

Full Length Research Paper

Charting an agricultural product marketing frontiers for the new AEC market: A case study for enhancing the marketing organization for farmers in Chiang Rai Province, Thailand

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The ASEAN Economic Community (AEC) will be established in 2015 providing challenges both advantageous and otherwise to the agricultural economy of Thailand. The Marketing Organization for Farmers (MOF) intends to develop an integrative business model based on contract farming of native rice turned into a unique product. This study explored the unique agricultural product especially native rice Kiaw Ngu native glutinous rice variety (GS No. 8974) and the marketing channel of such product to prepare for the AEC market. The data of this study were collected from state organization's experts and specialists who were selected for in-depth interviews and focus group discussion in Chiang Rai Province. Moreover, the MOF chose a contract farming system to promote this rice in its supply chain. The MOF expected to create a new market for this rice in the integrated market of AEC that will be expanded domestically and overseas especially in the neighboring countries such as Laos, Myanmar, the Philippines and Malaysia.

Key words: Agricultural economics, Kiaw Ngu native glutinous rice, marketing channel, contract farming, Chiang Rai Province.

INTRODUCTION

The establishment of the ASEAN Economic Community (AEC) will promote the free flow of goods and services among ASEAN countries consisting of Thailand, Indonesia, Malaysia, the Philippines, Singapore, Brunei,

Vietnam, Myanmar, Laos and Cambodia. The integration of AEC may bring both advantages and disadvantages to Thailand with such advantages as the liberalization of trade in goods and services within ASEAN, exporters/

manufacturers in Thailand will be able to export their products to the wider market and can transfer technology within the AEC. Moreover, they can increase business activities in the ASEAN region. Also, investors may move the production from Thailand into member countries in ASEAN which offer cheaper labor costs. With regard to the disadvantages, cheaper labor costs will influence the employment of Thai labor. Laborers from Myanmar, Laos and Cambodia will migrate freely to work in Thailand more and more, which these labors will compete with Thai workforce (Department of Trade Negotiations, 2011). Moreover, the cheaper priced products will be imported into Thailand such as palm oil from Malaysia, coffee and rice from Vietnam, tea from Indonesia, and coconuts from the Philippines and Indonesia.

Cultures and food consumption patterns in the AEC member countries share a great resemblance especially rice consumption. Many member countries can produce food and agricultural products but these are not enough to supply the increasing domestic demand. Moreover, many AEC countries have the purchasing power for imported goods. Therefore, these reasons provide an opportunity for exporting agricultural products to these countries. Rice products of Thailand have been affected by many countries in ASEAN especially Vietnam but it can compete on the basis of the quality and identity of Thai rice. In 2014, the estimated volume of Thailand's rice export approximated 9.5 million tons while Vietnam's rice export approximated 6.5 million tons. However, the average price of Vietnam's rice was cheaper than that of Thailand, being 445 USD/ton and 483 USD/ton, respectively. It is predicted that in 2015 Thailand will export rice at approximately 10 million tons while Vietnam will export approximately 6.7 million tons. (Department of Foreign Trade, 2014). In 2014 (January - August), Thailand exported white rice to AEC member countries such as Singapore and Laos. Moreover, Thailand also exported glutinous rice to Malaysia, Singapore, Laos, the Philippines, Indonesia, Cambodia and Brunei worth approximately 80.2, 3.6, 2.0, 1.9, 1.1, 0.5 and 0.5 million USD, respectively (Information and Communication Technology Center, 2014).

The stiff competitions in the new AEC market will influence the preparation of public and private agencies and state enterprises in Thailand. Not only will they need to improve quality of products but also they need to create unique products and enhancing the strength of such products. Moreover, the agricultural sector of Thailand in the future should focus on the effective production, branding and quality of products (BIAE, 2013). Therefore, many organizations in Thailand, including the Marketing Organization for Farmers (MOF) must emphasize these aspects to develop the economy of the country. Moreover, Kulreangsub (2012) explained that it will be a golden opportunity to export Thailand's agricultural products into Cambodia, Myanmar, Laos and Vietnam due to the fact that these countries have a high

purchasing power. In addition, these countries are expected to expand their foreign trade in the future.

The MOF is a state enterprise in Thailand that has a role to support the farmers in agricultural marketing. Therefore, it should find a golden opportunity in the new AEC market by selecting products that are unique, and enhancing the strength of such products in order to compete there. Moreover, the MOF is assigned the role of strengthening food security in the ASEAN region by the State Enterprise Policy Office of Ministry of Finance (State Enterprise Policy Office, 2012). Meanwhile, one of important aspects in the free trades and investments among ASEAN countries is the strengthening of food security (Department of Trade Negotiations, 2011). Furthermore, the Ministry of Agriculture and Cooperatives (MOAC) has laid down preparations for the AEC in terms of promoting agricultural products such as organic and value-added products (MOAC, 2012).

With regard to the promotion and strengthening food security in agricultural products, all sectors in Thailand agreed that their work have to emphasize integrated and sustainable development in order to obtain sustainable food production, quality food and providing effective marketing. Furthermore, many sectors in Thailand want to preserve the rice trader leader status in the AEC. In addition, they have emphasized the role of developing native rice varieties to create a selling point and preserving native rice in local areas.

Therefore, the development of native rice varieties was given a high priority to support rice business in Thailand. Moreover, the unique characteristics of native rice can compete for high quality or top grade market (AEC Knowledge Center, 2012). For this reason, the MOF focused on native rice varieties in order to conform to these policies and mission. This study tries to explore the unique agricultural product especially native rice for the MOF in order to make a difference in the AEC market, and tries to find the marketing channel of this product to prepare for the new AEC market.

Marketing organization for farmers (MOF)

The MOF is a state enterprise that was originally established in 1974 by the MOAC. The MOF has many department and provincial branches (Figure 1). The main objectives of MOF are 1) to encourage the farmers to practice effective agricultural marketing, 2) to provide and distribute agricultural inputs with quality and fair price according to the requirement of farmers, and 3) to serve the farmers and farmers' groups in the distribution, marketing and storage of agricultural products. Moreover, it manages the fresh food market which ranks No. 4 in the world due to the quality of agricultural products and warehouses (CNN Travel, 2012). It also provides the venue for developing a comprehensive agricultural market to add value to agricultural products and responding

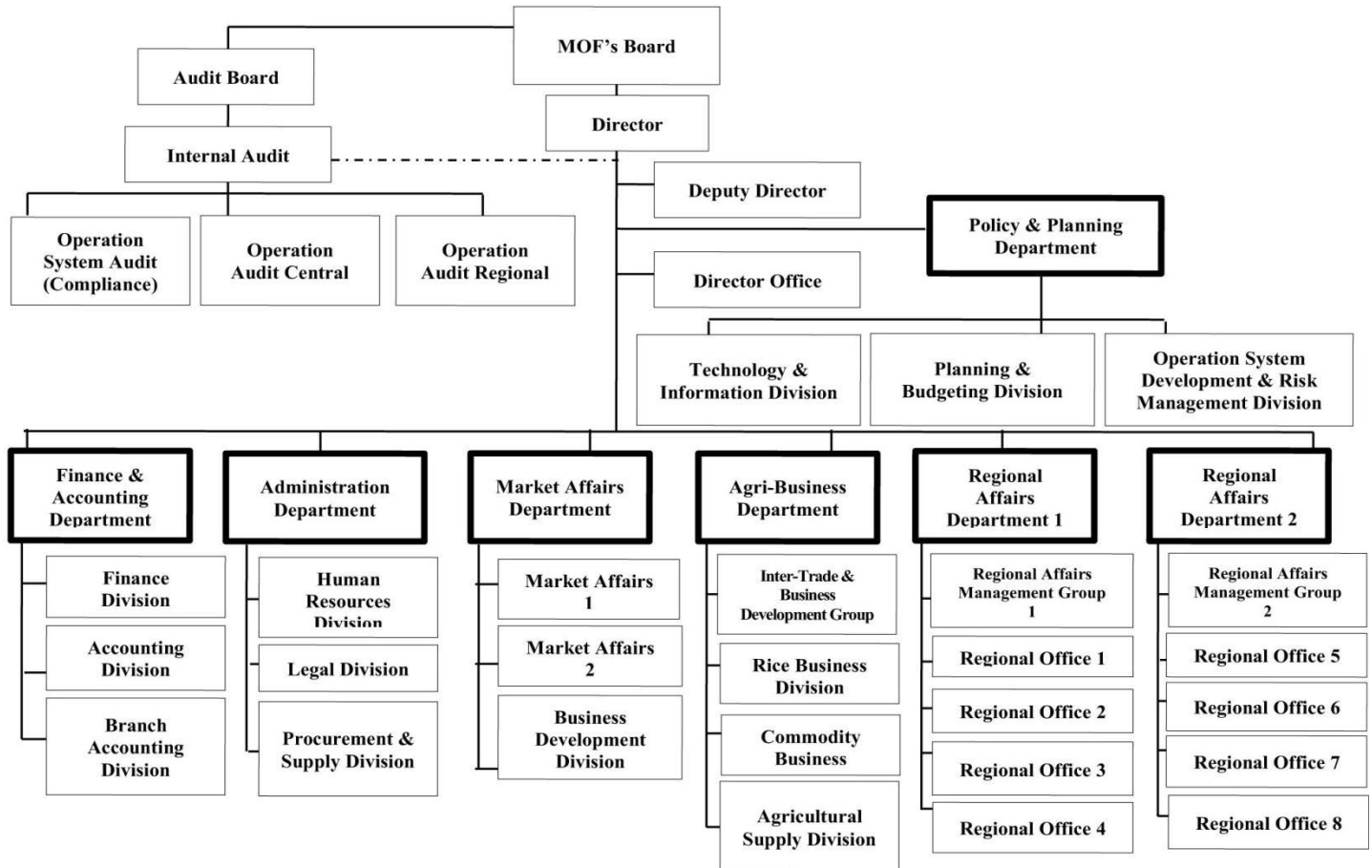


Figure 1. Organization structure of the MOF.

to the lifestyle of modern society. Furthermore, the MOF also plays an important role in implementing various government policies, for example, Rice-Pledging project and preparation for the AEC (MOF, 2012). At present, the MOF has a pilot project to export glass bottle baby corn in vinegar and sweet corn in brine. These products have received attention from foreign countries such as Germany, Russia and Lebanon. With regard to the selection of export companies, the MOF selects by considering the export experience, high quality products that meet the export standard and reliability of the company. Therefore, it can be expected that the MOF can extend market channels for farmers in the future (MOF, 2013).

Uniqueness and differentiation of product

In recent years, the economy, technology and society of Thailand have changed. The important priority of organizations has been to manage or change by adopting the suitable strategy in order to respond to changing circumstances immediately. Creating unique products is

very important for their business. Therefore, it is absolutely imperative that organizations need to create product to make a difference and that can compete with others in the market (TCDC, 2014). One of the competitive aspects is the quality of product that consists of performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality (Garvin, 1998). High quality products will increase market share that will lead to increasing profits in the company. Moreover, Porter (1998) said that business companies can create an advantage over competitors by making a different and unique product. Furthermore, the buyers look for a different product in the market and are willing to pay a premium price for such product. In addition, small companies can achieve in the niche market better than the larger companies.

Competitiveness of products in the market

In a volatile competition era, many successful companies have used a variety of strategies and do not focus only one aspect. They may begin by using an advantageous

strategy for competition such as the customer market advantage, product and service advantage, business system/value chain advantage, system assets/resources advantages, partner advantage, and scale and scope advantage. Moreover, the company must be operated using the competitive advantage strategy continuously to succeed ahead of other companies. In addition, the company can gain competitive advantage if they can create products for which consumers are willing to pay a higher price (Shah et al., 2003). Meanwhile, other competitors are unable to duplicate or imitate their products (Barney, 1991; Olson et al., 2000; Hitt et al., 2013). However, companies have to evaluate their goals and marketing channel of products for the company, consumer, and for determining the consumer and competitor assessment in the market.

Marketing channel of products

The marketing channel or channel of distribution or place is a component of the marketing mix in addition to the product, price and promotion. The marketing manager should determine the strategy of the marketing mix efficiently in order to meet the needs of targeted customers. At present, the distribution channels use two forms consisting of direct sales or direct marketing, and sales through intermediaries (Figure 2). These forms differ as follows: the direct sales to consumers or decentralized channel will gain profit more than the other method. However, producers should select the direct market channel that matches with their strengths and production experience. While the producers will gain higher sales volumes through intermediaries or centralized channel, however, they depend on the network of intermediaries (FAO, 2003; Bruch et al., 2010; Madugu et al., 2011). Therefore, the marketing channel is a necessary activity that transfers the ownership of products, and moving such products from the point of production to the point of consumption.

MATERIALS AND METHODS

Chiang Rai Province in the northern region was selected as the study area (Figure 3) because it is close to common borders of three countries namely Thailand, Laos and Myanmar, a place popularly known as the Golden Triangle. Moreover, it is considered to evolve into an AEC trading and distribution center of products in the future. In the year 2013, the border trade of Chiang Rai Province with neighboring countries namely southern China, Myanmar and Laos increased 6.7% in terms of values. As these close areas are located far from their capitals, so they need to buy products from Thailand which offers a variety of commodities (Office of Commercial Affairs Chiangrai, 2014). The important agricultural product of Chiang Rai Province is rice with some native rice varieties preserved in the Chiang Rai Rice Research Center (CRI). Consequently, native rice was chosen as a beginning point for the MOF's business in order to prepare into the new AEC

market. In this study, the authors utilized the data that were derived from documents, as well as focus group and in-depth interviews conducted twice during field surveys aimed at concerned target groups in Chiang Rai Province.

The first of field surveys was to explore the native rice and marketing channel of agricultural products in the area. The interviewees included a professional agricultural extensionist of the Chiang Rai Agriculture Office, a deputy secretary-general of trade at Chiang Rai Chamber of Commerce, a community development specialist of Chiang Rai Community Development Office, three staffs of the MOF, two managing directors of private companies, and two owners of import-export companies. The second of field surveys was to study Kiaw Ngu glutinous rice (GS.No.8974) that was developed from experiments of the CRI, and explore the possibility of marketing channel of this rice in the domestic and AEC markets. The interviewees included two professional agricultural research officers of the CRI, two professional agricultural extensionists of the Agricultural Extension Department, a provincial cooperative officer and a cooperative technical officer of the Chiang Rai Cooperative Office, three owners of rice mill, and three farmers.

The authors selected respondents based on the purposive sampling method. The respondents were interviewed in-depth by the research team at each office and village education center. The in-depth interview forms were used to collect the information on the data of the unique agricultural product for the MOF regarding the criteria for product selection, and the uniqueness and competitiveness of product, as well as the marketing channel of such product to prepare into the new AEC and domestic markets. The data were arranged and described by statistical tools, and were analyzed by using qualitative analysis.

RESULTS AND DISCUSSION

Criteria for product selection

In the first of field surveys in Chiang Rai Province, the MOF had many agricultural products for entry into the new AEC market namely native rice, garlic, tea, coffee and dehydrated vegetables. However, the MOF emphasized native rice in the province. The authors and respondents set up the criteria for product selection of the MOF (Figure 4), which had five aspects as follows: the first is the MOF select native species as a product to preserve and to show the identity of the province. The second is the product should be unique which it can create a selling point. The third is the product needs to have safe and quality features that contribute to the strengthening of food security in the ASEAN region according to the aims and objectives of the ASEAN Integrated Food Security (Department of Trade Negotiations, 2011). The fourth is the product can be sold in the quality market at a high price such as the MOF's market or top grade market. Lee et al. (2003) explained the new product as one that has quality and is unique more than the products of competitors, and meet to need of consumers. The company can set a premium price for the product. Finally, product needs to create trade opportunity into ASEAN member countries. Minoiu (2003) mentioned that the selection of agricultural products should focus on food security, high production potential,

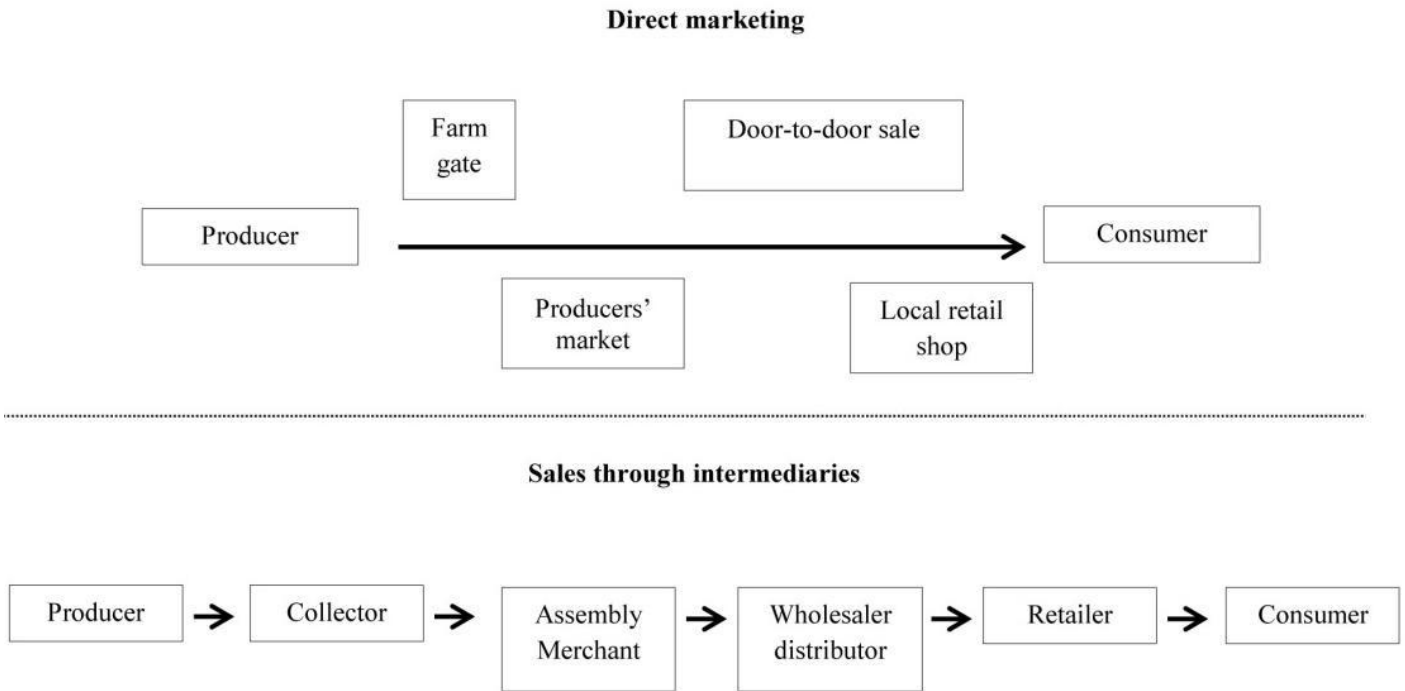


Figure 2. Direct marketing and sales through intermediaries.
Source: FAO (2003).

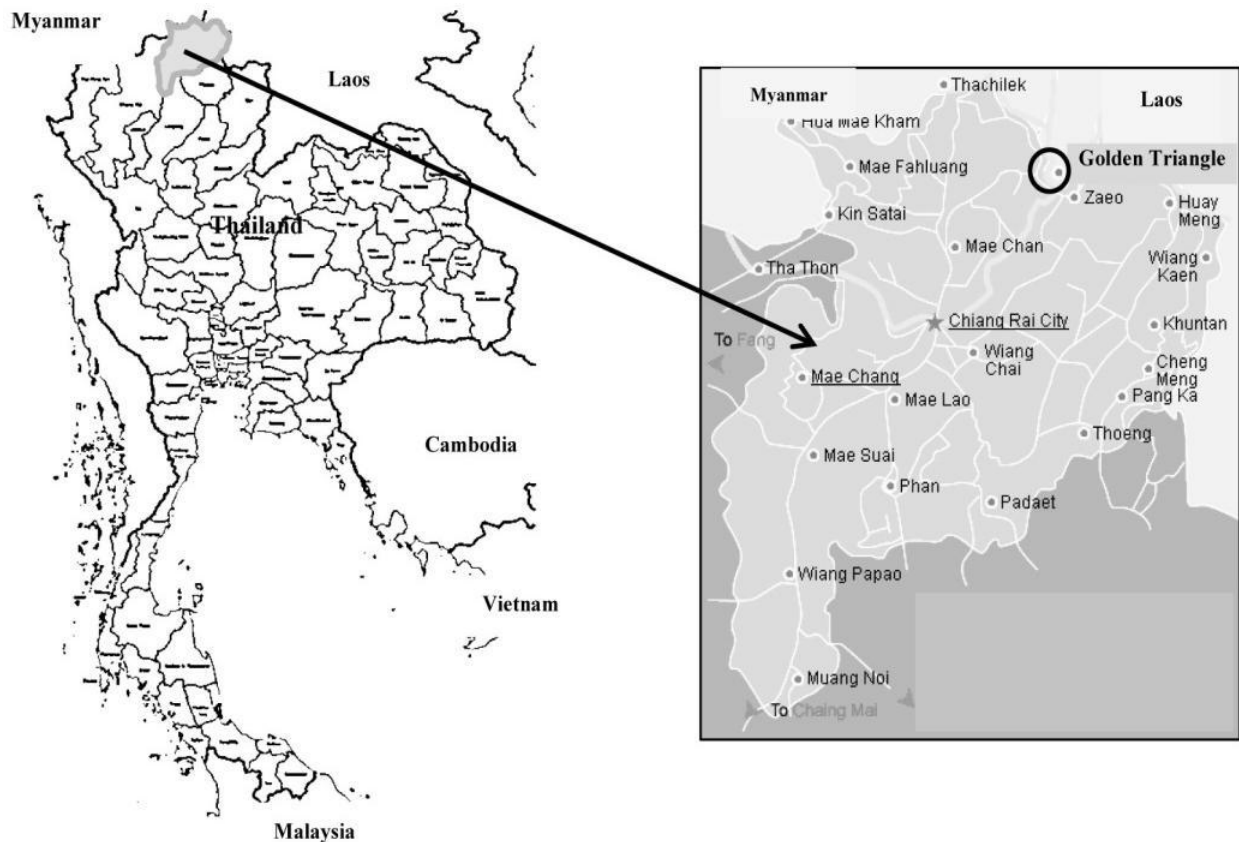


Figure 3. Map of Chiang Rai Province, Thailand.
Source: Google Map (15th September, 2014).

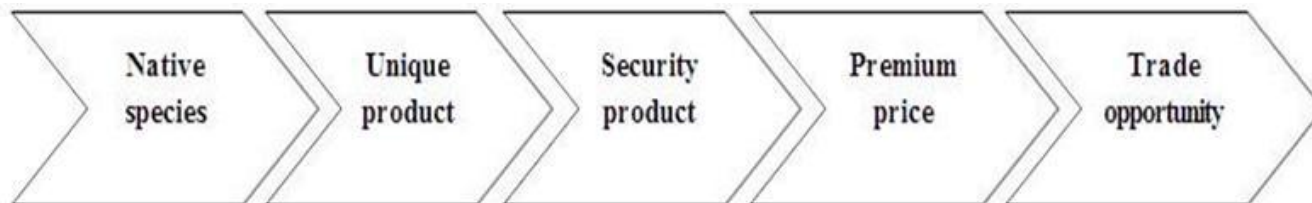


Figure 4. The keywords of criteria for product selection of the MOF.

and it can increase opportunity of trade toward the regional and global markets.

Therefore, Kiaw Ngu glutinous rice was selected as an agricultural product of MOF because it is native rice species in Chiang Rai Province. The experiment of the CRI using this native rice for about 6 years led to the birth of GS.No.8974 variety which is the best and most appropriate for cultivation in the climate and soil characteristics of northern Thailand especially Mae Chan district, Chiang Rai Province. The reason of this experiment was to conserve it in northern Thailand and increase alternative crop for farmers. However, this native rice is gradually disappearing from the local farms because farmers in this area cultivated other high- yielding glutinous rice such as Niaw-San-Pah-Tawng and RD6.

In addition, Kiaw Ngu glutinous rice has been sold in domestic market but it is not the native rice variety in Chiang Rai province. It is a modified rice that rice mills produced by using modified other glutinous rice as Kiaw Ngu glutinous rice by increasing the times of whitening and polishing which resulted in a grain shape like Kiaw Ngu native variety. Moreover, a dessert in the market has been made from modified rice with coconut cream. Therefore, native variety should be conserved and promoted for cultivation in Chiang Rai province, so that its uniqueness can be a selling point. In addition, it can be a safe product due to absence of chemicals, and can create value and sell at high price in the niche market.

Uniqueness and competitiveness of Kiaw Ngu glutinous rice (GS.No.8974)

The second of field surveys focused on the data of Kiaw Ngu native variety (GS.No.8974). The CRI found that distinct features and quality of this rice differ from other glutinous rice as follows: 1) its grain is small and slender like a canine tooth of snake, 2) its skin when cooked is white, sticky, shiny, soft and fragrant, 3) it is suitable for organic farming because it does not respond to chemical fertilizer and it also resists plant diseases and insects, 4) it has high protein, total dietary fiber and antioxidants in vitamin E form, and 5) it can be local-specific variety which can apply the Geographical Indications (GI).

In addition, the CRI evaluated the dessert satisfaction of farmers and rice traders. The results found that they

are satisfied with GS.No.8974 more than any other varieties in terms of taste, skin characteristics and fragrant. However, it had the weak point namely low-yield in which GS.No.8974 and RD6 had yield of approximately 469 and 649 kg./rai, respectively, and production cost approximated 5,148 and 5,683 THB/rai, respectively (1 rai = 0.16 ha). The expected price of GS.No.8974 paddy was 18-20 THB/kg., which should be similar to high quality rice. In domestic markets modified Kiaw Ngu was sold approximately 35-36 THB/kg. (Department of Internal Trade of Thailand, 2014). This price can imply that the MOF can set the price of Kiaw Ngu native rice (GS.No.8974) at approximately 38 THB/kg., which is more than modified rice. Therefore, Kiaw Ngu native rice is an alternative crop for farmers who need to increase income for their households. According to Anim (2010), higher income from contract products may not only raise the standard of living of contract farmers, but may also create double effects for employment, infrastructure and economic growth in the region. Moreover, consumers emphasize on their health more and more. Therefore, this rice is also a suitable alternative rice for consumers.

With the unique specifications of Kiaw Ngu native rice, the MOF can use this rice to compete in domestic market especially niche market before it will expand to a new AEC market. The MOF will act as commercial leader of Kiaw Ngu native rice which it should produce under the brand name of the MOF. It is a state enterprise/organization well known for selling high-quality products, offering reliability to customers and partners. The brand name is effective on buyers' perceptions in terms of quality, value and willingness to buy product (Dodds et al., 1991). Moreover, a good brand name has reflected on the performance, social image, value, trustworthiness and identification, which consumers are willing to pay a higher price for it (Kotler et al., 2002; Aaker, 2004).

Thus, the competitiveness of GS.No.8974 in the future market has six aspects. The first is the unique characteristic of this rice that differs from other glutinous rice. Second, it has reliability under the brand name of the MOF. Third, this rice can be cultivated only in Chiang Rai province, and can offer an opportunity to export to the ASEAN member countries. Fourth, the consumers emphasize on the organic products more and more, which this rice does not respond to chemical fertilizer and it also resists to plant disease and insect. The fifth, this

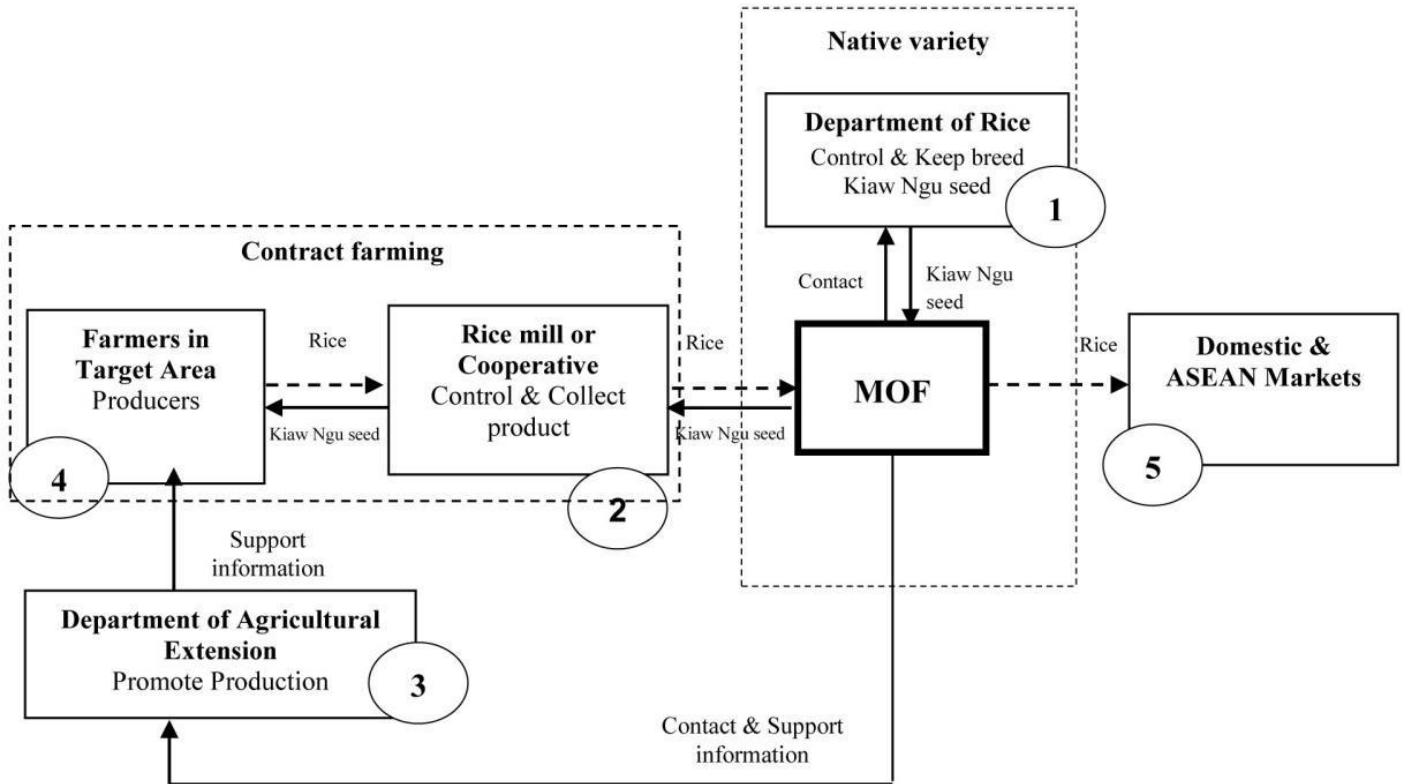


Figure 5. Structure of integrated production and marketing of Kiaw Ngu native rice variety (GS.No.8974).

rice can be sold in the quality market or niche market at a high price especially the dessert market, in which sticky rice with coconut cream is well-known among foreigners. Finally, this rice can grow in target area through integrated production, with its quality and quantity meeting the need of consumers.

Marketing channel of Kiaw Ngu glutinous rice (GS.No.8974)

One of the MOAC's policies involved the increase of the quality of agricultural products for preparing into the new AEC market. Therefore, the marketing channel of Kiaw Ngu native variety (GS.No.8974) should include the contract farming system (CF) because integrated production and marketing may contribute to achieve high efficiency which can control the quality of products from production to marketing parts. Moreover, contract farmers have the certainty of market, price and income. In addition, buyers got quality products on time and meet the requirement of buyers. However, the contract farming of many products has many problems such as contract farmers selling their products to outsiders and the buyers cannot collect products from farmers at the required number. In addition, contract farming involved with a written agreement between company and farmers, but is

seldom legally enforceable in practice (FAO, 2012; Glakuy, 2012; Kaur, 2014). Furthermore, Sriboonchitta et al. (2005) and Ruammek (2014) found similar problems of the contract farming namely growers lacked allegiance to the company, the companies delayed payment to contract farmers, and unpredictable weather that may affect the products. Even if the CF has many advantages and disadvantages as above, the MOF should learn these aspects more and more to be more responsive to this project.

Moreover, the MOF should include the CF in Kiaw Ngu glutinous rice (GS.No.8974) production because farmers in Chiang Rai Province have experienced CF system with many companies and many crops such as Japanese rice, bush beans, and soybeans. Therefore, the MOF can use this opportunity to expand the market or to promote this rice among local farmers. However, the MOF should set up collaboration with other organizations (Figure 5) in order to succeed in this production. Shah et al. (2003) described the two factors that are the most important for the company's successful business namely quality of product and relationship with their networks. Thus, the collaboration with other organizations within MOF should be first of all organizations would be the Department of Rice regarding seed production of this rice. The second organization is rice mill or cooperative regarding rice collection from contract farmers in the target area. The

third organization is the Department of Agricultural Extension regarding promoting knowledge of production. The fourth is the contract farmers who participate in cultivating this rice which the MOF should support to rice mill or cooperative to make a contract with them. The MOF will not contract directly with farmers due to potential intervention in the management process in the CF system. Moreover, farmers trust the cooperative or someone in the area who has a close relationship with farmers. However, the MOF has to sign a contract with all organizations. Finally, the MOF will distribute products to customers both in the ASEAN and domestic markets directly such as convenient stores, restaurants and Thai dessert shops.

This project is meant to prepare for the new AEC market. The MOF has plans that will expand the market for Kiaw Ngu native rice variety (GS.No.8974) in the neighboring countries such as Laos and Myanmar. However, the MOF has to succeed in the production of this rice and dominate the domestic market just like before.

Conclusion

Thailand has the potential in rice production for consumption in domestic markets and exporting to other countries. However, neighboring countries namely Laos, Vietnam, Myanmar, Indonesia, Malaysia and Cambodia have become rice competitors and partners of Thailand. Therefore, the MOF that is a state enterprise should select agricultural products for the niche market (top grade market) for competition and leadership in the market. The MOF selected Kiaw Ngu native rice (GS. No. 8974) as a potential product that can make a difference in the AEC market. Furthermore, in the current domestic market only modified rice is found. Therefore, it is a good chance for the MOF to create a new market for this unique rice. However, the MOF will start production of this rice for distributing to the domestic market beforehand. The initial stage of production may be difficult because local farmers have not yet seen the benefits of this rice production. However, they may participate in cultivating this rice by considering income and potential of the market in the future. In the first year of the project, the MOF should set up collaboration with other organizations. The second year, the MOF should demonstrate and propagate this unique species of rice. After that, the MOF should support rice mills or cooperatives to make contracts with local farmers. Moreover, the MOF should provide the extension officers to advise and make follow-up visits after recommendation of the new crop to farmers. The MOF can take advantage from marketing channel of this rice through the contract farming model to promote this native rice in its supply chain. It is possible to propose methods to develop its integrated trade. However, the MOF will succeed in this project when it

conducts this project continuously, which it can well coordinate with other agencies.

Conflict of interest

The authors have not declared any conflict of interest.

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