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**Role Play**

**A Game of Chicken:**

Role of the Owner of the Julieta Chicken Farm

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You are Julieta, a chicken farmer in Mozambique. The Mozambican poultry industry has grown drastically in the last few years. Last year, the national industry accounted for roughly 75% of the country’s poultry consumption, with 25% currently imported from other countries.  The Mozambican economy seems to be developing fast and moving towards becoming self-sufficient in their agricultural production, so you see an opportunity to grow your operations over the next few years as the domestic poultry industry expands to meet the rest of the country’s internal demand. You strongly believe that growing your chicken farm’s output will enable you to generate higher income and secure your family’s future.

A friend recently told you about CrediGro, a microcredit company focused on chicken farming that is interested in making new investments in Mozambique. You contacted CrediGro to set up a meeting and pitch your plan for expanding your chicken farm. The meeting date has arrived.

Depending on the option agreed to for each negotiation issue, you will receive value points as described in each table below. For instance, if you and CrediGro agree to a loan of $2500 you receive three points and if the payback time is two years you receive six points. Your goal is to obtain as many points total as possible adding up across all of the issues.

Should you fail to reach a mutual agreement, you have the option of seeking a loan from your own network of friends and family members. The conditions of such a loan are quite favorable and therefore worth 30 value points to you. Therefore, you should not make any agreement with CrediGro that provides you with less than 30 value points.

Size of the Loan

You want to capture as much as you can of the 25% of Mozambican poultry demand that is currently being imported. Your main plan is to substitute completely your current Mozambique chickens with a much more productive American breed which both grows faster and larger. This will ensure sustainable productivity and profitability for many years to come. However, for you to accomplish that goal you need to rehaul your facilities and equipment, and acquire higher quality feed and medication for the chickens. Importing American chickens into Mozambique is not necessarily going to be an easy affair and other local farms have failed, but with the right separation of facilities and care for the chickens you are confident you can do it.

A larger loan amount will allow you to achieve this transition faster, thereby enabling you to generate more income and pay back your loan successfully. Because of the potential to quickly accumulate economies of scale, a $10k loan can help you generate twice the growth compared to a $7.5k loan and over three times more growth than a $5k loan.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Loan (USD) | $0 | $1000 | $2500 | $5000 | $7500 | $10000 |
| Points | 0 | 1 | 3 | 6 | 10 | 20 |

Loan Payback Time

As a borrower, you are also interested in the payback period of the loan. Ideally, you would like to increase the payback time of the loan (number of years to repay the loan) as much as possible. This way you can generate value from the investment and utilize the returns to pay back your loan. For you to reach your ambitious goals and substitute your whole chicken population with the more productive American chickens, you calculate you need at least two years to do so in a sustainable way. Because some of the investments require at least one year to start generating any kind of returns, you cannot afford to repay the loan within one year only. If CrediGro asks you to do this in a year and there are any setbacks your risk of default will become too high, and you will need to sell chickens too soon and not be able to replenish the population fast enough. You therefore need at least two years to start generating enough cash to pay back the loan. That said, you would prefer as long a payback time as possible to protect you against any delays and unpleasant surprises.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Payback Time | 4 years | 3 years | 2 years | 1 year |
| Points | 8 | 7 | 6 | -1 |

Business Partner Support

You would like to partner with another farmer to share the loan fund’s distribution and repayments. There are several other chicken farmers in the village with whom you can partner. Ronaldo is a close friend of yours whom you have known for many years. You trust him completely in his ability to share the microcredit recipient responsibilities.  Felicia is another farmer in the village who has a newly built chicken coop that was funded using microcredit.  However, you are wary that Felicia will want a larger portion of the loan to finance her operations. Finally, there is Alvaro.  You have worked with Alvaro in the past to combine your egg production to sell at higher prices in the regional market.  You believe Alvaro is a hard worker and has good business sense. While Alvaro can be a potentially good partner, Ronaldo is still your preference given how well you know him and how you have seen him do the right thing, be generous with his partners, and respect important relationships even during bad times. Your past experiences in previous partnership attempts have proven that for a successful partnership you need a strong and resilient personal relationship.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business Partner | No partner | Ronaldo | Felicia | Alvaro |
| Points | 0 | 15 | 3 | 9 |

Poultry Density

You strongly desire to concentrate the farming cycle so that it approaches the efficiency of industrial scale poultry farming in the USA, China & Brazil. You recently watched a documentary on television which mentioned that industrial poultry farming in the USA is performed at a rate of 0.5 acre / 4000 chickens. As a progressive and ambitious entrepreneur, you aim to reach such efficiency very quickly through hard work and application of best practices from a book you received as a gift some years ago. By doing so, you expect your profits to be very attractive and to create a financial buffer to repay the loan even in case of surprises.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Acre/4000 chickens | 0.5 ratio | 0.6 ratio | 0.75 ratio | 1.0 ratio | 1.5 ratio |
| Points | 20 | 16 | 12 | 8 | 4 |

That said, you are well aware that the denser the poultry population, the quicker diseases can spread. In these other countries, such density was safely achieved with improvements in monitoring and veterinarian practices, which are not yet available in Mozambique. You thought of bringing these systems and support over, but they do not seem transportable. Despite these challenges, you are confident that you can achieve success with the 0.5 ratio. If you get a large enough loan, the better medication and the new facilities you plan on building will help you create enough separation of chicken facilities to avoid outbreaks of disease.

Inspection Frequency

As farmers, you are aware that CrediGro will want to make a certain number of visits per year as a condition of making the loan. However, as an entrepreneur, you do not appreciate micro-management by the creditor as you don’t feel that the visits add any tangible value. When they visit, you need to play host to the inspectors for a whole day, plus spend at least another day or more before that preparing to give them a great impression. This takes time away from running the business and has a real cost to your bottom line. A friend who already works with CrediGro has told you their inspections are so demanding that each inspection costs the equivalent of a full day’s worth of sales. Hence it is in your best interest to minimize the number of visits by CrediGro.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Inspection visits/year | 0 inspections | 1 inspection | 2 inspections | 4 inspections | 8 inspections |
| Points | 4 | 3 | 2 | 1 | 0 |

Remember that in this negotiation your goal is to achieve as many points as you can after adding up across all these issues. Note that you can only sign the contract if you and your counterparts from CrediGro reach an agreement on all five issues. Even though an agreement in a subset of the five issues could at times result in a point sum above your minimum acceptable deal, you can only close a deal if you reach agreement on all five issues.

Also note that it would be valuable to establish a good relationship with CrediGro, with whom you could develop a long-term business relationship.

An important rule: you are not allowed to share your point payoffs with CrediGro. Options not included in your point structure are non-negotiable and not considered reasonable from Julieta’s standpoint; you cannot agree to them.

Please prepare for your conversation with the representative from CrediGro now.