

# IMPROVING THE AGRICULTURAL COOPERATIVE MARKETING MANAGEMENT IN KOREA\*

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## I . Introduction

The Agricultural Cooperative System in Korea is one of the largest economic organizations which includes 1,463 units of general purpose cooperatives, 41 units of Horticultural Cooperatives and National Agricultural Cooperatives Federation (NACF).<sup>1)</sup> The major activities of the agricultural cooperatives include credit services, marketing business, farm extension services, and governmental economic programs. Among them credits services and governmental economic programs account for major proportions in total transactions (Table 1). This causes many farmers recognize the agricultural cooperatives as banks or governmental institutes making business with farmers rather than serving member farmers.<sup>2)3)</sup> Such distrust on agricultural cooperatives among farmers have considerable negative effects on the expansion of cooperative businesses and the sound growth of agricultural cooperatives in the future.

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<sup>1</sup> In 1987, total amounts of transaction reached to 16,408.1 billion won for general and horticultural cooperatives and 18,609.3 billion won for NACF (NACF, 1987 *Annual Report*, 1988). (One US dollar was equivalent to 792.3 Korean Won in 1987)

<sup>2</sup> Several studies can be found in Huh, G.H. et al., *Developing the Cooperative Marketing in Korea*, KREI, 1985, Agricultural Cooperative Research Institute, Agricultural Cooperative Junior College, *A Study on Farmer's Attitudes toward Agricultural Cooperatives and Farming*, 1977., and so on.

<sup>3</sup> Major factors that cause farmers not to recognize the cooperatives for serving member farmers may be due to (1) the downward organization of the cooperatives by central government, (2) government selection, not farmers election, of cooperative management, (3) centrally controlled planning of the operational targets without farmer's participation, (4) high dependency on governmental economic programs and arrogant attitudes among cooperative employees toward farmers in implementation of those programs, and (5) the major proportions of credit services in total transaction.

Therefore, the expansion of marketing business relative to credit services is a major task faced by the agricultural cooperatives in Korea for the steady growth of the cooperatives through improving the farmer's trust toward the cooperatives, thus increasing the participation of farmers in the cooperative businesses.<sup>4)</sup> This is because the economic benefits of member farmers could be achieved through marketing business of the agricultural cooperatives which is one of the intrinsic purpose of its cooperatives.<sup>5)</sup>

In this paper the major policies of the cooperative marketing with emphasis on the general purpose cooperatives are reviewed. Then the major problems faced in cooperative marketing businesses in Korea, emphasising on the group marketing activities implemented mainly by small farmers, are discussed. Finally some measures to improve the cooperative marketing are suggested.

**TABLE 1 Total Amounts of Transactions of the Unit Cooperatives by the Kind of Business, 1987**

	Deposits	Loans	Supply of Farm Uses	Marketing Farm Products	Common Use & Processing	Cooperative Insurance	Total
General Purpose Unit Cooperatives	5,107.2	5,602.8	1,294.3	1,585.5	53.1	2,523.0	16,165.9
Horticultural Unit Cooperatives	—	—	47.1	189.8	5.3	—	242.2

Source: NACF, 1987 Annual Report, 1988, p.23.

## II . Policies of the Cooperative Marketing

Unit cooperatives perform various marketing activities in producing areas to stabilize farm price and to help marketing activities of their member far-

<sup>4</sup> We should give some interests to Dr. A.F. Laidlaw who noticed the riskiness of the cooperatives nowadays.

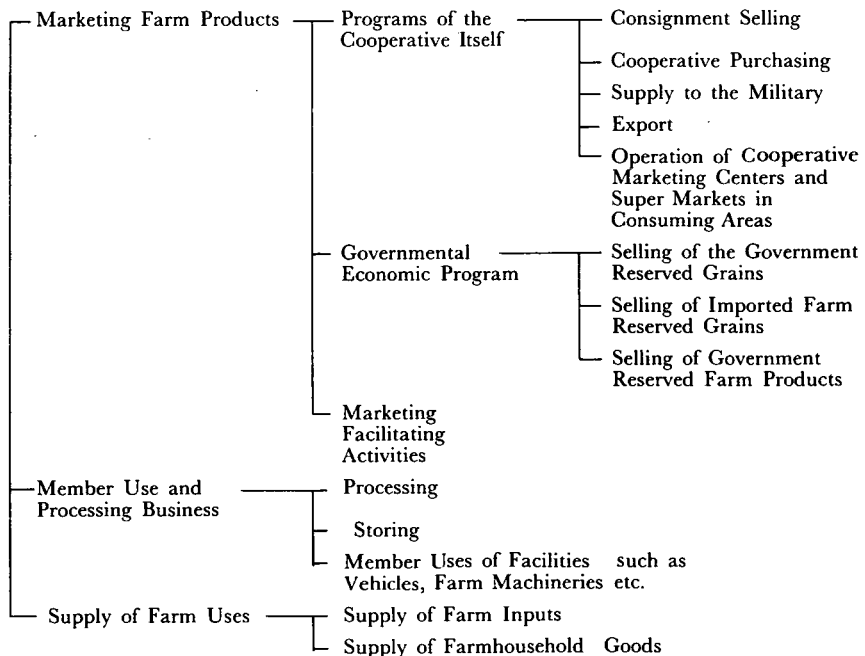
There is a strong tendency among co-operators nowadays to avoid theory and ideology and instead "get on with the business." But this is a mistaken attitude because every organization or institution is built, first of all, on ideas and concepts of what people believe and will to stand for. .... An ordinary corporation may exist and operate from its own detached power who are its members. (Laidlaw, A.F., *Cooperative in the Year 2000*, Agenda and Report ICA 27th Congress, London 1980, pp. 130-1.)

<sup>5</sup> Even though the credit services contribute undoubtedly to the farmer's benefits, most farmers in Korea seem to recognize the credit services only as a banking services which exploit interests of farmers and the compulsion implemented in the process of draw in loans to farmers seems to contribute farmers to have bad impression to the cooperatives.

mers. The cooperatives have continuously expanded marketing facilities such as the auctioning marketing centers in producing areas, general and chilled storages, processing facilities, and sorting and packaging facilities in facilitating cooperative marketing activities (Fig. 1).

Among the various business, however, the most important activity for general purpose unit cooperatives is farmers' group marketing. The group marketing, which in principle is a kind of economic activities organized by 20 to 50 farmers producing small amounts of products to sell to achieve economies of scale through dealing large amounts of products, generates substantial economic benefits for small farmers by (1) reduction in marketing cost, (2) enhancement in bargaining power of farmers in dealing with merchants, and (3) alleviation in the risk accruing from price fluctuations by means of pooling. The group marketing is considered very important not only for the enhancement of the economic positions of farmers but also for the improvement of the working efficiencies in producing areas, especially in such a country as Korea in which small farmers produce most of farm products. For the unit cooperatives, moreover, the enhancement of group marketing also is a very significant business which is consistent with theory and ideology of the agricultural cooperatives. Therefore, the government and the agricultural cooperatives have put much interests to enhance the

**FIGURE 1 Classification of Cooperative Marketing Activities**



group marketing activities and to bring up sound group marketing clubs of farmers, as a way to improve the backwarded marketing in producing areas.

The increase of group marketing of the cooperatives can be successful only through the positive participation of the member farmers. Therefore, the development of the sound group marketing club<sup>6)</sup>, as an intermediary between cooperatives and individual farmers, is prerequisite for the efficient implementation of the group marketing, because the cooperatives are not able to contact with a number of individual farmers without any subordinate organizations such as the group marketing clubs. Therefore, the unit cooperatives prepare such measures as supply of the special loans in advance with low interest rate and repayment of 1% of special allowance for the clubs among 5% of marketing service charges received from farmers for the purpose of developing the group marketing clubs. As a result, the number of group marketing clubs reached to 11,708 units at the end of 1987. Currently, the policy puts emphasis on developing the existing clubs to be sound ones rather than the expansion of the club numbers.<sup>7)</sup>

In addition to these measures mentioned above, the government and NACF prepare other measures to increase the group marketing such as giving priority in selling their products and discounting 1% of market service charges for the products marketed by the group marketing clubs at the legal wholesale markets. Moreover, the government subsidizes 50% of truck purchase cost for the unit cooperatives to benefit member farmers for lower transportation charges. As a result, the number of subsidized trucks reached to 2,337 vehicles by the end of 1987.

### III. Problems Faced in the Cooperative Marketing Management

Despite of the various measures to increase the group marketing, the results have turned out unsatisfactory. The amounts sold through group marketing of the cooperatives were estimated to be 10.2% of the total wholesale market throughputs for fruits and vegetables in 1983 and to be 6.7 for rice in 1984.<sup>8)</sup> It seems the rates are not increased little recently. The major

<sup>6</sup> The group marketing club is a self-help organization of farmers who want to achieve a high degree of efficiencies in farm management through co-works, joint purchasing of farm inputs, common use of facilities, and cooperative marketing among about 20 to 50 farmers who cultivate same crops within village or within a plain.

<sup>7</sup> Marketing Department, NACF, *Text for Employees in Charges for Cooperative Marketing*, Apr. 1988., p. 5.

<sup>8</sup> Huh, G.H., et al., *Developing the Cooperative Marketing in Korea*, KREI, 1985, pp. 11-3.

reasons are considered as follow<sup>9)</sup>;

### **1. Inadequate Management System<sup>10)</sup>**

The management systems of the agricultural cooperatives in Korea tend to put importance heavily on stability, conservatism, public interests, rigidity, bureaucracy, and uniformity in management, accruing from historical background of the cooperative businesses mainly dependent on credit services and governmental economic programs. These characteristics affect substantially on management practices, accounting system, documentation form, operational and decision making process of the cooperatives, and the consciousness of the cooperative managers and employees. On the contrary, however, the cooperative marketing management basically requires a management system highly flexible to market environmental changes and it meets with many risks in business.

It has been noted that the adjustment of the highly conservative management systems to fit the peculiarities of the cooperative marketing business is an urgent problem to be addressed. In this context, the operational systems of the cooperative marketing need to be amended to cope flexibly with the conditional changes, and the targets and implementational schedules also needs to be improved to be definitive and accomplishable ones. In addition, managers of the unit cooperatives are supposed to attract the participation of the member farmers in the program from the planning stage and to develop operational techniques relevant to the peculiar conditions of the region for improving the operational efficiencies of the cooperative marketing.

### **2. Insufficiency of Marketing Specialists**

The role of the cooperative employees is essential to the success of the cooperative marketing with their positive recognition and positive participation in the cooperative marketing. For the marketing businesses, the role of the able specialists is especially important, because they need the abilities to adapt flexibly to frequently changing new conditions and to survive heavy competitions with merchants.

The major point in cooperative marketing is that it may not be successful unless it can offer better prices for farmers than merchants through economies in operations which is dependent heavily on employees' abilities and attitudes. Therefore, the employee in charge of marketing used to be qualified in not only professional knowledges and experiences but also noble sacrifice spirits for farmers more than a simple salaried man. In spite of the

<sup>9</sup> Even if it is focused on group marketing in this paper, the problems pointed out are related to most cooperative marketing management.

<sup>10</sup> Koh, Young-Kon, "Problems for Improving the Cooperative Marketing in Korean," *Problems Faced in Korean Agriculture*, Vol. 3, NACF, 1983.

importance of the able specialist in marketing, unit cooperatives are in general poorly staffed in marketing specialists. According to figures,<sup>11)</sup> the average number of employees in charge of marketing is only 1.2 persons out of 22.7 persons in the unit cooperatives in 1987. Moreover, in a survey done for 99 unit cooperatives by Research Department of NACF, the employees in charge of marketing have insufficient experiences compared to middlemen who compete with the unit cooperatives in business in producing areas (Table 2). It is noted that about 60% of middlemen in producing areas have experiences over 10 years in agricultural marketing.<sup>12)</sup> In this respect, the unit cooperatives are less competitive than middlemen in business of which business experiences and professional knowledges are basically important.

**TABLE 2 Distribution of Cooperative Employees in Charge of Marketing by Years of Experience**

	Years of Experience				Total
	less 1 year	1-2 years	2-4 years	over 4 years	
No. of Employee (Person)	9	35	31	24	99
Percentage	9.1	35.4	31.3	24.2	100.0

Source: Suh Ki-Won, et al., *A Study on Agricultural and Fishery Marketing in Producing Areas in Korea and Improving the Cooperative Marketing*, KREI/NACF, 1984, p.81.

The difficulties in training able marketing specialists in the unit cooperatives are listed as (1) insufficient interests in marketing activities from the managers mainly due to low profitabilities, (2) frequent personnel changes, and (3) tendency to avoid marketing positions among employees mainly due to heavy work loads and low rewards compared to responsibilities accompanied and bad working conditions.

### **3. Manager's Reluctance with Marketing Business**

In spite of the need of manager's strong will to enhance the cooperative marketing, there exists a tendency to avoid the expansion of marketing business among cooperative managers who seek only stable profits in management, due to low profitabilities of marketing businesses (Table 3) and risks accruing from price fluctuations and losses in marketing.

For improving these situations, the management evaluation methods of the cooperative achievements need to be changed, thus giving extra points to the business which generates more benefits for member farmers even if

<sup>11</sup> NACF, *Statistical Summary of the General Purpose Unit Cooperatives in 1987*, 1988.

<sup>12</sup> Suh, Ki-Won, et al., *A Study on Agricultural and Fishery Marketing in Producing Areas in Korea and Improving the Cooperative Marketing*, KREI/NACF, 1984, p. 8.

**TABLE 3 Profit Analysis of the General Purpose Unit Cooperatives Aggregated by Business Areas**

	(in million won)			
	Gross Revenue	Adjusted Gross Revenue(A)*	Administrative Expenditure(B)	Net Revenue (A-B)
Credit Services	216,082	251,497	166,305	85,192
Purchasing	55,069	52,457	80,951	△ 28,494
Marketing	23,361	18,127	22,511	△ 4,384
Processing and Member Use	24,599	24,463	38,238	△ 13,775
Cooperative Insurance	17,421	17,632	14,982	2,650
Total	336,532	364,176	322,987	41,189

\* Adjusted by interest incurring from credits and cooperative supplied capitals.

Source : NACF, *Statistical Summary of the General Purpose Unit Cooperatives in 1987, 1988*, pp118-9.

they contribute less to the revenues of the cooperative.<sup>13)</sup>

#### **4. Inadequate Transaction System at the Wholesale Markets**

Currently, fruits and vegetables accounting for more than 60% of the wholesale markets throughputs are traded by consignees by means of bargaining and haggling, and the wholesale markets for grains are not developed well mainly due to the years around flat price policy of rice reserved by the government. Therefore, high dependency on bargaining and haggling rather than auctioning in open markets in transaction of agricultural products at the wholesale markets makes wholesalers be able to discriminate prices paid depending on the kind of shippers. That is, wholesalers may be willing to pay high prices for the throughputs sent by familiar assemblers who are important customers, and low prices for goods sent by rural farmers for the same quality of products.

In this regard, the introduction of auctioning at the wholesale markets is important not only for the speedy and right price formation but also for expanding the cooperative marketing or farmer's direct shipment to the wholesale markets so as to skip exploiting middlemen in producing areas.

#### **5. Others**

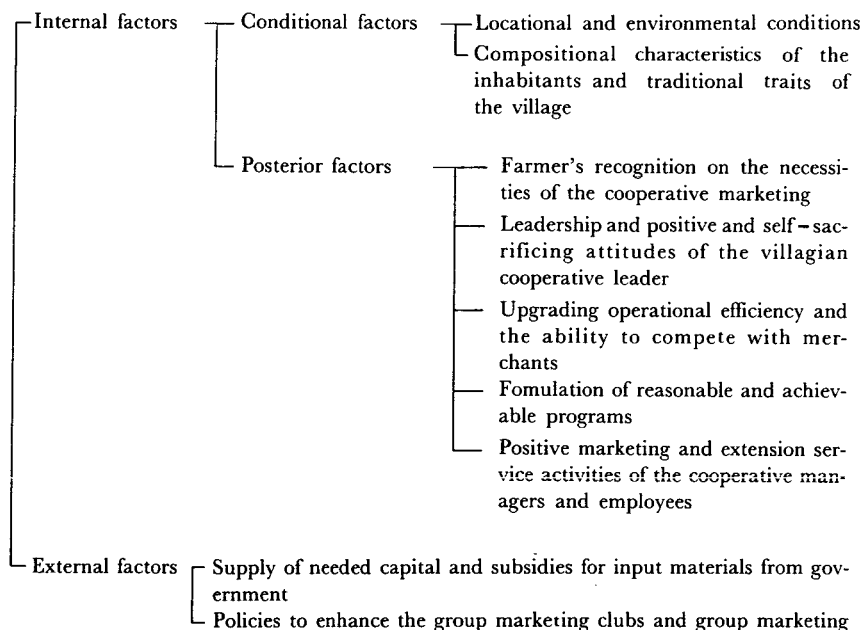
In addition, lack of positive participation of member farmers in cooperative marketing and insufficient coordinations among cooperative employees working at different marketing stages are major restricting for the expansion of cooperative marketing.

<sup>13</sup> It can be a means to avoid the recent tendencies of cooperators to "get on with the business" and apart from member farmers. For more details, see Huh, G.H., "A Preliminary Study for Improving the Evaluation of Cooperatives Operational Performances", *The Korea Rural Economics Review*, Vol. 10, No.2, KREI, June 1987.

#### IV. Factors Affecting on Cooperative Marketing

Many social and economic factors can be listed as factors affecting on the success of cooperative marketing. Several studies have shown the factors from a different point of view.<sup>14</sup> These factors can be summarized as follows:

##### Major Factors Affecting on Group Marketing



Among these factors, the most important one is posterior factors which could be improved by the efforts of farmers and cooperative manager and employees.

<sup>14</sup> Suh, Ki-Won, *ibid.* pp. 76-7, Shim, Young-Keun, "Farmers' Voluntary Marketing Activities in Korea," A paper presented at *International Seminar on Producer-Oriented Marketing Development: Strategies and Programs*, NACF/FFIC, Seoul, Korea, Apr., 1983, and Kim, Sung-Hoon and Ahn, Chee-Young "Case Studies on Farmer's Cooperative Marketing of Farm Produce in Korea," *Korean Food Marketing*, Vol. 1, Korea Food Marketing Association, 1984.



## **V . Measures for the Improvement of Cooperative Marketing Management**

### **1. Strengthening Farm Management Extension Services**

To attract farmers to consign their products for sale through cooperative, the cooperatives need to build up close relationships with member farmers. Furthermore, to generate trust from member farmers, frequent contacts and farm extension services are encouraged in helping farmers to plant profitable crops at farm planning stage through giving technical and market information in raising and harvesting stages. If the cooperatives request farmers to sell their products through cooperatives without any prior close contacts, farmers generally tend to avoid the cooperatives. For enhancing cooperative marketing, therefore, the cooperatives need to extend farm extension services until the farm planning stage mainly focusing on farm management and marketing information in connection with their business. In addition, the major producing areas have to be formulated through the extension of special crops in the region for the expansion of cooperative marketing.

### **2. Building-up Sound Group Marketing Clubs and Managements of Farmers**

As stated before, the existence of sound group marketing clubs that have been organized and operated by farmers themselves are essential for the successful cooperative marketing. Therefore, various supporting policies have to be introduced as mentioned before. However, the most effective measure is to give price incentives for farmers voluntarily to participate in the cooperative marketing through cost reductions obtained from the efficient operation of business and economies of scale.

### **3. Developing the Abilities for the Unit Cooperatives to Establish a Plan of Operation**

At present, there seems to be a lot of adverse side effects and resource waste in the process of cooperative marketing operations causing from the immatured conditions for cooperative marketing and too heavy targets assigned from top management. It is indicated that such problems come mainly from the untrained management of the unit cooperative in making a plan of operation.<sup>15</sup> In setting up a plan of operation, therefore, the farm management plans collected from farmers at the beginning of the year and local conditions need to be incorporated as base in order to reflect farmer's

<sup>15</sup> Koh, Young-Kon, *ibid*, p. 229.

opinions in the plan as much as possible. In addition, the expansion of the opportunities farmers may join in the process of planning is expected to increase the efficiency of cooperative marketing. Educational training programs for employees in charges also are important for improving the abilities to establish a plan for the unit cooperatives.

#### 4. Maintaining Able Marketing Specialists

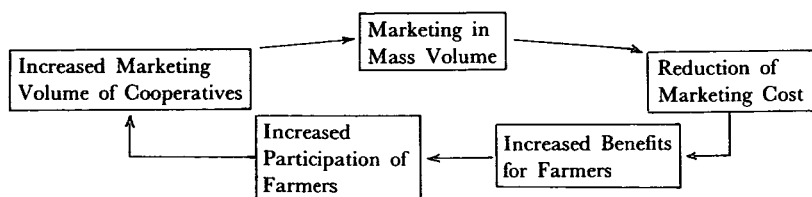
For the successful cooperative marketing, the maintaining able and responsible marketing specialists are essential. Three measures are suggested as below ; (1) to restrict frequent changes of employees in marketing positions in order to retain specialists familiar to the region, (2) to introduce a special promotion and allowances systems for employees in marketing positions in order to balance work loads among employees, thus to minimize the phenomena among employees to avoid marketing positions, (3) to post marketing employees in the regions where the employees may maintain good personal relationship with farmers since marketing activities are directly connected to farmer's interests. However, most important among others is the positive attitudes of the cooperative managers to marketing business.

#### 5. To Motivate Farmers to Join Together

As stated above, the positive participation of farmers is essential for the successful cooperative marketing.

In cooperative marketing, small business volume brings low benefits for farmers because it excludes economies of scale, and low benefits brings low rate of participation of farmers, and again low participation brings small business volume, and so on. This is a vicious cycle of the unsuccessful cooperative marketing. Therefore, it is necessary to give farmers some incentives to take voluntarily part in the cooperative marketing regardless of profits from the business at the early development stage: As incentives, supply of loans in advance with a low interest rate, subsidies for the cost of packaging and farming input materials, and payment of special bonus to the participants in the cooperative marketing at the time of the payment of use dividend can be considered. Anyway, the introduction of special incentives can bring a motive to change a vicious cycle into a successful cycle (Fig.2) of the cooperative marketing at the early development stage.

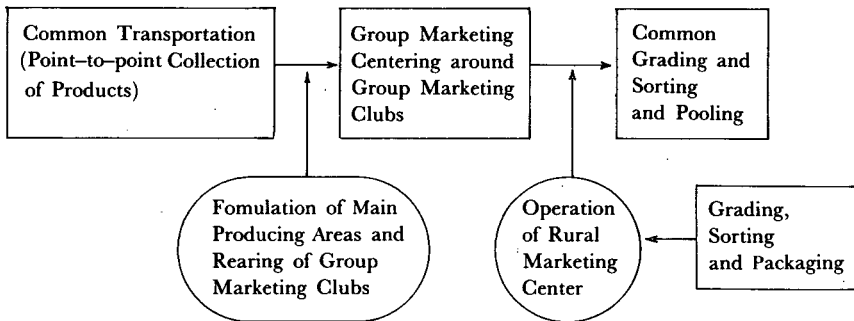
FIGURE 2 Chains for Successful Cooperative Marketing



## 6. Progressive and Continuous Expansion of the Cooperative Marketing

Group marketing can be classified into 3 stages of progress; common transportation, common grading and sorting, and pooling of all products. Even if the pooling (joint sorting and joint accounting) is desirable, it is difficult to introduce the pooling at the first stage since it needs strong trust and solidarity among member farmers with a stable preconditions for cooperative marketing. Therefore, it needs to introduce the common transportation only, which use vehicle together for saving the transportation costs without grading or sorting, at the first stage rather than to come up with adverse effects by emphasizing pooling excessively without preparing any preconditions. The common transportation followed by the common grading and sorting and the pooling need to be introduced one after the other depending on the given surroundings, focusing on the expansion of group marketing through the preparation of basic conditions like the formulation of a main producing areas specialized in production and the rearing of group marketing clubs (Fig.3).

FIGURE 3 Steps for the Expansion of the Group Marketing



In addition, joint sorting and joint accounting (pooling) systems require joint work place for sorting and packaging together. Rural collection center in producing areas could be developed into the joint work place, which needs to be managed by producers themselves.

## VI. Conclusions

Cooperative marketing requires coordinated efforts with mutual trusts among farmers having different interests in order to going over heavy competition with merchants. Because of its conservativeness the huge cooperative system in Korea may not respond to rapidly changing marketing environ-

ments. It is frequently said that cooperatives are doomed to go failure with undertaking marketing business.

Since marketing is one of the best economic activities of cooperatives to benefit small farmers which is consistent with the purpose of cooperatives it is highly required to put more integrated efforts to develop cooperative marketing with emphasis on group marketing.

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