedlings for sale. PROEXSAL has invested in the construction and operation of packaging centers, from which deliveries of goods are made to chains of supermarkets, hotels or restaurants. Producer groups in some areas are beginning to assume the costs and management of the centers; with the understanding that PROEXSAL will pay them a higher price for treated and packaged products. The next possible activity to be taken over by the producers could be the refrigerated transportation system, which represents another value-added activity.

PROEXSAL markets non-traditional agricultural products, mainly organic fruits and vegetables. Organic products enjoy a growing market in El Salvador due to the presentation of the products and increasing consumer awareness, and the majority of sales is to hotels, restaurants and medium to high prices supermarkets. PROEXSAL carries out market studies, participates in product development, and trains supermarket personnel on how to properly handle organic vegetables. Yet another service of value to the producers is the channeling of market information back to producers from buyers, who are invited from the capital to visit the packaging centers and cooperatives in order to talk with the producers and share ideas and information on demand, quality, etc.

⁶ The PROEXSAL case is based on analysis for project preparation by Lara Goldmark, SDS/MIC, Inter-American Development Bank, 1998.

Performance

At present PROEXSAL generates sufficient income to cover all its costs and currently has a net profit. PROEXSAL is charging different prices for its services, dependent on whether their services are directed towards the domestic or international market. It charges a 25% commission on gross sales for its services, which include market information, refrigerated transportation, refrigerated storage, quality control, distribution and sales, and recovering payment from buyers. For exports, all of PROEXSAL's income comes from a variable commission charged per unit sold. This commission includes market information, assistance in contract signing, follow-up on the operation, export logistics, quality control, and recovery of payments. Through the use of fees and commissions, the clients become aware of the cost of the services, and consequently of the value of the service provided.

Since PROEXSAL is a cooperative, the clients are also the owners. The way the system is designed, the objective of PROEXSAL is not only to provide marketing services, but also to eventually let the clients take over the operational responsibility for the ancillary services, as was done with production of seedlings, and which is projected for the packaging centers. PROEXSAL's use of a transparent pricing system, and the producers' willingness to pay shows that the services are relevant and that producers perceive a gain from the service. PROEXSAL has grown rapidly, generating annual sales between US\$418,000 - US\$680,000 each of the last three years, and projecting increasing annual sales in 1999. From 1995 to 1996, PROEXSAL experienced an increase in sales by more than 600%, accompanied by an increase in administrative costs by 137%. The following year, however, PROEXSAL experienced a sales decrease by 38% due to the failure of a projected production program, but still an increase in administrative costs of 23%. The level of growth of administrative costs was adjusted to a mere 1% from 1997 to 1998, and projected performance is based on an effort to reduce the growth of administrative costs while increasing growth in sales.

Conclusions: Good Practices in the Provision of Marketing Services

Developing Strategies

Even if full cost-recovery or profitability may not be readily obtained in the short-term, evidence shows that marketing services can be provided in a manner that promises a long-term market access for the producers. That implies developing a marketing strategy based on the demands of a particular market, be it local, regional, or international. The PCS case shows that it is possible to penetrate the local market very successfully, if marketing services focus on meeting the demands of local consumers in terms of quality and price. On the other hand, for lack of a domestic market for handicrafts, PROARTE focuses on the international market. PROARTE has benefited from being exposed to the international trend-setting of the larger US and European trade fairs, and each exposure has led to greater security in making decisions about what to produce and for whom. PROEXSAL identified a not yet exploited local niche market for organic fruits and vegetables.

The institutions themselves have developed strategies for providing marketing services, setting priorities for what which goals they want to achieve. PCS= goal was to reach a large number of low-income producers and providing them with a market for high volumes of low-price products, a goal, which they have successfully achieved by following a sound strategy of positioning themselves in the local market. PCS has put less emphasis on obtaining any substantial level of cost-recovery, although it is in the process of generating modest surpluses. The strategy of PROARTE, on the other hand, has been to penetrate the international market with the final objective of generating profit while at the same time providing low-income producers of handicrafts with access to a profitable market. PROARTE operates with full cost-recovery, but with more attention to the level of profitability for each product or service, could generate an even greater surplus. PROEXSAL has developed a strategy aimed at providing a number of services to a limited group of producers. The time-phased approach adopted in the partnership with CLUSA results in a decreasing intensity of services, and the gradual take-over of responsibilities by the producers

The need for ancillary services

In the three case studies the importance of ancillary services was clearly shown (and annex I will show that the majority of marketing service providers focus on ancillary services). When working with small, and especially microenterprises, the provision of integrated services has shown to be one effective way of facilitating market access. Although buying and selling represents market access, and may be a profitable business for the marketing provider, often other less viable ancillary services are necessary for the producers to obtain a long-term success in the market. By aiming to overcome constraints in accessing markets, the marketing service providers facilitate production and sales, and at the same time capture certain value-added activities. So in providing packaging or transportation, PROEXSAL captures part of the value added in the output phase, and further insures that the producers themselves take over and reap the full benefit from the activity. By providing production standards and good quality raw materials, PROARTE captures value added in the input phase, and further insures that the final product lives up to the standards required for the international market.

Careful Measurement of Cost and Profit

Both PROARTE and PCS are generating their income from general markup system when reselling the products, in the case of PROARTE a markup of 50% on all goods, whereas PCS apply a different markup dependent on the product. The two institutions are trying to recover costs through their calculation of markups, which is easier than charging a fee from the producers. The result is that both the institutions and the producers are in the dark regarding the real costs of services provided, which perpetuates the situation of unwillingness to pay on the producer side.

They will not understand why they would suddenly be required to pay for a service, nor understand the level of payment. On the provider side, decisions on which services to provide or focus on are made based on estimates.

By carefully calculating actual costs and margins of bringing a specific good to market or providing a specific service, the marketing service provider can make decisions on which services or products to focus on in the long-term. Introducing such calculation can be costly and strenuous, however, especially if the service provider is working a number of different products or services, such as PCS. Those who do not introduce such calculations, or improve their mechanism for such calculations, may not be able to progress towards sustainability.

Immediate or short-term cost-recovery may be difficult to obtain, but on a long-term basis full cost-recovery should be aimed for, and can be reached. Marketing companies seem willing to bear *some* costs, at least for a time, hoping that sales will eventually increase sufficiently to cover not only operational, but also administrative costs. Alternatively, services can be developed, and then separated to stand alone. In the case of PROEXSAL, the production of seedlings as input was separated from the other services, and is now a cost-effective service provided on a fee-for-service basis. PCS is planning to isolate the packaging into a separate service for which the producers must pay a fee. It will still be provided by PCS, but not as a part of the integrated service package otherwise provided. Thus learning the true price of the packaging service, the producer may decide that PCS is not competitive in their prices, and may seek to have packaging done elsewhere. The producers may even suggest taking over packaging themselves, as is the plan for the producers at PROEXSAL.

Sustainability

Long-term success for marketing service providers may depend on their ability to develop focused market strategies and position themselves well in a given market, but long-term success also depend on institutional sustainability, which is linked to the ability to generate sufficient income to cover all costs, operational and administrative. It may often be the case, however, that a service provider chooses to continue providing a service which produces losses, covering these through cross-subsidizing from another more profitable service or unrelated activity. The mix of services will depend on the goals of the service provider, social or for-profit or both, and will influence institutional sustainability. The ability to generate profits determines the continued presence in the market of a service provider.

Many institutions have relied on donor resources, but since continued support of this type cannot be guaranteed, institutions in Latin American and the Caribbean are innovating to develop alternative financing mechanisms. All three marketing service providers analyzed in this study started out with donor assistance, but have a vision which instead links the long-term sustainability of their institutions to the profitability of their operations. They all generate surpluses, although they all have struggled for several years to reach relatively modest levels of profitability.

Survey of Marketing Service Providers⁷

A questionnaire on the practices of marketing service providers in Latin America and the Caribbean was distributed to approximately 550 marketing service providers offering services to micro, small and medium producers in three sectors: handicrafts, agricultural products (traditional and non-traditional), and textiles. 131 responses were received. Table 1 shows the number of replies by country.

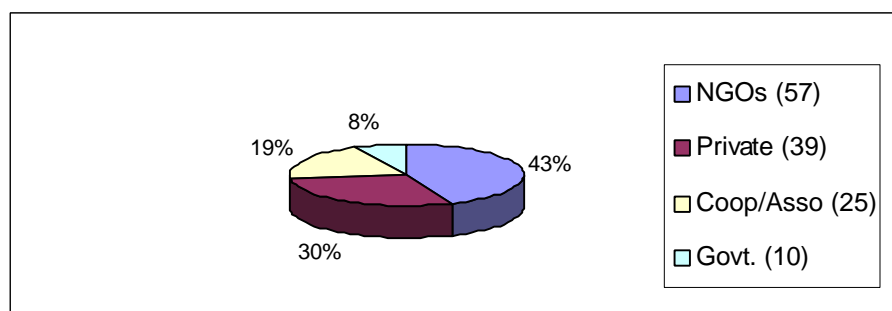
Table 1. Responses by Country

Argentina	Barbados	Belize	Bolivia	Brazil	Colombia	Costa Rica	Dominican Rep.	Ecuador	El Salvador	Guatemala	Guyana	Haiti	Honduras	Jamaica	Mexico	Nicaragua	Panama	Paraguay	Peru	Trinidad	Uruguay	No Response	Total
2	6	1	6	4	5	9	14	12	9	4	4	6	5	3	5	1	2	2	21	3	4	3	131

Service Providers

Responses were sorted according to type of organization in order to determine patterns with respect to financing, marketing, or production strategies: i) government agencies; ii) non-government organizations; iii) private companies, and iv) cooperatives or associations of producers. Table 2 shows the distribution by type of organization, showing that the majority of respondents are NGOs, followed by private companies.

Table 2. Distribution by Type of Organization



The majority offers a service-mix

Marketing service providers may offer both financial and non-financial services. Table 3 shows

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The full report is available on request from Microenterprise Unit, the Inter-American Development Bank.

that approximately 40% of the respondents provided financial services in some form –including credit, advance pay against future production, but also provision of raw materials. Of the non-financial services, all of which were characterized as marketing services in the survey, technical assistance and training was by far the most common service, and a total of 84% of the respondents offered this service. Product development and design is offered by 52%, and market information, which in the survey includes services such as market research, participation in trade fairs, and provision of consumer feed-back, was listed by 44% of respondents. Quality control is offered by a little over 40%.

Table 3. Marketing Services Offered

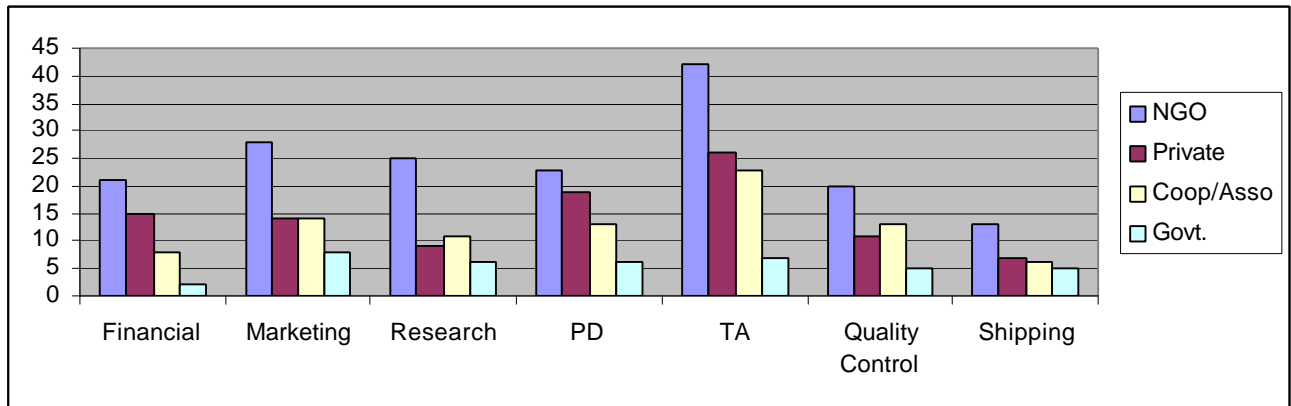


Table 3 showed that the majority of respondents offer a variety of services. When separating the buying and selling from ancillary services, the distribution is as follows:

Table 4. Buying and Selling versus Ancillary Services

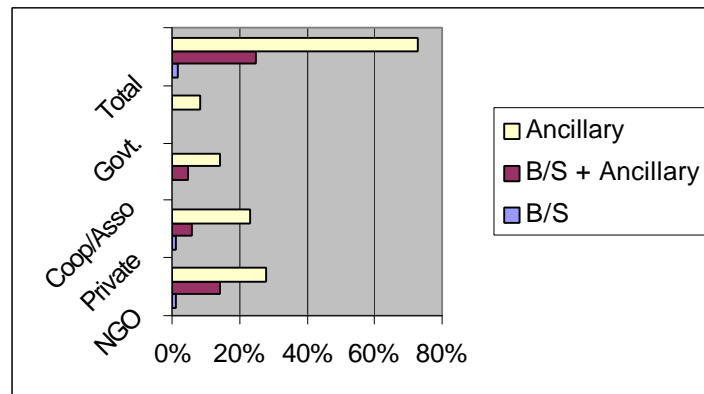
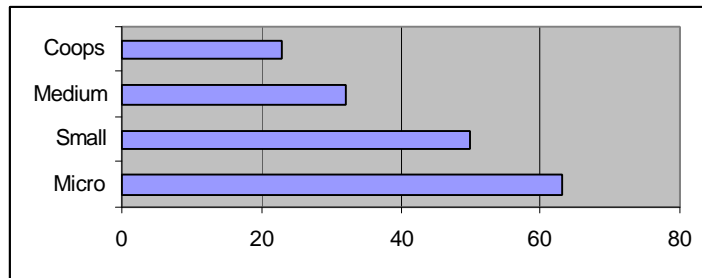


Table 4 showed that only two percent of the respondents offer buying and selling of products as their only service. 25% offers a number of ancillary services as well as buying and selling, whereas fully 73% are involved only in ancillary services. Interestingly, the major part of private companies offers only ancillary services, which may indicate that the provision of ancillary services alone may be a profitable business.

Clients are typically micro or small enterprises

Table 5 shows which clients, according to size, the service providers serve. The survey characterized microenterprises as less than 10 employees (or family members), small enterprises as between 10 and 50 employees, and medium enterprises as between 50 and 100 employees. The survey targeted institutions working with micro and small producers, but quite a few also work with medium sized businesses and cooperatives.

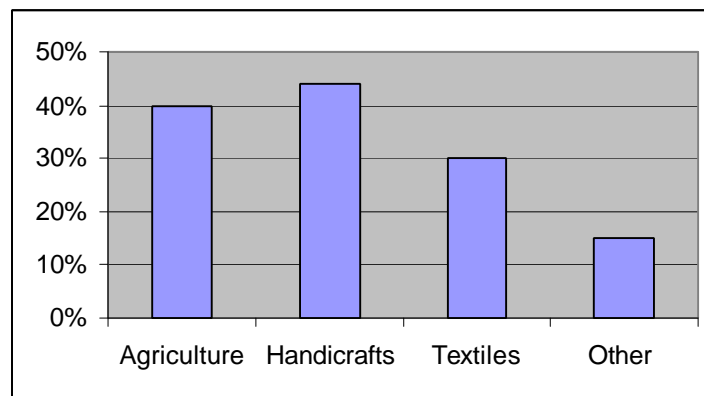
Table 5. Number of Service Providers Serving Enterprises, by Size



Even distribution of sectors

Most of the organizations surveyed work with producers from more than one sector (73%), and the three sectors were evenly represented. The remaining 27% specialized in only one sector, of which more than half specialized in agriculture, almost another half specialized in handicrafts, and a couple of institutions specialized in textiles or other sectors. When listing “Other”, reference was made to footwear, jams and jellies, and soap production. The distribution by sector was:

Table 6. Distribution by Sector



Focus on the international market

The marketing service providers were asked to identify where they sell the products, distinguishing between retail and wholesale markets, local and international markets. The table shows actual number by type of organization targeting the specific markets. Very few

organizations focus 100% on one specific market, and the survey result showed considerable overlap between markets. Table 7 shows that all types of organizations focus on the international market. Whereas the private companies target the local tourism market as well (also foreign buyers), both the cooperatives and the NGOs target the local retail markets.

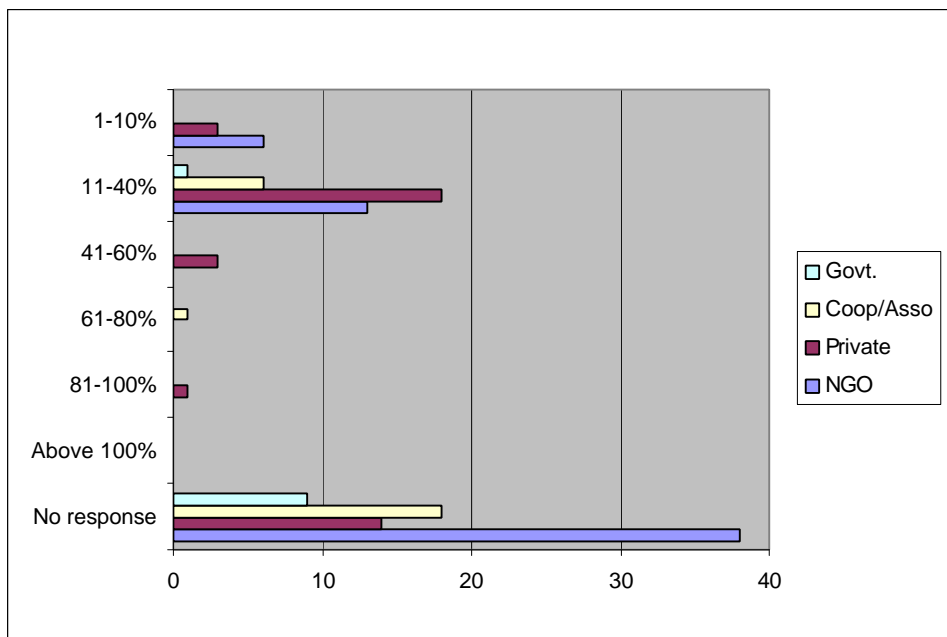
Table 7. Targeted Market by Type of Institution



Relatively few calculate their margin

The survey asked for calculations of revenues and costs, and for margins. For the purpose of this study, the margin is defined as total revenue from a service, divided by the cost of providing the

Table 8. Margin by Type of Institution



service. Based on a relatively low response rate to the question on margins, the result may

indicate that either the majority do not calculate these figures and therefore do not know, or that they do not wish to volunteer this information. Out of a total of 131 responses, 40% said they calculated margins. Of these, the majority calculated margins of 11-40%, and only a few went above that. The highest margin of between 81-100% was reported by private companies which otherwise reported an average margin of 29%, whereas cooperatives/associations and NGOs reported an average of 20%.

How are daily operations funded?

The survey posed the question as to what kind of funding they relied on for daily operations. Most of the providers rely on a combination of funds, but details as to how much each organization relied on specific funding was not available. 20 organization relied on only one source of operational funding, 10 of which were private companies relying on sales or fees, and three of which were NGOs or cooperatives/associations relying only on donations. Seven NGOs and cooperatives/associations rely only on sales or fees for their operational funding. Table 9 shows the percentage of each type of organization that relies –but not how much—on the different types of funding.

Table 9. Operational Funding by Type of Organization

Type of Org.	Bank loans	Credit	Donation	Equity	Govt. funding	Other loans	Fees	Sales
NGO	19%	25%	53%	9%	11%	12%	23%	58%
Private	36%	23%	10%	3%	3%	8%	18%	74%
Coop/Asso	28%	12%	44%	12%	8%	12%	64%	56%
Govt.	10%	10%	10%	0%	30%	0%	20%	10%

Except for government agencies not receiving funding through equity or loans, all types of organizations base their operations on a mix of above funding mechanisms. Somewhat contrary to expected result, NGOs and cooperatives/associations, on average, seem to rely more on fees and sales for operational funding than on donations. As expected, the private companies rely on their sales, and then on bank loans and credit.

Concluding Remarks

For the purpose of this study, some of the most interesting results are:

- ❖ That the majority of marketing service providers focuses more on offering ancillary services than on just buying and selling. That shows that effective marketing for micro and small enterprise products may require integrated services.
- ❖ That most providers either do not calculate accurately in terms of costs, pricing and margins of their services, or they do not wish to volunteer information. When they do calculate margins, the level is typically relatively low, 11-40%.

- ❖ That there is considerable overlap between targeted markets, between sectors serviced, and between sizes of enterprises. The majority focuses on the international market, but not exclusively; the majority focus on microentrepreneurs, but not exclusively; the majority work with more than one sector. Whether these overlaps are results of strategic planning, or lack of same, is difficult to determine without further analysis.