
The Farmer Shop as a business model for Sustainability

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1. Abstract:

The dependency of agricultural producers on government supports has been at the top of national development policy in Thailand. Unable to protect their economic and social securities, this vulnerability often led to the poverty trap. To systematically solve this problem, we need an integrated solution which involves individuals, institutions, infrastructure and holistic mechanism that address the issues of environmental and economic and social sustainability as well as food security. The Farmer Shop model is designed to effectively solve this problem by using the integrated supply chain management to establish the value network between co-operatives, community-based enterprises and SMEs, particularly those who accept this integrated supply chain management concept and cooperative values. The business model of Farmer Shop consists of 5 processes; the creation of supply chain network, the products' quality assurance process, supply chain management, the development of retail shop system and Farmer Shop's brand creation. Not only can this process lead to the successful business system but it can also lead to the creation of mutual knowledge-based society between consumers and producers who both are members of Farmer Shop. This business model will be the key effective solution for vulnerable Thai farmers. The first year's result shows that Farmer Shop model can reduce marketing cost of producers around 10%. Moreover, the brand tracking survey indicates that the Farmer Shop increases mutual trust between consumers and producers.

Keywords: Business model, Sustainability, Supply Chain Management

2. Introduction:

The agricultural sector has played an important role in Thailand's economy. On average, in the past decade, the revenue from the agricultural sector contributes 9 percent to the total Gross Domestic Product (GDP) of the country. Moreover, agricultural labor force shares the highest proportion in Thai labors accounting for 38 percent of the total, compared with other sectors. Furthermore, in 2010, Thailand was ranked at eighth worldwide in the list

of exporting countries of agricultural products. Hence, the current food crisis provides Thai agricultural sector with great opportunity to develop agricultural products for exporting to the global market. However, the growing cost of imported energy for domestic consumption has led to more concern about alternative energy sources. Hence, the government policy on alternative energy source from agricultural products may result in an imbalance between food plant and energy plant in the future. Moreover, those involved with agricultural production and market, especially small farmers and entrepreneurs who produce with high costs and lack of suitable technology, are facing a number of problems, including volatile market price and regulations, resulted from the implementation of Free Trade Agreement, non-tariff barriers (NTBs), sanitary and phytosanitary (SPS), and other quality control measures. In addition, Thai SMEs, which are responsible for only 37.8 percent of the total GDP, are losing its key competitiveness on low-cost labors and capital investment. This led to a decline in the expansion of this economic sector. Therefore, there has been a number of problems hinder the growth of agricultural sector and the SMEs as well as its labor forces. Failure to systematically address these fundamental problems will result in the sizable loss in the revenue from exports which will in turn affect the welfare of agricultural workers especially their poverty and debt problems.

To systematically address and resolve the above problems, ‘Farmer Shop¹’ project was initiated as a pilot project aiming to improve the quality of agricultural food and products to meet the international standards. In addition, the development of supply chain management system to enhance potential of the joining entrepreneurs can lead to value-added creation of the products as well as an access to quality products with fair prices for consumers and the income security for farmers.

3. Objectives:

The objectives of the pilot project of Farmer Shop are to design the system of alternative retail stores under the integrated supply chain management and to incubate the system in order to expand its benefits to communities, cooperatives, and small entrepreneurs.

4. Conceptual Framework:

The pilot project of Farmer Shop has been implemented according to the conceptual framework (as shown in picture 1). Value network connection and integrated supply chain management are applied in designing the Farmer Shop business system. The system includes product selection to create the supply network, product improvement, supply chain management using the selection, delivery, and inspection and feedback systems, retail store management, and Farmer Shop branding.

¹ The Farmer Shop brand has been registered its service mark in the name of Kasetsart University.

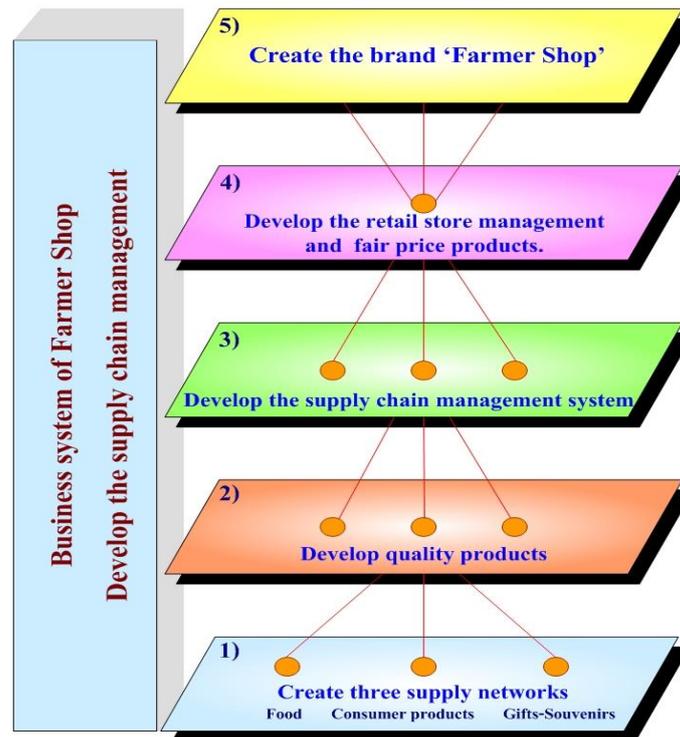


Figure 1: Conceptual framework of the pilot project and the operation of Farmer Shop

5. Research Methodology:

The Farmer Shop project is a participatory action research has been created by the Co-operative Academic Institute (CAI), Kasetsart University. The project was done in coordination with cooperatives, community enterprises, SMEs, and OTOP which were selected to join the project. Its ultimate goal is to develop a value chain management strengthening the Fair-trade and sustainable practices among participated partners, from both producing and consuming sides.

The establishment and administration of the Farmer Shop project focus on developing the effective supply chain management for the Farmer Shop business model. Figure 2 describes the 4 administrative process of this business model

- 1) The preparation phase consists of identifying the location, the decoration of the shop, setting up the IT system and the personnel hiring processes
- 2) The system testing phase consists of the HR training, the development of managing system and the database development
- 3) Implementation phase
- 4) The Brand creation phase which aim at establishing the membership network not only on the producer side but also on the consumer side

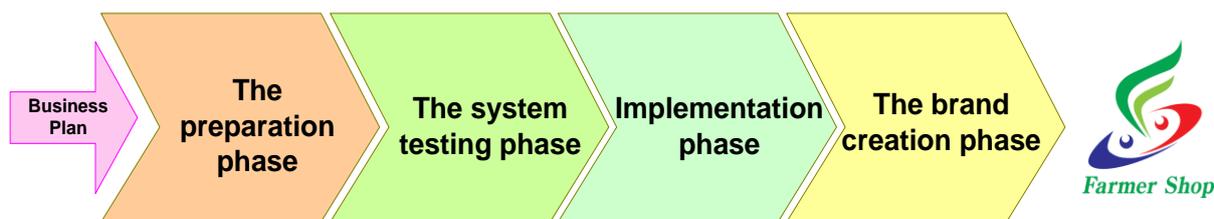


Figure 2 The establishment of the Farmer Shop Project

5.1 The overview and the conception framework of Farmer Shop business model

5.1.1 The key conceptual framework of the Farmer shop business model is the implementation of supply chain management on the alternative retail store for agricultural products

5.1.2 The Co-operative academic institute with the financial supported by the Thailand Research fund are responsible for the administration and the technical assistance of the Farmer shop model

5.1.3 The vision of the Farmer Shop is “The retail store that producers and consumers are mutual owner”

5.1.4 The mission of the Farmer Shop is to develop the management system for supply chain management through the network of producers who agree with the cooperative values in producing the good quality processed agricultural products at the fair price to sustain consumer trust and long-term supports.

5.1.5 Objectives

1) Develop the retail shop business model that offers good quality processed agricultural products at the fair price under the Farmer Shop brand to sustain consumer trust and long-term supports.

2) Develop the efficient retail shop management system that are scalable to the interested community across Thailand.

3) Build the partnership network which link the supply chain for management and distribution of processed agriculture products in order to reduce the cost and improve efficiency in the business processing for the sustainable development of processed agriculture products entrepreneurs.

4) The development of quality standardization of the Farmer Shop Thailand in order to prepare for the future free trade policy.

5) The advocacy campaign to promote Thai people to support the Farmer Shop brand in order to reduce the import of processed agricultural products from oversea.

5.1.6 Business Model

Farmer Shop is the alternative retail shop business model where producers and consumers can mutually owned.

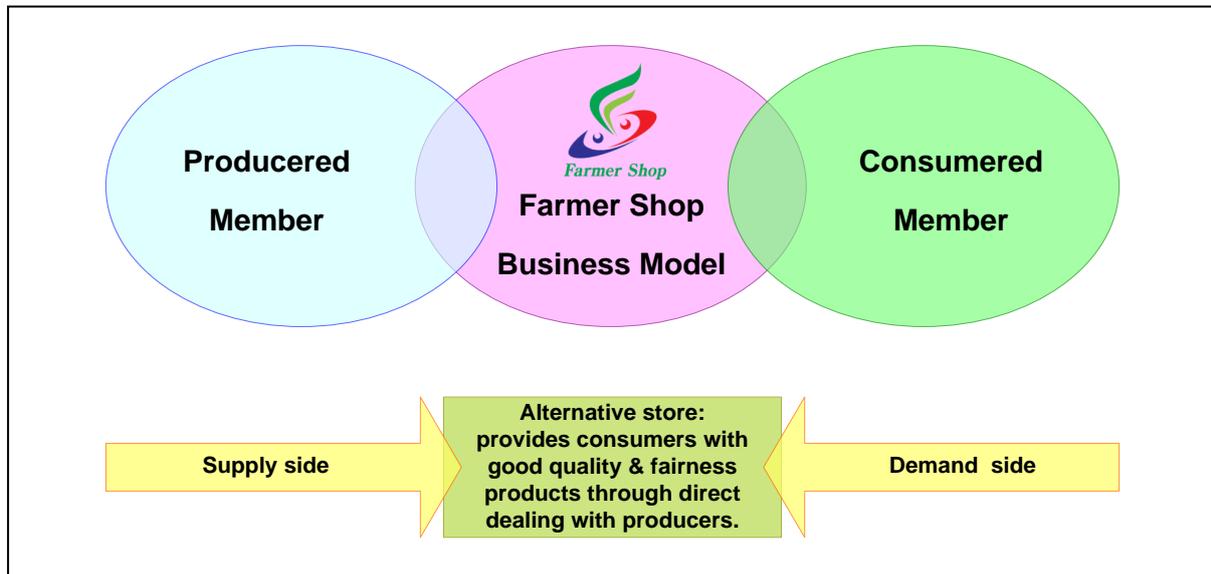


Figure 3 Farmer Shop Business Model

6. Result

In the first step during one year, there have been altogether 224 cooperatives, community enterprises, SMEs, and OTOP and 567 items of various products which were selected to participate the project. The Farmer Shop in cooperation with its associates has engaged in a number of roadshows to promote the Farmer Shop goods which have been well supported by the customers. This created another marketing channel for the products and reduces marketing costs for 10 percent of the revenue.

Figure 4 describes 5 core values which will result from the supply chain management under the Farmer Shop Model

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 support 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 shop 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 has 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.

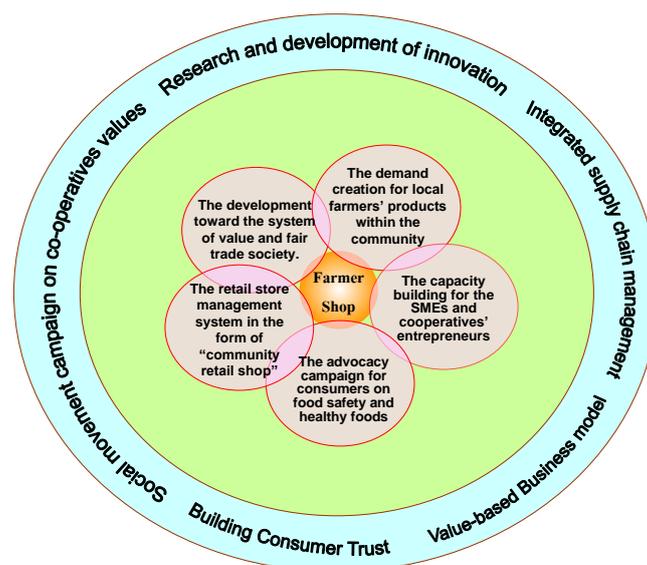


Figure 4 Five core values of the Farmer Shop Business Model

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”.

7. Conclusion :

The result showed that the cooperation in driving the Farmer Shop can help enhancing the power of negotiation of the members and reduce the marketing cost by 15-20%. In addition, it can create more opportunities and marketing channels for SMEs and farmer enterprises.

The Farmer Shop has set up the new conceptual framework for integrated supply chain management based on the cooperation with others to reach the goal of value system, Fair-trade, and sustainable development. It will bring about a new creative business model that can give value-added to Thai agricultural products and systematically address a number of challenges in the global market as well as the domestic constraints. Furthermore, it will reduce the limitations and strengthen the agricultural sector in order to achieve the sustainable development as expected.

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