

**ICA-AP C2C Seminar**  
**On**  
**Cooperative to Cooperative**

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**The Strategic Value Network and Fair Trade Framework:  
Innovative initiatives and experiences of CAI, Thailand**

by

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## 1. Introduction

In 1997, Thailand had undergone a serious economic crisis which partly due to the conventional developmental approach that narrowly focused on economic growth. The approach also led to a number of social problems and increasing deterioration of natural resources and environment.

Over the past decade, the average economic growth of Thailand was 3.8 % per annum. The country's economic structure has transformed from agricultural-based economy to industrial and service economy. The contribution of the industrial sector has increased from 36% of GDP in 1999 to 40.8% in 2013. Although the agricultural sector has become smaller, it still plays a dominant role in the economy. It has been an important source of income among households in rural communities, which comprised around 25% of all households in the country. It also generates substantial foreign exchanges to help support the expansion of industrial and other sectors. Moreover, Thailand has remained as one of the major food producers and exporters of the world. However, many farming households have suffered from serious debt problems and poverty due to a number of uncertainties in commodity prices and severe weather conditions. Consequently, a number of farming households have lost their lands and become tenants and landless households. This situation has led to serious social problems and conflicts, especially among the grass roots, if nothing was done to change the direction of the nation developmental plan.

Therefore, in the formulation of the recent five-year National Economic and Social Development Plan, a new paradigm of human-oriented development was initiated as a new approach to achieve a more balanced development through broad-based participation and deeper collaboration among society, private sector and academia (NESDB, 2010). This new paradigm of development is fully embedded in the Eleventh National Development Plan (2012-2016), the inclusive plan that shifts from the business centric to people-oriented focus. This shift has been made more explicit recently to make it more apparent in the first objective of the Plan.

The development strategies under the Eleventh National Economic and Social Development Plan cover six objectives: (1) to create a quality society by building the intellectual basis to create resilient citizens and society, (2) to achieve an innovative green economy through restructuring based on integration of knowledge and Thai identity, (3) to connect effectively with the regional and global economies, (4) to foster sustainability in the agricultural sector and prosperity in the food and energy sectors, (5) to sustainably manage natural resources and the environment, and (6) to reinforce good governance and harmony in all sectors and at every level. The accomplishment of these objectives will lay a foundation for balanced and sustainable development and lead to a just and happy society.

The project presented in this paper contributes to the developmental framework that NESDB has laid the foundation for all developmental agencies in Thailand to follow. The Co-operative Academic Institute (CAI)'s has adopted and transformed this concept into an innovative research framework called "The Value Network and Fair Trade Development," which highlight the people-oriented developmental approach. This framework targets the grass-roots people development using the social economy



The research on networking was identified as one of the key strategies in the 1<sup>st</sup> National Co-operative Development Plan (2003-2006). The term, “networking,” refers to networks linking among registered and non-registered co-operatives. Based on the ex-post evaluation in 2006, the networking strategy generated 127 networks that spread to 45 out of a total of 72 provinces throughout the country. They were participated by 42,353 co-operatives/groups. (Patrawart et al., 2006)

In the final workshop of the research project in 2006, all participants contributed and defined the “value network” as “the relationships among network members that promote mutual learning toward sustainable business operations and well-being of people in the ever-changing conditions.” The participants in the workshop were grass roots from self-help groups, co-operatives, and local communities.

At the beginning of 2007, the National Co-operative Development Committee entrusted the CAI with a task to formulate the 2<sup>nd</sup> Co-operative Development Plan, which is known as the Co-operative National Policy, 2007-2011. Then, the concept of value network was employed as a main strategic element in the plan. However, the concept was modified to include all participants in the supply chain. In other words, this revised or improved concept aimed to create a new form of business networks that linked grass-roots organizations, business partners, suppliers and customers together in order to strengthen their cooperation and increase efficiency throughout their supply chains. During 2007 and 2011, the CAI conducted many research projects to encourage implementation of the modified concept of value network among co-operative societies and local communities.

At the end of 2011, the research projects created some interesting business models—e.g. Rubber Value Network, Thai Hom Mali, etc.—that led to formulation of new business models in the agricultural sector. The findings revealed that the value network framework was able to successfully support the participants, cooperatives or grass-roots organizations, so that they could pass both tangible and intangible benefits back to their members. More importantly, it was helpful in the preservation of their well-known socio-economic and cultural identities. (Patrawart, 2011)

Based on the lessons learned from these experiences, the CAI proposed a Value Network and Fair Trade Platform (VN&F Platform) as a strategic framework to achieve the inclusive development goal in the future.

## **2.2 A Conceptual Framework of Value Network and Fair Trade Platform**

The Value Network and Fair Trade Platform (VN&F Platform) is a basic framework for designing and implementing research activities over years. A variety of fair trade value chains emerge out of a large number of different arenas of application, geographical locations, commodity types, target groups, business partners, customers, and desired outcomes. The platform becomes a means for identifying open opportunities and monitoring ongoing performance of commercially viable groups.

The VN&F Platform comprises three key strategic pillars as follows: (Patrawart et al., 2007) (see Figure 2)

1. Creation of four-dimensional leaders, who believe in the co-operative principle, encourage the co-operative spirit, shift to the new paradigm, and follow good practices

2. Enhancement of business operation based on strategic management
3. Operation of business based on integrated supply chain management and the fair trade principles

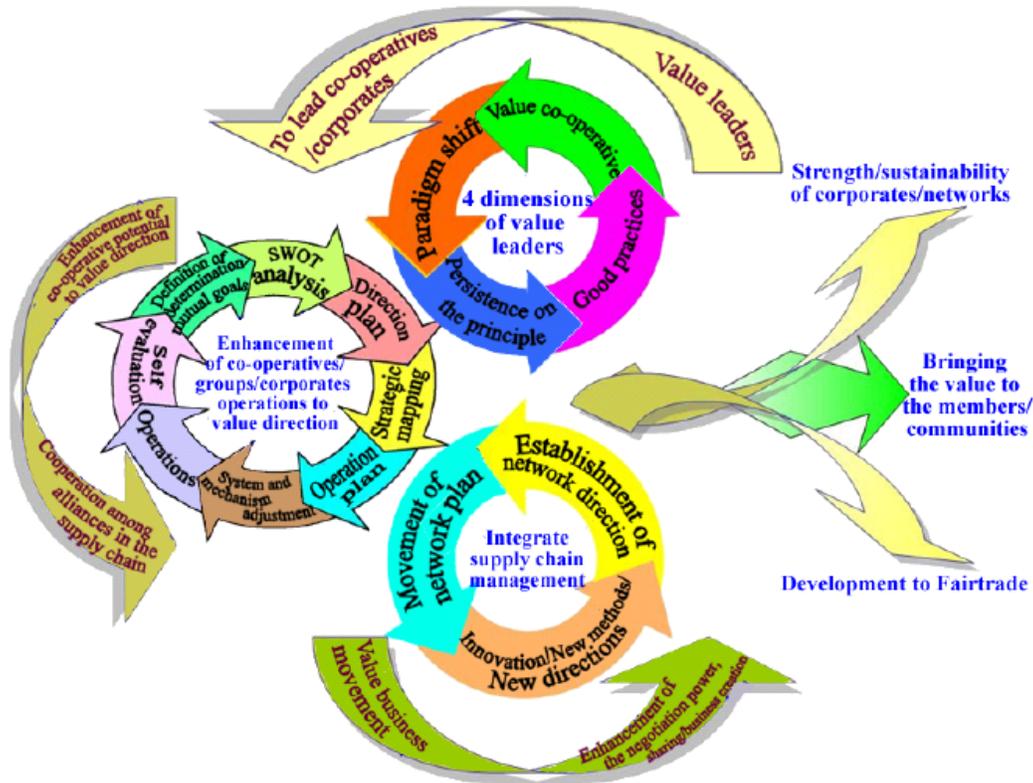


Figure 2: The Value Network and Fair Trade Platform

### 3. Case Studies of Value Network:

This section presents three case studies of successful businesses implemented through the VN&F Platform.

#### 3.1 The Moral Rice Value Network

The Moral Rice Value Network is a business model of multi-partnership that includes business enterprises throughout the supply chain of organic Hom Mali rice. All participating farmers in the project vowed to observe a set of moral codes i.e. abstinence from alcohol drinking, smoking and gambling. These farmers create a brand, “Moral Rice,” which is meant to induce trust in their customers that the product is genuine organic Hom Mali rice. Eventually, the new brand has successfully helped farmers overcome the falling prices of rice.

Altogether, there are 119 moral rice farmers, who are members of the Dhama Ruamjai Group in Yasothon Province. The group has its own motto, “Strong Moral Codes, High Working Skills and Good Knowledge,” to guide their farming activities in the supply chain system, which makes it unique.

Figure 3 describes the strategic framework for the creation of Moral Rice Value Network.

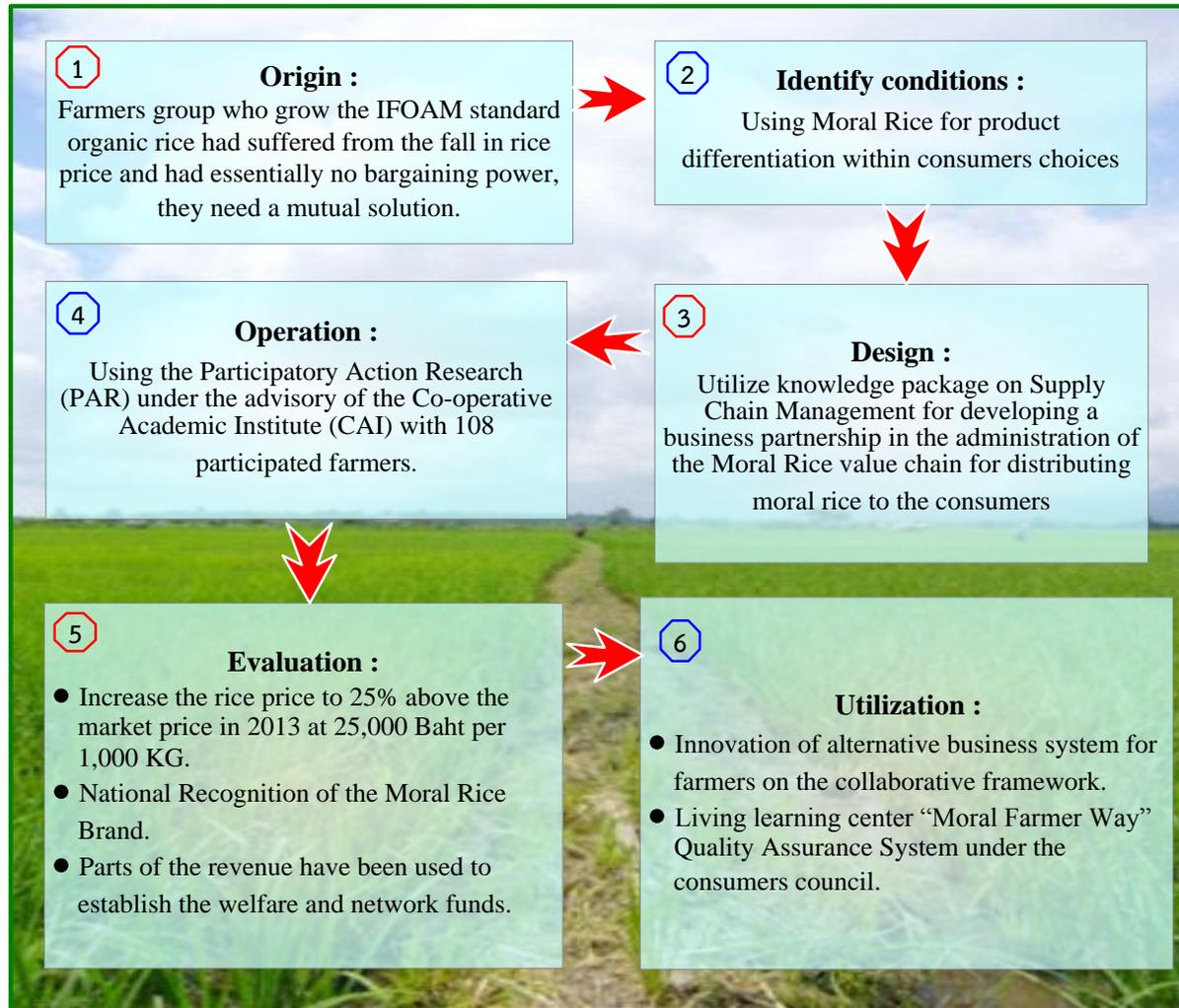


Figure 3: The Strategic Framework of the Moral Rice Value Network.

### 3.2 The Fruit Value Network

The Fruit Value Network is a model of the Kitchakut Agricultural Co-operatives Ltd. in Chanthaburi province. It adopted the VN&F platform in search of a solution to the highly volatile fruit markets, the challenges faced by the co-operative members. The strategic framework for creating the Fruit Value Network and its economic and social implications for the communities are shown in Figure 4.

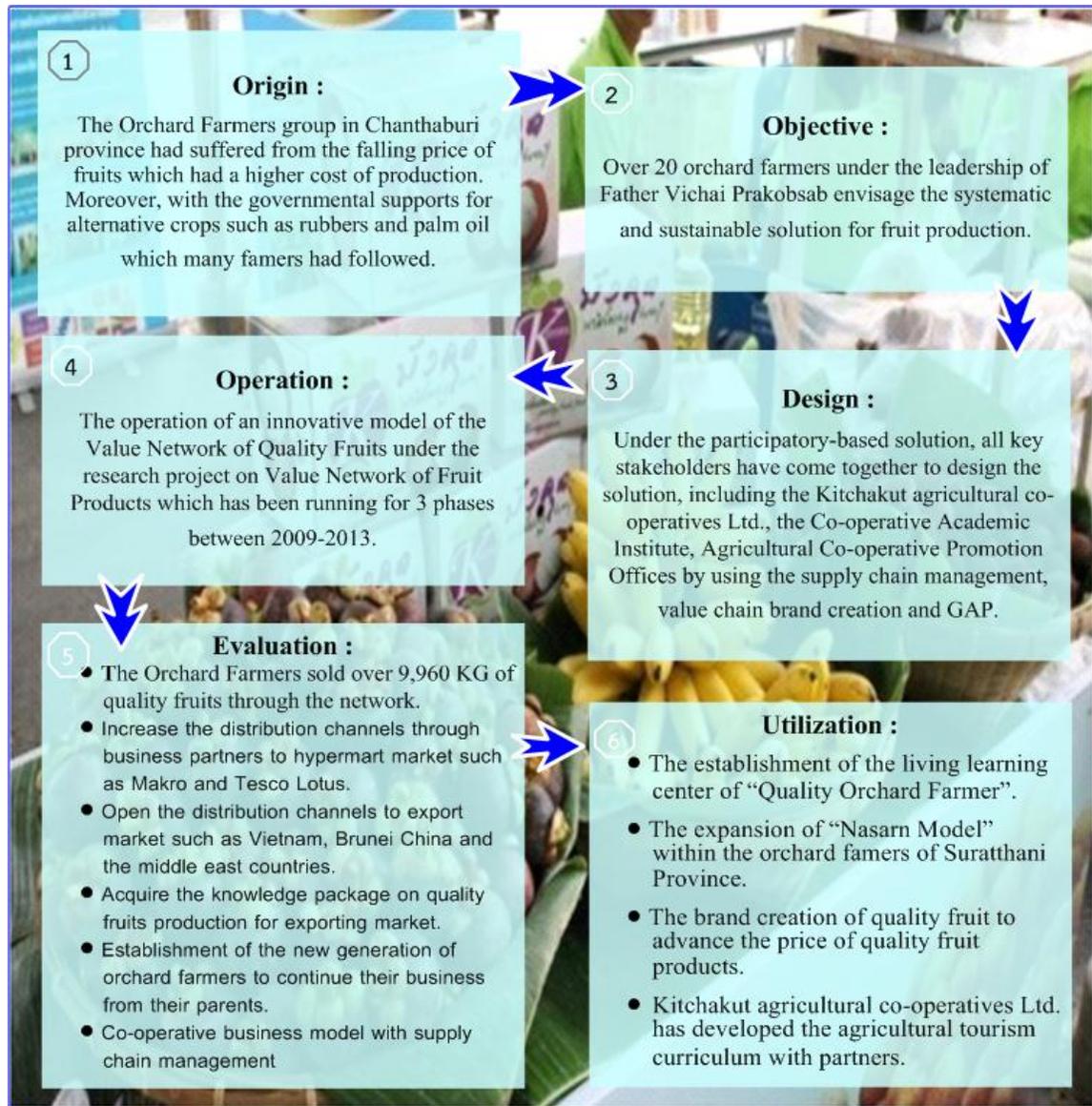


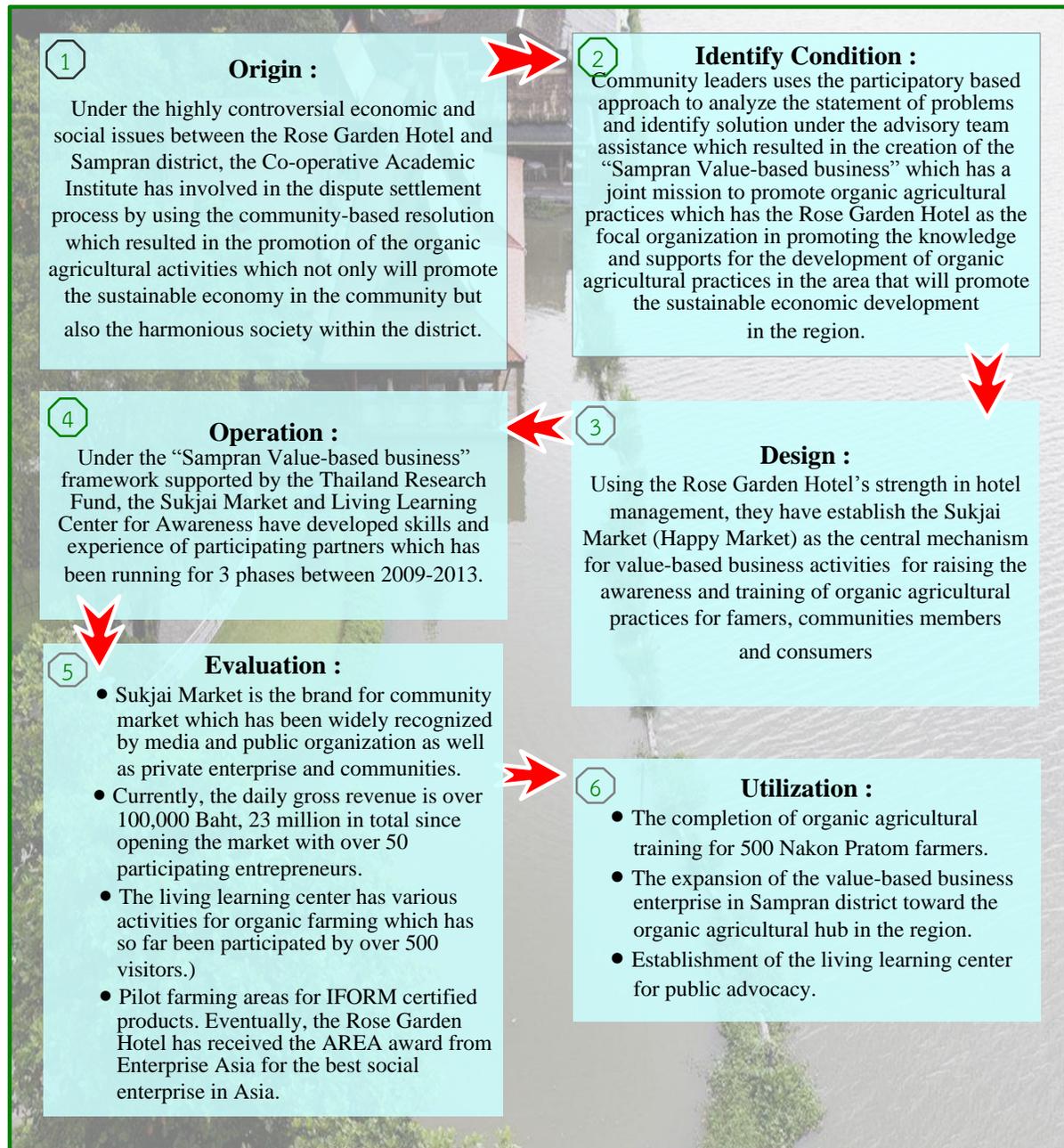
Figure 4: The Strategic Framework of the Fruit Value Network.

### 3.3 The Sampran Value Business group

The Sampran Value Business Group is another innovative value network business model. It is located at the Rose Garden Hotel, Sampran district, Nakorn Pratom province. The business group was founded by the owner of Rose Garden Hotel. The CAI provided the group with technical support in applying the principles of self-help and mutual help to overcome pollution from chemical-based farming in the neighborhood. The model promoted farmers' understanding and awareness of the benefits of organic farming that could contribute to their better living conditions and economic success.

In this project, the “Sukjai Market” (Happy Market) was set up as a weekend market, where orchard farmers in the surrounding communities could bring their organic products to sell free of charges. The production of organic products was under close supervision of the CAI and the Rose Garden Hotel. Participating farmers did

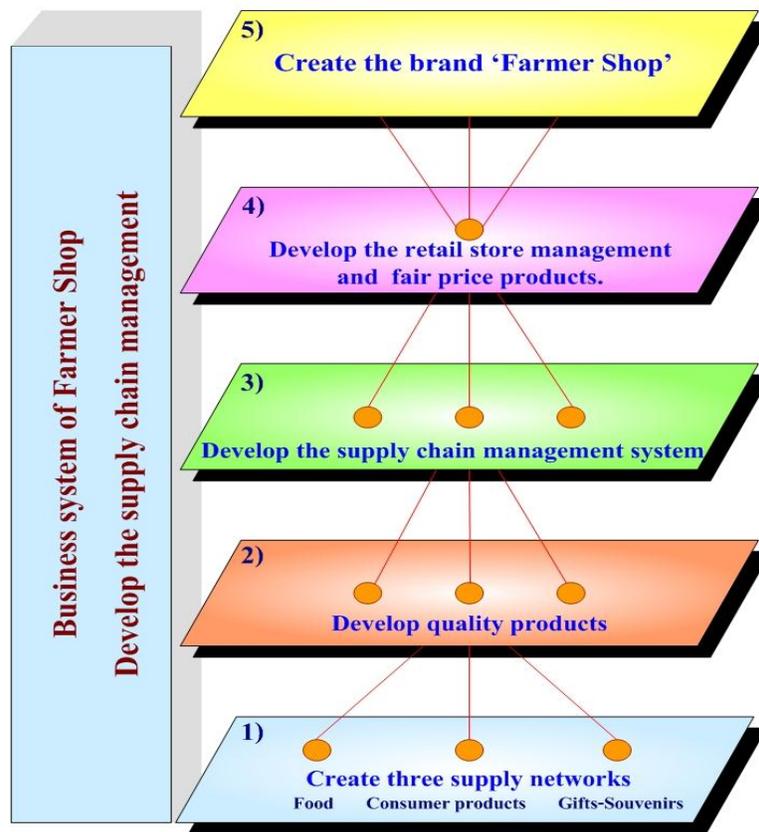
not only earn more than 1 million baht a month from selling their organic products, but they also learned about the principles of marketing, food safety as well as Good Agricultural Practice (GAP). Hence, the Sukjai Market has become the living learning center for everyone in the community (see Figure 5).



**Figure 5:** The Strategic Framework for the Sampran Value Business Group.

### 3.4 The Farmer Shop Business Model

The Farmer Shop research project is a participatory action research which utilizes the Value Network, the Integrated Supply Chain Management and Fair Trade concept into the new business model. The project was done in coordination with co-operative, community enterprises, SMEs and OTOP. Its ultimate goal is to develop a value chain management system strengthening the fair trade and sustainable practices among participated partners, from both producing and consuming side. The pilot project of Farmer Shop had been implemented according to the conceptual framework (as shown in Figure 6. The business process includes product selection to create the supply network, product improvement, supply chain management, retail store management and Farmer Shop branding.



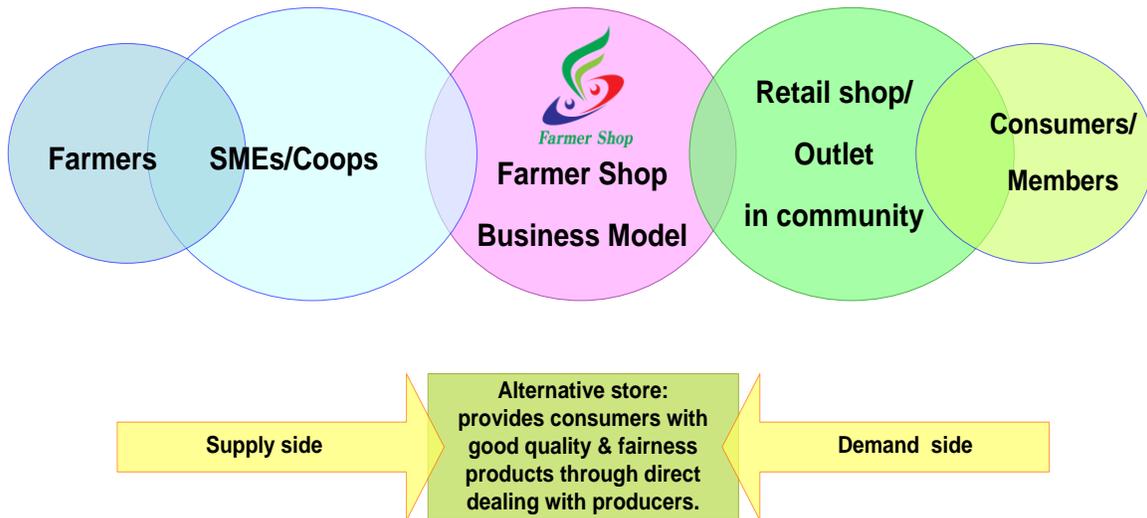
**Figure 6:** Conceptual framework of integrated supply chain management

The vision of the Farmer Shop is “The Retail Store that Producers and Consumers are Mutual Owner”. The mission of the Farmer Shop is to bring supply chain management through the farmer shop’s business system in order to active the target goal of fair trade and make Farmer Shop to be a reliable brand for customers.



The Farmer Shop Project is divided into three phases: 1) “Preparing phase” during one year (15 August 2010-14 August 2011) 2) “The Incubation of Prototype Shop” during two years (15 August 2011–14 August 2013) and 3) “Extension into Community”. Currently, it is in the third phase in order to scale up and extend to various community shops across the country and abroad

The research result show the new business model that has rearranged the relation of supply chain into alternative solution of SMEs to access the new market and consumer groups within their community and beyond. On the other hand, consumers can access the quality goods at the fair price and able to help supporting the small farmers through their consumer. (Figure 8)



**Figure 8:** Farmer Shop as a new business model

The research result showed that Farmer Shop business model will utilize 5 core value which result from the supply chain management, that are (figure 9)

1. The demand creation for local farmers’ products through raw materials procuring mechanism by the local co-operatives, OTOP, and SMEs under Farmer Shop network. This process will reduce the problem on market accessibility and low bargaining

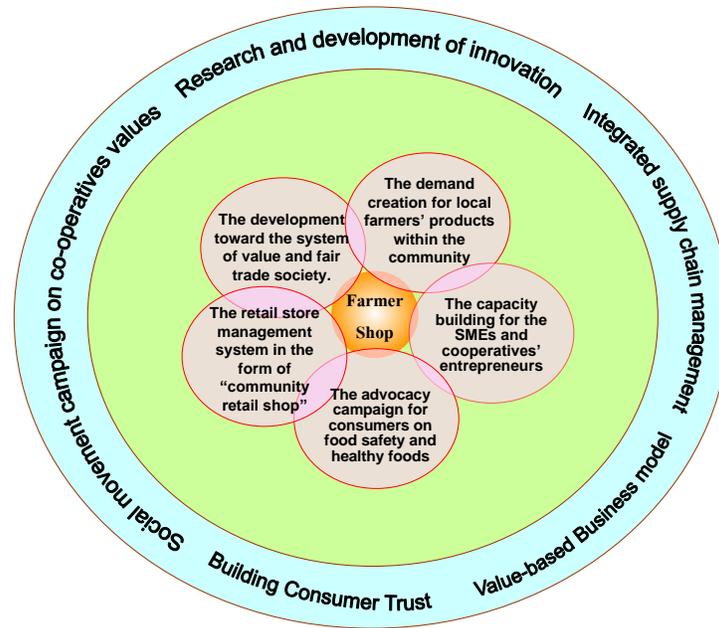
power of local farmers. Ultimately, this producer's network will lead to the development of infrastructure that supports food security policy of Thailand under the international free market environment.

2. The capacity building for the OTOP and cooperatives' entrepreneurs through the understanding of product development, logistic management and learning and sharing conference which will enable these entrepreneurs to improve the quality of their goods and their competitiveness. Moreover, the product standardization of the Farmer Shop will help building trust for consumers and the brand royalty in the farmers' goods.

3. The advocacy campaign for consumers on food safety and healthy foods within the Farmer Shop's consumer networks. Two key advocacy campaigns are to promote consumers' awareness on the necessity for safe and healthy foods as well as the fair trade philosophy through the organization of series of events. Consumers will learn that they can mutually utilize the Farmer Shop membership network to buy the products at the increased bargaining power.

4. The retail store management system in the form of "community retail shop" can be the alternative solution for small and medium producers to access to the market and consumers groups within their community and beyond. On the other hand, consumers can access the quality goods at the fair price and able to help supporting the small farmers to continue their operation under intense market conditions. The complete Farmer Shop model will be scale-up and extend to various community shops across the country in the future. This process will help sustain the creative business model that support local community's sustainable economy.

5. The Farmer Shop Model will lead to the system of value and fair trade society. The model will establish social movement that inspires individuals and society to aware the value of fair trade and also open up the opportunity for farmers and agricultural institutes as well as SMEs, consumer groups, practitioners and researchers to coordinately create the alternative business model for their local community. This opportunity will also have an ultimate goal to utilize the Farmer Shop mechanism as a symbol for the social movement that will sustain the value system of Fair Trade in the society not only at the local level but also at the national level in the future.



**Figure 9** Five core values of the Farmer Shop Business Model

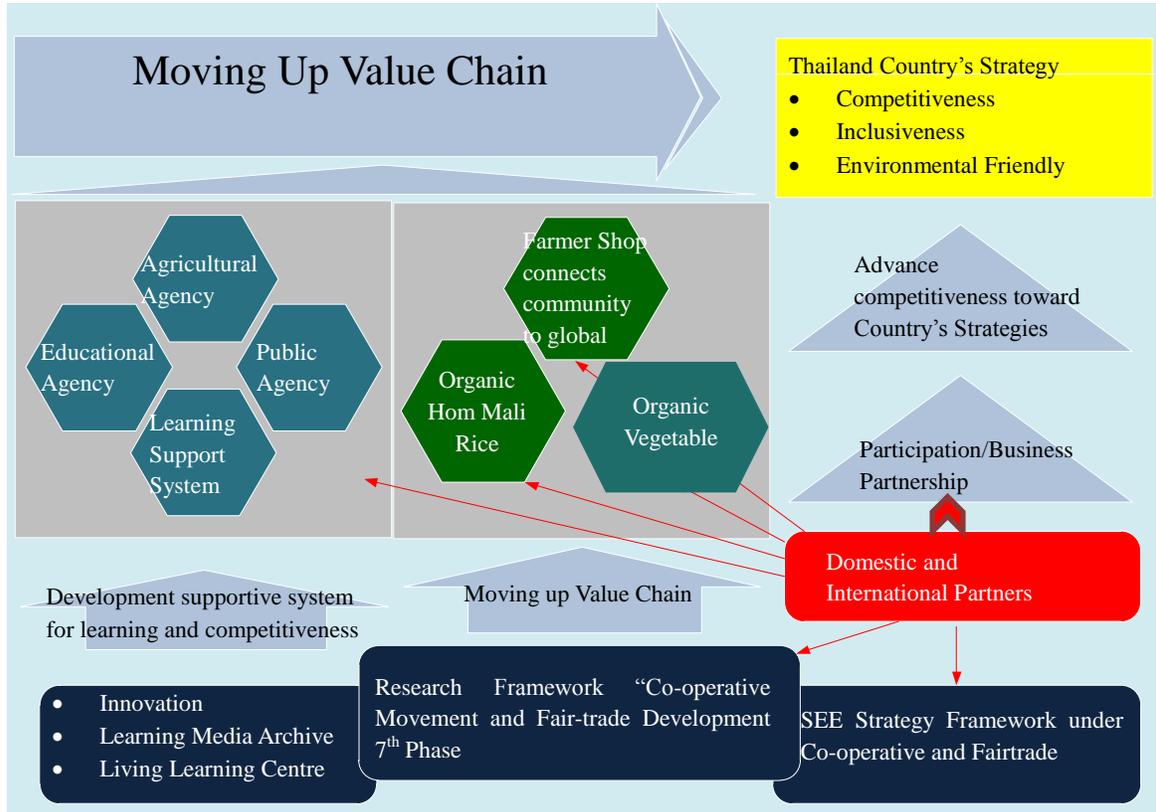
Moreover, the knowledge sharing forum based on the integrated supply chain management has stimulated awareness and paradigm shift on sustainable development practices. Such concept can support entrepreneurs on the design of production plan, quality development, customer trust with regard to their ultimate goal of “the development to value system and Fair-trade”.

#### 4. Research Findings

Lesson learn by the CAI from previous research program indicates that the empirical findings show that the value network framework has been instrumental to the survival and sustainable value creation of this co-operative businesses. This results in the policy implication for the moving-up supply chain among Co-operatives/Farmer groups and SMEs in order to secure that sustainability of business enterprises. It also help prepare the readiness for future scale-up to regional and global supply-chain.

#### 5. New Challenges

The current CAI research framework aims at the scale-up of the value network of organic rice and vegetables and SMEs products etc toward international supply chain network. The main objective of this approach is to establish a new market in the ASEAN region in parallel with the development of supportive system for learning and competitiveness. Ultimately, this program will help the co-operative movement/SMEs and strategic partners become the main contributor to Thailand’s country’s strategies.



**Figure 10:** New Strategic Framework for Evolutionary Development Process of SEE (2013-2015)

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