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SAN MIGUEL CORPORATION

A Hybrid, High-Yield Corn Seed Venture
In the Philippines

Volume X

A Study by Business International Corporation
for the
Bureau for Private Enterprise
Agency for International Development

I

Country Background

In a number of aspects, the economy of the Philippines differs from that of most other developing countries. The country has a substantial number of competent professionals, both technical and managerial. As a result, some of its industry, and segments of its service sector, are advanced by normal LDC standards. Nevertheless, 70% of the country's 53 million people still live in rural areas, many at subsistence levels. An indication of the potential that exists in the agribusiness sector is illustrated by the fact that, at present, all agribusiness, defined in the most comprehensive terms (i.e. including agriculture, forestry and fisheries), constitutes only 25% of the Gross National Product.

Government Policy

For several years now, government policies have addressed this reality. The Filipino Cabinet includes an Agrarian Reform Minister, whose portfolio is to translate into action the concept, initially defined and articulated by President Marcos, that rural development requires an integrated approach under which farmers are given not only land and security of tenure, but are provided as well with a package of services to help them upgrade their productivity and income.

A Comprehensive Package

In 1983, Agrarian Reform Minister Conrado F. Estrella listed these services as:

- Free legal assistance;
- Education and training;
- Infrastructure such as roads, bridges, electric power and irrigation systems;
- Formation of cooperatives;
- Organization of farmer groups;
- Supervised credit.

The minister made a specific point of the importance of credit, noting that:

"Credit is of prime importance because much like the commercial and industrial sectors, the agricultural sector could thrive more speedily and meaningfully with the provision of adequate and liberally available credit."

He added the barbed observation: "The attitude of considering the rural folk, especially the farmers, as non-bankable is no different from the judicial prejudice of pronouncing the accused as guilty before he is proven innocent."

Policy History: The Tenant Emancipation Decree and the Kilusang Kabuhayan at Kaunlaran (KKK)

This policy was initiated in the early 1970s, with the Tenant Emancipation Decree, which laid the legal foundation for meaningful agrarian reform. It was institutionalized on a mass basis in August, 1981, with the establishment of the kilusang Kabuhayan at Kaunlaran (KKK), designed "to spur the socioeconomic development of the entire country by harnessing the private sector's entrepreneurial skills and initiative."

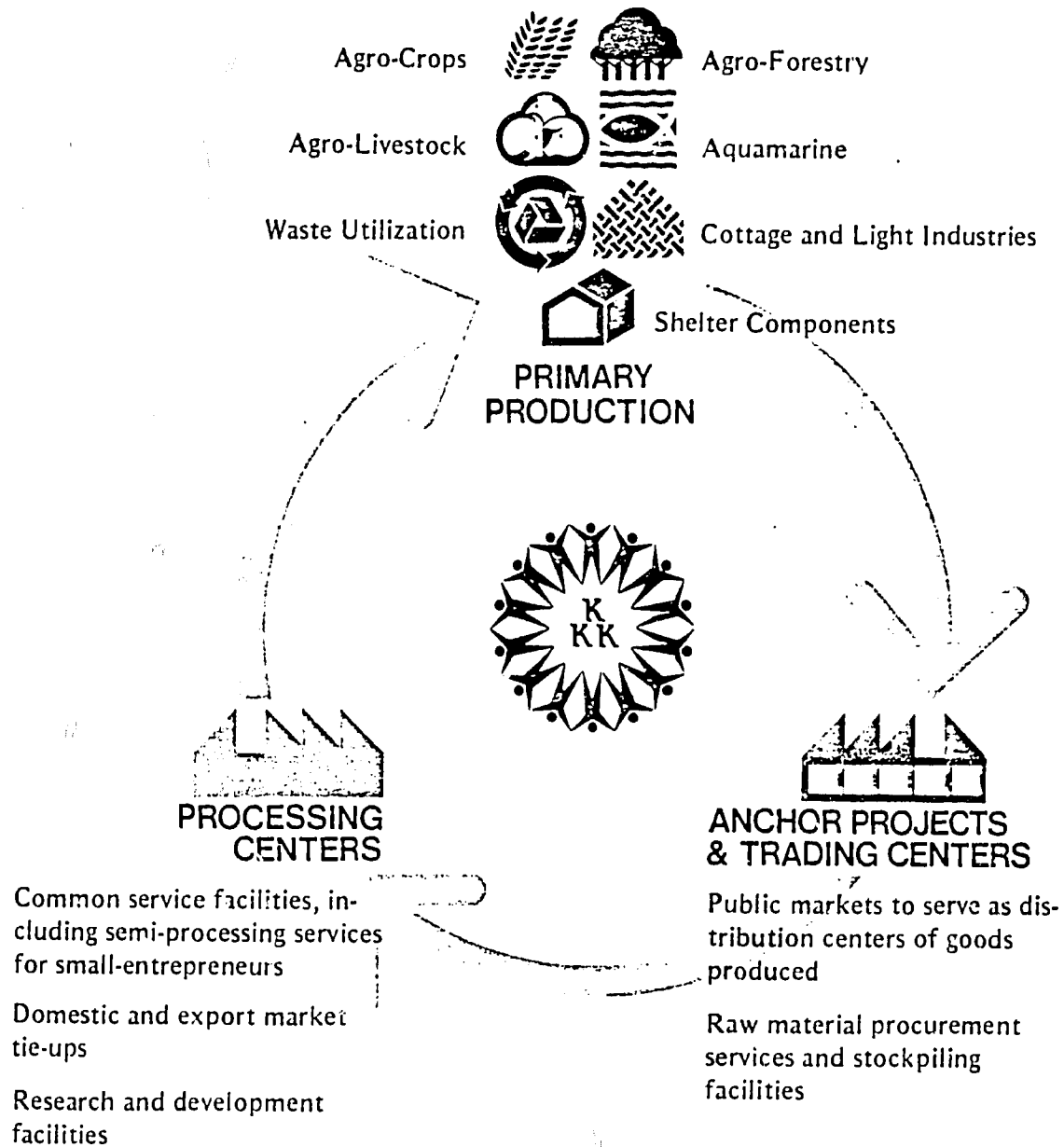
The sociopolitical thrust of the KKK is "to transform every barangay (the smallest political unit in the Philippines) into a productive and self-managing community by enabling residents to establish and run their own livelihood projects."

KKK established seven priority areas. These are:

1. Agro-Crops - Primary production of root crops and vegetables.
2. Agro-Forestry - The primary production of energy, and the cultivation of fruit trees, toward an integrated mountainside development, including water impounding schemes, to promote ecological balance.

3. Agro-Livestock - Primary production of livestock.
4. Marine - Primary production of fish and other marine products.
5. Waste Utilization - The secondary processing of wastes from the primary production areas, converted into suitable products like wood chips, organic fertilizer, animal feeds, cottage and light-industry crafts.
6. Cottage and Light Industries - The secondary processing of raw materials for various small-scale manufacturing projects ranging from the traditional bamboo and rattan crafts to novelty items.
7. Shelter Components - Production of housing components such as standard concrete hollow blocks, clay-brick tiles and woodworking products.

After establishing priorities, KKK proceeded to develop backward and forward linkages, as illustrated below:



The Role of the Private Sector

The private sector is involved most actively in the anchor projects, which can consist of any or all of the following:

Marketing/Production

- Contract Growing/Buyback arrangements
- Subcontracting
- Raw-material sourcing
- Processing
- Countertrade

Financial/Equity Participation

Technical Arrangements

- Transfer of technology
- Licensing arrangements

Policy Assumptions

The policy assumptions underlying the KKK strategy are that starting and managing a productive enterprise, however small, requires know-how in raw-material sourcing, production, financing, accounting and marketing.

A KKK official elaborates:

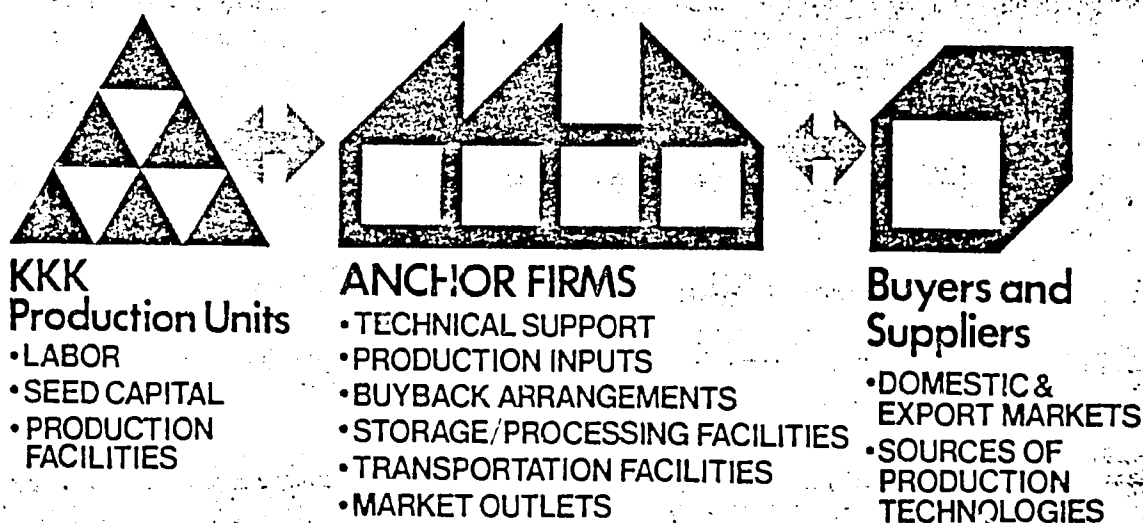
"Considering his educational level and lack of business experience, the KKK primary producer does not usually have the know-how and even the time to do all the major business activities. Practically on his own, the chances of success and prompt loan repayments are reduced."

Anchor Projects

Anchor projects are set up by private entrepreneurs to provide the needed forward and backward linkages and thereby enhance the viability of primary production units. These linkages include providing primary producers with needed raw materials, equipment, processing, transportation and storage facilities, production know-how and assured markets.

Below is a graphic presentation.

Anchor Project Concept



How Anchor Projects Are Structured

Anchor projects are put together by a consultative body consisting of presidents of the banking, manufacturing, mining and management associations, who work out macroeconomic policies with the KKK. Follow-through is provided by sectoral consultative groups that discuss and implement specific projects.

Sectoral consultative groups are deliberately limited in size to encourage action rather than debate. Membership ranges from ten to fifteen in each sector, but does represent both big and medium companies, with all relevant functional facets of the industry, i.e. management, technology and training.

II

Company Background

San Miguel Corporation (SMC) is a conglomerate engaged primarily in various aspects of agro-industry. The company has six major divisions, as detailed by product line below.

Beer Division

- San Miguel Pale Pilsen
- San Miguel Cerveza Negra
- San Miguel Beer Grande
- Lagerlite
- Gold Eagle
- Red Horse
- Brewer's Yeast

Magnolia Division

- Magnolia Ice Cream
 - Gold Label
 - International Ice Cream
 - All Time Favorites
 - Flavor-of-the-Month
 - Ice Cream Cakes
- Magnolia Frozen Delights
- Magnolia Long Life Fresh
 - Cow's Milk
- Magnolia Long Life Full
 - Cream Milk
- Magnolia Long Life Strawberry
 - Full Cream Milk
- Magnolia Long Life Chocolait
- Nature's Best Orange Juice Drink
- Hi-C Juice Drinks
 - Orange
 - Citrus Cooler
 - Lemon Tea
- Dole Juice Drinks
 - Pineapple
 - Pineapple Orange
 - Pineapple Lychee
- Magnolia Bottled Fresh Cow's Milk
- Magnolia Bottled Chocolait
- Magnolia Bottled Fruit Juices
 - Orange Juice
 - Mango Juice
 - Guyabano Juice
- Magnolia Cream Products
 - Whipping Cream
 - Fresh Cream
- Magnolia Fermented Products
 - Natural Yogurt
 - Flavored Yogurt
 - Frozen Yogurt
 - Cottage Cheese
 - Sour Cream
- Magnolia Ice Cream Cones
- Magnolia Frozen Strawberries

Feeds and Livestock Division

- Magnolia Dressed Chicken
- B-Meg Animal Feeds
- B-Meg Shrimp Feed
- Arbor Acres Broiler Breeders
- Arbor Acres Broiler Chicks
- Euribrid Hisex Layers

Packaging Products Division

- Glass Containers
- Pressed Glassware
- Corrugated Kraft Board Boxes
- Aluminum Collapsible Tubes
- Plastic Closures
- Plastic Cases
- Applied Color Decorations
- Metal Closures
- Metal Lithography
- Glass Moulds

Agri-Business Projects Group

- Hybrid Corn Seeds
- Shrimp Fry
- Green Coffee Beans

Investments

- Soft Drinks
- Butter, Margarine and Cheese
- Milk and Milk Substitutes,
 - Infant Foods, Instant Drinks
 - and Culinary Products
- Hogs and Cattle, Frozen Semen
 - and Veterinary Drugs
- Ramie Fibers and Fabrics
- Veneer, Plywood and Logs,
 - Newsprint, Kraft Linerboard
 - and Corrugating Medium
- Corrugated Kraft Board Boxes,
 - Die-Cut Folding Cartons,
 - Labels and Printing, Mill Run
 - Sheets, Paper Wrappers and
 - Core Tubes
- Copper

For 1982, the company's total turnover was P5.61 billion (End-1982, P8.5:US\$1; June 1983, P11:US\$1; October 1983, P14:US\$1). In 1982, the company had 21,522 stockholders, and employed 17,784 persons.

The Corporate Culture

The company's social philosophy finds expression primarily in its active participation in the organization Philippine Business for Social Progress (PBSP), which undertakes self-help projects through proponent organizations in the areas of livelihood creation, technology transfer, human-resources development and expertise-leasing. By end-1982, PBSP had funded a total of 590 projects, 93 of which were initiated in 1982.

The company has its own written corporate policy, subsumed under the concept of "Profit With Honor." The policy lists eight objectives, pointing out that these objectives are "indivisible and together represent the broad aims of the corporation."

The objectives are:

To be constantly aware of the aspirations of the people and of the nation, and to ensure that San Miguel continues to make a major contribution toward the achievement of these aspirations.

To manufacture, distribute and sell throughout the Philippines, food products, beverages, packaging products and animal feeds, being ready at all times to add, modify or discontinue products in accordance with changes in the market.

To diversify into fields which will ensure optimum utilization of management resources and a substantial contribution to corporate profits.

To seek and develop export markets for new products as well as for those already being produced by the Corporation.

To generate a return on funds employed sufficient to ensure an adequate rate of growth for the Corporation, and to provide satisfactory returns to stockholders.

To provide an environment which is conducive to the development of the individual and which encourages employees to realize their full capabilities.

To maintain the highest ethical standards in the conduct of our business.

To adopt a flexible and objective attitude towards change and to pursue an active policy of innovation.

The Approach To Agribusiness

San Miguel's corporate philosophy and strategy vis-a-vis agribusiness have been defined specifically as follows:

The agribusiness ventures of San Miguel Corporation reflect a three-fold commitment: to develop opportunities in the high-growth agricultural sector; to increase food production; and to enhance the productivity of the nation's farmers.

In its agribusiness endeavors, San Miguel has forged a partnership with the Filipino farmer as the basic producer. Recognizing the farmer's intimate knowledge of his land and equipment, and inherently lower costs, San Miguel brings to bear on agribusiness its strengths in research and development, modern organizational skills and resources in planning and marketing. The result of the partnership is enhanced efficiency in production and a productivity that increases incomes of, and reduces risks to, farmers and hastens the development of the countryside.

The developmental thrust of San Miguel's agribusiness initiatives creates receptive new markets for its products, but there are other benefits as well. The agribusiness ventures are complementary to the main operations of the Company and its affiliates.

First, these ventures serve to provide high quality and adequate raw materials for processing operations of San Miguel and its affiliates, e.g. corn for poultry and livestock feeds formulation, farm-fresh milk for Magnolia.

Second, additional businesses create new demand and markets for the more established product lines. Thus, development of poultry and livestock and now, of the shrimp business, has spurred demand for feeds.

Third, San Miguel through its ventures in agribusiness is contributing to increased production of crops and commodities with worldwide demand, thus generating foreign exchange earnings from export - a national development strategy and priority.

Synergy thus ensues from the linkages of the various agribusiness projects with San Miguel's established products. In addition, San Miguel's ventures highlight their congruence with national

development goals through SMC's tie-up with the farmer, a linkage which generates new opportunities and more progressive means of livelihood in the rural areas. In this context, a harvest of progress and prosperity is San Miguel's vision for its agribusiness ventures.

From Industry to Agriculture: A Strategy of Vertical Integration

The company entered agribusiness in the 1950s when it established a plant to utilize, as one of the ingredients in feeds, the by-products of its manufacturing operations. This paved the way for the development of the integrated poultry business, a modern industry that contributes significantly in meeting the country's requirements for food, particularly protein. Subsequently, the company expanded into hybrid corn seeds, green coffee beans, dairy products, shrimps and marine feeds, as well as soybeans, ramie, hogs and cattle, through its subsidiaries.

The On-Off-On Corn Project

The company first experimented with a corn project in the late 1950s, but was prevented by the government from continuing this experiment. At the time, activities in rice and corn were limited by law to enterprises owned 100% by Filipino citizens. About 30% of SMC's widely-distributed shares are held by non-Filipinos, including US citizens.

Responding to this law, the company turned over to the Agricultural University at Los Banos the research and feasibility studies it had done. In 1974, when these studies had produced no action, the law was amended, and the company began to look again at a hybrid corn seed project.

III

Motivation

The motivation of the company for its hybrid seed-corn undertaking ranges from the macroeconomic to the corporate-specific.

Macroeconomic

The macroeconomic starts with the fact that a corn farmer in the Philippines traditionally produces less than 1 ton of corn per hectare. With the hybrid seed developed by SMC, plus appropriate use of fertilizer and herbicides, the farmer can harvest between 4 and 7 tons per hectare. Since 1.3 million farmers throughout the Philippines grow corn on plots ranging from 1-5 hectares, the potential on the production side is self-evident, as is the increase in farmer income with all its developmental implications.

In terms of balance of payment considerations, vital for the Philippines at this juncture, the country is currently in a position where it must import corn. Success of the company's seed corn venture, and the resulting widespread use of the high-yielding seed corn, could make the Philippines self-supporting in corn within 2 years.

Socio-Political

The company perceives social as well as political concomitants to the macroeconomic considerations. On the social side, per capita protein consumption in the Philippines is low, creating nutrition deficiencies in both children and adults. Increased corn production would ameliorate this deficiency in two ways: more direct consumption of corn as food by farm families (20% of the Filipino population uses corn - not rice - as its basic staple); and more consumption of chicken, pork and beef.

Better, more economic production of corn would lower feed prices which, in turn, would bring the price of chicken, pork and beef within the purchasing power of more Filipino families.

In the political dimension, the company is convinced that helping farmers and their families earn a decent livelihood will make them less susceptible to communist propaganda and promises at one end of the political spectrum, and less vulnerable to the incitement of Islamic rebellion and banditry at the other.

Corporate-Specific

The corporate-specific motivation has three facets:

1) San Miguel Corporation's extensive agribusiness undertakings (See Section II) include feed plants. Increased production of corn, based on the seed supplied by the company and backed up by company extension services, will assure SMC of a dependable-quality supply of corn for its feed plants.

2) Production of quality corn on the scale envisioned will make possible the export of corn to countries that already have expressed interest (Taiwan, Japan and Korea) and, by lowering the price of feed for hogs, chicken and beef, will make these company animal products competitive in the international market. The company notes that 40% of the feedbag for hogs, chicken and beef consists of corn.

3) Since many of the company's products are designed for the lower end of the market (see Section II), increasing the purchasing power of farmers by upping their productivity, makes these farm families potential customers for a number of SMC product lines such as milk, ice cream, soft drinks, beer, and other milk and coffee products.

This economic reasoning has a competitive aspect as well. The researcher discovered that farmers are aware of their competitive clout as buyers. In Mindanao, a farmer who heads up a KKK association which uses its government-extended credit to buy seed corn and other inputs from SMC, told the researcher that, if the company would help the farmers to set up their own drying and warehousing facilities for corn, the farmers would "reciprocate". When the researcher inquired just what this reciprocity would consist of, the head of the association said that the farm families he represented would then buy the company's food and beverage products. And he knew what these were.

IV

Strategy

Basic Assumptions

Corporate strategy is based on a set of basic assumptions articulated by SMC's president:

"The farmer contributes the land and the labor. He has a deep involvement in both and, with this motivation, can do better as a producer than a corporation can. The corporation can contribute expertise in management, organization, and its capability to get technology, either through its own research and development facilities, or by buying it on the world market.

"It is not easy to convince farmers to take the risk involved in breaking with tried and true practices that have fed his family, however meagerly, for generations. This applies whether the opportunities are presented by growing a new product or by engaging in new techniques to grow a traditional product. When the new hybrid rice was developed, with all its evident advantages, it took about 12 years for farmers in the Philippines to accept the new hybrid and feel at home with it. I believe it will take considerably less time for corn. My estimate is that it will take about 4 years. The momentum is already there."

When SMC re-started its venture into corn in 1977 (see Section II), the strategic assumption was that the key to the undertaking would be the availability of a high-yield seed adapted to Filipino conditions. Initially, SMC sent people all over the world to look for a suitable seed, but found that none proved viable, mainly because of pest and disease problems that were country-specific. The company then proceeded to cross high-yielding seeds imported from abroad with local varieties that had developed resistance to local pest and disease problems. It did this in its own R&D facilities, spending 5 years and P50 million on the process. It brought the adapted seed to market in 1982, but research continues to produce improved strains, increase resistance, develop drought tolerance, further improve plant type, and develop even higher yields.

Production Center

In 1982, SMC established a production center in South Cotabato, on the island of Mindanao. (While corn is grown throughout the Philippines, the most concentrated production takes place on the southern island of Mindanao.) The production center consists of a nuclear farm encompassing 500 hectares, and a modern processing plant with the capacity to dry, shell, husk, size, and treat corn seed, as well as to package it. The processing center began production by using corn from the company's nuclear farm. SMC initially sold this processed and packaged seed to farmers, using SMC's established distribution network. In practice, this meant piggybacking the seed on the company's beer sales. It also meant that direct company distribution went only as far as the SMC network of warehouses, where seed dealers picked up the product and handled retail distribution to the farmers.

Seed Marketing

The company discovered very quickly that selling seed via wholesalers was not an optimum distribution technique. It then proceeded to a four-pronged strategy:

1) It organized classes for farmers, in cooperation with leaders of farmers' associations and, where possible, with technicians of the Ministry of Agriculture, on the characteristics of hybrid corn and the technology, of growing it. It did this at the provincial level, the village level and, occasionally (in an impromptu, ad hoc fashion), responding to farmer interest in a particular locale.

2) It organized demonstration farms on a farmer's own land. The strategy was to give the farmer free seed for one hectare of land; teach him how to plant and take care of the crop; and invite neighboring farmers to observe the process during planting, fertilizer application, spraying and (perhaps most important), harvesting.

At harvest time, when the results of the farmer's venture were most clearly evident, the company cooperated with its demonstration farmer in organizing a harvest festival for his neighbors. These festivals attracted between 50-200 farmers and their families, and the company sees these occasions both as a marketing effort to generate sales of seeds and as a consciousness-raising exercise to make farmers aware of their own production potential.

3) The company moved from delivering seeds to wholesalers to dealing directly with farmers, primarily through KKK-supported farm associations. For this purpose, it hired a sales force of young men whom it trained to double as extension agents. The company plans to support

this sales/extension agent network with senior technical representatives as soon as the scale of production and processing makes this an economically viable proposition.

The processing center was designed to break even when production reaches 1,000 metric tons. Processing began in 1982 with 125 metric tons; reached 500 metric tons in 1983; and was scheduled to reach the break-even point of 1,000 metric tons in 1984. Economic conditions in the Philippines, however, including two devaluations of the peso in 1983 (see Section II, p. 10), moved the break-even point to 1,500 tons, which SMC expects to achieve by 1985.

4) The company is considering switching from its strategy of providing free seed for demonstration farmers and selling seed to other farmers, to a strategy of advancing to all farmers seeds, fertilizer and chemical inputs at cost, and balancing the books at harvest time.

The manager of the Mindanao operation explains the reason for this change in strategy:

"Dealing directly with the farmers as we do here, we found out that small farmers simply do not have enough cash to pay for the seed, fertilizer and chemicals they should be using. And farmers don't know how to deal with banks. So we may have to bridge that gap as another aspect of our outreach."

V

Pay-Off

For the Company

For the company, the pay-off is expected to be fourfold:

A stable quality supply for its feed operations and its downstream animal products.

A stronger market for its other product lines, with resulting better profitability in both these aspects of corporate activity (see also Section III).

An increased market share of corn seed (SMC's market share in 1983 was 24%, targets are 33% for 1984, 44% for 1985, and 50%-plus thereafter).

A return on investment of 20% on funds employed, which includes amortization of research and development activities.

The company originally calculated that it would achieve this target at a production scale of 2,000 metric tons, which it expected to reach in 1986 or '87. Again, economic conditions in the Philippines, including the two peso devaluations, will require revising the required tonnage upward and extending the target time.

For the Community

The pay-off for the community was delineated by the captain of the barangay in South Cotabato in which the company's processing plant is located. Barangay captains are elected every six years by men and women over 18 years of age. The last election in this barangay, with a population of 4,000, took place in 1982. The barangay captain is a farmer herself, cultivating a medium-sized spread of 50 hectares, representing an aggregate of family owners consisting of brothers, sisters and parents. The farm traditionally grows corn, along with cotton, sorghum, peanuts and pamelos (a giant grapefruit). The barangay captain began using SMC hybrid corn seeds in 1982, achieving in a 300% increase in yield within one year.

The barangay captain said that, in addition to the results on her own farm, and for the laborers her farm family employs--who, in turn, have plots of their own of .5-1 hectare, she has observed what the introduction of the new hybrid seed has done for all of the barangay. Increased production, she noted, has led to higher living standards, of which she cites the following manifestations:

"People have improved their houses; bought cattle; bought bicycles; bought radios; and, most important, they eat better."

The captain also noted that, in her barangay, the SMC processing plant provides off-farm jobs, an important contribution to the barangay's economic base.

For the Farmer

For the individual small farmer, the bottom line is, of course, a production increase on his plot of 100-400%.

1) One example: An Association of Moslem Farmers

But this is not a simple, predictable process. Nor does it, at the outset, solve all of the farmer's financial problems. One farmers' association in Mindanao, consisting of 118 members, all of them Moslems, cultivating a total of 207 hectares, obtained financing totalling P795,430 in 1983 from the local KKK organization. This financing, supplied largely on a chit basis, with the chits exchangeable for products, financed the purchase of the new hybrid seed, fertilizer, chemicals, spray knapsacks and herbicides.

The farmers ran into two problems inherent in the feast or famine dimension of all agriculture. One of the problems was a worm infestation, the other was flood. These problems were exacerbated by the fact that the farmers did not have adequate drying facilities. Despite these problems, the production resulting from the hybrid seed made it possible for this farmers' association to pay back 70% of the loan the KKK had extended, and to negotiate both for a roll-over of the remainder and a new loan of roughly the same amount. With these results under their belt, the farmers plan to allocate a maximum amount of the new financing to corn production using the SMC hybrid seeds. The farmers figure that, with the hybrids, they will be out of debt in two years.

SMC salesmen/extension agents work with this association in every facet of corn production and double as "consultants" to individual farmers on other problems. As one farmer put it, referring to the SMC salesmen/extension agent who services him: "He's our plant doctor."

When encouraged by the researcher, the members of this farmers' association said they would like to have company cooperation and help in two other areas: providing adequate drying facilities and, perhaps, a sheller for their corn; and work with their village authorities on improving educational opportunities for their children, as well as health services and athletic facilities.

One extension project that would fulfill two of the farmers' desires would be the construction of concrete-surfaced basketball courts for village elementary schools, which can double as drying lots for corn. The company is considering this.)

2) Another example: An Association of Christian Farmers

Another farmers' association, composed of 98 farmers, all of them Christians, cultivating a total of 215 hectares, also had a first season of hybrid-corn planting behind it. As the chairman of the association put it:

"Despite our seasonal problems, it was an eye-opener to the old-timers. Under the old system, the farmers of this association got a yield of one and one half tons of corn per hectare. This year, the average yield has been 4.5 tons per hectare, and our best farmer improved his yield to 7.9 tons."

This farmers' association had obtained a loan of P818,430 from the KKK organization, which it was able to pay off in full after the hybrid-seed corn harvest. The association also achieved an underrun on estimated production costs. With this record, the association requested,

and received, a roll-over of its loan for the next season, plus an additional credit facility to buy two dryers, and the materials to construct a drying platform. The cost underrun served as collateral for the additional credit. The government also agreed to subsidize for the association 50% of the cost of a solar dryer and of a warehouse.

The farmers in this village asked the company to extend its outreach effort by organizing more classes for farmers, and more demonstration farms, and by offering more technical assistance. As the head of the association put it:

"I need help to educate the farmers to the new ways. Government extension agents try, but there is a limit to what the Ministry can do. In any case, the more help we get in every aspect of extension work, the better off everybody will be. And no one is as competent as the company, especially in keeping us informed on new varieties and other new developments."

He added that he would like to see corporate involvement to the extent possible in other outreach services, such as health, water and education.

Reviewing his association's books, this farmer offered a set of figures representing average returns for the members of his association for 1982, when they did not have the hybrid seed, and 1983, when they did. The figures are interesting because they illustrate not only the difference in gross income for the farmer, but also the difference in net income, which takes into account the considerably higher investment made by the farmer for the inputs required in hybrid-seed production.

In 1982, gross income per hectare for the farmers was P1,800, with a net of P1,000.

In 1983, gross income was P4,300, with a net of P2,500.

VI

Cost

For the Farmer

The figures cited above indicate the cost involved for the farmer in hybrid corn production.

For the company

For the company, the initial cost of developing the hybrid seed was P50 million. The company allocates P5 million annually for ongoing research, and P2 million annually for extension services. SMC also has a budget of P1 million per year for advertising, and is considering shifting some of that money from the media to community development, responding to the desires expressed by the farmers, as cited in Section V. Considering the competitive elements involved in marketing the company's wide range of products, and the farmers' awareness of their competitive clout as consumers (see Section III), the company conceives that this kind of outreach program is a component of advertising.

VII

Changes

While the production and processing activities of SMC's seed-corn venture are relatively new, the need for a number of changes has already emerged, and the company is addressing them.

Post-Harvest Services

The first problem/opportunity the company is addressing is the need for post-harvest services. Existing drying and storage facilities were sufficient for corn produced in the traditional way, but are already insufficient for the expanded yields that have resulted from the hybrid seed, and will clearly constitute a major bottleneck in the future.

The KKK organization has formed a joint venture with a private company to produce shellers and dryers, and is looking for private sector partners to construct warehouses and silos, and to provide trucking and transportation facilities for the expanded corn harvest.

SMC is looking at the possibility of participating in facets of this post-harvest business, since, as a matter of corporate strategy, it would prefer to buy corn from farmers directly rather (as it does now) than from traders.

Crop Diversification

A second change the company is considering involves expansion into new crops--in production, processing, or both. For example, SMC is looking at the possibility of using corn as a base to produce corn oil, and to use corn-based high fructose as an ingredient in some of its snack foods. The high fructose would replace sugar, both because corn-based fructose will deliver better nutrition, and because the company believes the sugar industry in the Philippines is no longer viable under present economic conditions.

SMC is also considering encouraging farmers who use its high-yield seed to diversify and further increase their income through intercropping and crop rotation. Crop rotation would involve primarily production of peanuts, for which, company market research shows, there is a domestic market, as well as an export market in Japan, Australia and Hong Kong.

The product the company is considering for intercropping is coconut--a special variety that could be used to create new food products. Intercropping corn and coconut is possible if the plot is laid out in a way that lets sunlight come through the coconut trees to reach the corn planted beneath.

Another product diversification possibility, in which the KKK organization is interested as well, is commercial production of mangoes, for which SMC would set up a processing plant. The company already uses mango ingredients in a number of its products. At present, it buys mango puree from outside suppliers. Encouraging farmers to cultivate mangoes, and setting up its own processing plant, would serve a corporate purpose comparable to that of producing corn for its feed mills, i.e. it would assure a dependable quality supply.

Institutionalizing Community Dialogue

The third change the company is looking at revolves around the content and structure of its extension work and other outreach activities. In addition to the considerations described in Section V, the company intends, regionally, to build on its local experience in institutionalizing an ongoing dialogue with local political and social bodies, including barangay captains, mayors, and parent-teacher associations, to ascertain what the community would like to see in the way of company involvement. This dialogue takes place at meetings, scheduled on a bi-monthly basis, usually held in the nearest school, in the evening. The meetings are unstructured social events, during which informal exchanges are possible, and indeed take place.

Interesting Results

In Mindanao, this informal but ongoing dialogue has already had some interesting results. When, for example, during a typhoon in 1983, some cows strayed from the company's nuclear farm, a nearby community notorious for its banditry and particularly for its cattle rustling, rounded up the cows and returned them to the company. The barangay

captain of this community, at one of the bi-monthly get-togethers, intimated that one of the reasons for this extraordinary behavior was the fact that SMC disseminates the offspring of its Holstein breeders to the community, gives bulls away to upgrade local cattle, and markets the hogs of local farmers.

Another result is the end of pilferage from the processing facility. Shortly after the processing facility began operations, some small motors were stolen from its workshop. The company complained about the theft at one of the get-togethers in the local school. Shortly thereafter, the stolen motors reappeared, deposited in a neat little pile in the schoolyard.

Expanding Outreach

At the corporate level, the company is considering a systematic grant program to the Philippine equivalent of the US 4-H organization, based on the conviction that, "if you really want to help, don't give fish; give the fishing pole."

SMC is also looking at expanded contributions to village health programs, adult education, nutrition programs for pre-school children, and other catalytic activities that relate directly to the needs of the villagers. Included among these is hands-on assistance to farmers in "self-help settlements," where the government clears land and allocates it to landless farmers, who get title to it after five years if they demonstrate that they can make productive use of the land. SMC outreach programs in this area would consist primarily of supporting these farmers in developing new crops for which there is a domestic need, such as a high protein wing bean, alkaloid plants for medicinal uses, macadamia nuts, and tropical alfalfa meal, as well as export crops, including sorghum, soya, peanut oil and vegetable seeds.

VIII

Policy Implications

For the Company

For the company, one policy implication is that working directly with small farmers represents a range of business opportunities that strengthens vertical integration of company products and/or provides a horizontal extension of product lines for the domestic market as well as for export.

Another policy implication is that a carefully structured outreach program that involves technical support in a number of ways, and includes social activities and contributions to community concerns, formulated on the basis of an ongoing dialogue with relevant community groups, has direct bottom line results. It helps to create markets for company products, it serves as an innovative aspect of advertising, it alleviates, or even eliminates, law and order problems for company activities; and it creates a relationship with producers that represents a potential for additional profitable activities.

For the Host Country

For the host country, the policy implications were spelled out by a senior official of the KKK organization:

"Until we develop our farmer, we cannot really develop the country. There is no way the Philippines can take off economically without a strong and viable agricultural base.

"Historically, the farmers have been neglected by all administrations, before and after independence. Now we are in a race against time. KKK may well be our last chance."

Assessing KKK, a knowledgeable source in the private sector told the researcher that the organization has indeed been imaginative and sound in its design of programs, but weak in their implementation. Too much of the KKK's money still goes to feudal leaders in the countryside and their political allies, instead of being channelled to the small producing farmer. If small farmers were supported more effectively, both their income and their community standing would increase, and the political leaders, now still very hierarchical in the rural areas, would have to listen more attentively to their constituents.

For the Donor Country

For the US, the major policy implication, stated by a number of sources, appears to be that, at last, part of USAID funds should be channeled through the private sector in the agribusiness area. These funds could be earmarked for appropriate research and development (SMC's R&D for hybrid-corn seed being one example), as well as a range of other private sector activities in agribusiness designed to make small farmers optimally productive, and to increase their earning capability and purchasing capacity.

One suggestion offered was to create a pilot project in which the private sector would support a group of farmers, organized as a cooperative or an association, by guaranteeing financing, providing technology, and monitoring the farmers' activities for a profit-and-loss orientation.