

**REPORT**  
**on the Establishment of a**  
**NATIONAL DISTRIBUTION CENTER**  
**by MMAFECCO, Philippines**

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MMAFECCO, PHILIPPINES

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INTERNATIONAL COOPERATIVE ALLIANCE  
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## INTRODUCTION

Metro Manila Federation of Consumers Cooperatives (MMAFECCO), Philippines, submitted a proposal to the International Cooperative Alliance (ROA & F), New Delhi, through the Cooperative Union of Philippines (CUP) for establishment of a National Distribution Centre for Consumers Cooperatives and Development of Human Resources.

At the invitation of ICA-ROAP, New Delhi, I have taken up the assignment and visited Philippines in November-December 1989. I visited a number of Consumers Cooperative Societies and also other cooperatives in and around Metro Manila and other Regions of the country as well as other concerned institutions. The institutions visited by me and the persons I met during my stay in the Philippines are listed in the Annexure to the report.

The CUP and MMAFECCO are my nodal agencies in Philippines. General Aracadio Lozada, Secretary General of CUP is the leading spirit behind the Project and because of his untiring efforts the MMAFECCO's proposals reached to this stage.

My visit to various institutions are made possible and successful because of untiring efforts of Col. Pacito Nefulda, Vice-President of CUP. He not only planned my visits but also accompanied me to most of the institutions and made the discussions useful and purposeful.

The President of MMAFECCO, Mr. Emilio Dilon and other directors of MMAFECCO, especially Prof. Romulo Martin, Mrs. Corazon Mabagos, Mrs. Nitz Encinas played very important and constructive role in the preparation of the report.

I received complete and whole hearted and willing cooperation from every institution I visited and person I met in the conduct of the study.

I could not have completed my study but for the help and cooperation of Mrs. Concepcion (Susan) Villion and Miss Corazon Legaspi, both staff members of CUP.

Mr. W.U. Herath of ICA, New Delhi, not only took more than active part in finalising the details of my study but also came to Philippines to introduce me to the nodal agencies and help me start the study.

Mr. G.K. Sharma, Regional Director, ICA, Delhi is the silent and invisible and divine hand behind the study.

To say that I am thankful to all these will be a gross under statement.

I will be first person to be the happiest, if MMAFECCO's proposals and my report take a concrete shape and the Consumers Cooperative Movement are benefitted and the quality of life of the Consumers in Metro Manila and the Philippines improves.

S.B. RAD  
PROFESSOR, VAMNICOM, PUNE-1, INDIA  
ICA CONSULTANT  
JANUARY 1, 1990<sup>+</sup>

Note: At the time of conducting the study 21.5 Pesos is equal to one US \$

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## Chapter I

### BACKGROUND

#### a) A Short Profile of Philippines:

Philippines, which won independence from the United States, immediately after the World War II, is a conglomeration of 7,000 islands in Pacific Ocean. Of the 7,000 islands, only 2,770 are named. The total land area is 115,830 square miles (299,400 square kilo meters).

The population as of 1989 is estimated to be 65 million and is growing at an annual rate of 2.5 per cent. Density of population is 182 per square kilometer.

Expectation of life at birth is 65 years.

The Metro Manila population is estimated to be 8.20 million in 1989. It was 7.33 million in 1986 and is expected to be 9.13 million by 1992.

Per capita annual income in terms of US dollars has been coming down sharply during the last five years; it was US \$656 in 1985 while in 1988 it was only US \$460, a fall of 30 per cent in four years. But it was partly due to continuous devaluation of Peso and not so much due to decline of per capita income in terms of Peso.

The gross national savings in 1986 is estimated to be 16 per cent.

The monthly family income in urban areas in 1985 is as follows:

- Lowest 30% income group	= P	1,168
- Next 20% " "	= P	1,960
- Next 30% " "	= P	3,537



- Top 20% " " = P 10,069
- Average (All income groups) = P 2,465

About fifty nine per cent of the population is estimated to be below poverty line in 1985. It was 48 per cent in 1971. It is planned to bring down to 45 per cent by 1992.

Between 1978 and 1982 the consumer price index rose by 73 per cent. Inflation rate since 1983 is as follows:

1983	=	17%
1984	=	96%
1985	=	66%
1986	=	4%
1987	=	12%

Unemployment is growing. It was 10 per cent in 1983. It is estimated to be 12 per cent in 1986. Another 35 per cent are estimated to be under-employed in 1986.

Until a few years ago, the Government was supplying essential commodities like rice and sugar at cheap prices through what they call Kadiwa Shops. These shops were being run by private parties under a licence from the Government. Now there are no Kadiwa Shops in the country.

(Source of information to the above write up: "Medium Term Plan-Philippine Development Plan, 1987-1992; Published by Philippine Government in November 1986).

b) Cooperative Movement of Philippines

Legal Basis: Since April 1973, the cooperative societies in Philippines are governed by P.D. (Presidential Decree) 175, which repealed all the then existing laws governing cooperative societies. By PD 175, the responsibility for initiating, promoting, organising, supervising and developing the cooperatives in the country is vested in the Bureau of Agricultural Cooperatives Development (BACOD). The decree also created Cooperative Development Loan Fund (CDLF) and Management Training and Assistance Program (MTAP) Fund.

The PD 175, was amended from time to time taking out different types of cooperatives from the purview of BACOD. The electric cooperatives were removed from BACOD by PD 269 in 1974 and were placed under the National Electrification Administration.

In 1975, by PD 775, the Sugar Producers Cooperatives were placed under Sugar Regulatory Administration (SRA). In 1980, by PD 595 and Executive Order 898, transport cooperatives were placed under the Department of Transportation and Communication.

Thus at present four different decrees/orders govern the cooperatives in the country. The laws permit the respective agencies to appoint members of the Board as well as managers affecting autonomy and independence of the cooperatives. Under these four different laws, it is not just the administrative agencies which are different; there are also some differences in the application of cooperative principles to the cooperatives in the country. The Sugar Marketing Cooperatives and the Cooperative Rural Banks follow corporate voting pattern, which is based on shareholding by a member, and not one member one vote. In the electric cooperatives members are to contribute only membership fee and are to contribute any share capital.

Constitutional Provision: Article XII Section 15 of the new Constitution of the Philippines, which was ratified in February 1987, provides that "the Congress shall create an agency to promote the viability and growth of cooperatives as instruments of social justice and economic development."

In response to this Constitutional provision, two bills were introduced in the Congress; one for establishment of the Cooperative Development Authority and another for the Cooperative Code.

Cooperative Code: Under the proposed Code, the cooperatives are exempted from any form of taxation, a business transaction between a member and any cooperative whether of farmers, service, credit, consumers, marketing, producers or a multi-purpose. The taxes include value added tax (VAT), customs duties on imported machinery and equipment, income tax and sales tax.

The Code also entitles the credit cooperatives and federations to loans, credit lines, rediscounting of their loan notes and other eligible papers with the banks (except Central Bank).

The Code empowers the Central Bank to assist the cooperatives by providing financial assistance for the rehabilitation of financially distressed cooperatives.

The purchase requirements of the Government bureaucracy, including Government owned or controlled corporations, cooperatives would be given a 10 per cent advance over other suppliers and 20 per cent over foreign suppliers.

Under the Code, the cooperatives also enjoy the privilege of being represented free of charge by the provincial or city fiscal or the office of the Solicitor-General, except when the adverse party is the Philippine Government.

Briefly, the present position of the Cooperative Movement in the Philippines is as follows:

Samahang Nayons (SNs): These are the pre-cooperative institutions formed under the PD 175. Originally, they were not allowed to engage in any business activity. They were to engage in education and training activities.

They were also to assist in carrying agrarian reforms. The SNs promoted Area Marketing Cooperatives and Cooperative Rural Banks at the provincial level. Their numbers are as follows:

<u>Year</u>	<u>Numbers</u>	<u>Membership</u>	<u>Savings</u> (Million)
1975	17,193	640,000	32
1977	20,675	995,100	84
1986	17,115	NA	98

In a study made by Cooperative Foundation Inc. (CFI), 42 per cent (7,200 SNs) were found to be active. Another survey conducted in February, 1988, noted that only 18 per cent of 12,920 were active. The average membership of Samahang Nayons is 80.

Active SNs are those performing some economic activities. It is also noted that in recent years many SNs have been converting themselves into full-fledged cooperatives - mostly multi-purpose.

Pambansang Katipunan na mga Samahang Nayon (PKSN) the federation of Samahang Nayons in the country. Its members are 13 regional KSNs, which in turn is made up 75 provincial KSN's. It is semi-active now.

Area Marketing Cooperatives (AMC). These primary cooperative societies supply agricultural inputs like seeds, fertilizers and pesticides to the farmers, procure/purchase the produce of the farmer, process and sells it in the open market. They are organised on provincial basis. Samahang Nayons and individual farmers are their members.

As of December 1987, 78 AMCs are registered in the country with the combined membership of 5,726 SNs and 263,590 farmer-members. However, only 34 of them (244 per cent) were found to be active with combined SN and farmer membership of 3,424 and 111,066, respectively. Another survey found only 3 out of the ten visited by them (30 per cent) were found to be active.

The AMCs organised in 1975 the Cooperative Marketing System of Philippines (CMSP) but it collapsed in the 1980.

Philippines also has 296 registered primary marketing cooperatives. Many of them are engaged in agricultural marketing and some in non-agricultural. Many of them are found to be active.

Cooperative Rural Banks (CRBs): These are the other primary cooperatives working in the country. They are organised on provincial basis. The SNs are initially the members of CRBs; now individual farmer, other cooperative bodies including the Consumers Cooperatives are also members. They mobilise deposits from public and also receive some funding from Government and Government agencies and provide loans to farmers directly and also through SNs. They also provide loans to private retailers, other cooperative institutions including consumers' cooperatives.

They at present charge 18 per cent interest on their loans plus a service charge of 3 per cent. It is also noticed that

most of the CRBs pass on to farmers 1.5 per cent of crop insurance premium they are expected to contribute for the crop insurance. Thus the effective rate of interest to a farmer comes to 22.5 per cent.

As of December 31, 1986, there are 29 CRBs in the country with a paid-up share capital of P 78.8 million and total assets valued at P 317.9 million. It appears all of them are active, and hence considered as most viable and successful cooperatives.

Their overdues are to the extent of 42 per cent in 1987 and in some regions they are as high as 86 per cent and the lowest being 20 per cent.

Cooperative Rural Banks Federation of the Philippines (BANGKOOP) is the national level federation of CRBs. In the recent years it received assistance from Cooperative Development Loan Fund (CDLF) and Intensified Rice Production Program (IRPP) totalling P 37 million and started providing loans to CRBs at discounted rates. BANGKOOP is also considered to be the most successful national federation in the country.

Credit Cooperatives: These primary credit cooperatives mobilise deposits from the members and lend them to the needy members. These thrift and credit societies are mostly found among office/factory employees, market-vendors, etc. A few of them are community based including the farmers.

1,469 credit cooperatives are registered as of 1980. About 53 per cent of the credit cooperatives are found to be active.

Many of them are planning to convert themselves into multi-purpose cooperatives.

Since these credit cooperatives deal with members only both

in the matter of accepting deposits and granting of loans, they are outside the purview of banking regulations of the country.

Some of the credit cooperatives like market vendors have formed a national federation (National Market Vendors Cooperative Service Federation (NAMVFESCO). It is also considered to be a successful national federation.

The other national federation of credit cooperatives is the Philippine Federation of Credit Cooperatives (PFCCI). It was previously known as Philippines Credit Union League. About 15 per cent of all credit cooperatives are its members. It is engaged in inter-cooperative lending. It also receives grants from foreign bodies like USAID.

Service Cooperatives: They include water service, irrigation, housing, janitorial. 186 service cooperatives are registered as of December 1980.

Multi-purpose Cooperatives (FACOMAS): The formation of multi-purpose cooperatives was discouraged with the issuance of PD 175 in 1973. Instead, Samahang Nayons - Area Marketing Cooperatives - Cooperative Rural Banks, model is encouraged. However, after 1986 Revolution, multi-purpose cooperatives are again being promoted. Many SNs are converting themselves into full-fledged multi-purpose cooperatives.

There are 159 (according to ACCI survey) multi-purpose cooperatives in the country of which 144 (91 per cent) are found to be active. 54 per cent of the 159 multi-purpose cooperatives are agriculture based while the rest are non-agriculture based.

Federations and Unions: The primary cooperative societies federated themselves at provincial and regional levels. They are essentially unions taking care of education and training of its

members and employees.

As discussed in the earlier paragraphs some functional federations are also organised at the national level. These unions and federations have again federated themselves into Cooperative Union of the Philippines (CUP) which was registered in 1980. Its memberships consists of the following:

- Cooperative National Federations 13
- Regional Cooperative Unions 13
- Provincial Cooperative Unions 41

The main objectives of CUP are promotion, organisation and supervision of cooperatives and education and training of the members and employees in the cooperative sector.

Its finances come from Cooperative Education and Training Fund (CETF). Under the present law the Cooperatives are expected to pay 5 per cent of its net savings/profits to this fund. Of this, 40 per cent comes to CUP and the rest is shared by provincial and regional cooperative unions and the national federations. Another 5 per cent of its net income/savings are to be utilised by the concerned Cooperative Society for its training and education programmes.

Cooperative Union of Philippines (CUP), National Association of Training Centers for Cooperatives recently renamed as National Confederation of Cooperatives (NATCCO), Sugar Cooperative Development Institute of Philippines (SCDIP) are the members of International Cooperative Alliance (ICA) from Philippines.

Some of the national level Federations like NATCCO and CUP have taken up auditing of the Cooperatives in the Country. The Government (BACOD) is not responsible for audit of the Cooperatives in the Country.



### C. Consumers Cooperatives in Philippines

Like in all other developing countries, the Philippine Government takes active interest in promoting the consumers cooperative movement in times of acute strains and stress in the economy or because of few activists role and vision of the cooperative movement and government forgets about it as soon things abate.

Since the end of Second World War, the Philippine Government came out twice with a programme of encouraging setting up of consumers cooperatives in the country. Once in 1957, when the consumers cooperatives were granted some tax exemptions and many other privileges and concessions under the Republic Act 2023 of 1957. Again, in the late sixties, when Peso was devalued substantially, the Government undertook a crash programme to organise consumers cooperatives in the country.

After promulgation of PD 175 in 1973, the Government has become lukewarm towards consumers cooperatives.

As a result of these efforts, there were about 1900 registered consumer cooperatives as of December 31, 1956. However, only about 800 (44 per cent) are found to be in actual operation now.

The present position is as follows. We may note here that the data about the Cooperatives in the Country is very weak and often contradictory making one feel helpless and hesitant to quote any particular figure.

As of December 31, 1988, there are 809 primary consumers cooperatives in the country. Besides a number of multi-purpose cooperatives and Samahang Nayons are also engaged in the distribution of consumer goods. A survey conducted by

Agricultural Credit and Cooperatives Institute of University of Philippines at Los Banos (Mr. Leandro Rola) in October 1988 reveal the following information in respect of the country and the National Capital Region (NCR):

As in October 1988

	<u>In the Country</u>	<u>In NCR</u>
1. No. of Primary Consumers Coops. Registered with BACOD	809	-
2. Covered by the Survey	456 (56%)	101
3. Active Cons. Coops out of '2'	285 (62%)	40 (40%)
4. Average membership of active cons. coops. (highest membership was 519 in Region X)	255 (of 280 responded)	467 (of 37 responded)
5. For 242 active cons. coops. reporting (Average per society - 000 P)		
a) Net Worth	190	
b) Total Assets	426	
c) Current Assets	357	
d) Current Liabilities	185	
e) Current Ratio	2.3:1	
f) Equity Capital	268	
6. For 225 active cons. coops reporting (Average per society - 000 P)		
a) Gross Income/Profits	688	
b) Operating Expenses	201	
c) Net Savings/Profits	487	

The following information is from the Integrated Cooperative System of the Philippines: Status, Thrusts and Directions by Leandro Rola of ACCI of U.P. at Laguna.

	<u>In the Country</u>	<u>In NCR</u>
1. No. of Consumers Cooperatives registered as on 31-12-1986	804	-
2. No. of Members	42,344	-
3. Paid-up Capital	P 21.0 million	-
4. Assets	P 42.6 million	-
5. No. of Cons. Coops. Surveyed	313	45
6. Active Cons. Coops. out of '5'	280 (90%)	40 (89%)
7. Out of '5' above		
a) Community coops	200 (64%)	6 (13%)
b) Institutional coops	113 (36%)	39 (87%)
8. Active among '7' above		
a) Community coops	172 (86%)	5 (83%)
b) institutional coops	108 (96%)	35 (90%)
9. Mean membership of active Consumers Cooperative		
a) of all consumers coops	260	480
b) community consumers coops	241	79
c) institutional consumers coops	290	532

(Note: Community Consumers Cooperatives are those organised with an open membership for any person residing in the area of operation while institutional Consumer Cooperatives are those organised by the employees belonging to one Organisation and whose membership is open to the employees of that Organisation only).

According to the project proposal submitted by MMAFECCO to ICA, New Delhi, there were 133 consumers cooperatives in the National Capital Region. Of this only 53 per cent or 71 consumers cooperatives are active. Again of the 71 active consumers cooperatives, 55 (78 per cent) are closed societies and the rest 16 (22 per cent) are of community consumers cooperative with open membership.

Again, according to MMAFECCO, there are 62 Consumers Cooperatives in Metro Manila. If we apply the same percentage and ratios as available for consumers cooperatives in the National Capital Region as revealed in the ACCI study quoted above, the following data would emerge.

1) Active Consumer Cooperatives (89% of 62)	55
2) Out of 62	
a) Community Cooperatives (13%)	8
b) Institutional Cooperatives (87%)	54
3) Active among '2' above	
a) Community Cooperatives (83%)	7
b) Institutional Cooperatives (90%)	49

According to a study team appointed by International Labour Organisation, who visited 10 per cent of the registered Consumers Cooperatives in the Country, in January, 1984, about 52 per cent of the Societies, that is 410 are active.

Whole-sale Society: Filipino Cooperative Wholesale Society (FCWS) was formed in Manila in 1963. Its membership consisted of 141 consumers cooperatives, 29 industrial cooperatives and 5 service cooperatives. It was liquidated in 1979.

Later, National Federation of Consumers Cooperatives (NFCC) was organised to replace the Wholesale Society of the Philippines, but it became inactive soon after its formation.

Currently, Metro Manila Federation of Consumers Cooperatives (MMAFECCO) which was registered in October 1987 with a membership of 15 primary consumers cooperatives (out of reported 62 consumers cooperatives) in Metro Manila is the only federal body of consumers cooperative societies, at national, regional or provincial level in the country.

The objectives of MMAFECCO are the following:

(a) To bind together all Consumers Cooperatives and promote the development of high standard of Cooperative Management operation and supervision in Cooperation with the Government and its instrumentalities.

(b) To purchase/produce and supply in wholesale quantity to member cooperatives goods which they need for their trading operations.

(c) To import goods, tools, and equipment for production, from other countries.

(d) To own, construct, maintain, operate warehouses, branches, motor pool, factories and such other facilities.

(e) To conduct publicity and/or research work for the promotion of cooperative movement and undertake any lawful, related activities for the Cooperative members' social and economic growth.

Because of lack of reliable statistics, it is difficult to say, with any precision, what are the present sales and potential sales of the consumers cooperatives in Metro Manila or in the National Capital Region.

The Consultant could visit 8 out of 15 consumers cooperatives affiliated with MMAFECCO and his observations are as follows:

Except one of them (Ayala Group), all of them are running a small consumer shop along with a canteen. Ayala Group Consumers Cooperative is running only a small consumer goods shop. In all other societies running a canteen to their employees and/or students is an important activity. They require food items to run their canteens and for sale in their shops.

All the cooperatives visited by the consultant being the

societies formed by the employees of an organisation, most of them sell on credit and deduct the amounts through the paysheet.

In most cases, the employer has given the premises free of rental charge. He has also provided free electricity and water.

Though a substantial number (50 per cent) of the employees of the employer-organisations have become members of their cooperative society, the cooperatives extend credit facilities to its members and the employers extend some concessions by way of rent free accommodation, etc., very few of them buy their requirements from their consumers stores. Even those who buy, buy very few items of their requirement.

Many managements of the consumers cooperatives feel that there is considerable scope for improvement of the sales in their cooperative societies. Then the discussions invariably returned to the topic of difficulty of purchasing goods at wholesale rates. They are of unanimous view that if they are assured of uninterrupted supply of essential consumer goods at real wholesale prices, they will be in a position to launch a concerted drive to sell to large number of their members. Then they also will be in a position to enroll the other employees of their organisations who are not members now and sell them the consumer goods.

They also expressed the view that being small organisations they are not in a position to approach the manufacturers to obtain from them their requirements directly and at wholesale rates.

The wholesale services are required more by the small societies rather than by big societies but small societies cannot get the wholesale services unless they organise themselves and pool their requirements and purchase centrally.

The items they suggested that the MMAFECCO should undertake are the following:

- Rice
- Sugar
- Cooking Oil
- Soaps and detergents
- Noodles of all varieties
- Canned food
- Meat items (pork, chicken, beef and fish)
- Vegetables

One society further suggested that MMAFECCO should collect the demand for the consumer durable goods from the members of its constituents before a festival like Christmas, procure and supply them. The affiliated consumers cooperative could supply them on credit to its members and recover in instalments through pay sheets.

The members of Board of Directors of all consumers cooperatives were elected by their members. Employers do not nominate any representatives to these boards. Board members vary from 7 to 12.

The average annual sales of the Consumers Cooperative Societies visited by this consultant is P 6.3 million - varying between P 1.7 and P 12.45 million. (On the other hand a quick survey of 30 consumers' cooperative societies in Metro Manila made for the purpose of this study, reveal annual aggregate sales of P 93.720 million which would work out to P 3.124 million average annual sales).

The gross profit is 11.8 per cent of the sales while the other income is 2.35 per cent. The net savings/ income are 4.5 per cent of the sales; the expenses being 9.60 per cent of the

sales or 67.92 per cent of the gross income including the other income.

Challenges: The consumers cooperatives in the country have to face the challenge of large supermarkets and department stores and chain stores that have come up in the private sector in the urban areas during the last ten years. Many consumers cooperatives and private retailers experience that the prices offered in the super markets are lower than the prices quoted by the representatives of the manufacturers to these consumers cooperatives and private retailers. Some of them felt it profitable to buy from the chain stores and supermarkets and sell them in their shops rather than obtain them from the manufacturers' representatives. May be because the supermarkets and chain stores approach the manufacturers and producers directly and get concessional prices which are equivalent to or even less than the prices offered by them to their own wholesalers and stockists. This enables them to sell at lower prices by depending on the repaid rotation of stocks and low margins rather than high mark-ups.

This indicates two options open to them. Either the consumers' cooperatives also open large sized supermarkets and chain stores, become professional and compete with them. Or emphasize on the cooperative ideology. The second alternative means that the members having some affinity coming together to help themselves to improve the purchasing power of their money and have the satisfaction that they manage their own affairs, for good or bad. The developments in the private retail trade are strong indicators that the cooperatives should go back to their ideology to sell themselves to themselves.

The rate of inflation was very high in some of the recent years causing unbearable burden on the common man and lower income groups. A strong consumers cooperative movement would



have relieved a part of the burden by giving better value for their money and exerting healthy pressure on inflationary forces in the Country. In the absence of a strong wholesale Society or a Federation the Consumer Movement can hardly make a significant impact on the community, prices and supply position.

## Chapter 2

### Market Analysis

#### a) Demand for a National Distribution Centre

Middlemen and Cooperatives: In a simple economy, the worker, the producer, the entrepreneur, and the consumer is one and the same. However, industrialisation which brought specialisation in the functioning of the economy, the producer and the consumer have become separate entities and a variety of middlemen have come up performing various specialised functions. Many of these functions though essential to satisfy the needs of the producers and the consumers, it is often alleged that the middlemen, while performing these functions adds to the cost disproportionate to their services and appropriate to themselves a major portion of the consumer Peso. To this, the producer and the consumer alike feel aggrieved. Maybe the workers also feel aggrieved of the role the entrepreneurs and the managers perform in the economy, but that is a different story in the development of workers' cooperatives.

While eliminating or minimizing the role of middlemen, it is essential to realise that the middlemen are performing the felt needs of the economy and these functions have to be performed either by the producer or the consumer or by the Government. We can eliminate the middlemen but not their functions.

In totalitarian countries and welfare economies, the Governments, perform all or some of these functions. In free economies, people or their organisations perform these functions. Yet in value oriented free societies, democratic institutions of the people like the cooperatives perform these functions. These cooperatives may be of the producers or of the consumers.

Demand of Primaries: All the cooperative institutions and the persons the consultant has met during his stay in Philippines are unanimous about the urgent need to take up wholesale activities by MMAFECCO. They want that MMAFECCO should by pooling and consolidating the purchasing power of the primary consumers' cooperatives bargain from the position of strength and purchase the goods required by its members direct from the manufacturers and producers on competitive terms and prices. Their grievance is that they are compelled to pay to the middlemen (that is, to the wholesalers, stockists and semi-wholesalers) high prices because their purchases are not large enough to buy from the manufacturers and producers direct. Because of this the prices in their shops are high affecting their image and business and growth as strong viable cooperative institutions.

Such a view has come not only from the consumers' cooperatives in Metro Manila but also from outside.

The Agustinian Consumers Cooperative, which is a member of MMAFECCO is itself a federal Society in the sense it buys and sells the consumer goods to the Consumers Cooperatives in the 23 Schools run by the Church.

The consultant during his visit to Benquet-Dizon Consumers Cooperative at San Marcelino, Zambales, was informed that 16 cooperative societies in the area (of which 9 are consumers cooperatives) have formed an association called Association of Cooperatives of Benquet Corporation, Inc. (ACBI). One of the objectives was to pool their requirements and have a centralised purchasing. They have opened a small office in Manila for this purpose. The ACBI is also experiencing difficulty of buying from producers and manufacturers directly as they are not able to command enough purchasing power. They are enthusiastic to join their hands with MMAFECCO to have effective purchasing power with

the cooperative sector. The problems, the members of ACBI face are: (1) high prices because of their inability to purchase from manufacturers and producers directly, and (2) reliable transportation arrangements from Manila to their places. The ACBI is charging a fee of one per cent for its services besides the actual transportation costs.

NAMVESCO (National Market Vendors Cooperative) is planning to supply to its members sugar, rice, milk, coffee, cooking oil, detergents and other manufactured goods and may join hands with MMAFECCO in procuring them in bulk.

During his visit to the Consumers Cooperatives in Cagayan de Oro, this Consultant learnt that they have been trying to organise a regional distribution center (RDC) in their area and an ICA Consultant had been to their place to study the feasibility of organising such an RDC. But the proposals did not materialise. Though they appear to be keen to organise such an RDC for their region, they would in the meanwhile like to join with MMAFECCO to buy their requirements of manufactured goods from Manila. Of course, this would naturally depend upon the place of manufacture, the prices at which the MMAFECCO is able to buy and the cost of transportation from Manila to their places and the local wholesale prices.

The HOMVECCO is now trying to help its members who also own land to grow vegetables and would like to have tie-up with organisations like MMAFECCO to sell their produce in Metro Manila. The trucks bringing vegetables to Manila can take back the manufactured consumer products required by their members from MMAFECCO.

Advantages of NDC: The advantages of such National or Regional Distribution Center are the following:

- a) Well organised, strong and reliable procurement and supply system of quality goods to Primary Consumers Cooperative Societies at competitive rates.
- b) Better customer service by Primary Consumers Cooperative Societies because of availability of quality goods at competitive rates and some with their own brand name and Logo.
- c) Better coverage of Cooperative way of life strengthening democratic fabric in the Country as a whole.
- d) Integration of producers and Consumers Cooperatives and reduce the influence of middlemen on the nation's economy.

Cooperation Among Cooperatives: Other types of cooperatives like Area Marketing Cooperative (AMC) in Cabanatuan (Nueva Ecija), Cooperative Rural Bank in Cabanatuan, Hilltop Open Market Vendors Credit Cooperative in Baquio (HOMVECCO), Northern Luzon Cooperative Development Center in Baquio are also very enthusiastic about the idea of establishing a National Distribution Center by MMAFECCO. They expressed their eagerness to participate in the experiment for the mutual benefit; some by supplying the requirements of MMAFECCO and some by providing finance to MMAFECCO operations. At this stage the idea is vague and details have to be worked out at an appropriate time.

The AMC at Cabanatuan has a problem of marketing all its product - rice. It has to sell rice on credit to private retailers in the area and await payment. It is also selling paddy to the National Food Authority at the same price at which it was buying (at P 5 per kilo and gets incentive of 2 centavos per kilo) because there was not enough market to sell locally. Its rice mill has 400 sacks (of 50 kgs) capacity per day of 8 hours shift and is not fully utilised at present. It feels that a tie-up with MMAFECCO would be mutually advantageous. Its rice mill can pack rice for MMAFECCO in 5, 10, 15, 20 kilo packs and put MMAFECCO brand name and logo.

Need for Wholesale Society or Federation: The fact that there are successful consumers cooperatives in this country and also all over the world even in the absence of a strong and powerful wholesale society or a federation with centralised buying as one of its objectives, does not detract the need to have a wholesale consumers society or a federation. Besides performing the role of centralised purchasing agency, it has to perform many other roles like promoting and developing the consumers cooperatives, lobbying for the consumers and consumers cooperatives, protecting the interests of the consumers, etc. which we shall discuss elsewhere in the report. The Primary Consumers Cooperatives require a strong federal organisation, a fatherly figure, to provide them with leadership, direction, guidance and support.

The need for such a federation is felt more by small societies rather than by strong and large Primaries.

Problems to be faced by MMAFECCO: The MMAFECCO will have to face a number of problems in this venture not only from primary consumers cooperatives who may not, in spite of their agreement, buy their requirements from MMAFECCO and choose private wholesalers or stockists for one reason or the other, but also suppliers and transporters. There are instances both in this country and elsewhere when the suppliers, transporters or even manufacturers threaten to discontinue the supplies or render the required services. This generally happens not in the initial stages but when they see MMAFECCO is becoming successful and is a potential threat to their business or the business of their supporters or associates. Thus the MMAFECCO has to face and try to solve them as and when they arise. This point is made not to dissuade MMAFECCO from taking up the NDC but lest it may not have an euphoria that it will walk on a path laid with roses and roses all the way.

Justification to be called NDC: The MMAFECCO is essentially a regional federation of consumers cooperatives. Its claim for starting a national distribution center will be justified when it will be able to establish business links with the consumers cooperatives or the federations in the other regions. At present, there are no other regional or provincial federations of Consumers' Cooperatives. When the MMAFECCO experiment becomes successful, the Consumers Cooperatives in the other regions may or their start organising Regional Distribution Centers and may like to forge the links with MMAFECCO. Otherwise the MMAFECCO may itself have to take initiative to organise the distribution centers in other regions and forge links with them.

## b Sales Forecast

Sales to Primaries: The sales of MMAFECCO would and should essentially be for its members. In this case, one category of members are the primary consumers cooperatives, who require the goods for (1) use in their canteens and/or (2) sale to their individual members.

The potential sales of goods in the shops of the primaries are much more than what they are today. This is because, firstly no serious efforts have been made for enrolling all the potential members (that is all the employees working for the same management).

Secondly, most of the members do not attempt to buy their requirements from their cooperative society. This is obviously because these cooperatives do not have much assortment to offer nor the services to which the metropolitan consumers are used to get.

Hence, the present sales are no guidance to estimate the potential sales of these primary cooperative societies. But the potential sales do not come or are realised on their own. The managements of these consumers cooperatives have to put in extra efforts. This work is to be taken up simultaneously to make the MMAFECCO viable.

One of the ways the primary cooperatives in this case could increase their sales is by giving credit to its members and have deductions from the pay sheet. Some cooperatives have been doing this but many aren't. Even those who have been giving credit facilities to their members are handicapped to realise the full potential because of lack of proper assortment.

Sales to Potential Primaries: In Metro-Manila there are 62 consumers cooperative societies but out of them only 15 have



become members. It appears no efforts have been made to enroll all of them as members. These 15 primaryies are the founders and pioneers in organising a federation for taking up wholesale activities in the cooperative sector in the country. They plan to take up the membership drive for MMAFECCO once the idea of centralised purchasing takes a shape. According to them they are awaiting the event to take place. The MMAFECCO should take up the job of enrolling the rest of the societies as its members once they make up their mind to start the wholesale activities, that is starting of National Distribution Center (NDS), without awaiting the NDC to actually start functioning. There may some short gestation period for tying up the loose ends and that time should be used to enroll the new members.

The other potential sales of MMAFECCO are from such organisations like Association of Cooperatives of Benquet, Inc. Hilltop Open Market Vendors Credit Cooperatives at Baquio. The Primary Consumers Cooperatives in Cogayan de Oro have been planning to organise a regional distribution center since 1984. It appears that they would like to have functional tie up with the proposed NDC of MMAFECCO.

There will be many other cooperative organisations who want to federate themselves and start the wholesale activities, especially for bulk buying. They are awaiting the results of MMAFECCO.

Sales to Neighbourhood Groups or Buying Clubs: One of the potential areas of sales of MMAFECCO is the sales to neighbourhood groups or buying clubs. The MMAFECCO should encourage 5 to 10 families in a neighbourhood to come together and place an order on the MMAFECCO for their monthly requirements. The MMAFECCO should deliver the goods at one of those houses, in its rounds and collect the cash/cheque for the goods. Such sales could be considerable.

It is possible and necessary to organise such neighbourhood groups in those communities and housing colonies, where there are no Community Consumers Cooperatives.

The MMAFECCO may, if felt essential, prescribe minimum quantity (in terms of value or units) such neighbourhood groups should order for getting door delivery facility. But such quantity or value should not be more than what 5 to 10 families would normally buy in a month.

The prices of goods supplied through this scheme should be less than what these groups would have to pay if they had to buy from a supermarket. Such groups may be required to become members of the MMAFECCO and MMAFECCO could prescribe different membership requirement (number of shares to be subscribed etc) to such groups.

Brand Name: To be an effective wholesaler and build up its image, which in turn increases its sales and membership coverage, MMAFECCO should promote 2 or 3 brand names and logotype for its products. It is not necessary that MMAFECCO should itself produce the goods but it could have a tie-up with producers and manufacturers to produce the goods for it and put its brand name and Logotype. The brand name and Logo besides helping conducting sales promotion campaigns, assures the customer the continuation of the quality of the product.

Sales Estimate: In consultation with the Chairman and some of the Directors of the Board of MMAFECCO, the Consultant estimated the likely sales of MMAFECCO in the first five years. The basis of the estimates are also explained in the following pages.

1. First Year Sales:

a) First half of the First Year P 15 million

Note: It is assumed that in the first six months only the 15 primary cooperatives, who are at present its members would patronise the MMAFECCO.

The average annual sales of the societies in Metro Manila visited by me are in the order of P 6.50 million. The comparable figure of MMAFECCO for all its 15 affiliates is P 5.14 million. Hence, we have taken the lower figure of P 5.14 million as average annual sales. These sales consist of sales of consumer goods and also sales of canteens run by them. Hence, it is estimated that 50 per cent of the gross sales income of these 15 societies would be the sale of consumer goods to members or for consumption in the canteen of which 80 per cent would end up as purchases from MMAFECCO. This in turn means annual average sales of 2.00 million per society. For 15 societies, the aggregate annual sales would be P 30 million or P 15 million for six months.

b) Second half of the First year

The sales for the second half consists of three components:

i) Sales of P 15 million in the first six months to the present 15 affiliates would increase by 20 per cent due to inflation and capacity of primaries to enroll more members and effectively canvass for sales (P 15 million x 125%) P 18 million

ii) With six months MMAFECCO should be in a position to enroll another 10 primaries as members. MMAFECCO estimates of the present average sales of these primaries are P.1.8 million per society per annum. The component of consumer goods would be P 0.72 million (P 1.80 x 40% (see assumptions under 1(a) above). Hence for the 10 societies, the six months sales would be P 3.6 million (P 0.72 million x 10 primaries - 2) P 3 million

iii) Sales to organisations like ACBI, Open Market Vendors Credit Cooperatives, etc. P 12 million

Note: It is presumed that MMAFECCO would be able to tie with such organisations. For example ACBI has 9 consumer cooperatives as members. The annual sales of all the 9 societies are estimated to be P 11 million, hence the estimates for MMAFECCO.

iv) Sales to neighbourhood groups/buying  
(Though MMAFECCO should make every effort to organise them, no sales on this account are included in the sales forecast of the first year)

Total for the First Year

1 (a)	P 15 million
1 (b) (i)	18 "
1 (b) (ii)	3 "
1 (b) (iii)	12 "
	-----
	P 48 million
	-----

2) For Second Year:

a) Sales to 15 affiliated primaries P 40 million

1 (a)	P 15 million
1 (b) (i)	18 "
	-----
	P 33 million
	=====

Increased by 20% it will be P 40 million.

b) Sales to 10 affiliates enrolled as members in the second half of previous year; increased by 20% (P 3 million x 2 x 20%) P 7 million ✓

c) Sales to other consumers cooperatives. P 3 million  
It is assumed that MMAFECCO would be able to enroll another five consumer coopeatives.  
Annual average sales P 0.72 million x 5 societies = P 3.6 million.

d) Sales to organisations like ACBI, etc. P 14 million  
(See (1) (b) (iii) (P 12 million x 20% increase)

e) Sales to neighbourhood groups/buying clubs. P 2 million

Total Sales for Second Year

a)	P 40 million
b)	7 million
c)	3 million
d)	14 million
e)	2 million
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	P 66 million
	=====

3) For Third Year of Operation

i) Increase of 20% sales of 2nd year P 66 million x 20%	P 79 million
ii) Enrollment of rest of consumers cooperative societies; P 0.72 million x 10 societies	P 7 million
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TOTAL	P 86 million
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4) For Fourth Year of Operation

P 86 million - increased by 20% P 103 million

5) For Fifth Year of Operation

P 103 million - increased by 20% P 124 million

PROJECTED FIVE YEAR SALES OF MMAFECCO

FIRST YEAR	p 48,000,000
SECOND YEAR	66,000,000
THIRD YEAR	86,000,000
FOURTH YEAR	1,03,000,000
FIFTH YEAR	1,24,000,000
	-----
	P 4,27,000,000
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### C. Prices to be Charged

Significance of Price: The prices at which the goods are sold is one of the most crucial factors influencing the success of a business enterprise.

But the beauty of a real consumers cooperative society is the insignificance of the problem of price. In the private sector and the Government sector, the prices charged to the customers are more important because the customer is not the owner of the enterprise and the owner is not the customer and the profits contributed by the customers, when they make purchases, go to the owners.

In the case of a consumers' cooperative the customers and members are inseparable. The customers being the members/owners of the organisation and the members being the customers, what price the cooperative charges for its products and services is immaterial. If it charges more it gives back to the members/customers in the form of patronage rebate/dividend. If it makes losses because of undercharging, the customer/member will have to make good of the same one way or the other.

Options to MMAFECCO: Having said that, let us explore the options before the MMAFECCO in this respect.

1. To charge the members "the cost" at which the items are acquired (purchase price + cost of transport from the place of supplier to the MMAFECCO warehouse, plus taxes if any paid by MMAFECCO on the purchases) and recover the expenses of the operations including interest on working capital, reasonable return on equity capital, warehouse rent and other handling cost, from the members in agreed ratio - may be all the members sharing the cost equally.

Suppose, the estimated operating expenses are P 4,500,000

per annum or P 37,500 per month. If there are 15 members each member shall contribute P 2,500 per month towards the operating expenses of the MMAFECCO.

In such an event, as the member is anyway paying his share of the costs, will be tempted to buy maximum from MMAFECCO.

This also means selling to members only.

Further, in such a system there will not be any temptation to become members of MMAFECCO, without any intention of buying the goods from it but with a view to use it for promoting their other interests.

Sharing the actual costs/expenses make the members vigilant of the expenses and efficiency of administration and vigilance is the most effective instrument in a democracy.

2. To charge a reasonable and fair margin determined from time to time over and above the actual cost. The margin or mark-up will be in terms of percentages and may be different for different items but in any case sufficient enough to recover all the expenses and also reasonable return on the equity capital. In this alternative, which is common in the trade, the MMAFECCO has to forecast with some degree of accuracy its likely sales of different items, its expenses and collate them and fix the margins for various items.

Again in this case the prices to the members, this means actual cost of purchasing plus the margin, should be less than the prices the wholesalers and retailers are offering to the primaries at any particular time.

In this case, the members will be tempted to purchase from the market unless the prices and services of MMAFECCO are very attractive.

This Consultant would recommend the alternative one.

Whatever alternative the MMAFECCO chooses its sales should be restricted to members only. If it sells to others, the same should be to those who are eligible to become members and wish to become members only after trying for two or three months. Sales to non-members are in the nature of promotional sales for a limited period of 2 to 3 months to potential members if they agree to buy the goods on the same terms and conditions as members.

It is understood that in Japan Consumers Cooperatives sell only to members. Of course that is because of the Country's law. It is also understood that some Consumers Cooperatives in Canada, as a principle, sell only to members. Wholesale Consumers Cooperatives and federations in India normally sell to their members only.



#### d. Services to be Offered

Though MMAFECCO is the federation of the Primary Societies, it should not take them for granted even though Primaries are under the obligation to buy from the MMAFECCO. It should function as any business organisation and render competitive services. Apart from the prices it charges to its members attention to the following services will influence the success of MMAFECCO considerably.

The statement that we can eliminate middlemen but not the functions of middlemen is very much valid in the cooperative trade also. The services have to be performed either by the producers or the consumers and the MMAFECCO should not hesitate to render all the services to its members which the middlemen are rendering to them and may be more.

a) Assured Supply: The items agreed to be supplied by the MMAFECCO should always be available with it. There should not be any stock-outs of any item.

b) Delivery at the doors: Many consumer societies, this consultant had met, emphasized (a) the need to deliver the goods at the door steps of the society, (b) more frequently and (c) as per the agreed time table. Further they want the deliveries should be made at convenient timings. For example, the manager of a canteen run by a cooperative society said that the delivery should not be made to it between 12 noon and 1 pm, as that will be the busy period and its employees will not be able to take delivery of goods.

c) Cash or Credit Sales: Many cooperatives emphasized the sales should be made on usual commercial terms. The usual terms appear to be 15 to 30 days time to pay the net amount of the

bill. If the bill is not paid during this period, interest at market rates is charged.

Cash discount of 2 per cent is usually given if payment is made on delivery within ten days of delivery. This will work out to a net gain or savings of 36 per cent per annum to the purchaser.

What precautions are required to be taken by the MMAFECCO to ensure that there are no bad debts is an important consideration.

d) Return Guarantee: The MMAFECCO should consider assuring its primaries that the goods supplied by it are not defective, spurious or adulterated. It shall guarantee to replace them with proper quality goods if they are not of proper quality. However, this policy will prove to be disastrous, unless the MMAFECCO in turn obtains such guarantees from its suppliers.

e) Return of Unsaleable Goods: The MMAFECCO should also consider whether it could take back the goods if a primary is unable to sell or use in its canteen, for other goods it could use or sell. It would be a desirable service that MMAFECCO could render as long as there are only stray cases and the MMAFECCO is able to give those items to other primaries. In any case, care should be taken to ensure that the sales would not turn out to be consignment sales by MMAFECCO.

### Chapter 3

#### Input Analysis

##### a) Assortment

One of the important factors contributing to the success of any business enterprise is the assortment it chooses to deal with - produce or procure and market. The assortment influences the image of the organisation the type of clients it wishes to serve and its place in the economy of the country. These factors in turn determine the viability and profitability of the organisation.

Factors for Consideration: The factors which should be taken into account in determining the assortment policy of a consumers cooperative society or a federation are the following:

a) The assortment should, to a large extent, meet the basic needs of the members.

b) Should in the aggregate earn adequate surplus or profits to the cooperative justifying the resources invested in the enterprise though an individual item at any particular time may be loosing temporarily.

c) The cooperative should be in position to procure them in adequate quantities at competitive prices.

d) There should not be any conflict of interests between the cooperative society and its constituent members (in the case of a federal society) and/or the federal body of which it is a member.

This means, in the context of setting up of National Distribution Center (NDC) by MMAFECCO the following:

i) What is agreed to be procured and supplied by MMAFECCO, should not simultaneously be procured by its member cooperatives. Again, every effort should be made by MMAFECCO to ensure that they are no stock-outs. The items agreed to be procured should

be procured and supplied according to agreed schedule to its members, MMAFECCO and its members should enter into an agreement/contact to this effect.

ii) MMAFECCO should start with a small list of items, and revise the same by expanding or dropping items from list in consultation with its members. Such an exercise can be taken up once in six or twelve months.

iii) MMAFECCO should as far as practicable concentrate on the items for which the manufacturer has not appointed a sole selling agent. If the manufacturer has appointed sole selling agent, he will have difficulty in supplying the goods direct, bypassing the sole selling agent.

A small "Commodity Advisory Committee" consisting of 3 or 4 members to determine (a) the quality of material to be procured (in the case of items like rice and sugar); (b) brands of the products (in the case of manufactured goods); and (c) and the packing size (in the case of items repacked by MMAFECCO or procured from its suppliers).

There is near unanimity among the consumer cooperatives the consultant has visited, that MMAFECCO should take up the following items to start with:

- Rice
- Sugar
- Cooking Oil
- Soaps and detergents
- Canned goods
- Meat items (pork, chicken, beef)
- Vegetables
- Coffee, milk powder, etc.
- Noodles of all types

It is also suggested that the MMAFECCO should repack rice and sugar in convenient consumer packs, put its own brand name and logo on the sack/pack and then supply to the Primaries.

Gradually, MMAFECCO with the concurrence of its Primaries increase the assortment and establish itself as a trend setter for other regions. Perhaps, they could profitably consider diversifying into new lines of products.

MMAFECCO should develop code numbers for each of the items it chooses to deal in. This will facilitate identifying by members, purchasing, inventory control, warehousing or storing and marketing. Such a code would be essential as it plans to computerise its operations.

## Purchasing

The success of a National or Regional Distribution Center to a large extent depends upon how it handles its purchases. It is unnecessary to emphasize the necessity of pooling the purchases of its affiliates and make common purchases as this is the basic assumption in setting up a national distribution center or a whole sale society or a federation.

To increase its purchasing capacity, the NDC should explore fully the possibilities of tying up its activities with such organisations as Association of Cooperatives of Benquet, Inc. who are also eagerly looking forward for such facilities. It could also look after the requirements of the members of Market Vendors Credit Cooperatives, etc. in cities like Baquio.

MMAFECCO should also help formation of regional distribution centers in other areas/regions and try to have common purchasing. It is not necessary that the other regional distribution centers buy from MMAFECCO. They may pool their purchasing power, bargain for the larger quantity and take advantage of bulk buying and share the common costs of such pooled buying.

Another assumption is that the MMAFECCO will purchase only those items in respect of which its affiliates have agreed to renounce their right to purchase directly except through the MMAFECCO.

Selection of Suppliers: If a manufacturer does not agree to supply directly to the MMAFECCO and insists that MMAFECCO shall get the supplies from his wholesaler because of sole selling agency agreement he has or for any other reason, the MMAFECCO may not take up procurement and distribution of those items, unless there are some compelling reasons.

The possibilities of tie up with various cooperative organisations producing consumer goods like rice (with Area Marketing Cooperatives), Sugar (with sugar cooperatives), vegetables (market vendors credit cooperatives) be explored fully. This aspect is discussed in the next section.

A suggestion was made by some primary cooperatives that the MMAFECCO should compile from its members the list of suppliers who are now making supplies to them and try to negotiate with them for possible supply to NDC. The suggestion is worth considering without forgetting that the objective of buying from the manufacturer/producer is only to get the best possible terms for its purchases.

Tie-up with producers: The suggestions which came up during the discussions are the following:

a) The MMAFECCO should try to buy its requirements from the cooperatives, who are already in this business. For example, many Area Marketing Cooperatives (AMCs) are procuring paddy from the farmers, mill the same and sell rice in the market. The AMC at Cabanatuan during the discussion was found to be very enthusiastic to join hands in this respect.

The NORLU (Northern Luzon Cooperative Development Center) at Baquio which is promoting inter-coop trade, the NATCCO in Manila are also willing to locate the possible suppliers in the cooperative sector for the goods the MMAFECCO plans to handle. The NATCCO is understood to have been working towards coop-trade in rice, dry fish, corn and garlick.

The discussions with officials of VICTO (Visayas Cooperative Development Center) at Cebu, a member of NATCCO revealed that VICTO has already started procuring rice from cooperatives in Iloilo and selling it to its members in Cebu.

Similar attempts should be made with cooperatives producing and marketing sugar and other products selected for coverage under NDC.

Indent before buying: The MMAFECCO should contact the possible suppliers of items selected for coverage negotiate and enter into a contract. It should not insist that the primary societies should send their indents before it plans to procure. The MMAFECCFO should, like any other business organisation, canvass the sales to its primaries by showing samples and the likely price and solicit business in spite of their agreeing or entering into a contract with the MMAFECCO to make purchases of certain items from it. Like any other business organisation, MMAFECCO should plan the sales and make the purchases on the basis of anticipated sales.

More than one source of supply: It may also be desirable for the MMAFECCFO to develop more than one source of supply for each of the items it plans to supply. At the same time, it should not have many suppliers for an item as the purchases will be spread too thinly undoing the advantages expected of centralised purchasing.

Inventory Management: It is essential to design from the very beginning a good inventory system. It should develop for all its items (anyway to begin with it plans to cover only a very limited rang) norms for the following:

- a) The quantities to be purchased/or ordered at a time (EOQ)  
Economic Ordering Quantity
- b) How frequently it should make purchases (in the quantities mentioned at (a) (grading point)
- c) Lead time for an item
- d) Reserve stocks to be maintained
- e) Contingency stock for emergencies



When its requirements for a period are small, the MMAFECCO could still place order for a large quantity at a time but to be delivered in instalments over a period time. This may enable the MMAFECCO to take advantages of bulk buying and still not block its capital for long periods.

Testing Laboratory: The MMAFECCO should plan to set up its own laboratory to test that the products it receives are of agreed quality and there is no adulteration, misbranding, etc. To start with, it may contract this job to a university or college laboratory.

### c) Warehousing

For starting a National or Regional Distribution Center (NDC/RDC). It is essential to have a proper and well equipped warehouse. It should be adequate enough not only to store the goods, but also to provide for office space, toilets, loading and unloading, etc.

The Consultant has been told that a warehouse of approximately 300 square meters is available in the compound of Polytechnic University of the Philippines (PUP) and the PUP has agreed to make it available to MMAFECCO for a period of five years initially. An agreement has been drafted and both the parties have agreed to the draft.

Because of some administrative problems, the present thinking is that the PUP will make that warehouse available to its Institute of Cooperation (IC) for using it as a laboratory for giving practical training to its students. The IC in turn would make it available to MMAFECCO for use as a warehouse for the proposed National Distribution Center. Because the MMAFECCO would allow IC to use the same as a laboratory for giving practical training to its students, the PUP/IC is not proposing to charge any rent for the building for some years.

The Consultant understands that the warehouse is centrally located to most of the Consumers Cooperatives in Metro Manila.

However, this Consultant could not see the warehouse himself to assess its suitability for starting the NDC. The warehouse is now being used by the police and they have agreed to vacate it by the end of 1989.

The Consultant requested the Chairman of MMAFECCO to give him an estimate of the cost of renovating and make it fit for use as NDC. The figures (P 300,000) given by him are used in calculating the feasibility.

The equipment and facilities required by MMAFECCO for use in the warehouse are discussed and also their prices and these figures are used in the feasibility calculations.

As the business volume increases, the warehouse may not be adequate enough. Either they find out altogether, a new warehouse at a new place or a supplementary one at around the same place or at a new place.

#### d) Transportation

One of the points emphasized by the primary consumers cooperative societies is timely delivery of the goods as agreed upon mutually. The members want that MMAFECCO should undertake this function, as private wholesalers are doing now; they do not want to come and pick up and transport themselves. They want door delivery. For this the MMAFECCO has two options:

1) To contract out the transportation of goods from warehouse to the members' warehouses/shops. This means reduced initial investment by MMAFECCO in transport vehicles, though over a period of time it may prove to be more costly. Since, the members will be charged the transportation costs separately, the total cost to the members may become high affecting the business adversely. Still it is not certain whether the transport contractor would be able to stick to delivery schedules.

2) To purchase one or more delivery vans as required and use them to make timely deliveries of goods to the members. In this case the initial investment will be more.

In this connection attention to the following points would be advantageous:

i) Fix the delivery days and time with members in advance keeping in view (a) the economic route through which the delivery van can move, and (b) each member is visited by the delivery van 2 or 3 times a week as agreed upon in advance.

ii) For the success of this programme the primary should inform the warehouse 2 days in advance the goods required by it, in the next round of the delivery van.

The primary either phone the warehouse its requirements 2 days in advance or send the indent (list of its requirements) with the van driver when he comes to deliver the goods.

iii) As far as transportation of purchases from the place of supplier to MMAFECCO's warehouse is concerned, it would be desirable to require the supplier to deliver his goods to its warehouse. MMAFECCO's own transportation for this purpose would

be costly; it has to send empty trucks to get the goods. Alternatively, if a supplier does not have transport facilities or his transport charges are high, it would be better to entrust it to a transport company rather than own its own trucks.

## Chapter 4

### Financial Analysis

#### a) Requirement of Fund

The MMAFECCO requires two types of funds and they are estimated as follows:

(1) Short term funds: These funds are required essentially to finance the current or working assets and meet the day today working expenses.

(a) Inventories: The MMAFECCO being a wholesale organisation, it should be able to achieve stock rotation of at least 25 items. This means an average life of not more than two weeks for any item in the warehouse. As most of the manufactures of canned goods are having their warehouses in and around National Capital Region, it should not be difficult to achieve this goal. In fact with prudent purchasing, it could achieve higher rotation. But for the purpose of one financial calculations, we have taken the figure of 25 times rotation.

In respect of rice and sugar also it should not be difficult to achieve this target as the producing centres of such items are also within 6 to 12 hours trucking time.

This means that MMAFECCO will not engage in speculation business of buying goods in large quantities in anticipation of taking advantage of increased prices in future. That could be the business of a marketing Cooperative but not of a Consumers Cooperative. The Consumers Cooperatives or their Federations should buy the economic quantities, conduct its operations economically and pass on the economies resulting in its operations to the consumers.

The funds required on this account in the first five years are estimated as follows:

<u>1st year</u>	=	<u>P 48.00 million</u> 25 times	=	P 1.92 million
<u>2nd year</u>	=	<u>P 66.00 million</u> 25 times	=	P 2.64 million
<u>3rd year</u>	=	<u>P 86.00 million</u> 25 times	=	P 3.44 million
<u>4th year</u>	=	<u>P 103.00 million</u> 25 times	=	P 4.12 million
<u>5th year</u>	=	<u>P 124.00 million</u> 25 times	=	P 4.96 million

It is understood the banks could advance upto 70 to 75 per cent of the inventory value. This means that the MMAFECCO should be in a position to provide from its own funds the balance 25 to 30 per cent and that must preferably be long term funds as they are perpetually required.

	<u>Millions of Pesos</u>		
	<u>Short term Fund</u>	<u>Long Term Funds</u>	<u>Total</u>
1st year	1.344	0.576	P 1.920
2nd year	1.848	0.792	P 2.640
3rd year	2.408	1.032	P 3.440
4th year	2.884	1.236	P 4.120
5th year	3.472	1.488	P 4.960

(b) Accounts Receivables (Credit Sales): It is presumed that there will not be any credit sales nor any advances need to be paid to the suppliers. In case, usual credit facility is to be given to the primaries, the MMAFECCO would also be in a position to get similar credit facilities from its suppliers.

If such a system does not work and if the MMAFECCO is still required to give credit facilities, it has to find out funds equivalent to one months sales, which would be P 4 million in the first year to P 10 million in the fifth year.

(c) Current Expenses: The MMAFECCO may be required to incur certain expenses like salaries, fuel bills etc. over and above the cash in flow at least for some months initially. Such cash contingency is estimated to be 10 per cent of funds at (a) above. Since these funds are required continuously, these requirements are classified as long term requirements.

	<u>Millions of Pesos</u>		
	<u>Short Term Funds</u>	<u>Long Term Funds</u> <u>(a+c)</u>	<u>Total</u>
1st year	1.344	0.768	2.112
2nd year	1.848	1.056	2.904
3rd year	2.408	1.376	3.784
4th year	2.884	1.648	4.532
5th year	3.472	1.984	5.456

(2) Long Term Funds: Besides the long term funds required as margin money for obtaining bank finance and for meeting current expenses, MMAFECCO would require P 1.300 million and P 0.800 million in the first and second year, respectively for acquiring fixed/capital assets.

Scheduled 1 to this Chapter gives details of equipment and machinery required to be purchased and also the amount required to renovate the warehouse.

The total long term funds required will be as follows:

	<u>Millions of Pesos</u>		
	<u>Item 2</u>	<u>Item (1)(c)</u>	<u>Total</u>
1st year	1.300	0.768	2.068
2nd year	0.800	1.056	1.856
3rd year	-	1.376	1.376
4th year	-	1.648	1.648
5th year	-	1.984	1.984

b) Sources of Funds: The funds could come from any of the following resources.

(1) Members: The Primary Cooperative Societies could contribute towards the long term funds either in the form of share capital or in the form of long term loans. The MMAFECCO is planning to raise its share capital base by increasing the number of shares a member has to subscribe. But it does not appear what MMAFECCO is planning to mobilise through this method would come anywhere near the requirements of MMAFECCO. Even otherwise, the primaries are too weak to contribute any substantial amounts either in the form of share capital or loan capital or otherwise.

(2) Banks/Financial Institutions: Some of the Cooperative Rural Banks provide credit to consumers cooperatives but the effective rate of interest comes to 21 per cent (18 per cent plus service charge of 3 per cent). But most of these organisations give loans for short periods and not for acquiring capital assets.

Another source is the Land Bank. The funds could be availed on the argument that the MMAFECCO will have tie-ups with Area Marketing Societies, Sugar Cooperatives, for the supply of agricultural products like rice and sugar. Again, it was pointed out that though the nominal interest rate of Land Bank is 12 per cent, the effective rate of interest may almost be 18 per cent, which would be too high. Further these funds are to be repaid within 12 months, though the loan can be renewed.

Some Cooperative federations like NATCO (National Confederation of Cooperatives) and NAMVESCO (National Market Vendors Cooperative) are sponsoring and encouraging inter-cooperative lending but the MMAFECCO feels that the funds available through such sources is very limited and also very costly.



It is felt that interest rate of more than 12 per cent will be highly uneconomical and non-viable. Hence, MMAFECCO with the help of CUP should explore the possibility of getting some funds from some foreign donors.

c) Economic viability: The cost of operations are expected to be as follows:

Cost of Operations

<u>First Year</u>	<u>Annual Expenses</u>
1. Salary & wage costs (Schedule 2)	P 950,000
2. Interest Cost(schedule 3)	386,400
3. Depreciation (Equipment Cost P 1.30 million - 5 years)	260,000
4. Maintenance of vehicles	80,000
5. Training Cost of staff	80,000
6. Rent	-
7. Contingency	150,000
	----- P 1906,400 -----

Second Year

1. Salary & wages costs (Schedule 2)	P 1,300,000
2. Interest (Schedule 3)	569,000
3. Depreciation (P 2.10 M - 5 yrs.)	420,000
4. Maintenance of Vehicles	120,000
5. Training Costs	-
6. Rent	-
7. Contingency	150,000
	----- P 2,559,000 =====

Third Year

1. Salary & wage costs (10% increase over second year)	P 1,430,000
2. Interest (Schedule 3)	614,000
3. Depreciation (same as 2nd year)	420,000
4. Maintenance of vehicles (10% increase over second year)	132,000
5. Training cost	-
6. Rent @ P 5,000 per month	60,000
7. Contingency (10% increase over second year)	165,000
	-----
	P 2,821,000
	=====

Fourth year

10% increase in all items of expenses over the third year P 3,103,000

Fifth year

10% increase in all items of expenses over the fourth year P 3,413,400

d) Wholesale Margins & Profitability: We tried to enquire what are the normal wholesale margins available on items the MMAFECCO plans to deal with. We could not get any reliable data applicable to MMAFECCO situation. They depend upon the quantities purchased at a time, payment terms, the support MMAFECCO gets from its Primaries, the competition among the suppliers, etc.

On the otherhand this Consultant was told that the Association of Benquet Cooperatives is charging one per cent for its services of common purchasing besides actual transport costs. However, it is also understood that one per cent service charge is found to be inadequate to cover all its expenses and it is at present in loss and they are reviewing the situation.

It means to break-even the MMAFECCO should on an average charge 4 per cent for its services over and above the actual cost of the items in the first and the second year and reduce gradually in the third, fourth and fifth years. The percentages are arrived as shown below:

1st Year	=	$\frac{\text{P } 1.906 \text{ million}}{\text{P } 48.00 \text{ million}}$	x 100	=	3.97%
2nd Year	=	$\frac{\text{P } 2.559 \text{ million}}{\text{P } 66.00 \text{ million}}$	x 100	=	4.00%
3rd Year	=	$\frac{\text{P } 2.821 \text{ million}}{\text{P } 86.00 \text{ million}}$	x 100	=	3.28%
4th Year	=	$\frac{\text{P } 3.103 \text{ million}}{\text{P } 103.00 \text{ million}}$	x 100	=	3.01%
5th Year	=	$\frac{\text{P } 3.413 \text{ million}}{\text{P } 124.00 \text{ million}}$	x 100	=	2.75%

Alternatively, as suggested in Chapter 2(c), MMAFECCO should arrive at an arrangement, where the primaries would share the actual cost of operations equally.

e) Taxation: The tax concessions extended to cooperative societies have been changing from time to time.

Under PD 175, Cooperatives were exempted from paying income tax and sales tax for a period of five years from the date of their registration. These concessions were withdrawn in October, 1984, for the Cooperatives engaged in economic activity. These tax exemptions were again restored in January, 1986 and given upto 31st December, 1991, to those Cooperatives who return substantial portion of their net income to their members in the form of interest and/or refunds. Again in December, 1986, these concessions or incentives were withdrawn.

At present, Cooperative Societies are treated on par with other private enterprises in the matter of taxation in respect of tax base, tax rates, etc.

Value added tax (VAT) is considered as beneficial to Cooperatives.

Some proposals for exempting Cooperative Societies from certain types of taxes are under the consideration of the Congress (Parliament) (Please refer to discussion under the head Cooperative Code in Chapter 1, Section B and Section C).

CAPITAL COSTS1. Equipment First Year

Weighing scale - big	1	P	15,000
Packing machine	1		5,000
Filing Cabinet	1		3,000
Manual Typewriter	1		5,000
Calculator	3		6,000
Air Conditioner	2		30,000
Electric fan	3		4,500
Fiera/Delivery van	1		300,000
Baby delivery truck	1		500,000
Cash register	1		15,000
Steel Cabinet with vault	1		5,000
Office supplies (inventory bin cards, stapler, puncher, etc.)	1		3,000
Push-cart	1		1,500
Table	6		9,000
Chairs	12		6,000
Telephone installation (2 No.s)			10,000
Computer including Software			50,000

---

 P 968,000
 

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Cost of Renovation of Warehouse  
including racks, bins, pellets, etc.

---

 300,000
 

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 P 1,268,000
 

---

 Say P 1,300 million
 

---

2nd Year (Additional Investment)

1. Forklift Truck	P	500,000
2. Fiera (Delivery Van)		300,000

---

 P 800,000
 

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Staff Costs

1.	<u>First Year</u>		
	a. General Manager - Grade IV P 5,000 p.m.	P	65,000
	b. Procurement Officer (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	c. Marketing Officer (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	d. Store Keeper (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	e. Accounts & Administrative Officer (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	f. Secretary (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	g. Computer in-charge (1) Grade III P 4,000 - P 5,000 p.m.		52,000
	h. Cashier (1) Grade II P 3,000 - P 4,000 p.m.(plus cash allowances of P 100)		40,300
	i. Accounts Clerk (2) Grade II P 3,000 - P 4,000 p.m.		78,000
	j. Stenographer (1) Grade II P 3,000 - P 4,000 p.m.		39,000
	k. Computer Operator (1) Grade II P 3,000 - P 4,000 p.m.		39,000
	l. Store Clerks (2) Grade II P 3,000 - P 4,000 p.m.		78,000
	m. Audit Assistant (1) Grade II P 3,000 - P 4,000 p.m.		39,000
	n. Drivers (2) Grade I P 2,500 p.m.		65,000
		<u>Total</u>	P 755,300
	o. Contract Labour (5) P 2,500 x 5 x 13 months		162,500
	Total salary/wage cost	P	917,800 pa
	or Say P 950,000 p.a.		or
	Total Monthly Salary/wage costs(rounded)	P	79,000 pm

2nd Year Requirements (Additional)

a. Internal Auditor (1) - Grade III P 4,000 - P 5,000 p.m.	P	52,000
b. Quality Control (1) - Grade II P 3,000 - P 4,000		39,000
c. Accounts Clerk (1) - Grade II P 3,000 - P 4,000		39,000
d. Marketing Officer (2) - Grade II P 3,000 - P 4,000		78,000
e. Procurement Officer (1) - Grade II P 3,000 - P 4,000		39,000
f. Driver (1) - Grade I - P 2,500		32,500
First Year Staff:	P	279,500
P 950,300 x 8% increase		990,900 pa
or say P 1,300,000	P	1270,400 pa
2nd Year monthly salary	P	108,300 pm

Interest CostFirst Year

A.	1.	Estimated sales	P 48.00 million
	2.	Expected Stock Rotation	25 times
	3.	Stocks Required	P 1.92 million
	4.	Rate of Interest	12%
	5.	Interest Incidence	P 230,400 p.a.
B.		<u>Equipment Cost</u>	
	1.	Cost of Equipment	P 1.30 million
	2.	Rate of interest	12%
	3.	Interest incidence	P 126,000 p.a.
C.		Total (A+B)	P 386,400 p.a.

2nd Year

A.	1.	Estimated Sales	P 66.00 million
	2.	Expected Stock Rotation	25 times
	3.	Stocks Required	P 2.64 million
	4.	Rate of Interest	12%
	5.	Interest Incidence	P 316,800 p.a.
B.	1.	Cost of Equipment	P 2.100 million
	2.	Rate of Interest	12%
	3.	Interest incidence	P 252,000 p.a.
C.		Total (A + B)	P 568,800 p.a.



Third Year

A.	1.	Estimated Sales	P 86.00 million
	2.	Expected Stock Rotation	25 times
	3.	Stocks required	P 3.44 million
	4.	Rate of Interest	12%
	5.	Interest incidence	P 412,800 p.a.
B.	1.	Cost of equipment (P 2.100 million less second year depreciation 420,000 = 1,680,000)	P 1.680 million
	2.	Rate of Interest	12%
	3.	Interest incidence	P 201,600 p.a.
C.		Total	P 614,400 p.a.

## CHAPTER 5

### SENSITIVITY ANALYSIS

In the following paragraphs an attempt is made to discuss what will be the impact if some of the assumptions made in Chapter 4 - Financial Analysis - do not come true. For this purpose a few critical areas are selected.

1. Interest Rate: The operational costs and profitability are calculated assuming that the MMAFECCO would be able to obtain both the working capital and investment capital at 12 per cent per annum. If this assumption goes wrong and the MMAFECCO is required to borrow at 18 per cent, the rate at which Cooperative Rural Banks and commercial banks are advancing loans, the cost of operations will go up as shown below.

#### 1. First Year

a) Cost as estimated in Chapter IV =	P 1,906,400 million
b) Additional incidence on account of 18 per cent rate of interest =	193,200 million
	-----
=	P 2,099,600 million
	-----

$$\begin{aligned} \text{Operating costs as a per cent} &= \frac{\text{P 2,099 million}}{\text{P 48.00 million}} \times 100 \\ &= 4.37\% \end{aligned}$$

#### 2. Second Year

a) Costs as estimated in Chapter IV	P 2,559,000 million
b) Additional incidence on account of 18 per cent rate of interest	P 284,400 million
	-----
Total	P 2,843,400 million
	-----

$$\begin{aligned} \text{Operating costs as a per cent} &= \frac{\text{P 2,843 million}}{\text{P 66.00 million}} \times 100 \\ \text{of sales} &= 4.31\% \end{aligned}$$

3. Third Year

a) Costs as estimated in Chapter IV	=	P 2,821,000
b) Additional incidence on account of 18 per cent rate of interest	=	P 307,200
		-----
Total	=	P 3,128,200
		-----
Operating costs as a percent of sales	=	$\frac{P\ 3.128\ \text{million}}{P\ 86.00\ \text{million}} \times 100$
	=	3.63%

4. Fourth Year

a) Costs as estimated in Chapter IV	=	P 3,103,000
b) Additional incidence on account of 18 percent rate of interest	=	P 337,920
		-----
	=	P 3,440,920
		-----
Operating costs as a percent of sales	=	$\frac{P\ 3.441\ \text{million}}{P\ 103.00\ \text{million}} \times 100$
	=	3.34%

5. Fifth Year

a) Costs as estimated in Chapter IV	=	P 3,413,400
b) Additional incidence on account of 18 percent rate of interest	=	P 371,712
		-----
Total	=	P 3,785,112
		-----
Operating costs as a percentage of sales	=	$\frac{P\ 3.785\ \text{million}}{P\ 124.00\ \text{million}} \times 100$
	=	3.05%

Comparison of cost of operations as percentage of sales when interest rate is 12 per cent and 18 per cent is shown below:

	<u>Total cost of operations as a % sales</u>		
	<u>at 12% rate of interest</u>	<u>at 18% rate of interest</u>	<u>Increase in costs</u>
- First Year	3.97	4.37	0.40%
- Second Year	4.00	4.31	0.31
- Third Year	3.28	3.63	0.35
- Fourth Year	3.01	3.34	0.33
- Fifth Year	2.75	3.05	0.30

As can be seen above, the costs will go up considerably if the MMAFECCO is required to pay interest at 21 per cent.

If MMAFECCO fails to raise funds on its own internally at 12 per cent, it will have to make rigorous efforts to obtain funds from some donor countries.

2. Rent for Warehouse: Similarly, the economics of MMAFECCO operations are re-worked assuming that it will be required to pay rent for the warehouse in the first and second years also. In our earlier calculations rent for warehouse was taken from third year onwards. The results will be as follows:

1. First Year

a) Costs as estimated in Chapter IV	=	P 1,906,400
b) Rent required to be paid	=	<u>60,000</u>
Total	=	<u>P 1,966,400</u>
Operating costs as a percentage of sales	=	<u>P 1,966 million</u> P 48.00
	=	4.10%

2. Second Year

a) Costs as estimated in Chapter IV	=	P 2,559,000
b) Rent required to be paid	=	<u>60,000</u>
Total	=	<u>P 2,619,000</u>
Operating costs as a percentage of sales	=	<u>P 2.569 million</u> P 66.00 million
	=	3.97%

3. Depreciation Charges: The depreciation charges in the first year and second year come to P 250,000 and P 400,00 per annum, forming 0.54 per cent and 0.66 per cent of sales, which is very high. These figures could come down considerably, if some assistance could be found out from some foreign agency.

Some authorities argue that depreciation should be charged even if the funds for purchase of capital assets are donated free of interest and/or non-returnable basis.

The depreciation charges are normally used to repay the funds borrowed to acquire fixed assets. If the funds are not to be refunded, they are accumulated, they may be used to replace the capital assets, when the time for replacement comes.

4. Return on Equity Capital: The cost of operations calculated in the previous Chapter do not also take into account any return on Share Capital nor make a provision to build up reserves, which are essential for stability and future expansion. Without increasing the cost of operations, the same could be provided, if a way could be found to provide funds free of interest charges for acquiring fixed assets. If this possibility is realised the following will be the savings on account of interest charges at the rate of 12 per cent included in the operating charges.

Interest charges provided on investment in Capital/Fixed assets

- First year	P	156,000
- Second year		252,000
- Third year		201,600
- Fourth year		221,800
- Fifth year		243,900
		-----
Total	P	1,075,300
		=====

5. Stock Rotation: The presumption we made that the MMAFECCO should be able to rotate its stocks 25 times in a year is the most reasonable assumption. If it could increase the stock rotation by prudent purchasing and stocking methods, the requirement for funds and interest charges may come down.

6. Credit Sales: We presumed that the MMAFECCO sells the goods for cash or on usual terms. If it is obliged to extend credit for 10 to 30 days, which is normal in their type of business, the MMAFECCO would in turn be able to obtain similar terms and no additional funds are required on this account.

## Chapter 6

### Management Analysis

#### a) Organisational Set up

The need for proper organisational set-up and staffing the organisation with qualified and competent persons can hardly be emphasized.

Without attempting to indicate how many persons are required an Organisational Chart is suggested at Annexure 1. The suggested organisation chart could be used to start with and need not be used for all times to come. When the volume of business increases, MMAFECCO may require a separate Purchase Officer for every important commodity and also a Sales Officer.

When volume of business increases further, some basic changes in the organisation structure are required to be made. When it reaches a position to market its own products with its own brand names, it may have a Product Manager who will be in charge of developing the product, produce or get it produced according to its specifications and market it with its own brand name and logo. In such a situation, the production/procurement as well as marketing functions will be under the Product Manager who will in turn be assisted by Sales Officer and Purchase Officer. Hence, the Organisation Chart suggested in these pages is only to get the things going, and it may require to be modified from time to time.

Committees: The Committees, namely Election Committee, Audit and Inventory Committee and Education and Training Committee, indicated in the organisation chart are required by the provisions of PD 175. Commodity Advisory Committee(CAC) is being suggested by the Consultant (see Chapter 3 - Section A).

A Small Commodity Advisory Committee is constituted with the Chief Executives of Primary Societies. Its functions are to suggest what items (brand, size, price range) are required to be

procured by MMAFECCO, the inventory levels to be maintained, the substitutes to be procured etc. It would be purely advisory with no executive functions. Its membership may be changed every year, so that the opinions of large number of members will be available to MMAFECCO on a continuous basis.

Staff Requirement: In Annexure 2, staff required by MMAFECCO and salary ranges for the same are indicated.

Salary Ranges: What all can be said here in this respect is that the salaries should be attractive enough to attract and hold competent professional people to the service of MMAFECCO. The salaries suggested are only for the purpose of calculating feasibility of the project. The employees especially managers should be remunerated not only through fixed salaries but also through financial and non-financial incentives.

Training: MMAFECCO should consider giving proper training or a quick orientation, if they have previous experience in their respective fields, to the persons recruited by it before they are placed on their jobs. It should also seriously consider giving comprehensive training to its personnel either in Philippines or abroad.

They may seek the help/assistance of ICA for this purpose. The organisations like Institute of Cooperation of Polytechnic University of the Philippines, Agricultural Credit and Cooperatives Institute at Los Banos may also be involved in their training programmes. The Cooperative Union of the Philippines could be the nodal agency for this purpose. The areas in which training is required are indicated at Annexure 3.

At Annexure 4, some typical functions required to be performed by the Marketing Officer, the Purchase Officer and Store Keeper are mentioned. These functionaries have to perform



some specific function peculiar to a consumers cooperative society. Hence they are indicated here.

The functions of Administrative and Accounts Officer in a consumers cooperative are like in any other business organisation and hence do not require any elaboration here.

#### b) Accounting System

MMAFECCO being in a wholesale business in the initial stages could adopt unit control system for inventory accounting and control as it would be dealing in limited number of items and the number of transactions in a commodity in a day would also be limited. Even when it deals in a large number of items, unit control system would be suitable as it would be adopting the computer system for inventory control and for billing its customers.

For the purpose of accounting of purchases, sales and other financial transactions MMAFECCO could use computer. When the plans for starting NDC is finalised, if MMAFECCO desires, an accounting system could be developed for them by this consultant.

### c) Schedule of Action

The time schedule for starting a National Distribution Center (NDC) by MMAFECCO essentially depends upon two factors.

1. Availability of Funds: As discussed in Chapter 4, securing funds required by MMAFECCO for starting the NDC is a formidable problem. Firstly, the funds have to be obtained from normal banking channels, which is difficult to get for a Cooperative Venture.

Secondly, the interest rates are too high compared to the objectives for which the MMAFECCO was established and the objectives behind establishing the National Distribution Center. Hence, further work in establishing NDC can be taken up only on MMAFECCO securing funds either from within or without the country.

2. Availability of Warehouse: The warehouse, the MMAFECCO is expecting to take over in the campus of Polytechnic University of Philippines (PUP) is at present occupied by the Police and is expected to be vacated in January 1990. If everything goes according to the expectations of MMAFECCO and the assurances of the Institute of Cooperation of PUP materialise, probably, the MMAFECCO would be able to take possession of it by February 1990.

Hence, the time table suggested below for setting up of NDC should be reckoned from the date of the above two events take place.

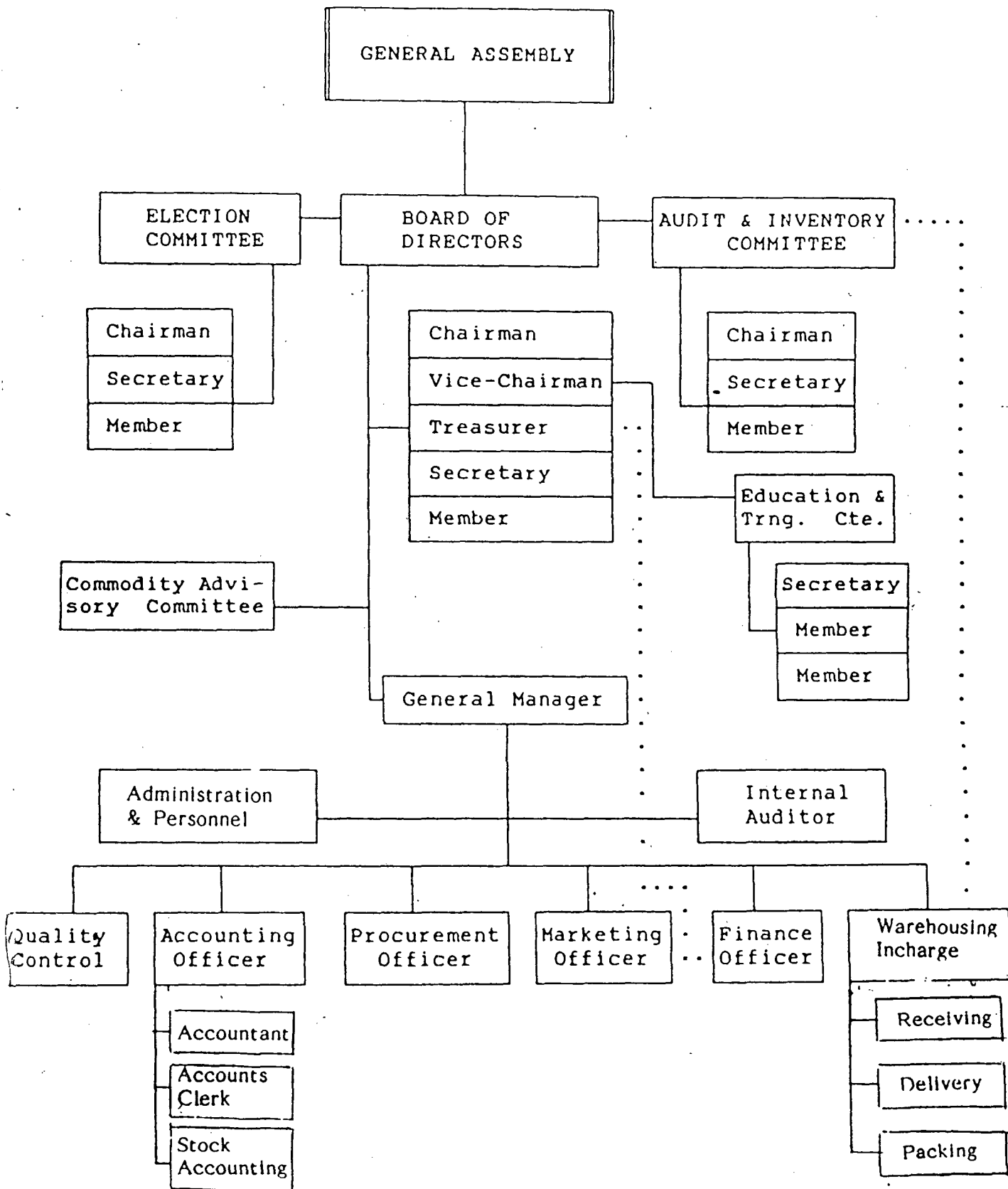
1. Renovation of warehouse and equipping the same with racks, shelves and bins: 3 months
2. Entering into a contract of understanding with the members to purchase their requirements from MMAFECCO only: 3 months

- |  |                 |
|--|-----------------|
| 3. Recruitment and training of General Manager and other managers and training them:                                     | 4 months        |
| 4. Purchase of equipment and machinery and their installation  | 4 months        |
| 5. Enrollment of new Primaries as members:   | 4 months        |
| 6. Tying up with organisations like ACBI, Market Vendors etc.  | 3 months        |
| 7. Arrangements for procurement:   | 3 months        |
| 8. Evolving accounting system, Inventory Control, Management Information System & Printing of records, forms, etc.       | 4 to 6 months   |
| 9. Organising Community Groups/ buying clubs:  | Continuing work |
| 10. Evolving working arrangements with Consumers Cooperatives in other regions or establishment of RDC in other regions: | Continuing work |

Hence, on reasonable assessment of work involved, it appears that NDC should be in a position to start functioning within six months from the date the MMAFECCO is able to obtain commitment of funds and take possession of the warehouse.

ORGANISATIONAL CHART

Annex 1



Personnel Requirement  
(First & Second Year)

<u>Designation</u>	<u>Grade</u>	<u>No. required in</u>	
		<u>1st yr.</u>	<u>2nd yr.</u>
1. General Manager	IV	1	-
2. Procurement Officer	III	1	1
3. Marketing Officer	III	1	2
4. Warehouse In-charge	III	1	-
5. Accounts & Admn. Officer	III	1	1
6. Computer Incharge	III	1	-
7. Secretary	III	1	-
8. Internal Auditor (1)	III	-	1
9. Cashier	II	1	-
10. Audit Assistant (1)	II	1	-
11. Stenographer	II	1	-
12. Computer Operator	II	1	-
13. Quality Control (1)	II	-	1
14. Accounts Clerk	II	2	1
15. Store Clerks	II	2	-
16. Drivers	I	2	1

Semi-skilled  
Staff

I)  
II)  
III)  
IV)

Salary Scales

P 2,500 - 3,000  
P 125/mo. (differential between  
ranks).

Skilled  
Staff Asstt.

I)  
II)  
III)  
IV)

P 3,000 - 4,000  
P 250/mo

Training Requirements of Staff & Board Members

1.

Staffa) Storaging

- i) Warehouse layout; stock methods
- ii) Material handling;
- iii) Preservation
- iv) Weighing, cleaning and repacking
- v) Receipt and issue of goods
- vi) Testing of quality, etc.
- vii) Hygiene
- viii) Maintenance of equipment

b) Stock/Inventory Management

- i) Determining Economic Ordering quantity, Ordering points, lead time, reserve stock. ABC analysis
- ii) Stock control records
- iii) Stock taking
- iv) Stock shortages & fixing responsibility

c) Accounting

- i) Handling cash, bank; bank reconciliation
- ii) Cash control with or without cash register
- iii) Reporting System
- iv) Budgeting & Budgetory control

d) Marketing

- i) Market intelligence gathering
- ii) Assortment determination
- iii) Sales promotion
- iv) Guidance to primaries
- v) Price fixation
- vi) Credit rating and credit collection
- vii) Wholesaling

e) Procurement

- i) Procurement methods
- ii) Developing suppliers
- iii) Market intelligence for buying

f) Cooperative Ideology and Value Orientation

2. Board Member, Management and Executives

- i) Basic Philosophy and Economics of Consumers Cooperation
- ii) Planning & Controlling
- iii) Committees of Board; their Role, Functions vis-a-vis Board Members and Executives
- iv) Cash and Stock Management
- v) Work Organisation & Staff Management
- vi) Management Information System
- vii) Staff Recruitment & Training

Job Description of Marketing Officer

1. To contact the member primaries and other potential buyers of goods dealt by the MMAFECCO, canvass and secure business/orders.
2. To help the members of the MMAFECCO in planning and executing their sales and their sales promotion campaigns.
3. To advise the Purchase Department its sales plans in sufficient details to enable it to procure and stock them in adequate quantities.
4. To coordinate with warehouse dispatch of goods to various customers so that vans and trucks are used most economically avoiding unnecessary trips and at the same time the customers are satisfied fully.
5. To issue necessary cash memos/bills for sales made by it and account for the cash/cheques collected by it.
6. To follow up with the customers for the credit sales made by it, collect the amounts on time and ensure that the defaults in receiving payments are minimum and advise the management the possible bad debts, if any.
7. To attend to the complaints of the customers, public and bring serious complaints to the notice of the General Manager.
8. To fix the selling prices of commodities, and the other incidentals like transport cost in terms of the policy guidelines issued by the Board of Directors.
9. To prepare and periodically update the assortment list in consultation with the Assortment Advisory Committee, if any.
10. To ensure that proper records, books, files, registers, etc. are maintained for sales made by it, the amounts to be received from various customers, etc.



Job Description of Procurement Officer

1. To locate the possible suppliers for various items required by MMAFECCO and keep updating the information regarding their production capacity; terms of sale, availability of goods, reputation in the market, etc.
2. To negotiate with suppliers for the best price and terms and purchase the required items.
3. To determine the stock levels to be maintained, economic ordering quantities, ordering points, lead time, reserve stocks to be kept, etc. in respect of all items, so that there will be neither stock-outs nor overstocking.
4. To arrange, where necessary, transportation of goods from the place of suppliers to the MMAFECCO's warehouse.
5. To ensure that necessary records, registers, books, files for the goods purchased, received, stored in the warehouse and issued are maintained, and issue necessary certificates and papers to Accounts Officer for payment of bills or adjustment of advance if any paid for purchase, transportation, storaging, loading and unloading of goods, taxes, etc.
6. To advise the Sales Deptt. from time to time, the availability or non-availability of goods, price movements, etc.
7. To keep close liaison with Accounts Department and warehouse.

Job Description of Warehouse In-charge

1. To periodically identify the slow moving items, spoiled items, etc., and take early action.
2. To ensure for proper and orderly storing of goods in the warehouse including fumigation of goods, where necessary.
3. To arrange for loading and unloading of goods to or from the trucks and vans, where necessary.
4. To arrange for timely transportation and delivery of goods to the clients, as per the schedule given.
5. To make arrangements for safety and security of warehouse and goods by arranging proper insurance of goods in the warehouse and in transit.
6. To check that the goods received from the suppliers are of proper quality, brand, size, etc., and they are not duplicates, spurious, adulterated or misbranded.
7. To help the Audit and Inventory Committee to verify the stocks or take physical stock of goods, as planned and arrive at shortages.
8. To get the goods cleaned and repacked in desired sizes for supply to the members.

Job Description of Accounts & Administration Officer

- Note 1. Will be responsible for functions like accounting, administration, auditing, personnel, etc.
2. In the first year, till a Secretary is appointed, he would look after the functions of Secretary like enrollment of new members, work relating to meetings of Board of Directors, General Body, their Committees, etc.

## Chapter 7

### Promotional Activities

Centralised buying and bringing economies in purchases and passing on the resultant benefits to the consumers is only one of the objectives of a wholesale Society or a business federation, though a most important one. There are many other functions which MMAFECCO could perform for its own benefit and to the benefit of the Consumers Cooperatives and the Consumers in the Country. Some of them are briefly discussed here.

#### (1) Promoting the Consumers Cooperative Movement:

The MMAFECCO should undertake a programme of organising and promoting Consumers Cooperative Societies in the areas or communities and in the offices and establishments where there are no Consumers Cooperatives. For this purpose it could lend its organisational skills and also the technical know-how. When its financial position improves and human resources are widened, MMAFECCO could extend financial assistance and personnel help also.

(2) Organising Community Groups or Buying Clubs: Where there are no Community Consumers Cooperatives and organising them involves considerable efforts, MMAFECCO should organise or encourage formation of community groups or buying clubs with 5 to 15 households. Such a group itself could be a member of the MMAFECCO. The number of shares such a group should subscribe to could be less than what an affiliated primary consumers cooperative should subscribe. Such a group will be registered with the MMAFECCO.

The Community Group collects the monthly requirements of the member-households and places an order with MMAFECCO who would deliver the goods at a house of one of the members, who will in turn distribute to other members of the group. If the demand is large enough, there could be weekly deliveries.

The prices of the goods including delivery charges should be less than those prevailing in the neighbourhood super markets of the group.

If necessary MMAFECCO could prescribe minimum order in terms of value or quantity for door delivery.

Though such neighbourhood Community groups are no substitutes for a registered Consumers Cooperatives, the MMAFECCO need not await indefinitely such Consumers Cooperatives to come up and get affiliated with it.

Even where a Community Consumers Cooperative is existing but it is too weak and ineffective or is not willing to affiliate itself with MMAFECCO or unwilling to its operations for the benefit of the Community, the MMAFECCO could still organise such community groups or buying clubs.

### (3) Consultancy on business operations

The MMAFECCO should help the affiliated Primary Consumers Cooperatives in improving their business by giving consultancy, guidance and help. It could be in enrolling new/more members, display of goods, conducting sales campaigns, giving accounting system, (value control system) budgetary control system, Management Information System, etc. Such assistance or systems if the primaries have to hire the private consultants costs lot of money and MMAFECCO as a federal body can provide them free of cost or on cost basis.

(4) Consumer Protection: Protecting the interests of the consumers should be one of the basic objectives of the MMAFECCO. This it could do by educating the consumers, through member education programmes, by organising classes, by printing and circulating pamphlets, bringing out journal or magazine, etc. Some of the topics which could be covered in the member education programmes are the following:

- a) MMAFECCO's efforts to protect the consumer interests; safety; reliability; prices, quality and distribution methods.
- b) Exaggerated advertisements; high prices without substance; fraudulent sales techniques of the private trade.
- c) Consumer protection legislation.
- d) Shortages of public facilities like public transport, schools, water supply.
- e) Strengthening of democracy in the country through the cooperative movement.
- f) Rural development; unemployment.
- g) Inflation-causes & remedies.
- h) Adulteration & health hazards like indiscriminate use of pesticides; air & water pollution; contamination (arsenic poisoning).
- i) Rights of babies and children and women's health.
- j) Taxation problems of individuals; how to overcome them.
- k) improvement of savings capacity of individual households.
- l) Health, education, environment, welfare, peace.
- m) Plans for development and introduction of MMAFECCO brand products.
- n) Efforts of MMAFECCO to link up with other cooperatives and public organisations (fisheries cooperatives, area Marketing Cooperatives, Sugar Cooperatives).

In organising some of the programmes, the help of Department of Trade and Industry (DTI), CUP, etc. could be availed. It is understood the DTI has a budget to assist the organisations to undertake consumer education programmes.

(5) Lobbying for Consumers: Apart from creating awareness among the consumers through its education programmes, the

MMAFECCO has to assume the leadership of consumers cooperative movement to safeguard and promote the interests of the consumers cooperatives and the consumers in general. In this process it has to lobby some times on its own and sometimes by joining hands with other interested groups and cooperatives for enactment of certain laws or for repeal of certain laws, articulate the problems of the interest groups, lobby for prosecution of groups working against the consumers cooperatives and the consumers.

(6) Training of Personnel: Training of personnel of affiliated cooperatives is another important function of MMAFECCO. It could undertake effectively Human Resources Development Programmes both on its own and in collaboration with organisations like Cooperative Union of Philippines (CUP), Institute of Cooperation of PUP and International Cooperative Alliance, etc. (Please refer to Chapter 6 and Annexure 3, thereof for more details).

(7) Health Check Up: One of the effective ways the Consumers can be attracted is to give medical check up free of charge or at concessional rates. The MMAFECCO could provide the services to the members of its affiliated primaries. For this purpose, it could enrol the services of some medical practitioners. The MMAFECCO could also think of group insurance to the members of its affiliates who do some minimum business.

Names of the Organisations visited and Persons Met

1. Cooperative Union of the Philippines
  - Engr. Clicerio E. Lorejo, Sr., President
  - Genl. Arcadio S. Lozada, Secretary General
  - Col. Pacito Nefulda, Vice-President for Luzon
2. Metro-Manila Federation of Consumers Cooperatives, Inc.
  - Mr. Emilio Dilan, Chairman
3. Bureau of Agricultural Cooperatives Development
  - Atty. Clemente E. Terso, Jr., Director
4. PUP Kilusang Bayan for Consumers, Inc.
  - Dr. Nemesio Prudente, President, Polytechnic University of the Philippines (PUP).
  - Prof. Romulo Martin, Chairman of PUP Cons. Coop.
  - Mrs. Corazon Mabagos
5. Philippine Science High School Consumers Cooperative, Inc.
  - Mrs. Francisca O. Yazon, Vice-Chairman
6. Sugar Regulatory Administration Consumers Cooperative
  - Atty. Liberty Sy, Director
7. Department of Labor and Employment Consumers Cooperative
  - Mrs. Josefina Lapuz, Manager
8. Central Bank Employee Consumers Cooperation
  - Mr. Emilio Dilan, Director
  - Mrs. Lolita David, Director
  - Mr. Amir Malahito, President
9. Shell (Pandacan) Employees Consumers Cooperative
  - Ms. Flor Chicote, Manager
10. Ayala Group Employees Cooperative Association, Inc.
  - Mrs. Nitz Encinas, Manager
  - Mr. Rodil Yajz, Chairman
  - Mr. Raymond Angeles, Director



11. New Alabang Consumers Cooperative, Inc.  
- Mrs. Josie Cansino, Supervisor
12. Agustinian Consumers Cooperative, Inc.  
- MD, Leontina Castillo, DSA  
- Sis. Zosima Dalena, Director
13. Kilusang Bayan sa Pangangalakal sa Gitnang Luzon (Central Nueva Ecija Area Marketing Cooperative, Inc.)  
- Mr. Rosauro Domingo, General Manager
14. Cooperative Rural Bank (CRB) Nueva Ecija  
- Mr. Leonido Garcia, Manager
15. Benquet-Dizon Consumers Cooperative, Inc., San Marcelino, Zambales.  
- Ms. Elizabeth Cham, Manager  
- Mr. Edwin Avendano, President
16. Northern Luzon Cooperative Development Center, Baguio  
- Mrs. Elsie Felipe, General Manager
17. Hilltop Open Market Vendors Cooperative, Inc., Baguio  
- Mrs. Leonora Guinid, General Manager & Founder  
- Mr. Victorino Velasco, Chairman
18. Department of Trade & Industry, (Consumer Protection Division)  
- Ms. Leny Raz, Chief, Consumer Protection Division  
- Ms. Socarro Pusta, Bureau of Domestic Trade Promotion
19. National Confederation of Cooperatives (NATCCO)  
- Ms. Lota Bertulfo  
- Mr. Ponce Suganob
20. DMPI Employees Credit Cooperative, Inc.  
- Mr. Filomeno A. Bautista, Jr., Director
21. DMPI Employees Credit Cooperative, Inc.  
- Mr. Filomeno A. Bautista, Jr., President

22. National Market Vendors Cooperative (NAMVESCO), Manila  
-Mr. James Roberson
23. Plantation Consumers Cooperative, Inc., Bukidnon, Cagayan de Oro  
- Engr. Juan Tagaro, Chairman
24. Community Credit Cooperative, Bukidnon, Cagayan de Oro
25. SEARSOLIN Rural Development Institute, Cagayan de Oro  
- Canselmo Mercado Dy, Director
26. POBIBO Farmers Multipurpose Cooperative, Opal (Cag.de Oro)  
- Mr. Rolin Actub, President  
- Mr. Armando Areno - RBO Coordinator
27. Loyongbonbon Farmers Multipurpose Cooperative, Cagayan de Oro
28. Xavier University Community Consumers Cooperative Stores, Inc. Cagayan de Oro
29. First Community Cooperative, Inc., Cagayan de Oro  
- Mr. Antonio Emata
30. Visayas Cooperative Development Center, Inc., (VICTO)  
- Mr. Edgar Comeros, Asst. Executive Director
31. Cebu Barangay Consumers Cooperative, Inc., Cebu  
- Mr. Diosdado Garciano, Manager
32. Philippines Crop Dismance Corporation  
- Mr. Benedicto Fanstino