

Value Chain Management in Agricultural Co-operatives, Thailand

Innovation for competitiveness and fair-trade approaches

Associate Professor Juthatip Patrawart and Miss Saisuda Sriurai¹

Abstract:

This article is a result from a research project named “Thai Co-operatives Hommali Rice Value Network” which was conducted as a Participatory Action Research under the support from the Thailand Research Fund. Its research objectives put an emphasis on how to manage supply chain for **business network of the associates**. The business network consists of 16 agricultural co-operatives with a total of 52,613 members occupying 632,661 acre of rice field. The aim of the long-term goals of this project is to develop a stable value business system that can bring about the fairness to producers and consumers.

The outcome from the first year of the research was the creation of a horizontal integration network called “Thai Co-operatives Hommali Rice Value Network”. Operational framework of the network is under control by its management committee. In addition, there is a mutual fund which was established in order to manage liquidity of the associates and a GAP supporting project for the co-operative members. Also, there is a value brand, **Koet Bun Rice**, which is currently in the process of registering for trademark from the Ministry of Commerce. This is aimed to build understanding amongst consumers who want to buy quality Hommali rice from small farmers whose marketing channel to the customers is through co-operatives. Brand tracking in “Kaset Fair” at Kasetsart University has also shown a good result.

The learning process has led a paradigm for the leaders and managers of the co-operatives in terms of business administration under the supply chain by focusing on the promotion of the members’ production to reduce production cost and sustain quality products. Moreover, it emphasizes the creation of the network’s business plan with the customers/alliances, an exchange of information and the co-operative knowledge forum organizing, an establishment of a mutual fund, as well as the long-term targets of Thai Co-operatives Hommali Rice Value Network that would use “Koet Bun Rice” brand to keep up the image and standard of Thai Hommali Rice.

¹ Co-operative Academic Institute, Faculty of Economics, Kasetsart University, 50 Phaholyothin Rd. Jatujak Bangkok 10900 Thailand. Tel. (+66) 29406300, Email : fecojup@ku.ac.th, cai_coop@yahoo.com

Value Chain Management in Agricultural Co-operatives, Thailand

Innovation for competitiveness and fair-trade approaches

Associate Professor Juthatip Patrawart and Miss Saisuda Sriurai¹

1. Reflexive Statement

Since 2000, we have begun to conduct a research on co-operatives under the support from Thailand Research Fund. The research is called a research series of “Co-operative Movement Development and Fair trade”. It is mainly aimed to establish a research system which can bring about an innovation and new knowledge collection in order to support Thai co-operatives development. Hopefully, by 2016, the year to celebrate a century of Thai co-operatives, people will have had the spirit to help one another in developing our country.

The research project has been done as a participatory action research with the full support from four sectors; cooperator, government, entrepreneur, and academic person. In the past 10 years (2000 – 2010), we have been able to apply the knowledge collection we have obtained from research as the principle strategies of the 1st Co-operative Development Plan (2003 – 2006) and the 2nd Co-operative Development Plan (2007 – 2011). In the past two years of the implementation of the 2nd Plan, the development framework has been set in terms of the vision and strategies as follows:

Vision of Thai co-ops (2011):

“Determine to create value networks of the co-operative system in order to reach the target of peace and happiness of the nation”

Strategies for co-op Development:

1st Strategy: To encourage the Thai Nationals to have faith and belief in the Co-operative Values and philosophy of sufficiency economy.

2nd Strategy: To develop potentiality of leaders and those involved in co-operatives so as to become changed leaders ready to manage the co-operatives becoming self-reliant organizations.

3rd Strategy: To develop the capability of co-operatives to be highly qualified as the organization with efficiency, effectiveness and good governance.

4th Strategy: To promote supply chain management of co-operatives to competitiveness.

¹ Co-operative Academic Institute, Faculty of Economics, Kasetsart University, 50 Phaholyothin Rd. Jatujak Bangkok 10900 Thailand. Tel. (+66) 29406300, Email : fecojup@ku.ac.th, cai_coop@yahoo.com

5th Strategy: To develop a co-operative financial system contributory to the state of self-reliance and co-operation among co-operatives.

This report explores the 4th Strategy of the 2nd Co-operative Development Plan which is to promote supply chains management of co-operatives by conducting the research project on Thai Co-operative Jasmine Rice Value Network as an pilot project. This research project has brought us to learning and development of a new business form of agricultural co-operatives to enhance their competitiveness and the development of Fair trade.

2. Introduction

Thai Co-operatives is established by the registration under the Co-operative Act B.E. 1999. The Co-operatives is classified into 7 categories such as Agricultural, Fisheries, Land and Settlement, Consumer, Service, Thrift and Credit and Credit Union.

In 2009, there are 10,400 co-operatives institutions with 10.6 million members, or 15.9% of the total population in Thailand. Co-operatives operate with 34,346 million U.S. dollars and manage 5 categories of businesses for the members. The business values create 37,000 million U.S. dollars or 16% of the country's GDP. The main business is loan business while for agricultural co-operatives, it is product collecting businesses. For the last three years (2007-2009) business values increase more than 27.7%. (Cooperative Auditing Department, 2010).

Agricultural Co-operatives have 2 outstanding economic agricultural products which are Para Rubber and Paddy. These 2 products are important to create income to members. The values of collecting Paddy and Para Rubber are 454 million U.S. dollars and 1,010 million U.S. dollars respectively. In 2010, we expected the increasing rate of the 2 products to be 12% for Paddy and 54% for Para Rubber.

The empirical information shows that the significant limitations of agricultural co-operative business are: (1) a lack of holistic management, which links the production database of the members to business plan, (2) and education and training for the co-operative leaders and managers, especially to encourage them to 'think' rather than just 'receiving knowledge' from others so as to empower them to carry out an effective and efficient management performance to deal with sudden changes in the economic system. As a result of these limitations, we have seen, time after time, many problems of agricultural co-operatives, for example, loss from incorrect price forecasts, risks of dealing the

business with the public sector, as well as inefficient management of economic resources, resulting in high cost per unit and difficulty in solving occupational problems of the members.²

Fortunately, as a member of the National Committee of Co-operatives Development (NCCD) and the Coordinator Team of Thailand Research Fund (TRF), that authorized the strategic development during the 2nd Co-operative Development Plan, we have appointed the Participatory Action Research, that focuses on the transformation of ideas and process management among cooperators who participated in the research projects. From 2009 to 2010, there has been six related projects which are Thai Co-operative Jasmine Rice Value Network, Rubber Value Network, Fruit Value Network, Coffee Value Network, Cassava Value Network, and Moral Rice Value Network. The results from Thai Co-operative Jasmine Rice Value Network which has just been completed are presented below.

3. The Context of Cooperatives Participated in Research Project

There are 16 agricultural co-operatives from five provinces in the northeastern part of Thailand participating in the research project. The area is known as “Thung Kula Ronghai”, the best location in Thailand for growing Jasmine Rice which is done only once a year.

Those 16 agricultural co-operatives comprise of 15 primary agricultural co-operatives and a provincial agricultural co-operative federation, with a total of 52,613 members occupying 632,661 acre of rice field and having earned 27 million U.S. dollars from jasmine rice gathering in 2009. These co-operatives consist of five large co-operatives with more than 5,000 members, three central co-operatives with more than 2,000 members, and seven small co-operatives with 530 – 2,000 members, and one provincial federation with 44 primary co-operatives as its members.

The objective of the research is aimed at an initiative of new management models that is relevant to value chain management. This can be done by integrating social capital and economy assets together in order to create the power of negotiation and bring forth the benefits to the members and small farmers who have encountered the occupational problems.

² The details are based on Juthatip Patrawart and others, 2010, Co-operatives Transformation and Fairtrade, research report under research series on “The Co-operative Movement Development and Fairtrade”, supported by Thailand Research Fund (TRF).

4. Conceptual Framework and Research Methodology: Learning Process to Competitiveness

The framework of the research has brought ‘value network connection’ and ‘integrated supply chain management’ together to the process of participatory action research, see Figure 1, which was designed to consist of four main operational activities. These activities presented in Figure 1 were the learning process through coaching, the network connection which is relevant to value chain management, the operational of business model of network, and the evaluation of network’s performance. It was expected that a new business network occurred from the research would result in value creation and value added to co-operative business and solve the occupational problems in the long run. For more information on the concepts of Value network connection and Integrated supply chain management framework please see Frame 1.

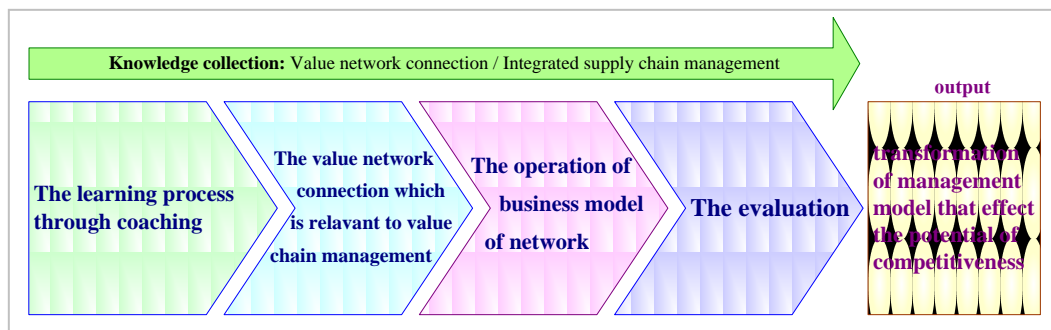


Figure 1: Research methodology

Frame 1 : The concept

- Value network connection framework:
“The process of network creation is an innovation of community economic development, a mix of the co-operative value (philosophy), people, and organization, to create a proactive management approach (strategic aspect). This approach can result in the horizontal integration which links and organizes proper relationship among members. Each member helps one another in planning and doing economics, social, academic, seminar, as well as welfare activities, which are all about occupation and the locals’ way of life, which can sustain their mutual happiness.”
- Integrated supply chain management framework:
“The connection of business alliances which is the cooperation from businesses under supply chain, establishes a model of supply chain business management, a result of cooperation strategy which affects the potential of competitiveness of the business so as to distribute products and services from producers to customers.”

Source: Research series report on “Co-operatives Transformation and Fair Trade”.2010.

5. Research results:

The results of the participatory action research under our coaching team were as follows.

5.1 Business network in the form of horizontal integration with cooperation of 16 agricultural co-operatives namely “Thai Co-operative Jasmine Rice Value Network.”

5.2 Platform of the operation of Thai Co-operative Jasmine Rice Value Network in terms of its vision, missions, and strategic map, as follows.

5.2.1 Vision of Thai Co-operative Jasmine Rice Value Network

**“To Promote the Value Creation of Jasmine Rice from Thai Co-operatives
Worldwide”**

5.2.2 Missions of the network which are:

- a) Production support in order to reduce the production cost and develop good agricultural practices
- b) Product gathering under the network business plan
- c) Product processing under the idea of pooling resource
- d) Product marketing and development through the strategic team
- e) R&D, HR evaluation and development

5.2.3 Strategic map which is designed based on the cooperation of the associates by taking into consideration four aspects: learning and growth; internal process; value creation and value added prospective; and target groups which can take part in the movement of value network and Fair trade development.

5.3 Organization Structure

Organization structure in Figure 2 is in line with the value creation which is to optimize the combination of social capital and economy assets from those 16 agricultural co-operatives. Still, all of which operate under the plan of primary cooperatives.

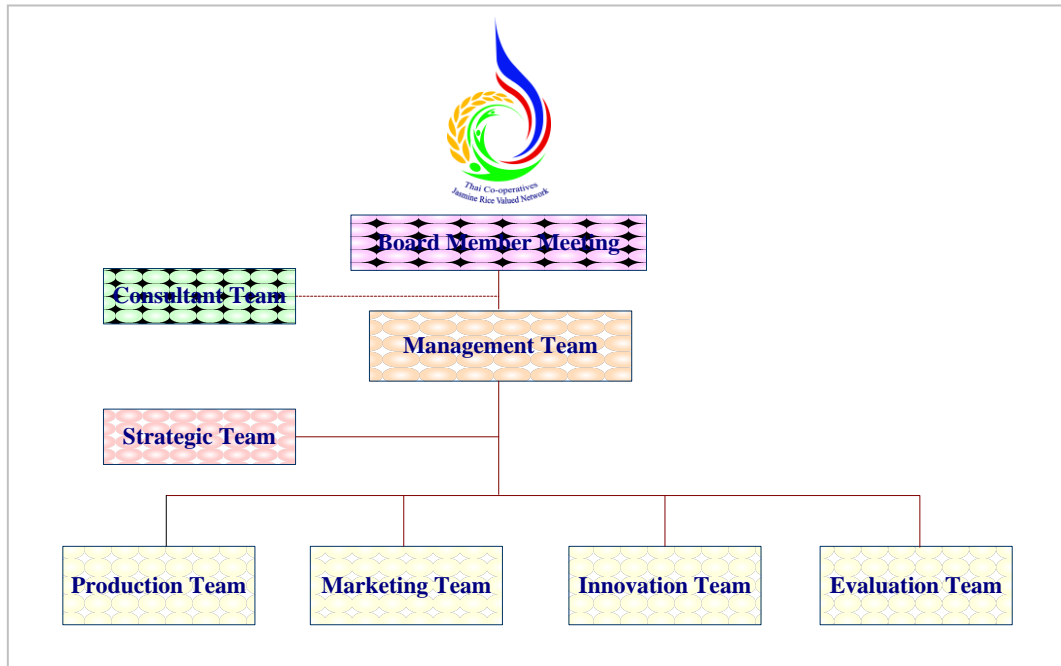


Figure 2: Organization structure of Thai Co-operative Jasmine Rice Value Network

5.4 Branding: Under the network operation which created brand for the network’s product called “Koet Bun Rice”



“Koet Bun Rice” is a brand of the second-class 100% quality jasmine rice. The brand presents to customers the image of jasmine rice which is the product from quality small farmers who use agricultural co-operatives as their marketing channels. The word, “Koet Bun” is inspirational to the customers as they are ‘making merit by purchasing from small farmers. (Figure 3)

Figure 3: the brand - Koet Bun Rice

6. The Result of Value Chain Management:

The results of the operation of the Thai Co-operative Jasmine Rice Value Network are valuable. For example,

6.1 An initiative of the demo farm for farmers to learn good agricultural practices (GAP). It can then be adapted to be a learning center for cost reduction, production efficiency and knowledge management on the quality of production process for the farmers.

6.2 An allocation of responsibilities among the co-operatives regarding their core competency. To illustrate, those large co-operatives with trucks and ISO / GMP standard mills are responsible for gathering, transporting, and processing the products according to the network business plan. The middle-size co-operatives with the seed processing plants are responsible for producing and selling quality seeds to the network associates. Those experts in the production of biological fertilizers are responsible for producing and selling fertilizer to the associates who join the project. The network management committee passed a resolution to entrust six agricultural co-operatives that have GMP standard mills with the packaging and distribution of the products under “Koet Bun” brand.

6.3 A new knowledge collection concerning branding with cooperation. Researchers from those 16 co-operatives have learned and developed a brand “Kuaw Koet Bun.” The discussion among the researchers before the research completion suggested that the branding process which links the integrated supply chain management and “value network connection” could reflect more clearly on the holistic management. In addition, this can raise awareness among those relevant to recognize the importance of supply chain activities at all levels. The first level is the support to the production of the members. The second level is the business plan based on the cooperation principle in order to optimize the use of economic resources. The last level is the connection of new business alliances in order to create new market channels and new brands.

7. The Network Evaluation:

Before the completion of the one-year research project, the central coordinator team of the project evaluated the Thai Co-operative Jasmine Rice Value Network using two-dimension matrix model - the dimensions of the density of network connection and the network’s performance. It was found that Thai Co-operative Jasmine Rice Value network was ‘moderate’ in both dimensions. This is because it was in a starting point and is currently under the second stage of the research process, aiming to transform the business method through the supply chain in order to reach the vision of the network. (Figure 4)

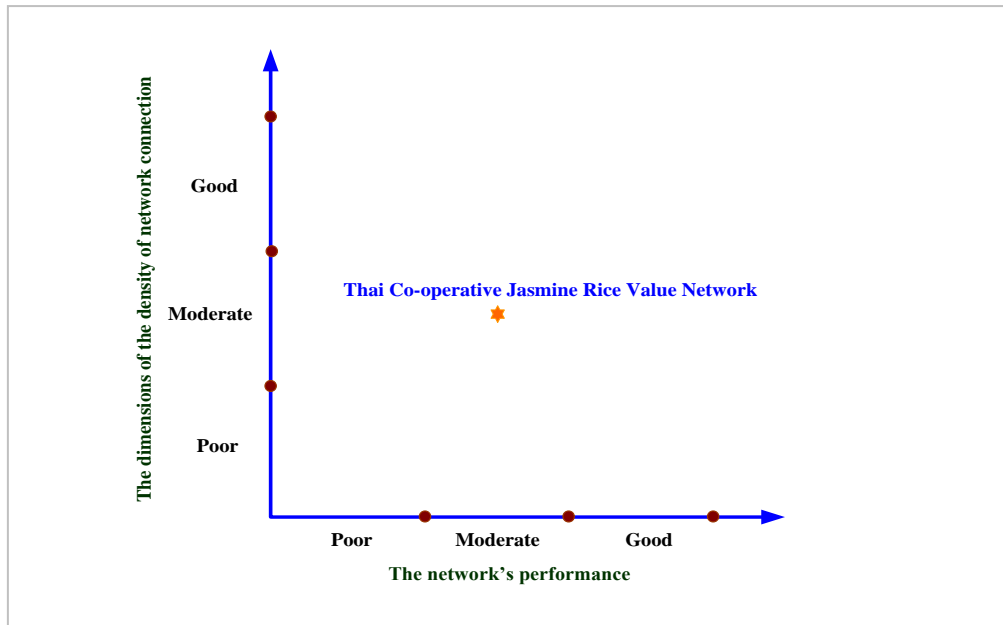


Figure 4: Two-dimension matrix for network evaluation

8. Brand tracking reflecting the customers' response:

Brand tracking by randomly selecting samples from the selection of 100 samples from customers at Kaset Fair 2010, Kasetsart University, showed that the attitude of customers were 'good' in terms of its value brand. The customers are willing to buy products from small farmers because they will get good products and also make merit by helping the poor.

9. Conclusion – Future:

The context of the 'New Economy' world with the dynamic changes and pressure from the FTA has resulted in higher production costs in the agricultural sector and encountering more price fluctuations. As a result, the context of agricultural co-operatives as the small farmers' market channels has to find new management methods that can help to enhance competitiveness of the co-operatives as well as to create the value added of products to the members.

Although the research period of the project was only one year, its participatory action research methodology could numerously create learning and development among those participating. For example, the knowledge collection of strategic map, branding, trademark registration, GAP, and integrated supply chain management. More importantly, the value gained from the learning process under the platform of Thai Co-operative Jasmine Rice Value Network has helped the co-operative leaders and managers to have an idea of holistic management as well as become aware of the

importance of co-operative business under the supply chain with the integrated cooperation among the co-operative associates to achieve mutual goals.

It can be said that Thai Co-operative Jasmine Rice Value Network is an innovation of Thai agricultural co-operatives as a model of new management methods that can lead to the expected competitiveness and Fair trade approaches in the future.

The second stage of the network has now been supported by Thailand Research Fund. Its main objective is to promote Koet Bun Rice brand to be the brand of Thai jasmine rice which is now affected by the FTA, that is, low quality jasmine rice from neighbor countries can be easily imported and mixed with Thai rice. We hope that, as the co-operators, we can use the brand 'Koet Bun Rice' to protect the image of Thai jasmine rice in a sustainable manner.

References:

Bungut Panum and others, 2009, Thai Co-operative Jasmine Rice Value Network. Research report under research series on "The Co-operative Movement Development and Fairtrade", supported by Thailand Research Fund (TRF).

Co-operative Academic Institute (CAI), (Online)<http://www.cai.ku.ac.th>.

Cooperative Auditing Department, 2010, "Financial Condition of Cooperative Institutions in Thailand 2009-2010", Tawanoak Corp. Press, Bangkok.

Juthatip Patrawart and others, 2010, Co-operatives Transformation and Fairtrade, research report under research series on "The Co-operative Movement Development and Fairtrade", supported by Thailand Research Fund (TRF).