

MATCOM

■ SUPPLY SERVICES

a learning element for staff of agricultural cooperatives

international labour office, geneva

© MATCOM 1978-2001

by Malcolm Harper



MATCOM

Material and techniques for cooperatives management training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. For reproduction, adaptation or translation, application should be made to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Copyright © International Labour Organization

SUPPLY SERVICES

Contents

The purpose of a farm supply service	3
What the members need	5
What to stock	10
Which supplier	13
How much to order	18
When to order	23
Receiving supplies	27
Paying the supplier	32
Pricing	34
Selling procedures	39
Service and salesmanship	42
Advertising and information	45
Stock control and leakage	49
"Check-out"	59
Complementary exercises	62
MATCOM training material	64

MATCOM Element No: 20-03

Edition: Universal, 1985

ISBN: 92-2-105021-1

HOW TO LEARN

- Study the Element carefully.
- Write down answers to all the questions in the Element. This will help you not only to learn, but also to apply the knowledge in your work at a later stage.
- After studying the Element on your own, discuss it with your instructor and colleagues, then take part in practical exercises organised by your instructor.

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. For reproduction, adaptation or translation, application should be made to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Copyright	©	International Labour Organisation, 1985
Original Script:		Malcolm Harper
Illustrations:		Anja Längst

THE PURPOSE OF A FARM SUPPLY SERVICE



Read these brief descriptions of two different co-operative farm supply services.

- Alpha Co-operative sold everything its members needed, in all varieties and package sizes. Nothing was ever out of stock. The society's warehouse was open all day, every day. A large well-trained staff was available to instruct members in the use of all products. The society would deliver any quantity of supplies to their farms, if requested. Alpha's prices were very low. Members were not required to pay until harvest time, when they had money.
- Beta Co-operative was very different. It only stocked the most popular items and never more than a single variety. Members had to collect supplies themselves and to pay immediately in cash. The warehouse was open only on working days and then only for a few hours. Members had to know exactly what they wanted and how to use it, since there was no staff to advise them. Beta's prices were fairly high. Furthermore, because Beta wanted to keep stocks as low as possible, it often ran out of important items.

In fact both co-operatives failed. Why do you think this happened?

Alpha Co-operative provided every possible service to its members but the cost was far too great. It soon ran out of money and had to go out of business.

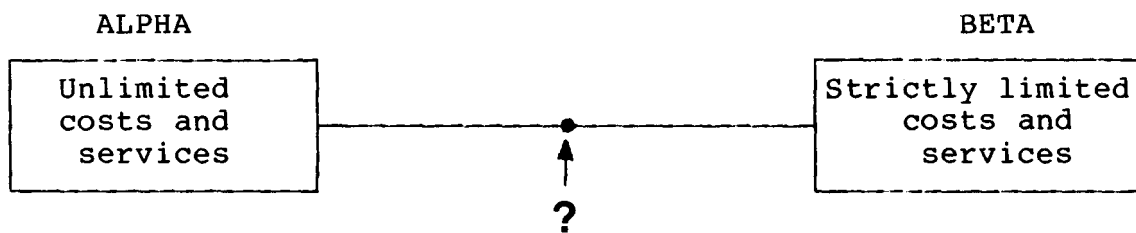
Beta Co-operative had very low costs and was very efficient - but it failed to meet its members' needs. They were forced to buy supplies elsewhere. The society soon went out of business because its sales were so low.

Which, then, is more important:

- to satisfy members' needs, or
- to keep costs as low as possible?

They are equally important! A farm supply service cannot survive unless it does both. The problem with Alpha and Beta was that each thought only about one aspect. Alpha wanted to do everything for its members and forgot costs. Beta did everything to keep costs down and neglected service.

Alpha and Beta are two extremes, at opposite ends of the scale.



The manager of a farm supply service must find the correct point of balance so that members' needs can be satisfied and costs controlled. This booklet helps you to do this.

WHAT THE MEMBERS NEED

"Why don't you sell chicken feed?"

"I just need five litres of insecticide but you sell only these big drums."

"Your seed prices are much too high."

"I need the fertiliser now, today. But you say I have to wait a whole week."

"Can't you tell me how to use this spray?"

"We cannot carry this load up the hill. Will you help with transport?"



If the manager of a co-operative receives many complaints of this sort, it means his supply services are not good enough. How can we find out what members really need, so that we can give the best service?

Imagine that you had an empty warehouse and a certain amount of money to spend on farm supplies. How would you decide what items to stock?

If you are an experienced farmer from that region yourself, you may already know what the farmers need and can afford to buy. But that is not likely. You probably will have to seek advice. Whom should you ask?

Below are a number of people you could ask. Why might their advice not be correct?

- *The suppliers of "farm inputs" -*
but they tend to promote only their own goods.
- *The staff of the Ministry of Agriculture -*
but government people are not always familiar with local needs.
- *The managers of nearby co-operatives -*
but their members' needs may be different from yours.
- *Private shopkeepers in the area -*
but they may want to discourage you from competing with them.

You could ask such people but the best sources of information are clearly -

- *The members themselves -*
but they might not be aware of the full range of products they could use and those members you ask might not be typical of all members. It would be too costly and take too much time to ask every member.
- *The Committee.*
Since the committee is elected by the members to represent them when important decisions are taken, this ought to be the best source of advice. The Committee should be familiar with the members, their needs and problems. It should be quite well informed about farm supplies that are available and suitable. But there is still a risk that advice from committee-members might reflect their own personal interests and needs rather than those of the "typical member".

Making a survey

To be absolutely sure what supplies are necessary in your co-operative, you need not only good advice, you need to know some facts, such as:

- the amount of land devoted to each crop;
- the kind of supplies needed to get the best production;
- the amount of supplies needed;
- the amount of money available to the farmer for supplies.

In a large co-operative, it would be difficult to get this information. The Delta Co-operative, for instance, had 1,000 members. The manager realised that he could not question each member as to his situation. Therefore, he decided to make a survey, based on a small proportion of the membership.

But there were both "big" and "small" farmers in the society, some living in the valley and some in the hills. If he asked only "big" valley farmers, he would get one result - and probably another if he asked only "small" hill farmers. Either result would be misleading. He had to select a representative sample.

To do this, he first drew up a table, dividing the membership into six groups:

	Valley	Hill	Total
"Big" farmers	80	20	100
"Average" farmers	400	100	500
"Small" farmers	320	80	400
Total	800	200	1,000

He then made up his "sample" simply by taking one out of ten in each group:

	Valley	Hill	Total
"Big" farmers	8	2	10
"Average" farmers	40	10	50
"Small" farmers	32	8	40
Total	80	20	100

In this way, the manager selected 100 members for his survey. He then made up a list of questions about crops, acreage and such. This questionnaire was presented to the 100 selected farmers and the information was collected with the help of the committee-members.

The Delta questionnaire:

Member's Name: _____		Membership Nr: _____	
<u>Land use:</u>		<u>Animals:</u>	
Grazing	_____ ha	Poultry	_____
Wheat	_____ ha	Milking cows	_____
Maize	_____ ha	Goats	_____
_____	_____ ha	_____	_____
<u>Last year's consumption:</u>			
Fertiliser Type A	_____ kg	Fertiliser Type B	_____ kg
Chemical X	_____ kg	Chemical Y	_____ kg
Animal Feed	_____ kg	_____	_____ kg
What stopped you using more of each of these:			
Fertilisers	Chemicals	Animal Feed	
			Not available
			Too expensive
			Not available on credit
			Unprofitable
			Never heard of it
			More not needed
			Other

The information was then used to find out the total needs of the membership. Of course, in order to come to a final decision, the manager also needed advice from the agricultural extension workers in the region about the recommended input per hectare of fertilisers, the use of animal feed, and so on. But the survey gave him a solid base for his planning.

- 1.1 Make a list of items that are available and that could be used by farmers in your area to increase production. Include all possible items. Do not, at this stage, consider whether or not it is possible for your co-operative to keep these items in stock.
- 1.2 Make a list of organisations and persons who can advise you about what farm supplies are needed.
- 1.3 Make up a questionnaire which can be used to obtain basic information from members about necessary farm supplies.



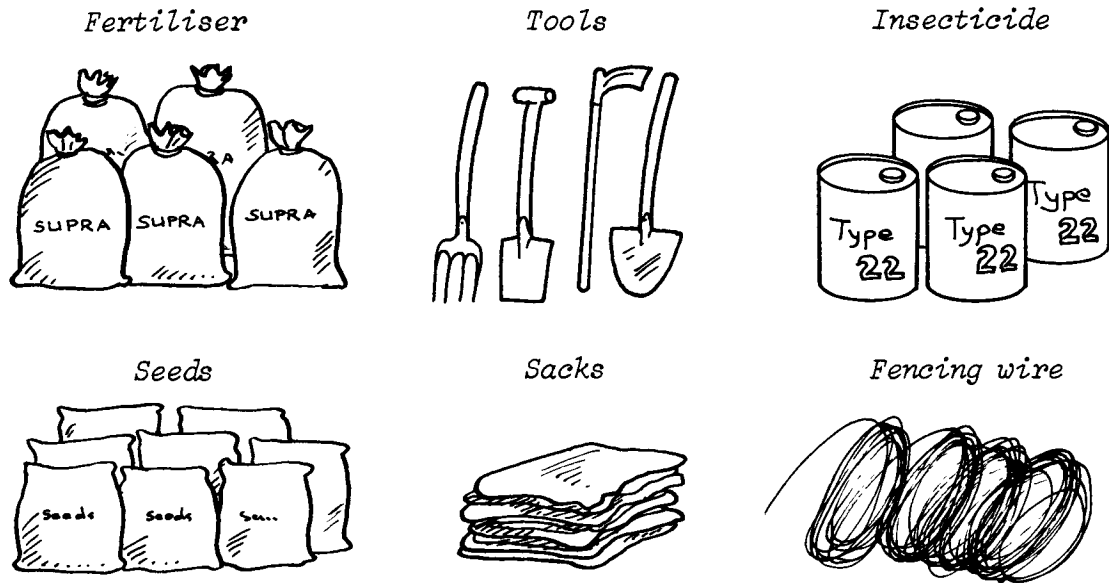
Once you have found out what your members need, what might stop you from buying everything they want?

- Your society might not have enough money.
- Your warehouse might not be big enough.
- Your members and society staff might not know how to use all the various items available.

The following chapters should help you with such problems. The aim is to show you how to make the best use of the money, space and skills your society has.

WHAT TO STOCK

Suppose, now, that you have found that your members want the following items:



Very few co-operative societies have enough money, space or staff to supply everything their members want. Hence, the manager must question each item to be sure the society stocks only what members really need and what the society can afford.

- *Is it already available from some other source?*

If members are already buying it elsewhere, you should not try to supply the same item, unless you can offer a better service or price. It is better to use the money and space on items not otherwise available.

- *Is it needed by most of the members, or only a few?*

A co-operative should satisfy the needs of the majority, before catering to a minority.

● *Is it essential?*

A co-operative should give priority to supplying essential items. Remember that some items may be necessary to make good use of something else. For example, a new seed variety may require certain fertilisers or insecticides. If members cannot obtain these essential items, they may be worse off than before.

● *Can you sell the item at a fair and competitive price?*

Your selling prices must cover your costs. A co-operative should not lose money on its supply services. Such loss might lead to the collapse of the society, which is not in anybody's interest.

● *Can you supply the item without actually holding stocks?*

It is possible for a co-operative to help members obtain farm inputs without actually having to stock them itself. This avoids all the expense stocking entails. Rather than stocking the item the co-operative organises a means to provide it.

The last point may require some explanation.

Suppose that your members need several thousand bags of fertiliser in the beginning of August each year. You might organise the fertiliser supply in the following way:

Well in advance, you collect orders from all members. You then place an order for the total amount with a supplier and arrange for delivery for a certain day directly to farmers' villages. Your staff would be there in the villages on the delivery day, issuing the bags to members as ordered. There would be no need for storage space at the co-operative head office. Nevertheless, you would have bought at bulk price from the supplier. The members would get good service.

This arrangement would only be possible if all members required fertiliser at about the same time, if the fertiliser was sure to be available from the supplier, and if the delivery was easy to organise.

If the situation were different, it would be necessary for the society to maintain a stock of fertiliser. Direct delivery to members, as described in this example, may be possible for a few items, particularly seasonal ones like fertilisers. For other items, however, the society may need a warehouse. There are many advantages for the members if the society can hold stock. For example:

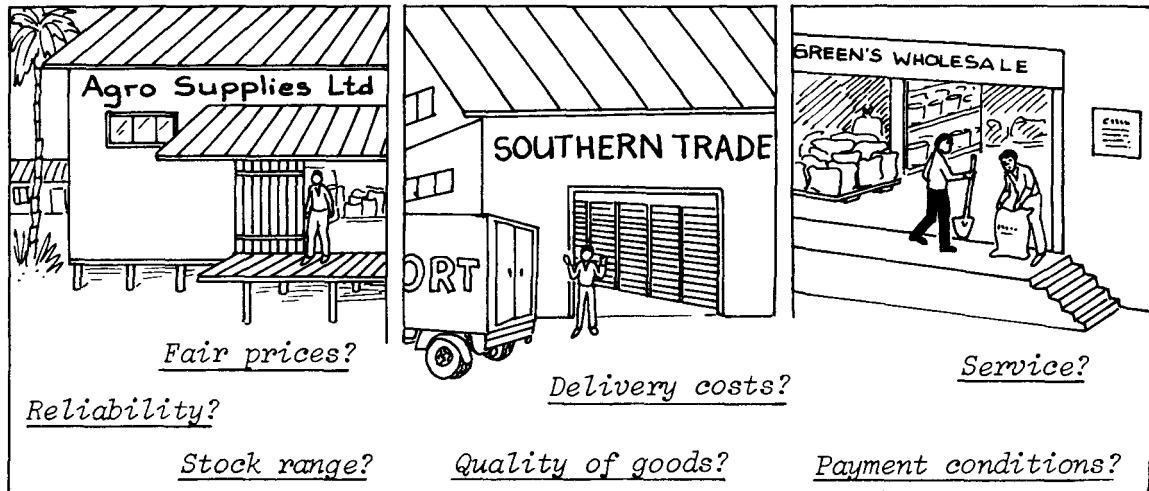
- Members may prefer to buy small quantities from the society rather than the large bulk quantities sold by wholesalers.
- Items required year-round will be available locally.
- Supplies may not always be available from the wholesalers. The society can help out by keeping a "buffer stock".
- The society can make sure that the quality of supplies is up to standard.



2. Make a list of all farm inputs *which* your members presently buy from other sources. For each item, write down the reasons why your co-operative is not willing or able to supply it.

WHICH SUPPLIER

Sometimes there is only a single source of supply for the goods required by members but more often there is a choice. How can you decide which supplier to choose?



It may seem simple to make a choice but, in fact, it is rather complicated. You have a similar situation when you buy food for your family in a grocery shop. You must have some good reasons for choosing a particular shop, such as:

- *The prices should be fair.*
- *The location should be convenient.*
- *The shop should have a good stock-range, so you are more likely to find what you need.*
- *The goods should be of reasonable quality, so you don't have to check everything carefully to make certain you are not being cheated.*
- *The goods should be available in reasonable quantities, so you do not have to buy more than you need or can carry home.*
- *It should be possible to buy on credit, in case you don't have enough money at the time you need the goods.*
- *The shop staff should be reliable, service-minded people, whose information you can trust.*

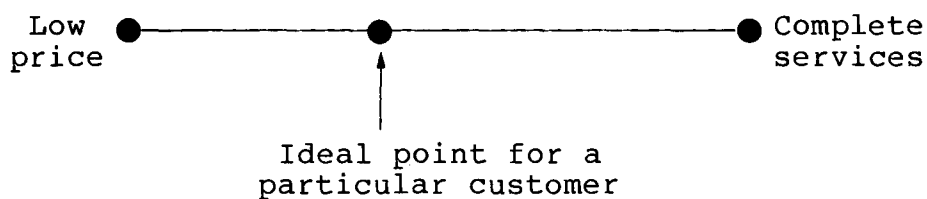
Suppose you have the following choice:

- Supplier A has a warehouse in the capital city. Its customers must buy full truckloads of fertiliser with payment in cash. The fertiliser is not always available when customers want it. Customers must provide their own transport and must collect the fertiliser when the supplier requests.
- Supplier B has branches in most larger towns. Fertiliser is available in a variety of different packages. The supplier's representatives call frequently on their customers to explain to them how to use the fertiliser and to keep them in touch with the latest developments. Fertiliser is available on credit and can be delivered to the society by the supplier's own transport. Supplier B is more expensive than A, as it costs money to provide all these services.

How can you decide which supplier to choose? You must balance the value of all the extra services provided by Supplier B against the lower price of Supplier A. The decision will depend on the needs of your society and its members.

Perhaps you should try to find an alternative supplier with better service than A and lower prices than B.

Remember the line we drew on page 4 to show how you usually make a decision between two extremes. Choosing a supplier is another example of the need to find the right point between two extremes.



Agree on a deal

It is easy, and wrong, to negotiate only on price. There are many important factors. Price is one area where customer and supplier want opposite things; the customer wants to pay as little as possible, while the supplier wants to receive as much as possible.

As with any business transaction, you must agree on the best possible deal for both sides.

What other aspects of a deal are there on which both sides might agree?

- Timing. It might be possible to agree on a special delivery time. The supplier might be willing to allow a price reduction or longer credit if your society can take the fertiliser at a time convenient for him.
- Credit. It might be possible for your society to obtain credit from some source other than the supplier and then to pay the supplier when he requires it. The supplier might be willing to give a price reduction in return for quicker payment.
- Variety. It might be possible for your society to accept a particular variety of a product that a supplier wants to sell, along with special training or other benefits to members.

These things are not always possible but you should attempt to find such areas of agreement with suppliers rather than concentrating on price, where you are bound to disagree.



Look out for corruption

Co-operative societies do not always buy from suppliers offering the best deal for their members. Some suppliers try to influence managers and committee-members to make decisions against the interest of the society. For instance, suppliers might offer bribes - cash, entertainment, gifts or other favours - in order to receive the society's order for supplies.

Corruption of this sort occurs everywhere. How can you, as a manager, avoid being tempted? How can you prevent your staff from accepting bribes?

- *Be sure that two or more people from your society are present at all negotiations with suppliers.*
- *If suppliers offer even small inducements, such as entertainment or small gifts, refuse them or make it clear that they must be shared with your colleagues and all the members.*
- *Make sure that suppliers make offers in writing, covering not only the price but all other services (credit, delivery and so on) leaving no room for any hidden aspects to a deal.*

One way to avoid corruption is to insist that the supplier with the lowest price be always chosen. Yet this might be against the society's interest, as we have seen. You must guard against bribery and protect your members' interests by good management, rather than by rigid rules.

Assess your suppliers

It is obvious that choosing a supplier is not a simple matter of right or wrong. You have to decide each case separately and there are no hard-and-fast rules to follow. Before making a choice, you must consider carefully what each supplier can offer. The criteria we mentioned on page 13

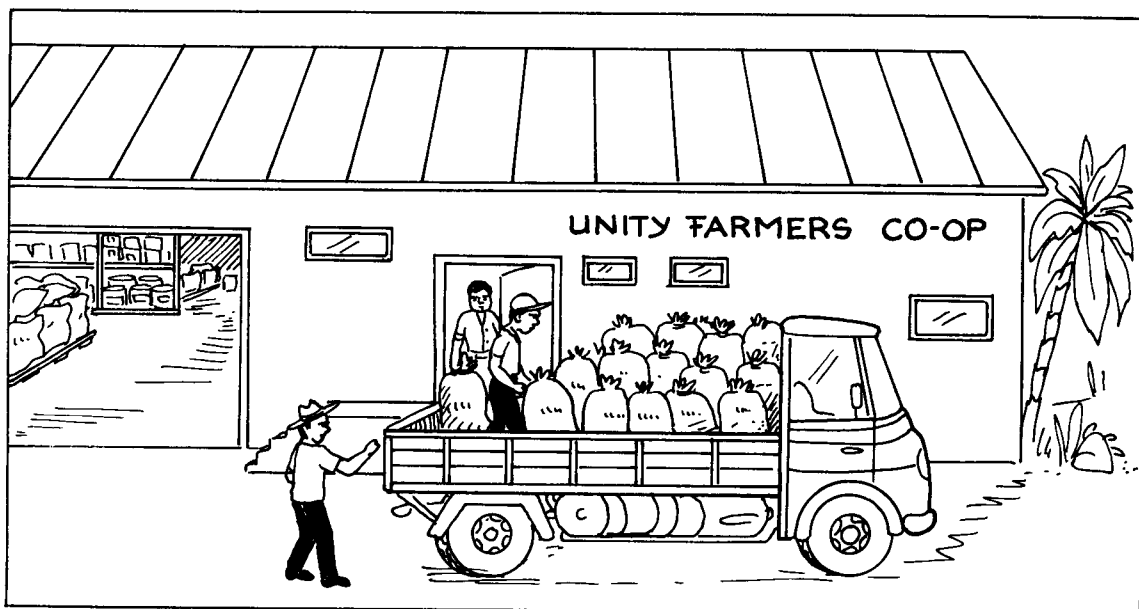
(the underlined words) are listed in the chart below. You can use this chart to make a systematic assessment of suppliers.



3. Assessment of suppliers.
Fill in the names of your possible suppliers and give them points for each aspect as follows:
Poor = 1 p. Acceptable = 2 p. Good = 3 p.

Aspect	Supplier:	Supplier:	Supplier:	Supplier:
Prices				
Location				
Stock-range				
Quality				
Ordering quantities				
Credit				
Reliable service				

Once again, remember that certain aspects may be more valuable to your society than others. Do not simply add up the points to find the "best" supplier.

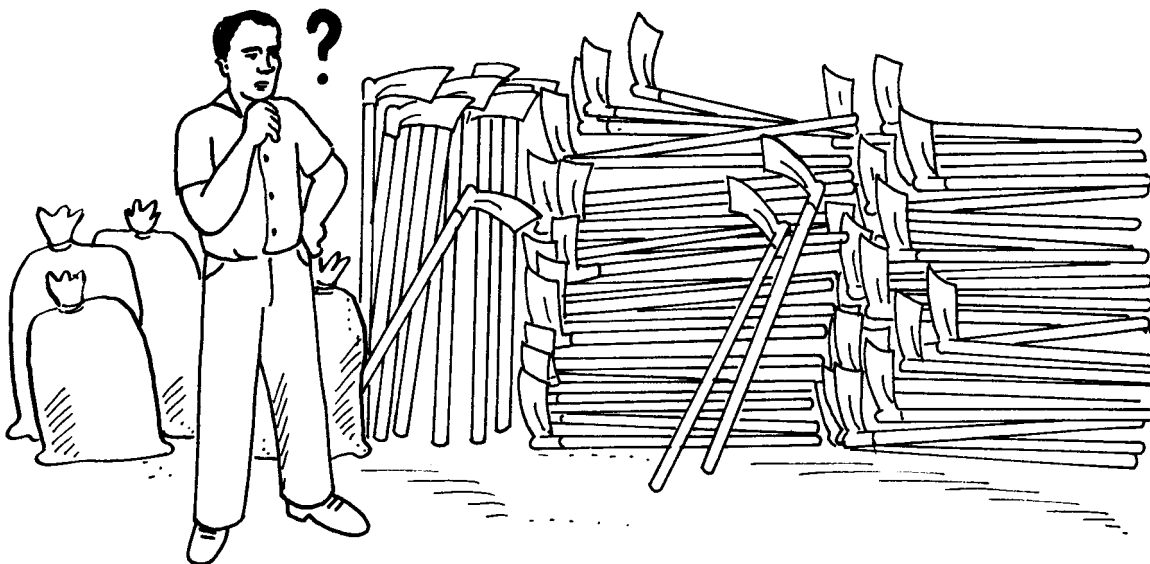


HOW MUCH TO ORDER

Certain farm supplies are not seasonal but are needed year-round. Suppose, for example, that your members buy some 50 hoes every month, or 600 in a year. You must decide how many hoes to order from your supplier at a time. That is, how often should you order hoes? The decision is important and is not easy.

If you order a very large quantity, say 600 hoes, the stock should last the whole year. If you order just a few hoes, say 6, you will have to order again after just a few days. Let us look at the advantages of ordering a lot of hoes.

- You would be certain not to run out of stock for a long time, even if hoes ceased to be available elsewhere.
- You would certainly get a price reduction for a large order.
- Transport costs would be low, as you would collect the hoes once instead of several times.
- Your administrative work would be reduced; you would not have to bother about placing and receiving orders for a long time.
- Your members would be protected from future price increases.



On the other hand, what would be the advantages of ordering only a small number of hoes?

- You would "tie up" very little money in the stock of hoes, leaving plenty for other things which your members might need.
- You would not need to borrow money from the bank to pay for a small number of hoes. You would avoid paying interest on loans.
- You would sell the stock quickly; the hoes would not go rusty.
- The hoes would take up very little space.
- Insurance would cost less; risk of theft or fire would be less.
- If a new design or cheaper supplier appeared you would not be "stuck" with a large quantity of the old model.

But having a small stock also means that you accept such disadvantages as:

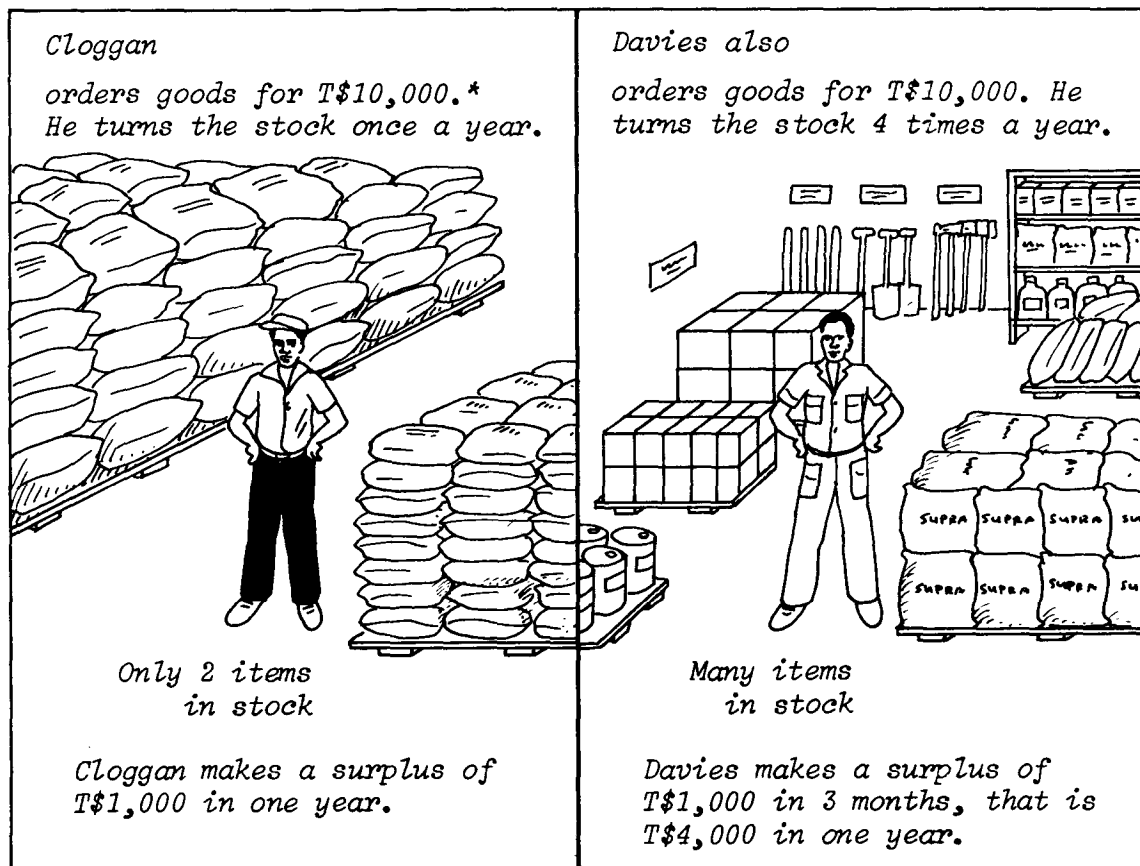
- higher administrative costs to issue orders, receive the goods, pay the bills, and so on;
- higher transport costs due to the many trips required;
- reduced profits if you were to run out of stock and members had to buy elsewhere.

There are good arguments on both sides. It is your responsibility to use your finance effectively and to give good service to the members. It is obvious that you would not order 600 or 6 hoes. Again, you would have to decide on the ideal point between the two extremes. Suppose you take a realistic decision to order 100 hoes at a time, or enough for two months.

Rate of stockturn

If you order 100 hoes, it will take you two months to sell the stock. You then re-order for another two months, and so

on. We can say that you "turn your stock" six times in a year. If you ordered 300 hoes at a time, you would turn the stock only twice in a year. Usually traders find it more economical to have a quick stockturn. That means that they order rather small quantities which they can sell in a few weeks or months. That way they do not tie up too much capital in each item in stock and can earn a higher surplus on their capital. The following simplified example will explain the idea:



- Manager Cloggan had T\$10,000 available. He used the money to buy a large stock of the most needed commodities, which lasted for a whole year. He made a surplus of T\$1,000 that year.
- Manager Davies also had T\$10,000. He used the money to buy many different products, buying a smaller stock of

* We use an imaginary currency here, because this booklet is used in various countries. We call it "Training Dollars" and cents, T\$ and c.

each. In three months he had sold everything and re-covered the money. He made a surplus of T\$1,000 in three months. He could buy new stock and repeat this business four times in a year! He had invested T\$10,000 in his stock, like Cloggan, but he had a return of T\$4,000. That is four times more than Cloggan, and, in addition, he could help his members better by selling more different items.

Quantity discounts

One day you call the manufacturer of hoes to place your order for 100 hoes, as usual. He says, "Why not make it 600? I will give you 5% discount, so you pay T\$9.50 instead of T\$10 each."

600! That is enough for a year. But you would save T\$300!

Would you accept his offer?



This kind of quantity discount is quite common, but a wise manager had better think twice before he accepts. We will therefore take a closer look at this offer.

You can work it out like this:

Saving, if you order 600 hoes:

$$600 \times T\$0.50 = T\$300$$

Money tied up:

$$\text{If you order 600} \quad 600 \times T\$9.50 = T\$5,700$$

$$\text{If you order 100} \quad 100 \times T\$10 = \underline{T\$1,000}$$

$$\text{Additional money tied up} \quad = T\$4,700$$

If you order 600 hoes, you will not tie up T\$4,700 for the whole year. At the beginning it will all be tied up, but as the year goes on the hoes will be sold and the money will

be released. At the end of the year nothing extra will be tied up. The average additional amount of money tied up will be halfway between the full amount and zero, T\$2,350.

How can you decide whether it is worth tying up T\$2,350 in hoes in order to save T\$300?

The answer depends on where you are proposing to get the money to buy so many hoes. Will you borrow it from a bank?

If so, there will be an interest cost. If the bank charges 10%, you will have to pay T\$235 to borrow T\$2,350 for a year. But you will save T\$300, so it is worth taking the loan and buy 600 hoes. You will still save T\$65.

Perhaps you cannot borrow money from the bank. If that is the case, and you still want to order 600 hoes, you would not be able to buy something else which you normally keep in stock. This would also cost you money because you would lose the profit you would have made on that. How much would you lose?

Suppose that you make 10% on your sales of other products and sell your stock in two months. 10% of T\$2,350 is T\$235. In one year you would earn that amount six times, which makes T\$1,410. This is obviously much better than the T\$300 you would earn on the quantity discount on hoes. So you would do better not to take the manufacturer's offer.

If you could only expect to buy and sell one batch of other goods for T\$2,350 in one year, then you would only make a surplus of T\$235 during the year. In this case, it seems to be better to spend all the money on hoes in order to gain the T\$300 saving. But what would the members say if you suddenly stopped supplying some other items? You have to satisfy your members as well as making a profit

WHEN TO ORDER

In addition to knowing how much to order, you must also know when to order. Of course, you cannot wait to order until the stock is "almost finished". You would then run out of stock because hardly any suppliers deliver immediately. Some even take several months. You have to estimate how many goods you will sell from the time you place an order until you actually receive the **goods**.

If you know the delivery time and your sales per week you can work out a "trigger figure" for each item. When the stock reaches that figure, you must re-order.

For example, your supplier of chicken feed can be expected to deliver one week after you place your order. You sell about 40 bags every month. That means you must order when there are 10 bags left. But even then there is a risk that you might run out of stock if sales increase or delivery is delayed. To be on the safe side, you decide to order feed when the stock is down to 15 bags. Your trigger figure for chicken feed is 15.

This is how you decide trigger figures or "minimum stock levels" for all items in your stock.



It is essential for a manager to have a proper ordering system, otherwise he will frequently run out of some items, while having excessive stock in others.



Certain basic information is needed to allow the ordering system to function.

- You must know the amount in stock at any given time and the minimum stock level (the trigger figure).
- You must know the quantity to be ordered.
- You must have a record of orders already placed.

Most co-operatives have a bin-card for each item in stock. The bin-cards give the needed information.

A typical bin-card:

Item: <u>RAT POISON</u>	Supplier: <u>C.W.S</u>
<u>TIN 500 G.</u>	<u>GEORGETOWN</u>
Selling price: <u>\$6.40</u>	Trigger figure: <u>5</u>
	Order quantity: <u>15</u>

Date	In	Out	Balance	Ref. / Remarks	Sign.
1.11			8		Rg.
4.11		1	7	S. 141	Rg.
7.11		3	4	S. 165 (15 tins ordered)	Rg.
10.11		2	2	S. 187	J.W.
11.11	15		17	Del. Note 6141	Rg.
15.11		2	15	S. 199	Rg.

The bin-card is used as illustrated by the example on the previous page.

- On 1.11 the stock of rat poison is 8 tins.
- On 4.11 the storeman sells one tin. He writes "1" in the out-column and the new stock "7" in the balance column. The note "S141" is a reference to the actual sales note for this sale.

The salesman also puts his signature in the last column, so it is possible to see who actually took the things out of the stock.

- On 7.11 he sells three tins. The new balance is four. He can see that the trigger figure is five, so he must immediately order a new supply. In the remarks column he notes that an order has been sent.
- On 10.11 two more tins are sold. There should be only two tins left.
- On 11.11 the new supplies arrive. The amount is entered on the bin-card. Stock is now up to 17.
- On 15.11 two tins are sold.

The storeman makes a note on the bin-card every time he sells an item or receives new supplies. The bin-card is thus the basis for ordering. There is no need to count the stock in the warehouse every day or week. The staff just keeps an eye on the trigger figure noted on the card and places an order as soon as stock is down to that level.

When you send an order to your supplier, you should use a special form like the one on the next page. Also when you order some goods by telephone, you should fill in such a form. You should keep a copy of the order in a special file or binder. You will need the copy when you check the goods on arrival, and in case of any disagreement with the supplier.

DELTA COOP West Bank, ZARIANNA	Order	No: <u>346</u>
		Date: <u>4.8.85</u>
To: <u>Agro Supplies Ltd</u>		
<u>High Street, Johnstown</u>		
Please, deliver the following goods:		
Commodity:	Quantity:	Unit price:
<u>Chickenfeed Vx in 50kg bags</u>	<u>80 bags</u>	<u>6:20/bag</u>
Payment conditions: <u>30 days credit</u>		
To be delivered by: <u>your truck, no extra charge</u>		
To be delivered to: <u>our warehouse in Zarianna</u>		
Time of delivery: <u>8-10 August 1985</u>		
<i>Delivery cannot be accepted later than date stipulated above, unless our agreement has been obtained.</i>		
<u>V. West</u>		
for Delta Co-operative		



4. Check to see if the order forms you use in your society have the following necessary information.
- Your society's name and address.
 - The signature of the person authorised to order goods.
 - The supplier's name and address.
 - The goods ordered - type and quantity.
 - The price and payment terms.
 - The date the order was placed.
 - The date delivery is required.
 - The point to which delivery should be made.

RECEIVING SUPPLIES

Once an order has been placed, what happens next? A truck arrives at your warehouse from the supplier with the goods. What does the driver want at that moment?

- He wants to get rid of the goods. He wants somebody to sign for them, so that he is no longer responsible, and he wants to go away as quickly as possible.



This moment, when the goods are handed over, is an important point in your dealings with the supplier. Of course, co-operative societies should deal with suppliers on a basis of mutual trust. However, misunderstandings can occur. It could cause a lot of trouble and perhaps loss to your society if you discovered too late that some goods were faulty or missing. If both you and the supplier maintain good paperwork systems, it will be immediately clear what has gone wrong. The mistake can be put right without disagreement.

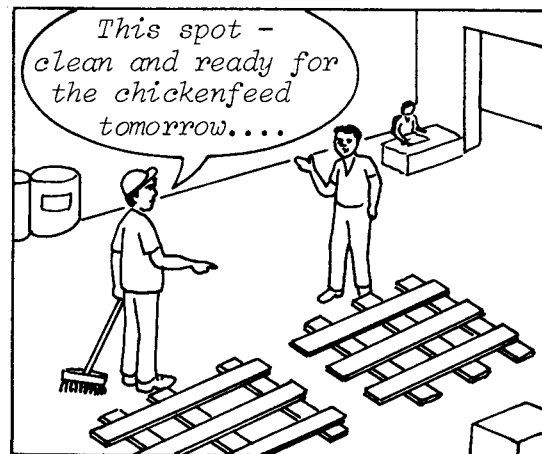
Thus, a good system for checking a delivery is necessary to protect the interests of your members. There are certain things that you must do before, during and after a delivery.

Before delivery

Suppose that a driver arrives with a truckload full of fertiliser and nobody is there to receive him or give him any instructions: So he dumps hundreds of bags on the ground outside the warehouse.

It is too late to organise the receipt of goods the moment the truck arrives. Well in advance you should -

- *clearly inform your suppliers as to the times and days when deliveries can be accepted;*
- *ensure that a qualified person is ready to receive the goods;*
- *prepare the receiving area where the goods can be unloaded and checked without being mixed with the old stock.*



During delivery

When you go to inspect a new delivery you must decide how thoroughly to check the goods?

For example: you receive a delivery of empty sacks. There are 20 bales, each said to contain 100 sacks.

- Should you open every bale, examine and count each sack?
- Should you just count the 20 bales, taking it for granted that each one contains 100 good-quality sacks?

You probably do not want to take the time and effort to carry out a full inspection of the goods. But you should not risk the high cost of accepting large quantities of



'spooB aq4 p9Aiaoa1 aneq noA
 4eg4 6UTAJT4Jao 'a4ou AJaATT
 -ap ag4 ubis noA ' Pajaplo
 noA '4egM paniaoa1 aneq noA
 PUP '4 gbi.z TTe si 6Uiq4A-zana
 3I 'noA o-4 JaATTaP PTnogs
 aq spooB TTe 9 0 4STT e 'a4ou
 za P P s6uTjq 19ATIP aqs

 a4ou AaaATTaP aq4 6utubig

'wa4T 9T6UTS AJaA9 buigoadsut UT P9ATOAUT jnogPT PUP
 asuedxa aqq SPTOAP 4i buiuingag •AlaATTap aTogm aq4 asn
 o'4 4UPM uana '4gbtw noA 'a.low TTT4s putt noA 3I •uoiqoads
 -ui aqq anuiquoo 'aTdwes anoA ui swa4i A'4Tnej putt noA _qI

'sxoEs
 000'Z 3o AJanlTaP GTogm aq4 jo TeoidAq aq qou 4gbtw pagoads
 -UT sxoes aqq 4egq aouego e ST aaagq 'aseo goea uI Z-IGTTd
 -dns aqq Aq uasogo sxoes JO uoi4o9TToo e 4e PaNOOT ATuo noA
 3i 1o 'saTeq awos wo.z3 sxoes aa.zq:t do*4 ayq -4e PaNOOT ATuo
 noA 3i '9Teq auo wojj SHOPS 0C 4e PaNOOT ATuo noA ji asiJe
 40iw sweTgojd gegm 'sxoes aq4 g4ZM 9Tdwexa ano uT 'aoue-4s
 -UT Joa •40T 9Togm aq4 (WOJJ Pa4oaTas aq) 3o anigequasajdaj
 aq gsnw GTdwes aq-4 -4egq sueaw gegs, •„wOPuPJ 4e„ Pa4oaTas
 ST asoogo noA GTdwes aq-4 -4egq ains axew -4snw noA 'swa-4t
 Maj e gsnl BUT-4oadsui '„xoago -4ods„ e op oq quell noA 3I

 9Tdwes e xoagD

'Ja4PT auo g6nojogq ajow
 e PUP aATJJe spooB aqq uagm xoago xoinb e axew gsnE gqbtw
 noA 'Aj9ATTap la4ge OM4 1o AeP e uana s4ulPTdwoo sgdaoee
 qi -4eq-4 Moux noA PUP wai3 9TgeTTaA e si 19TTddns aqq 3I -

'japuiewaj aqq 3o aniq sT awes aq4 gegq
 4u9PTJuoo AT.zTP_q aq ueo noA 'ss9T-4Tne_q aeadde Aagq _qi
 'A.zaniTaP _4o aWT-4 aq-4 -4e swa4i Maj. e goadsui PTnoo noA -

'„APM aTPP?w..
 aq-4 6UTPut_q -4o aTdwexe .zaq-4oue ST uoigoadsul 'uoigoadsui
 agenbape up 6uTwaojjad jo Apm e puij gsnw noA •spooB A4Tnej

The driver takes the original of the delivery note back to the supplier. You keep one copy. The supplier will use his copy as proof that the goods were delivered and will later send you a bill (invoice) for the goods.

If you do not receive or accept all goods listed on the delivery note, you must record this fact on it before you sign.

Remember that the driver must also sign to certify that your notes are correct. You should keep a copy of the corrected delivery note, with the driver's signature, to avoid any future problems.

1 ea	1 ea
2 ea	sprayers "Vibra" compl.
5	drums x 195 ltr kerosene
10	tins insecticide VFG55
9	10 tins herbicide CoM, 5 ltr
9	tins herbicide only received - 1 damaged and returned.
Certified	W. Samms Received by
B. Brown	DRIVER

Let us now sum up what you should do during the actual delivery:

- Make sure that a copy of your original order is available. Compare the order with the supplier's delivery note to ascertain that the driver is bringing the right consignment.
- While the goods are being unloaded, make sure they are handled with care and placed in an orderly way. Check for immediate signs of damage, bags containing less than full quantity, etc. Put such items aside for closer examination.
- Count the items and establish that there is no immediately visible damage or discrepancy. Carry out as thorough an inspection as you deem necessary.
- Sign the delivery note, confirming that you have received the goods. If anything is missing or to be returned, so indicate in writing on the delivery note, and have the driver to sign it. File your copy of the delivery note for later use.

After delivery

When the driver has left there is still work to be done:

If you need to inspect the goods more thoroughly, do so immediately. Inform the supplier about any problems (if he accepts complaints after delivery - if not, a thorough inspection must be done before the driver leaves).

Establish that the stock has been properly placed and arranged in the warehouse. Make adjustments, if necessary, to make sure that any old stock is accessible and sold first.

Note the new delivery on the bin-card.

5. Prepare a "check-list" for your staff, including all tasks that must be done before, during and after a delivery of goods to your society.



PAYING THE SUPPLIER

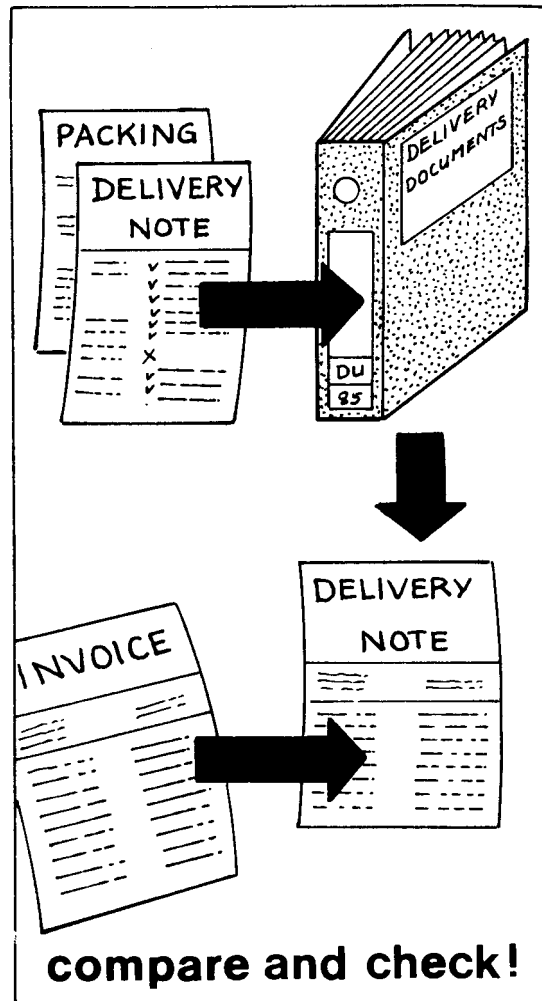
once the goods have been delivered and inspected, it is necessary to pay for them. Here again, simple procedures and paperwork can assure that there are no disagreements and that your society is protected against loss.

Some suppliers expect cash on delivery, but it is more common for them to send an invoice (a bill or note requesting payment) shortly after sending the goods.

In any case, do not pay until you are convinced that everything is in order. If you have an effective system for the receipt of goods, and if your files are in order, it will not take you long to carry out the necessary checking procedure.

Before you pay -

- *compare the invoice with your copy of the delivery note and make sure you have received everything for which you are charged;*
- *ascertain that the price is correct and as agreed upon with the supplier;*
- *check that all calculations are correct;*
- *observe payment conditions; do not pay until you have to.*



In comparing the invoice with the delivery note, be particularly careful to make sure that any remarks about damaged, returned or missing goods have been taken into account.

Look out for these common mistakes concerning price:

- the supplier may have charged you the retail instead of the wholesale price;
- the supplier may have charged you the regular instead of a special discount price that had been arranged.

Correcting mistakes

If you do find mistakes on the invoice, notify the supplier. You might agree to correct the mistake in one of the following ways:

- you make a correction on the invoice and pay the correct amount;
- you withhold payment until you receive a new, correct invoice, or a credit note;
- you withhold payment until the supplier has delivered all the goods for which you were charged.

6.1 Take a close look at your paperwork system for ordering, receiving and paying for goods. Make a list of all forms and documents involved. For each, state its name and purpose, who retains a copy, and why that copy is kept.



6.2 Check that your paperwork system can protect you against loss in the cases below:

- Some goods have been found damaged on arrival.
- The discount price you were promised before ordering the goods is not that given on the invoice.

PRICING

In your farm supply service, how do you decide what prices to charge your members?

You may not be free to decide all prices yourself; some may be under government regulation. But for the rest, you are probably expected to decide the markup.

How do you decide on a suitable markup? Do you use some standard markup percentage or do you try to calculate exactly how much markup you need?

What you need is to earn enough money to cover the costs of the supply services. Here is a very simple example of how to calculate the markup:

- Suppose you sell only one product to your members: fertiliser. You expect to sell 1,000 bags in a year.
- You can buy the fertiliser from a supplier at T\$10 per bag. That is the cost price, including freight cost to your warehouse.
- Your total annual costs for the service are estimated at T\$600. That includes costs for administration, labour, storage space and everything else needed to sell the fertiliser.
- Thus, for each bag the cost will be T\$0.60. This cost must be paid by the members. If you add it to the cost price, you will get a selling price of T\$10.60 per bag. Your markup is 6% on the cost price.
- The sales should bring in $1,000 \times T\$10.60 = T\$10,600$, enough to pay the supplier and cover your costs. But you have no "safety margin" at all. Suppose some bags get spoiled or your running costs are higher than expected. You would then lose on your supply business! It is better to increase the selling price to allow for this kind of problem. You probably need at least one per cent

to cover any loss due to damaged goods, and a little more to cover other problems and to make a surplus for re-investment. If you decide to use a markup of 10%, instead of 6%, your selling price would be T\$11. Your estimates now look like this:

Sales	1,000	x	T\$11	T\$ 11,000
Cost of goods	1,000	x	T\$10	- <u>10,000</u>
Gross surplus				1,000
Running costs				= <u>600</u>
Net surplus				T\$ 400

This example shows very briefly one way to fix prices in a co-operative: add a markup which is enough to cover your costs and a small net surplus.

However, it is obvious that pricing is more complicated than this. You cannot simply work out a fixed markup percentage and use it for all goods. Before setting prices you need to find the answers to a number of questions.

- You are selling a variety of supplies. Which should have a high markup? Which should have the lowest possible prices?
- You are usually limited to a very low markup on price-controlled items. To earn a sufficient surplus you have to use a higher markup on other items. How high?
- Your society needs to earn a surplus to be used to develop the business. Which goods can help you to earn a surplus?
- What would happen if you generally increased prices? Your sales might go down, but how many members would suffer? What would happen to your total surplus?
- What would happen if you reduced some prices? Would members take advantage of the decrease and buy more from you? Would your surplus remain high enough?

Too many co-operative managers act as if pricing were outside their authority. They fail to use prices. That is wrong. Prices must be continually reviewed and used as a tool to benefit the society and thus its members.



You should regularly review the prices of everything you sell and ask yourself whether you need to change any. Perhaps a price reduction could help you get rid of some old stock tying up space and money; perhaps a price increase could help you cover some unexpected costs.

Work in a planned and systematic way. You will need to do some estimates. The following examples show you what kind of calculations might be necessary:

Example 1

Product: Herbicide
Cost price: T\$1 per tin
Present selling price: T\$1.20 per tin
Current sales: 10,000 tins per year
Problem: You need to increase the surplus by T\$500.

Suggestion a : Increase the selling price to T\$1.25.

Comments:

- The problem would be solved if you sold 10,000 tins at the new price; you would earn 5 cents extra on each tin. ($10,000 \times T\$0.05 = T\500).
- But this might not be the solution; the higher price might reduce sales! You now make a surplus of T\$2,000 on the herbicide ($10,000 \times T\$0.20 = T\$2,000$). With the new price, you could make the same surplus if you sold only 8,000 tins. ($8,000 \times T\$0.25 = T\$2,000$). But if your sales were to drop below 8,000 tins, your society would be worse off than before.
- In addition, some members might have to stop buying herbicide because of the high price and might therefore suffer some loss.

Suggestion b : Reduce the price to T\$1.15 per tin; sales might increase and perhaps increase the total surplus as well.

Comments:

- Present surplus on herbicide is T\$2,000.
- To make the same surplus as before, you would need to sell 13,333 tins at the lower price. To earn a surplus of T\$2,500, you would need to sell 16,666 tins ($16,666 \times T\$0.15 = T\$2,500$). You must decide whether sales would go up by that amount if the price were reduced by 5 cents.
- You must also be sure that the increased sales will not increase administration, storage or transport costs.

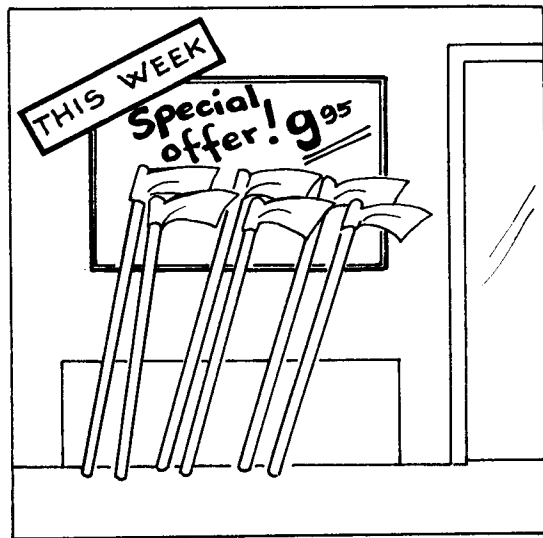
Example 2

Product:	Hoes
Cost price:	T\$9.40
Markup:	T\$2.60
Selling price:	T\$12
Problem:	This is a rather new item in your stock and sales are very slow, usually not more than one hoe per week. Would a "discount price" help to promote sales?

Suggestion:

Advertise a "special offer" in your warehouse for a short period.

Sell the hoes at T\$9.95.



Comments:

- At the current price you sell only one hoe per week, earning a surplus of T\$2.60. Suppose you could sell 5 hoes at T\$9.95 in one week. The surplus would be $5 \times T\$0.55 = T\2.75 . That is better than usual, even though you have greatly reduced the price.
- Like example 1b, this shows that you must achieve a very large increase in sales if you want to earn an acceptable surplus on a special offer. If you sold only four hoes at T\$9.95, you would earn less than if you sold one at the initial price.
- You must also consider the possible negative effects of special offers. Members might think there is something wrong with the hoes or that they were being cheated before when charged T\$12.

SELLING PROCEDURES

- Has a member ever taken goods on credit, but the bill was never charged to him?
- Has a member ever claimed that he paid cash for something when you are sure he didn't, but neither of you was able to prove your case?
- Has a member ever claimed that his patronage refund failed to include certain purchases?
- Has a member ever been sold goods on credit when he already owed the society too much for too long?

To prevent this kind of problem, you need a simple, well-designed paperwork system for sales and a staff which knows how to operate it.


The example below shows the papers you need and the procedures to follow when selling farm supplies to a member:

- Member Taimni buys three tins of insecticide, at T\$5 each, and one spade at T\$10. When Salesman Clark takes the goods out of the store, he notes the fact on the bin-cards.



Salesman Clark receives T\$25 from Taimni and fills out a Sales Note (see next page).

He gives the original of the note to Member Taimni. He leaves a carbon copy of the note in his sales book.

DANUBE COOPERATIVE Wagrama, Longfield		No: <u>246</u>
<u>Sales Note</u>		Date: <u>6.5.85</u>
Member's Name (blockletters): <u>S. TAIMNI</u>	Member's Number: <u>348</u>	
Goods Delivered:	Unit Price:	Price:
<u>3 tins insecticide "Vot"</u>	<u>5:-</u>	<u>15:-</u>
<u>1 only spade 12" Alu</u>	<u>10:-</u>	<u>10:-</u>
	TOTAL	<u>25:-</u>
Goods Received:	 <u>S. Taimni</u>	
Member's Signature:		
PAYMENT	CHARGE	
\$ <u>25:-</u> received	\$ _____ to be charged	
<u>Clark</u> <u>6.5.85</u>	to account no: _____	
Signature Date	Posted by: _____	


Why does the member need this sales note?

- It is a receipt, proof that he has paid for the goods. He may also need it for his own records, to keep track of his expenses.

Why does the society need a copy of the sales note?

- The manager and the accountant of the co-operative will use the copy as a "source" for essential bookkeeping. For instance, at the end of a day they will add up all the sales notes and compare the total with the cash received. Since the sales notes are numbered, they can establish that none has disappeared.
- The sales note also provides a source for the co-operative's register of member purchases. This is kept because the co-operative may pay a bonus to members at the end of the year, based on their purchases.

When members are allowed to buy on credit, the same sales note can be used. The top part is filled out in the same way, but the receipt in the bottom left corner is not filled in. Instead, the column to the right is used.

TOTAL <u>25: —</u>	
Goods Received:	<i>S. M. ...</i>
Member's Signature: 	
 PAYMENT \$ _____ received _____ Signature Date 	CHARGE \$ <u>25: —</u> to be charged to account no: <u>S-348</u> Posted by: _____

- In this case, when the goods are sold on credit, the sales note copy serves as proof that the goods have been delivered to the member. The amount must then be posted in the member's account. To show that he has done so, the bookkeeper writes his signature on the last line.

Some co-operatives use a "Cash Sales Receipt" when selling goods for cash and a "Delivery Note", when selling on credit. Note that in the example above, these two forms have been combined into one: the "Sales Note".

7. It may not be necessary for your society to change its sales paperwork system, but you should review it. For each document and each entry required, ask the following questions:
- Is every entry used by someone for some purpose?
 - Is every copy used by someone for some purpose?
 - Is it possible to combine documents or entries to save time and paper?
 - Is every document as simple as possible?
 - If a particular document (or entry or copy) were no longer produced, would it make any difference to anyone?



SERVICE AND SALESMANSHIP

- "Members should buy their farm supplies from the co-operative, because it is theirs and they should be loyal to it."
- "The government should see to it that all farm supplies are sold only through co-operatives."
- "Members should buy their farm supplies from their co-operative because it offers the best deal in terms of product, price and service."

With which of the above do you agree? If you believe in the last statement and can make it valid for your own society, you have found your "success formula".

Even if you believe that co-operative members should be loyal, and even if the government wants to make people buy from co-operatives, members should still want to buy their supplies from their co-operative. The manager should feel his members buy from him because they want to, not because they have to.

If your co-operative is selling the right products at the right prices, what more is needed? Is there anything more you should do to ensure that members get the best possible service from their society?

On page 13 we talked about the service you expect from a good supplier. Read the list on page 13 again.) Surely, the farmers have similar expectations regarding their suppliers. Sometimes a co-operative fails to provide adequate service, not deliberately, but because it does not think about the real needs of its members.

- Kalinga Co-operative moved its warehouse from its old location near the market place to a new industrial area near the railway. This was more convenient for receiving bulk deliveries of fertilisers and dispatching crops. But only a few members living nearby found it convenient

to go there to buy supplies. The rest now had to buy at higher prices from private traders in the market place.

- Taito Co-operative wanted to save money on its administration of credit. Therefore, members were offered a standard "package loan" for certain quantities of seed and fertiliser at planting time but no other credit. Not everybody wanted this package loan. There were other things they needed which it did not include. They either had to go without them or to pay very high rates of interest to private money lenders.
- Melbany Co-operative wanted to reduce its expenses so the management decided to cut out overtime. The store was therefore closed promptly at 5 p.m. and all day Saturday and Sunday. This meant it was closed at the times most convenient for members to visit the town. As a result, sales of supplies fell off rapidly and the society lost even more money.

Has your society made mistakes like this? If you reduce services to members, you may reduce sales and the surplus as well. It is just as important for a society to offer good-quality service as it is to offer good-quality products.



Good service means paying attention to basic matters like the range of stock, the location of the store, credit and open hours. It also means remembering the small details in

your daily contacts with members. From time to time, you should go into your own store, look around and check your services.

- *Are members being kept waiting a Long time? How could delays be reduced?*
- *Are all procedures for filling in forms, handling money and so on strictly necessary? Could any procedures be changed in order to serve customers more quickly?*
- *Are there informative displays, particularly of new products, so that members can learn what is on offer?*
- *Are floors and counters clean? Does the store generally give the impression of being well organised and effectively managed, so as to inspire members' confidence in it?*
- *Is the staff polite, friendly and well informed, so that each customer goes away feeling that the staff members have tried their best to help?*



8. "Score" your society (very poor = 1; excellent = 5) on the following aspects of service:

- Location of the warehouse.
- Range of goods.
- Availability of goods in stock.
- Quick service.
- Staff knowledge of products.
- Staff attitude toward customers (polite, helpful).
- Staff response to customer criticism.

Write down what you can do to improve your performance in the areas you have given 3 points or below.

ADVERTISING AND INFORMATION

Should a co-operative advertise and provide information on its products and services to members? Or should it just offer the products members want, at the right price?

Do you agree with the following statements?

"Advertising just increases prices."

"Advertising may be good for the advertisers, but it is no use to the customer at all."

"A co-operative doesn't have to waste money on advertising."

Read these stories and try to explain the failure in each case. What went wrong and why?

- Farmer A wanted to try a new insecticide he had heard about. Not realising it was available at his co-operative, he spent a long time trying to find a supplier.
- Farmer B bought some seed from his co-operative two years ago, when it still had its old warehouse and the former manager. He was disappointed because the seed was bad. He never bought anything else from the co-operative.
- Farmer C heard somebody saying that everything in the co-operative was too expensive, so he never buys anything there now.
- Farmer D bought some chemicals from the co-operative, but he did not use them correctly. One of his animals died. He is unlikely to buy anything from the co-operative again.

In all these cases, information was lacking: Farmer A did not know that he could buy the supplies from his own co-operative; Farmer B did not know that the society's storage and management had improved; Farmer C did not know that the rumour was wrong; and Farmer D had no instruction on the proper use of chemicals.

These cases indicate that a co-operative does have a responsibility to advertise, to provide information to its members, and not just to sell them supplies and to buy their crops.

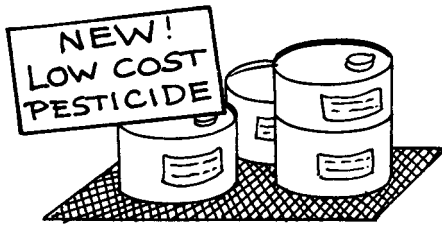
The question is, how can the society best provide information on its products and services? There are many ways of doing it.



Letters and circulars



Meetings



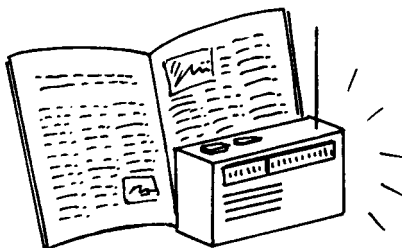
Display of goods



Demonstrations



Posters



Radio and newspaper ads



Individual contacts with members

We often hear news indirectly from other people rather than directly "from the source". The members of a co-operative usually live in the same area and talk frequently with each other. What about this method of conveying information? Is it good enough so that a co-operative does not need to spend money on the more expensive methods mentioned above?

Suppose you are facing these three problems:

- a/ A new delivery of seed has just arrived. Members must buy it very quickly in order to plant it in time.
- b/ A new pesticide has just become available. It can greatly improve crop yields but it is quite hazardous. If not used properly, it can cause injuries to animals and people.
- c/ About half the members of a society are making no use of its supply service. The committee has asked you to do something about it.

Suppose that you tried to solve these problems by relying on the old "word-of-mouth" technique? What might happen?

- In case (a), the information would probably not be passed quickly enough. Some members would probably not hear about the new seed at all; others would hear too late.
- In case (b), technical information might not be passed on accurately. If anyone got it wrong, the results might be very serious.
- In case (c), information probably might not reach its "target". People not buying might well be those less involved with the society and thus less likely to talk to other members.

Obviously, in these cases you will have to use more effective means of distributing information. Think about the particular needs in each case and choose the method most suitable.

- a/ Widespread distribution of posters or advertisements would get the information out rapidly to a large member-audience.
- b/ Demonstrations, displays at the warehouse and/or individual contact between staff and members would all convey accurate information about the new pesticide.
- c/ A programme of meetings, posters, advertisements and/or circulars could be used to reach the less-involved members.

Posters, advertisements, letters and displays are examples of one-way communication. There is no way the members can "talk back" to them.

During meetings, demonstrations and personal contact, information can pass both ways, from the society to its members and from members to the society. Members can ask questions, express doubts, disagree and/or ask for more information. It is better to use two-way communication when there is a risk that members will not correctly understand the information.

Still, many organisations use one-way methods: they are quick, they cost less per person reached, and their contents can be fully controlled by the "sender".

Again, it is your job as the manager of a supply service to:

- *examine every task you have to perform and decide whether or not it involves giving information to the members;*
- *decide on which method, or combination of methods, is the least expensive and the most effective.*

A poster might be the cheapest - and least likely to do the job; a hundred demonstrations might be the most accurate - but also the most expensive. You must, as always, determine the ideal middle way.

?

9. On page 47, you read about three typical information problems in a supply co-operative.

Think of three information problems you have in your co-operative. Decide how you intend to solve each problem. What means of information could you use? Why and how would you carry out the task?

STOCK CONTROL AND LEAKAGE

On the bin-cards you can at any time see the quantity of goods there should be in stock. But from time to time it is necessary to count the stock to see if the balance figure on the bin-card is the same as the actual stock. There are several reasons why the figures might differ and the only way to tell the actual amount in stock is to count the goods.

Stock-taking

Counting the items in stock is called stock-taking. Every co-operative must do a complete stock-taking at least once a year to produce correct accounts and an accurate annual report.

Doing a large stock-taking can be a difficult and lengthy job, especially if the number of products is large and varied. It may even be necessary to close the society for a day or more to organise the warehouse and call in extra staff for the annual stock-taking. What might be the disadvantages of this?

- Members would suffer because they could not buy what they need.
- Staff would come to believe that the warehouse need only be well organised, and the bin-cards up-to-date, when it is time for the stock-taking.
- It would cost money in lost sales, and extra wages.

Nevertheless, if you want to avoid losses in your warehouse, you must count your stock. You need to find a system which is quick and easy and does not interfere with service to members.

One solution is to count individual items quite often, at random and without notice. There are several advantages to this:

- Counting the stock of only one item does not take all that long.
- Checking can be done when convenient, avoiding times when members need service.
- Frequent checking helps to keep the warehouse in good order all the time.
- Random unscheduled checking minimises dishonesty and inefficiency. Staff will not know about the stock-taking in advance and will have no opportunity to conceal any irregularities.

Making-counting-easy

Maintaining a good storage system saves time in stock-taking. If the staff know that a stock-count can be suddenly required, they will try to store goods in such a way that counting can be done easily. Here are some rules to help you count stock quickly and correctly:

- *Store all items so that they can be clearly distinguished from other similar items.*
- *Store all goods in an orderly manner (in rows and stacks) to avoid duplicate counting or omission of items.*
- *Avoid moving goods in and out of stock during counting.*
- *Avoid interruptions.*



Checking stock - an example

John, the manager of Landa Co-operative, noticed one day that many members were buying bags of chicken feed. He realised that the stock must be very low and that he probably had to re-order. Since he had the time, he decided to make a stock-check straight away.

First, he went to pick up the bin-card for the chicken feed. When the storeman saw him, he realised what John intended and interrupted him. "Just a second, I must write in the previous sales." He began to fill in the card.

"But this is not how you should do it," John said. "If you don't make immediate entries on the card, you might as well forget it. It is useless to have bin-cards if you can't trust the figures on them."

Of course, the storeman already knew this, since John had trained his staff properly. But the storeman appealed to John anyway. "You know how it is. We had a real rush here today and I thought I would do the cards as soon as I had a minute". John understood, but still decided to do something about it. He decided to change the sales procedures to make sure that the cards would be maintained every day.

He went on to the stack of chicken feed bags. According to the bin-card, there should have been 16 bags in stock. John counted and found only 14 bags.

What should he do? First he had to find out why the amount in stock was not the same as that recorded on the card. Then, whatever the reason was, he had to take action to prevent it from happening again.



Why were the figures different? John looked at the bin-card again. Perhaps the error was only on the card.

- *Were the calculations on the card correct?*
- *Had all sales, according to the sales notes, been entered on the bin-cards?*

John ascertained that the card was all right. What about other possibilities? Had anything happened to the stock that was not recorded on the card?

- *Had any bags been spoiled and taken out of storage without being recorded?*
- *Had any bags been stolen?*
- *Had any bags been delivered to farmers without sales documents?*
- *Had the supplier delivered fewer bags than the number stated on his delivery note and recorded on the bin-card?*

John talked to the staff. They were sure the supplier had delivered the correct number of bags. John himself, with a storeman, had counted the bags. Both were certain that no bags had been spoiled or missing. No and knew of any thefts.

Finally, the problem was solved. John remembered that two bags had been returned to the supplier some weeks ago because a storeman had discovered that they did not contain the full weight. Nobody had remembered to note this on the bin-card! Now John corrected it.

Date	In	Out	Balance	Ref. / Remarks	Sign.
2.9		3	23	S-82	RE
3.9		7	16	S-91,93,94,99	RE
3.9		2	14	returned to supplier 15.8	John C.

Leakage

Sometimes goods will disappear from your warehouse without being paid for. Here are some examples of how this might happen:

- The seed in some bags became rotten and had to be thrown out.
- A bag of fertiliser was placed directly on a damp floor. Its contents were spoiled.
- A careless tractor driver ripped two bags of animal feed, spilling the contents on the ground.
- The storeman sold four bags of fertiliser to a member, but only charged him for three bags, by mistake.
- A delivery of pesticides was not properly inspected. Only 19 tins were delivered, although the manager signed and paid for 20 tins.
- A bag of cement was used by the staff to repair the floor in the warehouse. Nobody made note of this use.
- A hoe was stolen.
- A storeman was over-generous when selling kerosene. When a customer would ask for 10 litres, he would fill the can to the top, giving the customer an extra litre free.

These kinds of losses are called "leakage" by business managers. Nearly every business has "holes" through which stock can "leak away" like this. You must try to find the "holes" in your warehouse and close them, because leakage costs money - and it is the members who have to pay. Remember that on page 35 we said it was wise to add one percent to the markup to cover costs of this type. Of course it is better to reduce the leakage than to increase the price.

To reduce leakage, you need -

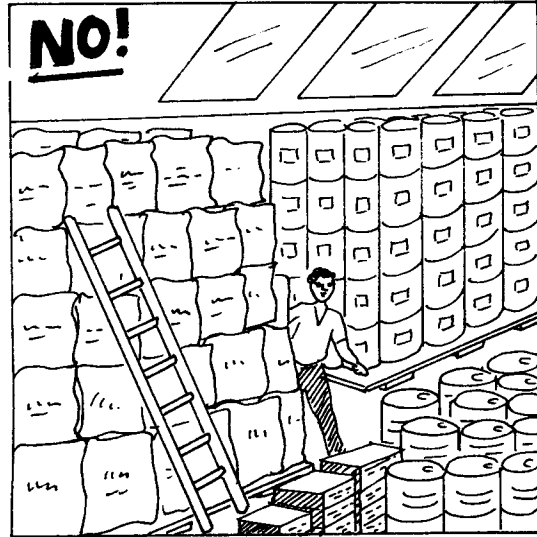
- *effective and secure physical storage facilities;*
- *foolproof and practical systems and procedures.*

Storage

How should your warehouse be laid out? What is the safest, most practical way to arrange the goods?

Would it be wise to make use of every centimetre, packing everything in right up to the ceiling?

Certainly not! You might save space that way but you would subject a lot of stock to spoilage and make your work more difficult.



Check your own warehouse layout. The building may well not be perfect, but are you making the best possible use of it? Are you following these guidelines?

To make control and counting easy -

- *keep each commodity in only one place, separate other items.*

To allow air circulation, to avoid dampness and vermin, and to be able to detect damage to the building or the stock -

- *leave space along the walls.*

To avoid dampness from the floor -

- *store nothing directly on the floor. Use pallets shelves or even plastic sheeting.*

To avoid contamination -

- *separate smelly or dangerous items from foodstuffs.*

To be able to sell the oldest stock first -

- leave access to every item from as many sides as possible.

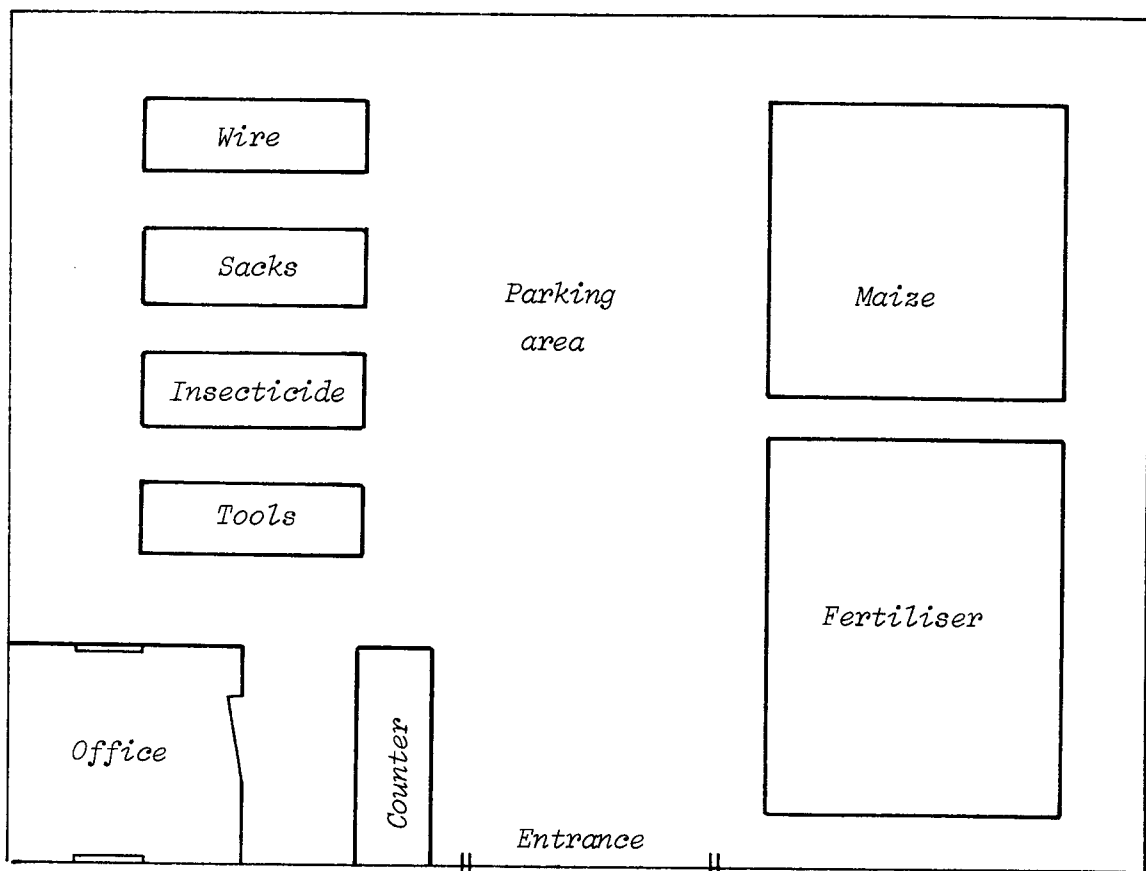
To make it easy for staff and customers to handle goods -

- place the goods sold most frequently nearest the door.

To protect against theft -

- arrange the warehouse so that you can see most of the space from the office; keep attractive and expensive items near the office; make sure that doors and windows can be locked securely.

10. This plan shows how one co-operative arranged its warehouse. Make a plan showing the best arrangement for your warehouse.



Work systems

A good system of storage will help you maintain control of stock. But do not forget the other aspect mentioned on page 54: how a proper work system can also improve security and reduce leakage.

The most important factor is, of course, attitude. All employees should feel responsible to the members and be honestly interested in taking good care of the goods. Delegation of responsibility and on-the-job training can foster this.

As a manager, you must do the following:

To be able to discover any leakage immediately -

- *design a simple, practical and safe paperwork system with well-maintained bin-cards and regular stock-taking.*

To minimise leakage -

- *design safe, practical procedures for the receipt and issue of supplies; make sure that the entire staff knows the procedures;*
- *set up a fixed programme for cleaning and inspecting the warehouse in order to discover promptly any damage from damp, vermin, etc.;*
- *ensure that all staff know how and where every item has to be stocked;*
- *design a safe system for keeping and accounting for cash;*
- *Lay down fixed procedures for dealing with damaged goods;*
- *Lay down fixed rules for the opening, locking and keeping of keys to the warehouse.*

We will comment further on the last two items.

Damaged goods

The following system is used in many co-operatives, when damaged goods are discovered:

- *The manager is immediately informed of the damage.*
- *He decides what to do with the damaged goods, bearing in mind that -*
 - as much as possible of the product should be saved; if a bag has been torn, the remaining contents should be re-packed, weighed and sold;
 - goods that have been damaged but can still be used should be sold at reduced price.

The manager makes a note of the loss in a special book. A committee member authorises it with his signature.

Date	Quantity/Goods	Reason for spoilage	Selling price unit	total	Certif. by	Author. by
20.1	3 lb insecticide	Leaking tin	\$1.40	\$5.20	R. Woe	J. Polac
4.3	1/2 bag fertiliser	Bag fell off truck	\$8.00	\$4.00	R. Woe	J. Polac

- *The loss is also noted on the bin-card.*

Warehouse security

It is not enough to have strong locks on warehouse doors. There must also be rules as to who should keep the keys.

There should be no doubt about responsibility. Normally it should be the manager who closes the warehouse. If he is off duty, the keys should be handed over to his assistant.

A single duplicate of the key should be kept in a sealed envelope by a committee member living near the warehouse. This must be used only in emergency.

Total protection against leakage is impossible. It would simply cost too much to safeguard against all possible risks that threaten the goods in stock. But a manager who introduces effective work procedures and rules will certainly be able to reduce leakage to a minimum.

MATCOM has published several "Learning Elements" which deal with such procedures. Although written for consumer co-operatives, they can be applied to agricultural supply co-operatives. There is a list of recommended Elements on page 64.



- 10.1 How much was the leakage in your society last year? If you do not know, explain how you can find out.
- 10.2 Make a list of the most common causes of leakage in your supply service. (Compare with the examples given on page 53.)
- 10.3 Try to break down the total amount of leakage into the various causes.
- 10.4 Suggest what action you should take to reduce leakage in your society.

“CHECK-OUT”

To prove to yourself that you have fully understood this Element, you should now go through the following questions. Mark what you think is the right answer to each question. If you have problems with a particular question, go back and read the corresponding chapter again.



Key on page 63.

- 1 What should be kept in stock by a well-managed supply co-operative?
 - a All the possible items needed by members.
 - b Items which are needed by the majority of members.
 - c Only a few very necessary items.

- 2 What is the meaning of "a high rate of stockturn"?
 - a The goods are delivered quickly after they have been ordered.
 - b The goods are ordered in large quantities.
 - c The goods are sold quickly after the delivery.

- 3 What is the advantage of ordering small quantities at a time and turning the stock quickly?
 - a The available money can be used to stock more types of goods.
 - b Total freight costs will be lower.
 - c Ordering procedures will be simpler.

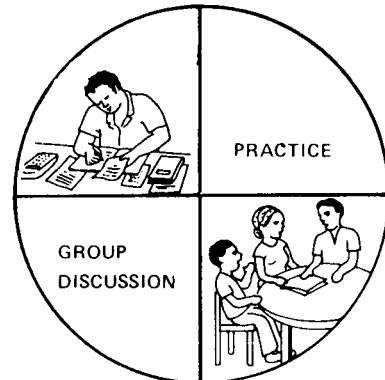
- 4 What should you do if there are some goods missing in a delivery to the society?
 - a Sign the delivery note, if the driver/delivery man promises to bring the missing goods as soon as possible.
 - b Return the delivery note unsigned and ask the supplier to send a new correct **one** later.
 - c Make a note on the delivery note and have it endorsed by the driver/delivery man.

- 5 How can you make sure that you have received all the goods listed on the supplier's invoice?
- a By comparing it with your copy of the order.
 - b By comparing it with the delivery note.
 - c By taking stock.
- 6 What is meant by "markup"?
- a The general price increase or inflation.
 - b The illegal practice of ignoring price control regulations.
 - c The amount you add to the cost price in order to arrive at the selling price.
- 7 Which of the following items of information should the sales note contain?
- a The cost of the goods to the society.
 - b The society's selling price of the goods.
 - c The society's "markup".
- 8 Should the sales be recorded?
- a Yes, all sales must be recorded.
 - b Only credit sales must be recorded.
 - c Only cash sales must be recorded.
- 9 Which of the following are important disadvantages of "word-of-mouth" as a way of informing members?
- a The information may be inaccurate.
 - b It is too expensive.
 - c The information will reach also non-members.
- 10 If you keep bin-cards for each item in stock, when should you make entries on the cards?
- a Only when you count the stock.
 - b Only when there is a change in the stock.
 - c Only when goods have been damaged.
- 11 When should sales be recorded on the bin-cards?
- a When the goods have been paid for.
 - b When the stock is finished.
 - c When the goods are taken out of stock.

- 12 What is meant by "leakage" in a business?
- a Staff spreading secrets about the profits.
 - b Goods are sold at discount prices all the time.
 - c Goods are spoiled or disappearing without being paid for.
- 13 How can you find the amount of leakage in your business?
- a By comparing the cash received with the total of all sales notes.
 - b By keeping records of all damaged goods.
 - c By comparing the balances on the stock-cards with the actual stocks.
- 14 What could cause leakage?
- a High freight costs.
 - b Poor stock control.
 - c Low prices.
- 15 What should you do to reduce leakage?
- a Increase sales.
 - b Improve work systems and procedures.
 - c Increase prices.

COMPLEMENTARY EXERCISES

To complete your studies of this topic, you should take part in some of the following exercises, applying what you have learnt to real situations.



1. Study a supply service

Make a study of the supply services in a co-operative.

First, make up a questionnaire and interview some members to get their opinions on questions like the following

- Is the co-operative supplying all the farm inputs needed by the farmers? What is lacking?
- Are the prices acceptable?
- How good is the service offered by the society (location of the warehouse, opening hours, transport services, payment conditions, reliable supplies, bureaucracy, staff knowledge and behaviour)?

Find out what the committee, manager and staff think about the same questions. Compare the responses and suggest what the society might do to improve its services.

2. Study a warehouse

Visit the warehouse of a supply co-operative. Check the following matters:

- Is the warehouse laid out in the most effective way?
Is the space used properly?
- Are the goods stored so that they can easily be put into and taken out of stock?

- Is security satisfactory?
- Are there any items in stock which might be difficult to sell? How might they be disposed of?
- How many staff work in the warehouse? Are they all busy, are there too many or too few?
- What are the procedures for issuing supplies to customers?

Discuss your observations with the manager and find the reasons for any unsatisfactory conditions.

Suggest what the society might do to improve its warehouse.

Key to the "Check-out", p.59

Question	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Correct answer	b	c	a	c	b	c	b	a	a	b	c	c	c	b	b
Ref. page	11	20	20	30	32	34	40	41	47	25	51	53	53	53	56

51

MATCOM TRAINING MATERIAL

Have you studied these other MATCOM "Learning Elements" for staff of agricultural co-operatives?

- Basic economics of an agricultural co-operative
- The budget

MATCOM has also published a series of "Learning Elements" for the staff of consumer co-operatives. Running a supply service is almost like running a store for consumer goods. Hence, several of these Elements might also be useful for the staff of a supply co-operative. Recommended reading:

- Cash and stock management
- Receipt of goods
- Pricing
- Handling of cash
- Cash control without a cash register
- Cash control using a cash register
- Leakage
- Stock control records
- Stock-taking
- Salesmanship
- Easy lettering for signs and posters
- Work organisation and staff management

A comprehensive eight- to ten-day course on "Supply Management" has also been designed by MATCOM. The Trainer's Manual for this course is available from ILO.

Inquiries and orders for MATCOM training material should be sent to:

The MATCOM Project
c/o COOP Branch
International Labour Office
CH 1211 GENEVA 22
Switzerland.