



Centre for ASEAN Studies



Centre for International Management
and Development Antwerp

Capital Rice Co., Ltd. in Europe

Dirk Vandenberghe¹
Somprot Sarakosas²

ASEAN Business Case Studies No 5

January 1997

(1) Economic attaché, Embassy of the Kingdom of Belgium, Bangkok, Thailand and lecturer in international marketing at Assumption University and Bangkok University, Bangkok, Thailand.

(2) MBA Coordinator, Assumption University, Bangkok, Thailand.

ACKNOWLEDGEMENT:

Capital Rice Case Study has been worked out by Ms. K. Chatcharat and Ms. B. Julaluck of the MBA Evening Programme, Assumption University. We also would like to express our grateful thanks to Mr. Tharnkasem Vanichjakvong, Assistant Managing Director of Capital Rice Co., Ltd., and Mr. Surachai Chongpipatchai, the Export Manager of Capital Rice Co., Ltd., for their kind assistance in collecting all data for the revision of this case study and its publication.

1. Introduction

Thailand is a major exporter of agricultural products and ranks as the number one rice exporter in the world. In 1990, Capital Rice Co. Ltd., one of Thailand 's largest rice exporters, became interested in producing organic rice, the first and only organic product produced in Thailand, with the full and enthusiastic support of one of the country's major rice producers, Chaiwiwat Agro-Industrial Co., Ltd., Chiangmai, and Riseria Monferrato S.R.L., Vercelli, Italy, a major European rice distributor.

The objective of this case study is twofold. Firstly, it aims to illustrate how a Thai company was able to marry skills and resources with modern technologies and concepts with a view to entering the international market, and how it succeeded even on a small budget and with limited technical know-how. Secondly, this paper aims at explaining organic technology management and promote its role for a better health and environmental situation.

2. Capital Rice, its management concept and its product

2.1 Capital Rice Co., Ltd.

The STC Group started its trading business in agricultural products in 1974 with the establishment of the Sang Thai Bangpakong Co., Ltd. A team of experienced traders, with achievements in the rice milling industry for over 10 years, had joined forces to start a tapioca business, beginning with warehousing and gradually expanding into a large purchasing and trading centre of rice for export.

1977 was a milestone for the STC Group as Capital Rice Co., Ltd., was then established to operate its rice export business. Since then, the company has enjoyed satisfactory growth and is now one of the largest rice exporting enterprises in Thailand.

The complexities of the global rice trade, especially with regard to maintaining quality standards, have encouraged Capital Rice Co. to consistently improve the quality of its rice. In response to ever growing competition in the marketplace, the company invested in the construction of a 47-bin/27,000 ton rice silo as well as a spacious warehouse with a storage capacity of 300,000 tons, which brought Capital Rice Co. recognition as one of the pioneers in the use of silo storage systems. For a constant supply of first quality rice, advanced equipment and modern facilities have been introduced, and a large wharf is used, which can conveniently accommodate a large ocean-going vessel for direct and speedy loading.

Quality, experience, honesty and prompt service are the major assets of the company. As the result of the company's concern to improve the quality of rice, the Best Exporter Award for agricultural products was conferred on Capital Rice in the year 1987. Thanks to this remarkable performance and its reliable service, the company can now boast a great number of customers , both long-timers and newly acquired ones all over the world.

Over the years the STC group has not only increased its production capacity and the range of its services, but has also expanded its presence in the international markets. The corporate philosophy is:

Be responsible to customers.

Treat the staff as the most important resource.

Recognise our obligation to make a contribution to society.

2.2 The organic technology management concept

The concept relates to the use in the production process of biological management methods instead of synthetic chemicals that in the long run are harmful to the environment. Products produced in accordance with this concept are called “organic products”. Moreover, the farmers will enjoy a better standard of living, both financially by selling a higher value-added commodity, and medically by not being exposed to harmful chemicals. Finally, the use of the organic technology management concept also improves the health of the consumers.

This concept originated in western countries, where many organic products such as organic vegetables and fruits, were introduced. Moreover, in modern societies, a higher social value is attributed to the consumption of organic products, which becomes fashionable and is regarded as a major characteristic of the life style of a new generation.

2.3 Organic rice

Organic rice is grown and processed without the use of any synthetic chemicals, such as e.g. fertilisers, insecticides, pesticides, herbicides, fungicides, preservatives, seed treatment, hormones, etc. At present, only specially selected high-quality jasmine rice is grown in a very limited area. This organic approach to agriculture is becoming more popular, especially as the number of health-conscious consumers is growing rapidly.

Originally, organic rice was grown by Capital Rice Co. in the Mea-loy village of the Tung-Lor Valley in the highlands in Northern Thailand, where the farms can boast fertile soil and pure rain water. Consequently, Capital Rice Co.'s organic rice is of the best quality and fully conforms to EU standards. The complicated growing process requires intensive care and close co-operation between the Department of Agriculture of Thailand and BIOAGRICOOOP, an independent Italian organic product survey institution, so as to assure that the best quality is obtained at all stages.

3. Capital Rice Co.'s international expansion: why and how?

Organic products have been popular in the developed countries for a long time. Moreover, health-conscious consumers are willing to pay a higher price for organic products. Thanks to the advantages of Thailand's geographic location and the skill of its rice producers, Capital Rice Co. quickly sensed

the market opportunities presented by the production of organic rice, and by the company's active role in preseving and improving the environment.

3.1 Objectives

- To create Capital Rice Co.'s image as one of the top-quality rice exporters.
- To achieve an export volume according to the figures shown in Table 1
- To create and develop new products under the company's own brand name.
- To engage in environmental conservation and the improvement of human well-being:
 - (a) for the farmers, who benefit from reduced expenses on chemicals, and get better prices for their rice through non-toxic farming.
 - (b) for the consumers, who benefit from better health and reduced environmental hazards.

Table 1: Export and production of Capital Rice Co

Year	1995	1996	1997
Production (tons)	1,000	2,500	5,000
Export (tons)	800	2,000	4,000
Proportion(export/production)	4 : 5	4 : 5	4 : 5

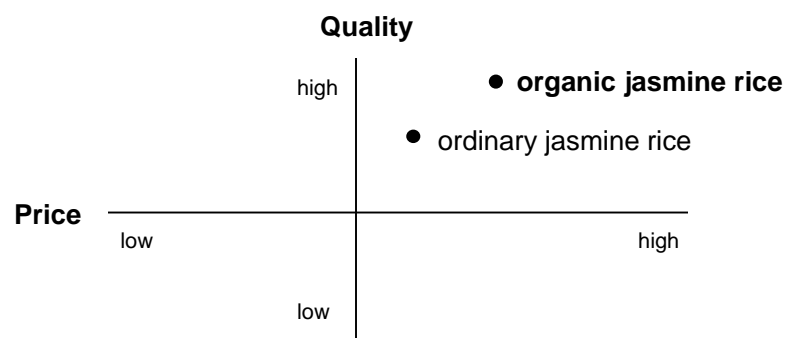
3.2 Segmentation

The market segment chosen by Capital Rice Co. is the health-conscious and environmentally concerned market segment of daily consumers of organic products.

3.3 Positioning map

The position of organic and ordinary rice according to price and quality is as shown in Figure 1.

Figure 1: Position of organic and ordinary jasmine rice according to price and quality



3.4 Target

The consumers of the member states of the EU who enjoy a high standard of living and are health-conscious.

3.5 Marketing mix

3.5.1 Product

- Commercialisation takes place under the “Great Harvest” brand name which implies the company is harvesting the best products for its customers.
- In the case of 1 and 2 Kg. bags, Film PET/LLDPE laminated bags with carbondioxide gas, rather than chemicals, are used as natural pesticides.
- In the case of 5 Kg. bags, polypropylene bags, coated with Film PP are used for the outer bag. Recycled polyethylene bags with handles are used for the inner bag.
- The product line includes milled rice and cargo rice in order to serve a variety of tastes among consumers. Only 0.5% of the company’s rice is organically grown.
- The products are of high quality and of internationally accepted standards in each market and country.

3.5.2 Pricing

- The price has been set high enough to cover expenses and low enough to allow market penetration.
- The price is flexible depending on demand and supply at the time. The supply of the products is variable due to uncontrollable weather conditions.
- However, the price is approximately 3 times higher than that of non-organic rice because of the higher quality.

3.5.3 Promotion

The international promotional effort is targeting wholesalers and governments. The company’s promotional plan is based on :

- attending international food fairs such as e.g., Anuga World Food Market in Cologne, Germany,
- stepping up the public relations activities by giving information to the media in both Thailand and foreign countries,
- sending brochures containing information about Thai organic jasmine rice in order to show consumers the differentiated qualities of the product,
- direct mailing to the Thai embassies and the Department of Export Promotion units in other countries.

3.5.4 Distribution

- In most cases the company distributes the product through wholesalers who are also distributors of ordinary rice.
- The company’s wholesalers distribute the product to the retail shops, health shops, supermarkets and C-stores.

4. The Italian market

4.1 Introduction

Lacking natural resources, Italy relies heavily on trade, as is reflected in its liberal import policies. However, entering the Italian market may prove to be a difficult task for exporters unfamiliar with Italian laws and regulations. Much of Italy's industrialisation process took place after World War II. The so-called "economic miracle" of the 1960s was the result of a major investment programme with regards to infrastructure. Italy's limited resources caused the country to undergo an economic transformation induced by the need to export in order to survive. In the 1970s, the economy continued to grow in spite of inflation and balance of payment imbalances. This period was marked by a recession triggered by the oil crisis. In 1979, Italy joined the EMS (European Monetary System) thereby submitting itself to a stronger monetary discipline. In the 1980s, the Italian government managed to control inflation and initiate a period of industrial restructuring through considerable technological investment in all sectors of industry. This in turn led to growth in many sectors. In the beginning of the 1990s political troubles and a new recession led to intense speculation against the Lira. This resulted in a sharp depreciation of the Lira's value and consequently in a more-than-welcome boost for Italian exports. Thai exports to Italy did not really suffer from this because of the Thai Baht's variation with the equally low US \$.

4.2 The Italian economy vis-à-vis the European Single Market

Today Italy is a manufacturing economy striving to achieve a sounder financial and economic structure in order to face the enhanced competition stimulated by the creation of the European Single Market. The dismantling of fiscal and technical barriers between the EU countries in 1993 resulted in a number of problems for Italy. It is often said that due to its industrial structure, the impact of cross-border competition is felt more strongly in Italy than elsewhere in Europe. The weak spots of the Italian economy are the North-South divide, a large government budget deficit and substantial foreign account deficits, and high inflation. Italy has become a major economic power, vying for the fifth/sixth place in the world. Increased competition brought about by the enlargement of its market also had a positive effect and significantly contributed to Italy's current high rates of GDP growth. One of the reasons which explain Italy's satisfactory trend is the high percentage of SMEs (Small and Medium-Sized Enterprises) which have very quickly adapted their strategies to the new economic conditions.

4.3 Agriculture

Compared to other sectors, Italian agriculture is particularly underdeveloped, due to organisational weaknesses and production imbalances. As a result, Italy has a huge deficit in food and agricultural products, especially grain, dairy products and meat. As for rice, a specialised crop, it is one of Italy's specialties, exported in large quantities. A good wheat harvest of 9-10 million tons is almost sufficient to meet domestic demand, but production has decreased recently, and Italy now annually imports 4 million tons of grain.

In 1994, Thailand's rice exports to Italy represented 10.2% of total food exports to Italy. These exports showed a 19.4% increase in value and a 11.3% increase in quantity compared to 1993. Italy produces 862,000 tons of rice, 320,000 tons of which are for internal consumption, 361,400 tons for distribution to EU countries, and 180,600 tons for distribution to non-EU countries.

4.4 Marketing channels

For the marketing of foreign products in Italy, a variety of distribution channels are used, such as agency, distributorship, agent-distributor, direct buying, wholesale outlets and retail shops, depending on the nature of the goods, the territory to be covered, the end user to be serviced, and the sales promotional activities required .

Capital Rice Co. distributes its products in Italy through direct buying, which is quite common for imported goods. Associations of food retailers and food wholesalers make substantial purchases directly from domestic or foreign producers.

5. The stages of organic rice production and exporting

5.1 Chronological steps of the deal

Over the decades, organic products have become very popular in developed countries, such as the United States of America, the European countries and Japan. Capital Rice Co. has exported ordinary rice to all parts of the world. One of its customers, Riseria Monferrato S.R.L., Vercelli, Italy, noticed the potential for organic rice production in Thailand, as a result of the country's geographic advantages, as well as the skills of Capital Rice Co. in rice production and exporting. Therefore, in the beginning of 1989, Mr. Francis of Riseria Monferrato S.R.L. proposed cooperation in the production of organic rice to Capital Rice Co. Ltd.

Late 1989, after discussions about the project's feasibility, Capital Rice Co. conducted market research studies and agreed to enter the market by exporting organic rice. This higher value added product contributed to its sales. In addition, the company also promoted and took part in activities out of genuine concern for environmental preservation and human health.

With the support of Chaiwiwat Agro-Industrial Co., Ltd., Chiangmai, which possessed the necessary skills in rice production, arrangements were made, In the beginning of 1990, for contract farming and the acquisition of appropriate land and rice mills. The Chaiwiwat Agro-Industrial Co. agreed to take care of all production aspects. Secondly, Capital Rice Co. appointed Mr. Tharnkasem, who would be responsible for marketing both in local and foreign markets. Finally, Reseria Monferrato S.R.L., which possessed the necessary know-how of marketing in Europe, would provide technological information on organic products as well as the relevant documents for approval by the International Federation of Organic Agriculture Movements(IFOAM) and the EU. The three partners agreed to share the expenses and the benefits from the project. Suitable land which had never been treated with chemicals,

was selected in the Pee Pan Nam Mountains of Thailand (Chiangrai and Payao provinces). The jasmine rice 105, which is the most famous Thai rice variety, was chosen to be developed in this area. The project was also supported by the Department of Agriculture of Thailand which provided agricultural knowledge about the processes of organic farming and developed the organic rice standard on the basis of its pilot project.¹ In addition, the Department of Agriculture also educated farmers by increasing their understanding of the production process and the advantages of joining the project.

Five years of research and development activities before entering the market is one of the requirements to obtain organic product approval. Therefore, at the beginning of 1995, Capital Rice Co. started to sell the organic jasmine rice under the brand name of "Great Harvest" in 1.2 and 5 Kg. bags. In foreign markets, Capital Rice Co. mostly distributed its organic rice through Riseria Monferrato S.R.L., Vercelli, Italy, because of its adequate connections, its knowledge of the market and its distribution skills. As Italy is one of the EU countries, Thai products distributed from Italy to other member countries can enter these markets without paying custom duties, as these had been paid in Italy. On the other hand, the EU strictly examines the quality of food products, which is considered to be one of the trade barriers that the project has to contend with and abide by in order to expand in Europe.

The Riseria Monferrato S.R.L. distributes the organic rice to both other EU countries and the local Italian wholesale outlets and retail shops. However, the quantity of sales through departments and self-service stores has been increasing, particularly in the cities. The sales volume of food is limited by the consumer's traditional practice of making small daily purchases. Organic jasmine rice is a special product that can also be bought at health shops, C-stores or special health corners in the department stores.

As agreed with Riseria Monferrato, Capital Rice Co. also practises direct selling to non-customers of Riseria Monferrato, both in Europe and in third countries.

Capital Rice set aside a budget of 1 million Baht (approximately 40,000USD) for the local promotion of its sales of organic jasmine rice. This budget is not large compared to that of other companies. However, Capital Rice Co. was awarded the Gold Prize of Thailand Marketing Awards in 1995.

The next target group consists of health-conscious customers in developed countries with a high standard of living, and in the B+ income bracket or higher. Also single or small families, consumers whose main dishes consist of rice, consumers in countries with developed marketing channels for health products, and consumers with a high standard of living are potentially interested in organic products. Future market potential is found in the segment of children, elderly people and health-conscious patients.

The concept of organic products can also be applied to products other than organic jasmine rice. Capital Rice Co. is planning to develop other organic products when organic jasmine rice will have gained wide popularity. In the future, Thailand will have varieties of organic products to serve both local and international markets.

¹ As the EU market was targeted, this project encouraged private companies to try to enter the market and met

6. Evaluation

The above-mentioned three partners have been successful in entering the international market because of their considerable experience in rice production and rice exporting, as well as their capital and personnel resources. Furthermore, they have rigorously implemented their strategies in developing environmentally-friendly products and contributing positive results to society (production methods, packaging, branding, promotion...)

Capital Rice Co. accepted Risseria Monferrato's partnership proposal, owing to the following factors.

- As an EU country, Italy provides access to the EU market.
- Italy provides investment incentives, such as indirect taxes and social contribution rebates, as well as non-tax incentives available for research and technological development that contributes to the enhancement of the country's economic activity.
- Risseria Monferrato S.R.L. prepared an interesting cooperation proposal and negotiated fairly regarding project preparation, production, promotion, distribution, expense and benefit sharing.
- Risseria Monferrato S.R.L. and Capital Rice Co. have a considerable long-term relationship in rice trading.
- Risseria Monferrato S.R.L. has a relatively sound knowledge of the rice market and also controls the adequate channels of distribution.
- Risseria Monferrato S.R.L. has acquired a good knowledge of the laws, regulations and practices concerning organic products traded among EU member countries.

In the present case study it has been shown that given the substantial unsatisfied demand for organic products in the world, the three partners possess the abilities required to fill this gap by applying their existing resources, skills and reputation in the production of jasmine rice, and thanks to the advantages of their geographical location and their expertise in international marketing. In addition to the commercial success they have achieved, the three partners feel that they have responded to the needs of society, by improving the health and the well-being of a large number of consumers.

6.1 SWOT Analysis

6.1.1 Strengths

- The organic rice of Capital Rice Co. is the only organic rice in Thailand that has been approved by IFOAM.
- The partners are all skilled in their field, possessing long years of experience in rice production, rice trading and distribution.
- The partners are complementary.
- Capital Rice Co. has fully implemented its concepts, even in the smallest details of its marketing policy (e.g. the packaging).
- The consortium has a definite time advantage over potential competitors.

- Concerns with regard to health and environmental conservation are well taken care of.
- The high degree of skills and the special production conditions required as an effective barrier to entry for potential competitors.

6.1.2 Weaknesses

- High development and start-up costs, with regard to R&D, production and marketing
- The product is a commodity and cannot be physically differentiated, which can easily lead to confusion.
- Capital Rice Co.'s limited human resources might make it difficult to cope with a potential big surge in turnover.
- Low prices (penetration prices) will probably lead to a huge increase in demand that cannot be satisfied.

6.1.3 Opportunities

- Developed countries feel a need for organic products, so that demand exceeds supply, leading to a market gap that the company can exploit.
- The market is in the initial phase. There is good scope for further growth in Europe as well as in other countries.
- During the initial phase, price-skimming strategies can be applied very profitably.
- The concept offers extensive room for expansion into new product lines.

6.1.4 Threats

- Organic products are very new in some countries, so that difficulties will arise in their acceptance by governments and consumers, including farmers.
- The production processes depend on natural factors that cannot easily be controlled, including the outbreak of epidemics.
- Product standards are not checked by any organisation, which makes future imitation by competitors possible.
- The business will be directly affected should the relationship between the partners deteriorate.
- Organic products could be a temporary fashion (even though this is unlikely).
- The fact that the company puts so much emphasis on product quality could backfire in case of unforeseen negative quality perceptions by consumers and/or unforeseen (controllable or uncontrollable) distribution problems. Potential public outcry in the face of quality setbacks would probably be much more serious on the international market than on the domestic market.

7. Conclusions

Thailand is a developing country rich in natural resources. It has acquired skills and gained a world-wide reputation in agricultural production. Thai exporters attempting to penetrate the international

market thus need to have comprehensive, up-to-date knowledge of international trade regulations, current legislation and marketing systems. It is hoped that the present case study will be of use to prospective Thai exporters in their endeavours to expand their market on an international scale.

In order to compete in the global market, Thai exporters should improve product quality and rely on innovative marketing techniques, instead of solely emphasising price competition especially in view of the ascendance of new cheap labour producers such as India, China or Vietnam, and rising labour costs in Thailand. Moreover, in order to reduce their commercial risks, Thai exporters should diversify their markets by continuously entering new markets, and should also penetrate more deeply and more directly into existing markets.

Essential in this case study is first of all, that Capital Rice Co. has marshalled enough capital to invest in its long-term marketing plans. Secondly, the company has selected highly skilled partners with whom it will be able to cooperate and maintain good relations for a long time. Thirdly, the company has shown that it has long-term vision in that it has been able to combine its experience and skills with Thailand's advantages of geographical location, market opportunities, modern technologies and concepts. Moreover, the three partners are pleased to contribute to the improvement of human well-being and the protection of the environment by producing organic jasmine rice. The project has succeeded both commercially and socially as a result of a wise combination of modern concepts, high technology and marketing techniques.

Finally, the Capital Rice Co. case study clearly shows all Thai companies facing rising labour costs in low added value industries that an innovative marketing strategy might be more appropriate than opting for corporate diversification or production relocation to countries with lower labour costs.