



Republic of the Philippines
Department of Agriculture

Upland Development Programme in
Southern Mindanao (UDP)

**A MARKETING EFFICIENCY STUDY
ON**

CHICKEN

**IN SITIO CAMPAO, SUFA-TUBO, GLAN,
SARANGGANI**

MAY 2001

PREFACE

This report is one of a series of market efficiency studies conducted in the UDP-covered areas for selected commodities. The marketing efficiency of chicken in Sitio Campao, Sufa-tubo, Glan, Saranggani was evaluated through the deconstruction of existing marketing margins. Recommendations to improve marketing efficiency are herein offered.

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Chicken raisers:

Jobito Lariosa
Hipolito Cabadilla
Mildred Orola
Larry Mamat
Antonio Mesa

Assembler:

Carmela Idalo

Retailer:

Areлина Gino

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DEFINITION OF TERMS

Cash costs	-	costs where actual money is involved.
Cash returns	-	the earnings, where actual money is involved, from the sale of the farm produce.
Depreciation	-	the expense brought about by the wear and tear of a piece of equipment, building or tool used in an enterprise for a given period of time.
Exchange labor	-	the value, non-monetary in nature, of the work (in man-days) put in by neighbors, friends or other laborers in exchange for the farmers help with similar farm activities in their respective farms.
Given away	-	the value, non-monetary in nature, of the farm produce given out by the farmer to others without any monetary payment.
Hired labor	-	the cash expense for engaging the services of farm laborers.
Home consumption	-	the value, non-monetary in nature, of the farm produce consumed by the farmer and his family.
Losses/shrinkage of produce	-	the value, non-monetary in nature, of the damages and spoilage sustained by the produce.
Market information	-	basic information on prices and quantities traded of major commodities, from all markets—assembly, wholesale and retail.
Marketing channel	-	the inter-organizational system composed of interdependent institutions tasked in moving the product from production to consumption.
Marketing efficiency	-	the maximization of the input-output relationship where inputs refer to resources (land, labor, capital) used in moving the products from point of consumption to the point of production and output referring to consumer satisfaction on goods and services made available in the market.
Marketing margin	-	the difference in prices between the different levels of the marketing system.

Marketing	-	series of services performed in moving the product from the point of production to the point of consumption.
Net farm income	-	returns of the use of capital and labor. The overall profit of the farm after all the expenses, cash and non-cash, have been paid off.
Non-cash costs	-	costs items used in the production process wherein no direct outlays occurred or the costs incurred are not monetary in nature.
Non-cash returns	-	the value, non-monetary in nature, of the farm produce consumed by the farmer and his family or those given away.
Opportunity cost of capital	-	the price of foregone opportunity in the use of the capital invested in the enterprise. It is usually pegged at the current savings interest rate.
Point of consumption	-	last sale of the product.
Point of production	-	point of first sale.
Profit margin	-	the return to the middlemen for their entrepreneurship, the risks and the cost of money.
Return on investment	-	measures the amount of cash that the entrepreneur gets from the capital investment after first paying the opportunity expenses on the value of family labor and management. It also determines how much money the producer got in return for every one peso invested.
Unpaid family labor	-	also called own labor. The value, non-monetary in nature, of work (valued in man-days) by the farmer and his family.

CHICKEN

INTRODUCTION

1. Poultry is one of the world's major sources of meat.
2. In the Philippine economy, the livestock and poultry sector is a major growth contributor to the agricultural sector and in the mid-1990s the domestic chicken industry went through a massive growth in terms of production.
3. However starting in 1996, the poultry industry faced a very difficult time. Substantial losses were incurred because of aggressive expansions, coupled with rising cost of grains and other feed materials, aggravated by the soft demand for poultry products. Even now that the poultry producers have trimmed down growth to more moderate levels, the industry is faced with an even greater challenge - global competition. The industry producers will not only be competing among themselves, but with the world poultry producers (<http://pcarrd/chickenprofile/>).
4. Currently, Mindanao supply is 24.1% of the total chicken production in the Philippines (University of Asia and the Pacific, 2001). Of this 32.1% is of the boiler variety, 9.1% is of the layer variety and 58.8% of the native breed.
5. The per capita consumption for chicken in the Philippines is currently 6.6 kilograms and is increasing at a relatively steady rate (Center for Food and Agribusiness-University of Asia and the Pacific, 2001).
6. In Sitio Campao, Sufa-tubo, Glan, Saranggani backyard native chicken raising is one of the prevalent agricultural activities in the area. The average chicken ownership per farmer, at any given time, is 3 to 4 heads including pallets and chicks. The average weight of a mature chicken is 1.2 kilograms.
7. Chicken production in the area, however, is mainly for household consumption as only 45% of all the chickens raised in the area are sold.
8. The marketing efficiency study for chicken in Sitio Campao, Sufa-tubo, Glan, Saranggani was conducted in March 5, 2001.

Objectives

9. The main objective of the study is to assess the impact of existing marketing systems of chicken vis-à-vis income of the farmers.
10. Specifically, the study aims to determine the levels of participants in the marketing chain of chicken;
11. Determine the marketing practices involved in terms of storage, handling, pricing, delivery systems and terms of payment;

12. Determine the percentage of consumer price that the producer receives through the deconstruction of marketing margins of chicken at each level in the system, exclusive of production costs;
13. Identify strengths and weaknesses of the existing marketing system of chicken; and
14. Determine appropriate marketing interventions needed to improve economic efficiency of chicken in Sitio Campao, Barangay Sufa-tubo, and Glan.

Methodology

15. From the initial agribusiness profile of UDP-Saranggani, a total of 12 chicken farmers were identified; five (5) of who come from Sitio Campao, Sufa-tubo, Glan. Complete enumeration was done for the interview.
16. The farmers were asked about their production and marketing practices, production and marketing costs of chicken. They were also asked on available market information with emphasis on what they need to know to improve their production and marketing practices, thereby increasing the farmers' income.
17. The respective buyers of chicken from each farmer were then traced accordingly.
18. The traders were, in turn, asked about their marketing, costs, and the problems and constraints they have encountered in the marketing of chicken.
19. The marketing margins (MM), or the total value added to the chicken per kilogram as it moves along one marketing channel to another, were then deconstructed and the profitability of each marketing participant was also analysed. In the case of the farmers, the Net Farm Income (NFI) was determined. An NFI greater than zero (0) would mean that the production and marketing activities of the chicken raising is profitable, whereas an NFI less than zero (0) would mean that the chicken raising is at a loss.
20. On the part of the trader, the Return on Investment (ROI) was compared with the opportunity cost of capital, pegged at the existing current savings interest rate of eight percent (8%) per annum. An ROI higher than the opportunity cost of capital would mean that marketing chicken is more profitable than just saving the trader's money in a bank. While an ROI less than the opportunity cost of capital would mean that it would be more profitable for the trader to invest his money in a bank rather than spend it on marketing chicken.
21. The percent share to the consumer peso of each marketing participant was also determined by getting the percentage of the marketing participant's selling price relative to the final buying price of the consumer. This indicates the proportion of the final buying price that goes to each marketing participant for chicken.

22. Moreover, focused group discussions (FGDs) with key informants and selected farmers were conducted to probe into the importance and the demand for market information in each province. This provided rapid feedback on the available market information and the information dissemination strategies existing in the area.

23. Also, key informants such as the Municipal Agriculturists and the Agricultural Technicians were interviewed to obtain an overview of the local agriculture industry.

Limitations and Constraints

24. Upon interview, the farmers only recalled their past production level, income, tools and equipment used, as there were no records kept of their operations. Thus the cost and return that were analyzed were only estimates. The Return on Investment (ROI) was excluded on the analysis of the farmer's income due to the ambiguity of the values arrived at, as some factors on capital investment were not quantified. For instance, land valuation was excluded because none of the farmers hold titles to the land that they cultivate. Land, therefore, was not considered a fixed investment in this enterprise and was merely considered as an expense through the credit of land cost (land tax if owned, rent if tenanted).

25. For the marketing aspect, the respondents interviewed were the middlemen identified by the farmers. Most of who also based their answers on their memories since they too do not keep records of their marketing operations.

26. On the analysis of the marketing efficiency of the farmers, only the Net Farm Income (NFI) analysis was utilized since the available data could only allow for this kind of analysis and not the more complicated input-output efficiency analyses.

27. Lastly, the size of the chicken market, specifically, the estimation of demand was not included in the study.

Margin of Error

28. Aside from the UDP Agribusiness Profile, there are no other available data on the population size of chicken raisers in the area. The margin of error on the analysis, therefore, cannot be established since the formula requires not only the sample size, but the population size as well.

MARKETING SYSTEM OF CHICKEN

Marketing Channels

29. The marketing participants involved in the chicken commodity system in Sitio Campao, Sufa-tubo, Glan are as follows:

a. Farmer

A person engaged in backyard native chicken production.

b. Assembler

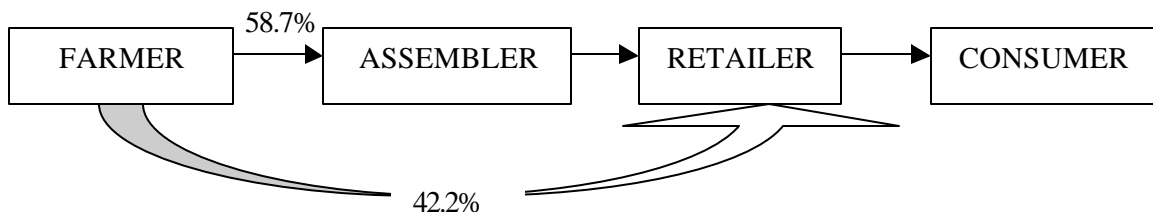
A trader engaged in buying the native chicken in the barangay then transports it in the market place.

c. Retailer

A trader engaged in selling the native chicken on a per head basis.

30. Based on farmer interviews in the area, it was established that a total of 233 heads or 279.6 kilograms live-weight of chicken were raised in Sitio Campao, Sufa-tubo in the year 2000, Fifty-five percent (55%) of which were for home consumption. The remaining 106 heads (127.2 kilograms) were sold. Below is the product flow of chicken from Sitio Campao, Sufa-tubo, Glan.

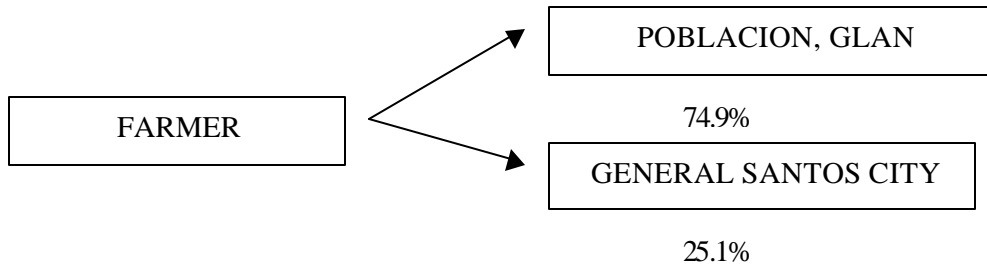
Figure 1. Product flow of chicken from Sitio Campao, Sufa-tubo, Glan.



31. Based on the above figure, 58.7% of all the chicken sold go to assembler and 42.2% go to the retailer.

32. Similarly, the geographical movement of the chicken was also traced and is presented on Figure 2.

Figure 2. Geographical flow of chicken.



33. The main market for native chicken is at Glan Public Market where 75% of the marketable surplus is sold. The consumers in General Santos City purchase the remaining 25% of the chicken from Sitio Campao.

34. Due to poor road system in the area, there are no other means of transporting the chicken except on foot or by horse. Majority of the farmers prefer to sell their livestock to the assembler inside the barangay (Case 1). However, some farmers who prefer to directly sell their chicken to the retailer would go to the Glan public market and sell the native chicken to the retailers there (Case 2).

Marketing Practices and Costs

35. When the native chicken reaches five months and reaches an average weight of 1.2 kilograms per head, it is caught, tied by the feet and brought to the assembler (Case 1) or to the retailers in Glan (Case 2).

36. For case 2, upon reaching the Barangay Poblacion, which is approximately two kilometres from the Sitio, the chicken is loaded onto a passenger jeep bound for the Glan Public Market. The fare is pegged at P20.00 per person regardless of the quantity of chicken transported.

37. Upon reaching Glan, the chicken raisers are approached by *jamboleros* who lead them to retailers. These *jamboleros* receive an undetermined commission from the retailers for every sale that they refer to the retailer. This commission would have otherwise gone to the farmer, but was instead given to the *jambolero*.

38. For Case 1, on the other hand, the chicken is brought to the assembler based in Barangay Sufa-tubo and from there, the assemblers bring the chicken to General Santos City, which is 45 kilometers from the Barangay Poblacion.

39. The main cost in marketing chicken is the transportation cost. This cost is borne by either the assembler (Case 1) or the farmer (Case 2). Table 1 presents the marketing costs of chicken at each marketing level.

Table 1. Marketing costs for different marketing levels of chicken (P/kg).

ACTIVITY	CASE 1		CASE 2	
	Farmer	Assembler	Farmer	Retailer
Transportation	0.19	3.33	0.19	<i>nil</i>
Supplies and materials	<i>nil</i>	0.29	<i>nil</i>	0.29
Non-cash costs	1.08	<i>nil</i>	1.08	<i>nil</i>
TOTAL	1.27	3.62	1.27	0.29

Case 1 represents the movement of chicken from farmer to assembler.

Case 2 represents the movement of chicken from farmer to retailer.

39. Costs on the retailer's side is allocated for the supplies and materials such as the rope and baskets used in tying the chicken as most of it is sold live to the consumers.

Price Formation

40. Prices for native chicken are high during the months of May and June (for the town fiesta's and opening of classes), and December for the Christmas season. In Glan, farm gate prices during these months range from P70.00 to P75.00 per kilogram while the retail prices are at P80.00 to P85.00. During regular months, native chicken can be sold at P65.00 per head at farm-gate.

Marketing Margins

41. Table 2 illustrates presents the Net Farm Income of the farmer (as shown in detail on Appendix A) and the marketing margins for the assembler and the retailer.

Table 2. Marketing margins and income for chicken at different marketing levels.

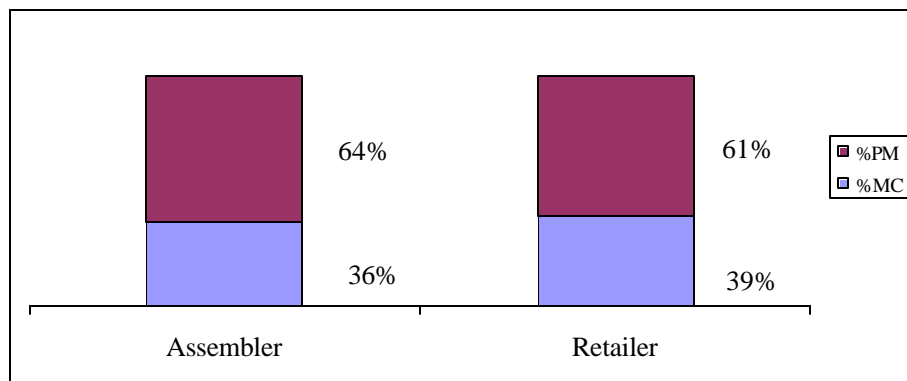
ITEM	Farmer	Assembler (Case 1)	Retailer (Case 2)
Selling Price	70.00	80.00	75.00
Buying Price	<i>nil</i>	70.00	70.00
Marketing Margin	<i>nil</i>	10.00	5.00
Marketing Cost	1.27	3.62	1.96
Profit Margin	<i>na</i>	6.38	3.04
Net Farm Income	27.97	<i>nil</i>	<i>nil</i>
MC as % of MM	<i>na</i>	36%	39%
PM as % of MM	<i>na</i>	64%	61%
% ROI	<i>na</i>	16.75%	1.93%
Opportunity Cost of Capital	<i>na</i>	8%	8%

42. Table 2 shows that the chicken raiser, earning a Net Farm Income of P27.97 per kilogram, means that his chicken production and marketing activities are profitable, thereby efficient.

43. The marketing margins for each participant in the trading of native chicken were also identified. Each level in the marketing channel receives a large profit for every kilogram of chicken they sell. Their profit margin is above 60% of their identified marketing margin.

44. Graphically, the marketing costs and profit of the assembler and retailer relative to their marketing margins are presented on Figure 3.

Figure 3. Marketing margins



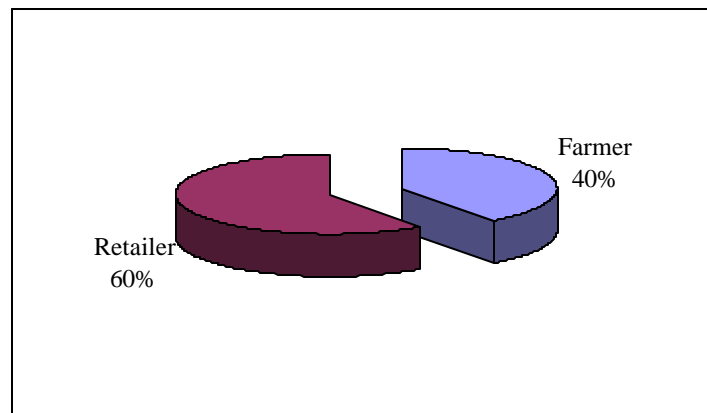
45. The breakdown of Consumer Peso for Case 2 is presented on Table 3.

Table 3. Percentage share prices to the consumer peso.

MARKETING PARTICIPANTS	SELLING PRICE	% SHARE
Farmer	70	40
Retailer	75	60

46. Graphically, the percent share of the consumer peso is presented on Figure 4.

Figure 4. Percentage share of prices to the consumer peso.



47. This shows that 60% of the retail price goes to the retailer and 40% goes to the farmer. This suggests that for every peso spent by the consumer, the retailer receives P0.60 while the P 0.40 goes to the farmer.

STRENGTHS

48. In the market, native chicken is preferred because of its distinctive taste. Farmers and traders claim that native chicken has high demand in the market since the consumers prefer this to the hybrids.

49. Farmers have an equal bargaining power over the price of chicken. This means that the buying price of the chicken is negotiated between the farmer and the buyer. This allows the farmer to adjust his selling price such that his production and marketing costs, along with the profits, can be compensated for by the buying price.

WEAKNESSES

50. From the total production, more than half of the chickens produced were consumed by the farmers rather than being sold to traders. This is largely due to the fact that the chicken raisers are discouraged by the distance and, consequently, the high transportation cost in marketing the chicken. During the study, it was often mentioned by the farmers that they would rather eat the chicken than bring it to the assembler or the Glan public market.

51. Another weakness in the marketing of chicken is the relatively high losses brought about by the weight loss and mortality during transport of the animals from the Sitio to Glan or General Santos City. As shown on Appendix A and B, the average value of the losses sustained by the farmers in transporting the chicken is P1.08 per kilogram.

52. Lastly, the presence of *jamboleros* reduce the income of the chicken raisers as the income which would have otherwise gone to the chicken raiser is shared with the *jambolero* as commission.

OTHER KEY FINDINGS

52. It was also determined that there is a high mortality rate of 90% in raising native chicken. This is especially true during the rainy season when the animals are prone to diseases. This is further aggravated by the fact that farmers lack technical know-how in preventing this occurrence.

CONCLUSION

53. In determining the efficiency of the farmers, the Net Farm Income was evaluated and it was established that with a P27.97/kg NFI, the farmer is producing profitably and efficiently.

54. On the part of the traders, the marketing margins were analysed and compared with the eight percent (8%) opportunity cost of capital. It was determined that the assembler, with a 16.75% ROI, is operating efficiently. The retailer, on the other hand, is not marketing chicken efficiently since his ROI is only 1.93% (Table 2).

RECOMMENDATIONS

55. Based on the findings of this study, the following recommendations are offered:

?? Conduct seminars on disease prevention and other management techniques in poultry to improve the technical know-how, thereby production of the chicken raisers;

?? Establish an organized buying system for the assemblers such that the farmers need not travel too far to sell their produce. It may be that the assemblers could be encouraged to visit Sitio Campao regularly to purchase the birds; and

?? Lastly, improvement on the condition of the Sitio Campao to Glan proper tertiary road should be done, as this is the major hindrance in the marketing of chicken.

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<http://pcarrd/chickenprofile/>

APPENDIX A. Cost and returns per unit of chicken in Sitio Campao, Sufa-tubo.

<i>ITEM</i>	<i>P/kg</i>
RETURNS	
Cash	
Sales	33.95
Total Cash Returns (A)	33.95
Non-cash	
Home consumption	33.53
Given away	2.09
Total Non-cash Returns (B)	35.62
TOTAL RETURNS (C)	70.00
COSTS	
Cash	
Animal stocks	4.33
Feeds (corn)	17.77
Transportation	0.19
Total Cash Costs (D)	22.29
Non-cash	
Unpaid family and/or exchange labor	9.54
Improvised feeds	8.63
Losses/Shrinkage of produce	1.08
Opportunity cost of capital	0.49
Total Non-cash Costs (E)	19.74
TOTAL COSTS (F)	42.03
Net Returns Above Cash Costs (C-D)	47.71
Net Farm Income	27.97

APPENDIX B. Breakdown of costs per unit of chicken in Sitio Campao, Sufa-tubo.

<i>ITEM</i>	<i>P/kg</i>
I. Production Cost	
Animal stocks	4.33
Feeds (corn)	17.77
Improvised feeds	8.63
Own labor	9.54
Total Production Cost	40.27
II. Marketing Cost	
A. Transportation	
Transportation	0.19
Losses/shrinkage	1.08
Total Marketing Cost	1.67
III. Opportunity cost of capital	0.49
TOTAL COSTS	42.03
