IMPROVING MARKETING EFFICIENCY THROUGH AGRICULTURAL COOPERATIVES: SUCCESSFUL CASES IN THE PHILIPPINES

Zenaida M. Sumalde and Karen P. Quilloy

Institute of Cooperatives and Bio-Enterprise Development
College of Economics and Management
University of the Philippines Los Baños

Paper presented at the International Seminar on Improving Food Marketing Efficiency: The Role of Agricultural Cooperatives held of 14 - 18 September 2015 at the National Agricultural Cooperative Federation, Seoul, Korea
OUTLINE OF PRESENTATION

- Introduction and background
- Objectives of the presentation
- Methodology
- Results and Discussion
  - Overview of Cooperatives in the Philippines
  - Case of Sorosoro Ibaba Development Cooperatives (SIDC)
  - Case of Subasta Integrated Farmers Multipurpose Cooperative (SIFMPC)
- Summary and Conclusions
INTRODUCTION

- Issues and Challenges of agricultural marketing in the Philippines
  - low prices received by farmers for their produce
  - multiple layers of market intermediaries
  - limited access to profitable markets (e.g. institutional and export markets)

Of all the market players in the agricultural marketing chain, the small farmers are often the most affected by these problems.
INTRODUCTION

- Indicators of Marketing Efficiency:
  - higher prices received by farmers/producers
  - lower prices paid by consumers (affordable consumers prices)
  - profitable business operations
  - more investments for market intermediaries
BACKGROUND

- In the Philippines, 91% or more than 5 million farmers are categorized as small farmers (do not exceed Php180,000 (US$ 3,800 gross income from farming per year; land area of less than 5 has).

- belong to the marginalized rural sector and are vulnerable to the rapid changes in the market environment and market conditions

- with poor economies of scale and bargaining power

- with limited resources and access to information

- often exploited by dominant groups and are constrained from participation and good market position in the supply value chains of agricultural products
BACKGROUND

- Because of the weakness as individual producer, small farmers are constrained from expanding their operation, accessing markets beyond their localities and generating better and fairer income for their families.

- One of the key strategies identified for improving the production and marketing performance of small farmers is to organize them into self-help groups like associations and cooperatives.

- Over the years, cooperatives have been recognized as a viable and sustainable form of enterprise worldwide.
BACKGROUND

- Despite the increasing advancement of the global agenda for promoting cooperatives as vehicle for development, the role and contribution of cooperative in agricultural marketing development in the Philippines are often understated.

- One of the reasons for this is the dearth in empirical evidences that show case the success and potentials of agricultural cooperatives in contributing to marketing efficiency.
OBJECTIVES OF THE PAPER

- To demonstrate the success of selected Philippine agri-based cooperatives in improving marketing efficiency and particularly, in mainstreaming small farmers in an efficient marketing system.

- To present evidences from the case of two of the county’s successful cooperatives
METHODOLOGY

- Case study of two selected agri-based cooperatives in the Philippines using focused stories

- Focused stories of 1) Sorosoro Ibaba Development Cooperatives (SIDC) and 2) Subasta Integrated Farmers Multi-Purpose Cooperative (SIFMPC)

- These two cooperatives were purposely selected to represent both large and the micro cooperatives: SIDC operates at a large scale while SIFMPC has small-scale operations.
Map of the Philippines showing the studied Cooperatives
METHODOLOGY

- Secondary and primary data were used in this study

- Secondary data came mostly from existing literature on agricultural supply and value chains and cooperatives and from annual reports of these two cooperatives

- Primary data were gathered through key informant interviews (KII) with the cooperative leaders and managers and personal interviews with member-representatives of the cooperatives

- Analysis of data is highly descriptive and qualitative
RESULTS AND DISCUSSION

- Overview of the Philippine Cooperative Sector

The Cooperative Development Authority (CDA) is the main regulatory agency for cooperatives. The CDA was created under RA 6939 in 1990 to replace the Bureau of Agricultural Cooperatives Development, the former regulatory agency under the Ministry of Agriculture. The creation of CDA provided for the expansion of the scope of cooperatives beyond agriculture.

Core functions of cooperatives in the Philippines:

i) marketing - extending control of members’ products through processing, distribution and sale;

ii) purchasing - providing affordable supplies and goods;

iii) service - providing needed services (e.g. credit, savings, utilities)
RESULTS AND DISCUSSION

- Total number of cooperatives as of 2014 = 24,652

- Total cooperative membership in 2013 = 12.7 million (23.8% of Philippine population ages 20 and above)

- Volume of business in 2013 = Php437.6 billion (US$9.9 billion) which comprised 4% of the country’s GDP

- Direct employment as of 2014 = at least 290,662 people
RESULTS AND DISCUSSION

General types of cooperatives by function

Unfortunately, the Philippine cooperative sector does not include a specific type for “agricultural cooperative”

Cooperatives engaged in agricultural activities may fall under different categories like producers cooperative, agrarian reform cooperative, multipurpose cooperative.

Conservatively, it is estimated that 8% of all cooperatives are into agriculture and fisheries-related activities.

Source of basic data: CDA, 2014
RESULTS AND DISCUSSION

Categories of cooperative by total value of assets

At least 57% of all the cooperatives are categorized as micro cooperatives - having less than Php 3 million (<US$66,667) worth of assets.

Small cooperatives are those with assets of Php 3 million to Php 15 million (US$66,667 to US$333,333)

Medium cooperatives have assets of more than Php 15 million to Php 100 million (US$333,333 to US$2,222,222)

Large cooperatives have assets of more than Php 100 million (>US$2,222,222)

Source of basic data: CDA, 2014
RESULTS AND DISCUSSION

- Attempts to study the performance and contributions of cooperatives in agricultural and rural development have been made.

- Castillo (2003), Manalili (2003), Araullo (2006), Geron 2014, and Quilloy (2015a) provided evidences of the importance of cooperatives in agriculture.

- These studies focused on demonstrating the involvement of cooperatives in agricultural production and marketing, linking farmers to markets through cooperative, market integration and value chain upgrading through cooperatives, and competitiveness and comparative advantage of cooperative as an enterprise.
RESULTS AND DISCUSSION

- Vertical Integration: A Strategy to Improve Marketing Efficiency

  - One of the strategies to improve marketing efficiency is to minimize costs in moving the product between market players from the point of production to the point of consumption.

  - It can be postulated that with fewer players involved in the chain, the marketing channel through which the product has to pass will be shorter and thus, will result in less transaction costs.

  - An effective strategy to lower transaction costs is to do vertical integration in commodity chains.
RESULTS AND DISCUSSION

- **Vertical Integration: A Strategy to Improve Marketing Efficiency**

  - In the Philippines, vertical integration has become an important feature of the livestock industries.

  - Given the capital-intensive nature of the hog industry, integration of marketing functions becomes a necessary for hog businesses to ensure reliability of supply, provide economies of scale, and facilitate product quality and standardization - thus better profit.

  - However, in vertical integration, small family farm or backyard raisers often faced the risks of being crowded out by big Businesses.
RESULTS AND DISCUSSION

- Vertical Integration in Hog Marketing Chain

Hog Value Chain Map in the Philippines

- **Inbound Logistics**
  - Input Supplier
  - Veterinary service provider

- **Production**
  - Backyard raisers
  - Contract growers
  - Commercial farms
  - Feedlot operators

- **Outbound Logistics**
  - Canvasser
  - Butcher
  - Wholesaler
  - Meat processors

- **Sales & Marketing**
  - Institutional buyers (supermarkets, food service industries)
  - Retailers
  - Consumers

Servicing: support and extension services; technology upgrades

Source: Adopted from Perez (2014) with some modifications
RESULTS AND DISCUSSION

Marketing channel of live animal, meat and meat products

Source: Esplana and Abao (2009)
RESULTS AND DISCUSSION

- Vertical Integration in Hog Marketing Chain
  - With the sad plight of small hog raisers, it has been recognized that agricultural cooperatives has been more inclusive or pro-smallholder alternative to large investors-owned firms (IOFs) involved in livestock industries.
  - The cooperative approach towards production and marketing enables small farmers to have stronger capacity to vertically integrates their business activities instead of limiting their participation in the value chain as production level only.
  - As member-owners of the cooperative, farmers also receive returns from the cooperative’s net surplus based on their patronage of the products and services of the cooperative, in addition to their capital share or investment in the cooperative.
RESULTS AND DISCUSSION

- Vertical Integration in Hog Marketing Chain: The Case of SIDC

Brief profile of SIDC

- First established as a small farmers’ association on March 1969 by 59 founding farmer-members from the village of Sorosoro Ibaba, Batangas City
- Its first business was a goods store offering basic food commodities for village residents and poultry and livestock farm inputs for hog and poultry raisers
- Started to venture in hog and poultry contract growing in 1972
RESULTS AND DISCUSSION

Vertical Integration in Hog Marketing Chain: The Case of SIDC

Brief profile of SIDC

• Became a full-fledged cooperative with 500 members in November 1978

• Started its feed milling business in 1987, which is now the largest earning business of SIDC (33% of total net surplus)

• Since then, SIDC has continued to expand its membership and invest in more agricultural and non-agricultural business activities

• SIDC is now the biggest and most successful agriculture-based cooperative in the Philippines which demonstrates vertical integration in its hog business activities
Current Status of SIDC

- **Vision**: To be recognized as a world class cooperative empowering stakeholders for sustainable progressive life

- **Mission**: To develop and offer competitive quality products and services, adopting technologically advance systems to build prosperous lives and strengthen the spiritual and social development of stakeholders

- **8,059** regular and **10,480** associate members from more than 105 villages in Batangas City and from more than 8 provinces outside Batangas

- **Employs 284 employees**
RESULTS AND DISCUSSION

SIDC business activities and services

- feed milling
- contract growing
- hog selling pen
- piglet multiplier farm
- communal farm
- artificial insemination center
- Coopmart and CoopSupermart
- meat stalls
RESULTS AND DISCUSSION

SIDC business activities and services
• rice milling
• layer farm
• aquaculture
• organic fertilizer
• biogas digester
• savings and loans
RESULTS AND DISCUSSION

SIDC business activities and services

- cable television & internet
- water refilling station
- hot spring resort
- services (free medical check-up, hospitalization benefit, scholarship grants, mortuary aid, barangay development funds, trainings and seminars, system for pollution control, official publication, and job opportunities)
RESULTS AND DISCUSSION

SIDC business activities and services
RESULTS AND DISCUSSION

SIDC’s feed-to-food hog industry chain, 2012

Source: Adopted from Quilloy (2015a) with some modifications
RESULTS AND DISCUSSION

 Linking Farmers to Export Market: The Case of SIFMPC

Brief profile of SIFMPC

• Organized as a farmers association in 2008 by a group of 27 cacao farmers from the village of Subasta, who all graduated from a farmer field school conducted by the United States Department of Agriculture (USDA) Agriculture Cooperative Development International and Volunteers in Overseas Cooperative Assistant (ACDI/VOCA) under its Success Alliance Phase II Program

• Was later registered as a cooperative in 2012 with 100 members
RESULTS AND DISCUSSION

Brief profile of SIFMPC

• **Vision**: To build a community where stakeholder-farmers have attained sustainable development in terms of socioeconomic and environmental protection

• **Mission**: To adopt a diversified farming system to improve and sustain source of income by producing premium quality fermented cacao beans for international market

• **Objectives**: (1) to engage in the production and processing of cacao beans and its by-products; (2) to engage in the marketing of agricultural products such as but not limited to cacao, coconut, and banana; and (3) to generate funds and extend credit to members for productive purposes
RESULTS AND DISCUSSION

Brief profile of SIFMPC

- Business activities: cacao production, processing and marketing
RESULTS AND DISCUSSION

Brief profile of SIFMPC

- **Business activities:** cacao production, processing and marketing
RESULTS AND DISCUSSION

- Linking Farmers to Export Market: The Case of SIFMPC

Interrelationship between farmers and markets

INTERNATIONAL MARKETS
- Globally competitive and market-oriented farmers

PROVINCIAL AND NATIONAL MARKETS
- Local market-oriented farmers

LOCAL MARKETS AND HOME CONSUMPTION
- Subsistence farmers
- High-income small farmers
- Low-income small farmers

Source: Torero (2011)
RESULTS AND DISCUSSION

- Linking Farmers to Export Market: The Case of SIFMPC

Supply chain of cacao beans without cooperative

Supply chain of cacao beans with cooperative

- Source: DA (2014)
- Source: Adopted from Quilloy (2015b) with some modifications
RESULTS AND DISCUSSION
Linking Farmers to Export Market: The Case of SIFMPC

Value Chain Map for SIFMPC Cacao Beans

<table>
<thead>
<tr>
<th>Functions</th>
<th>Operators</th>
<th>Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input Provision</td>
<td>Nurseries, agrivets, fertilizer producers</td>
<td>Provincial and municipal LGUs, BPI, DA and attached agencies &amp; programs, DTI, DOLE, CDA</td>
</tr>
<tr>
<td>Farming</td>
<td>Individual farmers</td>
<td>ACDI/VOCA, Mars Cocoa Development Center, Peace for Equity Foundation</td>
</tr>
<tr>
<td>Trading</td>
<td>Intermediaries</td>
<td></td>
</tr>
<tr>
<td>Processing and Export</td>
<td>Integrators, global traders, exporters cum processors</td>
<td></td>
</tr>
<tr>
<td>Final Sales</td>
<td>Domestic and Export Markets</td>
<td></td>
</tr>
</tbody>
</table>

- **Input Provision**
  - Production and sale of planting materials, fertilizers and other inputs
- **Farming**
  - Farm establishment and maintenance
  - Harvesting
- **Trading**
  - Sorting
  - Packing
  - Cash advances
  - Transportation
- **Processing and Export**
  - Fermentation
  - Drying
  - Sorting and grading
  - Bagging and storage
  - Training and financing
  - Transportation

Source: Quilloy (2015b)
SUMMARY AND CONCLUSIONS

- The case of SIDC and SIFMPC exemplifies the significant role and contribution of cooperatives in improving agricultural marketing efficiency, particularly of small-scale farmers in the Philippines.

- Through collective action, these two cooperatives have served as successful instrument for empowering small farmers in terms of improving their farm productivity and economic opportunities and enhancing their participation in the value chains of their commodities and their access to more lucrative and dynamic markets locally and abroad.

- Particularly, the cooperative marketing approach has shown positive impacts on the efficiency of the marketing system for hogs and cacao beans as cooperatives enable the achievement of vertical integration, economies of scale in production and marketing, bargaining power in the markets, and value addition for their products.
SUMMARY AND CONCLUSIONS

- The findings of this study also reveal that regardless of the size of operations, cooperatives can perform efficiently in a marketing system and open better income opportunities to its farmer-members.
- SIDC and SIFMPC have both maintained a good market position and massive participation in the supply chain of hogs and cacao beans, respectively.
- Their high competitiveness with other existing industries and manufacturers, which are offshoots of their high quality production, has brought them to a higher level in the value chain.
SUMMARY AND CONCLUSIONS

- SIDC and SIFMPC are just two of the many cooperatives in the Philippines that effectively empower small farmers through promotion of marketing efficiency.
- Their success stories provide a cooperative enterprise model that is worthy for replication in the country and in other parts of the world.
- However, adequate resources and investment capacities to support their operations must be ensured in order for the cooperatives, especially the micro cooperatives, to perform productively, competitively and sustainably.
- The success of these two case cooperatives cannot be seen in the experiences of many micro and small cooperatives which are often saddled by limited resources and are unable to undertake efficient business operations.
정말 감사합니다
(jeongmal gamsahabnida)
Thank you very much!