

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The Royal Project Foundation was established in 1969 with objectives to reduce the destruction of watershed forest and to stop opium cultivation, through agricultural development. The project operates in Chiang Mai, Lamphun, Mae Hong Son, Chiang Rai and Phayao provinces of northern Thailand. It covers 299 highland communities with a total of 100,496 households.

The Marketing Division of the project conducts marketing activities for promoted products after the farmers have harvested. This division is comprised of, Chiang Mai Sale Section, Chiang Mai Processing Plant, Bangkok Sale Section, Bangkok Grading and Packaging Section and Chiang Mai Grading and Packaging Section. The main responsibilities of the marketing division of the project are grading, packing and distribution of all those agricultural products promoted by the project. All products are collected from the stations and marketing is done under the brand name of "Doikham". Their practices changed from being a consignor to being a profit centered in 1996.

The main products of the project are temperate vegetables, fruits, flowers, dried flowers and processed products. The promoted products are bought by the Royal Project Marketing Division.

Vegetable crops were promoted initially in 1979, because when the project first promoted fruit crop at Angkhang station, it took a long time to for farmers to receive income back. The "short-term" cash crops, such as vegetables and flowers were selected for promotion. Main target groups are hilltribe, Hmong, Karen, Akha, Lisu and Lahu. Amongst the various crops promoted by the project, vegetables form the main products.

They are short-term cash crops and provide high income to the farmers. At present, more than 110 varieties of vegetables are grown. In 1981, the total value of farmers' income was estimated at 161,172 bath. It increased to 62.53 million bath in 2000. The vegetable products are assembled or collected at stations managed by the Royal Project in different project areas. The products are then purchased by the marketing division from the stations. Even though all of the inputs used were supplied by the Project, farmers can still bargain for even higher prices if there are local merchants bidding for the same products. If the farmers are not satisfied with the price offered by the Project, they can sell the products to the merchants. Another pricing method, *i.e* fixed pricing, is used mainly for contract production-where the products are sent directly to the processing companies. At present both the farmers who are involved in the project and the vegetable products are increasing, whereas there is higher competition. Competition occurs in both, product collection, and in the market. Also the production, of temperature vegetable is higher but the price of in-season vegetable is very low, sometime it does not cover their costs. Furthermore, imported vegetables are dramatically increasing. Because the project acts as a price support but there is no marketing plan, it causes the problem to compete in the market. If the project could run their marketing activities well it would increase the farmer's income, as well as consumer would be better off, because their products are chemical-residue free.

1.2 Rationale

Since the marketing role of the Royal Project Marketing Division (RPMD) changed from being a consignor to being a the profit center in recent years, there has not been any assessment done on marketing practices, which could provide the necessary information. Most of the vegetable products are purchased from the farmers using bidding price which is based on the competition the other merchants, whenever the project purchasing price is lower than the price offered by merchants, the farmers often sell their products to the merchants especially for off-season vegetable, but when they

have a good harvest, there exists the situation of over supply. These have been problematic to marketing planing and management of the RPMD. Moreover, the number of farmers involved in The Royal Project program for vegetable production has been increasing. There also exists high competition in the vegetable market. Therefore, an assessment of, the present marketing practices of the Project, is felt necessary so as to develop appropriate marketing strategies, which will guide the enterprise to be an efficient trader and at the same time a partner that could provide more income to the farmers.

1.3 Objectives of the Study

The objectives of this study are:

1. To investigate and describe the organizational structure and operation of the Royal Project Marketing Division, and existing firms, in the vegetable marketing system
2. To assess the efficiency of vegetable marketing practices of the Royal Project Foundation in comparison to private firms
3. To assess vegetable pricing strategies of the Royal Project Foundation
4. To identify the problems and explore strategies for strengthening the vegetable marketing activities in the Royal Project Foundation

1.4 Usefulness of the Study

The result of this study is expected to be helpful for the planners, in coming up with appropriate decisions and incentive policies for improving the vegetable marketing practices of the Royal Project, for example, sound pricing policies and marketing strategies.