

An evaluation of the marketing and distribution channels
of the Mzuzu Coffee Planters Cooperative Union
(MZCPCU): Malawi

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by

Leman Abdulrazak Wyson Jussa (G09J3494)

Supervised by:

Simon Taylor

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ABSTRACT

Literature on the cooperative movement in Malawi shows that the first cooperative was established in 1947. Since the economy of the country depends on agriculture, most cooperatives were strongly developed in the fields of agricultural production, and processing and marketing. The first coffee cooperative was registered in 1950, known as the Nchenachena Coffee Producers Cooperative Society. After Malawi's independence in 1964, agricultural cooperatives were dissolved and government formed the Farmers Marketing Board (FMB) to take over all marketing activities of all crops, including coffee. The FMB was replaced by the Agricultural Development and Marketing Corporation (ADMARC) in 1967. After the dissolution of agricultural cooperatives, government saw the need for crop development and established Smallholder Coffee Authority in 1971. The Smallholder Coffee Authority worked up to 1999 when it collapsed because of administrative and financial problems.

Due to the failure of the Smallholder Coffee Authority, the government of Malawi reintroduced agricultural cooperatives in 1999. Mzuzu Coffee Planters' Cooperative Union was formed in 2006 following the re-introduction of cooperatives. The union is mandated to promote sustainable production, processing and marketing of Arabica coffee on behalf of the farmers. Since its inception, the output of coffee for export from the Mzuzu Coffee Planters Cooperative Union has increased from 156 tonnes in 2006 to over 400 tonnes in 2009.

The increase in coffee exports was not by mere chance but a number of factors contributed to this success. The main reasons for this success were:

- *Strong prior relationship between the growers and the buyers*

- *The uniqueness of the cooperative business model*
- *The unique taste and quality of coffee grown*
- *The introduction of a different approach to farming coffee*

Currently there is high demand for organic coffee and this could be a niche market that is not only rewarded with premium prices but also creates environmental friendly business. The union considers Fair Trade market as an alternative approach to conventional trade, aiming at improving the livelihoods of smallholder producers by improving payments, giving them fair prices and providing continuity in trading relationships.

DEDICATION

I dedicate this work to my wife Rose and my daughters Maymuna, Saidat, Halima and Falida for being such a cheerful and supportive companion. I say thank you for your support.

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- To my supervisor Simon Taylor, I say thank you for the good company you gave me and for the advice bestowed on me. You cleared the cloud when it was foggy. You gave me support when I needed it. You gave me courage when the road was rough and tough. I say thank you.
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- To my classmates in the 2008 and 2009 classes, thank you all for your wisdom shared during study group discussions.
- To all who gave me a hand during my research, I say thank you. MAY THE ALMIGHTY ALLAH BLESS YOU ALL.

DECLARATION

“I herewith declare this work to be my own work, that I have dully acknowledged all the sources I have consulted in this assignment and not only in the bibliography, that all wording unaccompanied by a reference is my own, and that no part of this assignment has been submitted to any university in partial or full satisfaction of the requirement for a subject or course or degree.”



Leman Abdulrazak Wyson Jussa

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LIST OF ACRONYMS

ADMARC	Agricultural Development and Marketing Corporation
AEDC	Agricultural Extension Development Coordinator
BPO	Business Promotion Officer
CAMAL	Coffee Association in Malawi
COMPASS	Community Partnerships for Sustainable Resource Management
EAFCA	East African Finest Coffee Association
FAO	Food and Agriculture Organization
FICA	Flanders International Cooperative Agency
FIDP	Farm Income Diversification Program
FOB	Free On Board
FOT	Free On Transit
FMB	Farmers Marketing Board
GoM	Government of Malawi
ICA	International Cooperative Alliance
ILO	International Labour Organization
MALEZA	Malawi Enterprise Zones Association of Malawi
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MCS	Malawi Coffee Shop
MK	Malawi Kwacha (local currency)
MZCPCU	Mzuzu Coffee Planters Cooperative Union
NGO	Non-Governmental Organizations
SCFT	Smallholder Coffee Farmers Trust
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UK	United Kingdom
USA	United States of America
USDA	United States Department of Agriculture

CHAPTER 1

1 INTRODUCTION

1.1 Context

Cooperatives are established to serve their members' needs by providing services not available or by improving existing services (United States Department of Agriculture [USDA], 1990). Smallholder farmers, for example, are likely to benefit from farmers' agricultural cooperatives because "cooperatives are aligned to the needs of members, who are both investors and consumers of the services" (Food and Agriculture Organization [FAO], 2009:1).

Scholars have different definitions of cooperatives and here only two definitions have been used. For example, Birchall (1996), cited in International Cooperative Alliance (ICA, 2009:17), defines a cooperative as, "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". Meyer (1999:1) defines a cooperative as, "a business owned and controlled by the people who use its services". These cooperatives are categorized into service and workers' cooperatives. A service cooperative provides services to its members, whereas the workers' cooperative creates employment for its members (Dunn, 1988).

Dunn, Crooks, Fredrick and Kennedy (2002) and Tchami (2007) consider cooperatives to be user-driven businesses that have contributed greatly to the development of agricultural systems and have strengthened market access and competitive returns for farmers during the 20th century. "In Africa, agricultural cooperatives promote an exchange economy by helping in developing markets in

remote rural areas” (United Nations [UN], 2009:9). If cooperative enterprises can succeed in Africa, they can make significant contribution to poverty alleviation (Develtere et al., 2008). For example, cooperatives create sustainable employment to over 100 million people worldwide (International Labour Organization [ILO], 2009). Thus, cooperatives have the potentials for creation of employment and income-earning opportunities for supporting immediate family as well as extended family members. According to Develtere et al. (2008), cooperatives can also create solidarity mechanisms to re-enforce the traditional social system and the social-economic empowerment by integrating the poor and the relatively well-off in the same income-generating opportunities, cooperatives. The socio-economic empowerment of the farming sector is a strategic mechanism for advancing the reduction of poverty and hunger as well as developing the rural economy.

In Malawi the first cooperative was established in 1947 and most cooperatives were engaged in farming and selling cash crops like coffee, cotton, tobacco, and food crops maize and rice. The first coffee cooperative was registered in 1950, and then the number of registered agricultural cooperatives grew tremendously between 1947 and 1963 (Government of Malawi [GoM], 1996).

After Malawi’s independence in 1964 agricultural cooperatives were dissolved following the formation of the Farmers Marketing Board (FMB) as a purchaser of peasant smallholders’ produce. FMB was replaced by the Agricultural Development and Marketing Cooperation (ADMARC) in 1967 (GoM, 1996). However, in 1999 Government of Malawi reintroduced agricultural cooperatives (Chirwa, Dorward and Kydd, 2007), and presently there are 410 agricultural-based cooperatives.

Following the re-introduction of agricultural cooperatives, a Smallholder Coffee Farmers Trust (SCFT) was established and later became the Mzuzu Coffee Planters Cooperative Union (MZCPCU) in 2006 (Malawi Coffee Shop [MCS], 2008). “The MZCPCU is an apex organization that links the five primary coffee growers’ cooperatives of Misuku, Phoka, Viphya North, South East Mzimba and Nkhata-Bay Highlands in the northern region” (Chirwa et al., 2008:2). The MZCPCU is mandated to advance sustainable production, processing and marketing of Arabica coffee on behalf of the farmers.

Since its inception the coffee output for exports from the union has increased from 156 tonnes in 2005/06 to 410 tonnes in 2009 (GoM, 2009). The aim of this study, therefore, was to determine the factors that have contributed to the increased exports by evaluating the marketing and distribution channels of the union.

1.2 The Research Goals and Objectives

The purpose of the research was to determine the factors contributing to the success of the union with regard to increased coffee exports. On the assumption that the marketing and distribution functions are key areas in exports, the evaluation targeted the marketing and distribution functions of the union. The specific objectives of the study were:

- To explain the Mzuzu Coffee Planters Cooperative Union business model.
- To discover and describe coffee marketing activities.
- To examine the distribution networks of the Mzuzu Coffee Planters Cooperative Union.

1.3 Research Questions

The record of success of increased coffee exports has attracted a lot of questions about the MZPCU with regard to its success factors for the increased coffee exports. The key question was how the union managed to increase its exports within a space of three years. In relation to that key area, the following questions were developed:

- What is the union's business model?
- What are the main coffee marketing activities?
- What roles do the marketing and distribution channels play in exporting coffee?
- How does the union manage its marketing and distribution channels to achieve such great success?
- What other factors have contributed to the increased coffee exports by the union?
- Are there any challenges that the union faces in coffee production, processing, marketing and distribution, and how have they managed them?

The researcher was of the view that answers to these questions would help to meet the specific objectives of the study.

1.4 Research Justification

On completion, this study would assist the 3 500 smallholder coffee farmers who are members of the five primary coffee cooperatives. Some farmers directly participated in the research process. The results would provide a framework for the strategic marketing, and policy formulation and implementation for coffee growers' cooperatives. Lessons learnt will be shared with the Ministry of Industry and Trade for the development of agricultural cooperatives in Malawi.

1.5 Outline of the Thesis

Below are the details for the chapters following the introduction:

Chapter two presents an overview of literature on the cooperative concept, marketing and distribution concept, and the business model concept. These concepts serve as a guiding tool in evaluating the marketing and distribution channels for the union. The history of the Mzuzu Coffee Planters' Cooperative Union is also included in the chapter.

Chapter three discusses the methodology used in the study. It includes a discussion of the research aims and objectives, research questions, and the description, justification of the research design, ethical consideration and limitations of the study.

Chapter four gives the findings of the research from interviews, focus group discussions and document analysis.

Chapter five presents the discussions of the findings. This is an interpretation of the findings and the literature on the three concepts: cooperative concept, marketing and distribution concept and the business model concept.

Chapter six gives the conclusion, recommendations, lessons from the research and possible areas for further research.

CHAPTER 2

2 LITERATURE REVIEW

2.1 Introduction

The previous chapter discussed the reason for this research, the research justification and goal. This chapter will conduct a literature review of the key issues of the study. The first key issue discussed is the cooperative concept and includes the overview of the background and definition of cooperatives. The second one is the brief history of the Mzuzu coffee union which started in 2006 and its achievements. The third key issue in the chapter is the business model concept. The last discussion in the chapter is about the marketing and distribution concept. The discussion on this concept includes the definition, functions and types of marketing channels and the choice for a marketing channel. The structure of the chapter is as follows: Section 2.2 is the discussion of the cooperative concept, followed by section 2.3 which gives a brief history of Mzuzu coffee union. Then section 2.4 explores the business model concept while section 2.5 is the discussion of the marketing and distribution concept.

2.2 The Cooperative Concept

2.2.1 Overview of coffee and cooperatives

“Agriculture remains the backbone of most economies in the least developed countries with agricultural exports being the principal sources of foreign exchange earnings” (Warren and Strokes, 1985, cited in Tilahun, 2007:2). Agricultural exports mostly consist of raw produce, like tobacco, cocoa, coffee, cotton, rice and many other cereal crops. According to the Nationmaster (2010), coffee is the largest export product on the world agricultural market.

Over 2.28 billion cups of coffee are consumed daily due to activist pressure and the expanding specialty coffee market (Conroy, 2001; Dicum and Luttinger, 1999, cited in Bacon (2005). According to Nationmaster (2010), Petroleum is on top of the top-ten selling commodities and coffee beans come second with annual retail value of US\$80 billion.

“The total world coffee production in 2008/09 growing season was estimated at 128 million (60kg) bags for a total demand of around 130 million bags; and about 125 million bags were projected for 2009/10 growing season” (East African Finest Coffee Association [EAFCA], 2010:5). According to EAFCA (2010), Brazil is the largest coffee producer accounting for 37% of coffee production in the 2008/09 crop year followed by Vietnam and Indonesia at 15% and 7.5% respectively. In Africa, Ethiopia is the largest coffee producer with 270,000 tonnes and Malawi is seventh with 1400 tonnes, as indicated in Table 1.

Table 1: The ranking of coffee production and consumption in EAFCA countries

Rank	Production vs. Consumption in EAFCA Countries (Figures in Metric Tonnes 2009)	Production In Tonnes	Consumption In Tonnes
1	Ethiopia	270,000	135,000
2	Uganda	198,000	8,400
3	Kenya	57,300	3,000
4	Tanzania	55,020	2,820
5	Rwanda	22,000	60
6	Burundi	6,000	120
7	Malawi	1,400	120
8	Zambia	1,400	60
9	Zimbabwe	500	240
10	South Africa	50	22,000
	Total	611,670	171,800

Note: Consumption (including imported coffee)

Source: EAFCA Coffee Outlook, 2010

“Most rural households in the developing countries are dependent on agriculture. Rural households in Ethiopia, Malawi, and Vietnam, for example, derive about three-quarters of their income from agricultural activities, mainly subsistence farming; wages are the second-largest income source, with some of the wage income originating in agriculture” (Aksoy and Beghin, 2005:20).

Malawi is an agricultural-based economy with 85% of export revenue coming from agriculture and employs over 80 percent of the work force. Most of the agricultural produce comes from smallholder farmers. The agricultural exports include tobacco, tea, macadamia nuts, cotton, coffee and sugar being the major exports which come from both commercial estates and smallholder farmers (Malawi Confederation of

Chambers of Commerce and Industry [MCCCI], 2010). Around 85 percent of Malawian coffee is produced on large estates in the south, while the rest of 15 percent is produced mostly in the north by smallholder farmers. Notwithstanding the reality that Malawians coffee farmers have been in commercial coffee industry for over 100 years, plantation workers and workers in the smallholder coffee sub sector receive very low wages, mostly below the poverty line for a normal family (GoM, 2010). For example, in Malawi, 8 percent of total income is from wages and 3 percentage of that income is from agriculture (Aksoy and Beghin, 2005). According to the MCCCI (2009), a 2008 survey showed that over half of all adults (aged over 18) earned less than MKW 5,000 (USD 36) per month in cash income, and 30 percent earned less than MKW 2,500 (USD 18) per month.

Malawi's coffee production and exports have been fluctuating over the years. For instance, in 2006 the total production was 1885.52 tonnes and exports were at 1448.13 and in 2007 production were at 2320.92 tonnes while exports were at 1990.81 tonnes representing a production growth rate of 23 percent and export growth rate of 37.47 percent respectively. In 2008 coffee production decreased to 2140.22 tonnes giving a negative growth rate of 8.44 percent and exports declined by 7.57 percent to 1840 tonnes. Then, in 2009, coffee production in the industry decreased further by 29.91 percent to 1500.01 tonnes and exports fell by 21.2 percent to 1450 tonnes. The fluctuating pattern is also evident in terms of MZCPCU coffee exports which increased from 260 tonnes in 2006 to 355 tonnes in 2007, then decreased to 343 tonnes in 2008 and increased again to 410 tonnes in 2009 representing export growth rate of 36.54 %, (3.38), and 19.53 percent respectively (MCCCI, 2010; MZCPCU, 2010). Since coffee production in Malawi is labour intensive (Chirwa et al., 2008),

and that coffee is the fourth foreign exchange earner (MCCCI, 2009), it is likely that the growth in coffee exports from the MZCPCU brought in an increase in job creation to the rural work force, increased income to smallholder coffee farmers, increased revenue to the MZCPCU and increased foreign exchange to the nation. Figures of revenue accruals were considered confidential, hence not presented.

In most countries worldwide, smallholder farmers conduct their business activities together in the form of cooperatives and associations (USDA, 2007). According to USDA (2007), agricultural cooperative business model are used for market outlets and sources of input supplies. Most smallholder farmers, for example, are likely to benefit from farmers' agricultural cooperatives because "cooperatives are aligned to the needs of members, who are both investors and consumers of the services at reasonable cost" (FAO, 2009:1). Therefore, cooperatives are established to serve their members' needs by providing services that are not available or by improving existing services (International Labour Organization [ILO], 2009).

2.2.2 Background of cooperatives

"In many countries and in many sectors around the world, the cooperative enterprise is growing in membership, capital and turnover. Cooperatives are contributing in a significant way to maintaining and creating new jobs and thus securing family incomes" (ICA, 2009:1). The concept of cooperatives is not a new phenomenon and goes back to 1844 when the Rochdale Society of Equitable Pioneers was formed as the first consumer cooperative (Frederick, 1997). Cooperatives make significant contribution to the economies of most African countries (Develtere, Pollet and Wanyama, 2008).

2.2.2.1 Definition of cooperatives

Scholars have different definitions of cooperatives (Frederick 1997). For example, Birchall (1996, cited in ILO, 2009:10) defines cooperatives as, “autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”. The United Nation Food and Agriculture Organization (FAO, 1998:5–6) defines cooperatives as, “autonomous, self-help and independent organizations owned and controlled by their members who can also enter into agreements with other organizations, including governments to raise capital from external sources through their democratic control for the purpose of carrying out economic activities”. Meyer (1999:1) defines a cooperative as, “a business organization that is owned and controlled by the people who use its products, supplies or services”. The key elements in these definitions are ownership and control, and the definitions have been used to give a clear picture of the nature of business.

2.2.2.2 Formation of cooperatives

“Cooperatives are formed in response to an economic need such as providing marketing, processing, bargaining, manufacturing, and purchasing services not currently available, or available only at excessive cost” (Rapp, 1995:1). This means that people form cooperatives to obtain services that they cannot get if they work individually. Cooperatives therefore can be considered as one of the reliable strategies that can be used in solving or addressing common problems that cannot be handled by individual persons.

2.2.3 Cooperative norms and values

The uniqueness of cooperatives is seen in the set of norms (FAO, 1998), which include self-help, collective effort (solidarity), equity, equality and democracy. Firstly, the norm of self help is about people having the desire and ability to improve their lives and those around them through working together. Secondly, the norm of collective effort is about cooperative members who become more powerful than an individual acting alone. It is the responsibility of every individual member to see to it that they give support to one another for their own success. Members undertake to do an activity with the best of their abilities, rather than waiting for others to do it for them. Thirdly, the other norm is about equity whereby rewards for active membership are distributed fairly through patronage refund and dividends after the society has allocated its surplus as reserve funds. Fourthly, norm of equality is about cooperative members having equal rights and opportunities to participate fully in the cooperatives' activities. Lastly, democracy is about giving all members the right to participate, to be informed or consulted and to be involved in making decisions. However, members have the ultimate control of the cooperative by using their votes (one member one vote) to elect their representatives to the board, and divisional and regional committees.

Traditionally, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others (Frederick, 1997). Honesty in dealing with customers and suppliers, reliable quality and fair prices build up a good reputation as a trustworthy organization. Trustworthiness requires cooperatives to be open, to disclose information about their products and services and the way they are organized

to enable all stakeholders to fully participate and contribute as customers, as members or as workers. The third value is about social responsibility of the cooperatives. This value recognizes that cooperatives are an important part of wider society and have responsibilities towards the development of the surrounding communities in which they operate.

2.2.4 The generic cooperative principles

Rochdale Society of Equitable Pioneers developed the following cooperative principles according to Frederick (1997):

- Open membership
- One member one vote
- Cash trading
- Membership education
- Political and religious neutrality
- No unusual risk assumption
- Limitation on the number of shares owned
- Limited interest on stock
- Goods sold at regular retail prices, and
- Net margins distributed according to patronage.

According to Dunn et al. (2002), these principles were used to define the essence of a cooperative enterprise and the framework for assessing cooperative actions. The cooperative principles guide members' behaviour and decision making. FAO (1998) developed another set of core principles for cooperative businesses and these are: autonomous, self-help, independent organizations and democratic member control.

The ILO (2009) recognizes seven principles that cooperatives subscribe to which include: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. According to the ILO (2009), the first four of these are core principles without which a cooperative would lose its identity because they guarantee the conditions under which members own, control and benefit from the business. Cooperatives believe in democratic control by their members who participate actively in setting policies and making decisions. The men and women who serve as elected representatives are accountable to the other members; all cooperative members have equal voting rights (one member one vote).

2.2.5 Similarities and differences between cooperative and other business forms

In many ways, cooperatives are different from other businesses because:

- Cooperatives are expected to run on cooperative principles. Essentially cooperatives are meant to promote the economic activities of the community in a unique manner of 'one member, one voice' as opposed to voting powers based on the number of shares held by individuals (Frederick, 1997).
- Cooperatives are expected to contribute to and work for the sustainable development of their communities through policies approved by their members. Usually cooperatives are considered to be "an alternative business model which instead of focusing on profit, focuses on people by aggregating the market power of people while guiding its operations on the basis of the cooperative values and principles" (ICA, 2009:1). According to the ICA (2009), the development of cooperative societies has the potential to improve

the living standards of the semi-urban and the rural community through cooperative enterprises, because cooperatives especially in the rural areas exist to provide benefits to members with non-profit motive.

- The ICA (2009) regarded cooperatives as businesses aligned to the needs of members, who are both investors and consumers of the services. Cooperatives provide over 100 million job opportunities especially in Africa (Wanyama, Fredrick and Develtere, 2009). Cooperatives in the farming sector have a big role to play in transforming the rural economy (Pinto, 2009). Pinto (2009) commented that cooperatives are the most relevant organizational form for small and medium-scale farmers and agricultural cooperatives are organized to supply or market cooperative members' produce and contribute to the development of rural areas.

However, Frederick (1997) recognizes cooperatives as similar to other businesses in terms of physical facilities, functions, business practices, and they are incorporated under state laws to grant them the right to do business.

2.2.6 Types and levels of cooperatives

Cooperatives exist in two major categories: service and workers cooperatives based on the purpose of their establishment (economic activities). Service cooperative provides services to its members whereas the workers cooperatives create employment for its members (Tchami, 2007). Producers' and marketing cooperatives and consumer cooperatives are good examples of service cooperatives (USDA, 1991). Producers' and marketing cooperatives include agricultural cooperatives while

consumer cooperatives include financial cooperatives. Financial cooperatives provide their members with savings and credit services (ICA, 2009).

Cooperative societies are either at primary level, secondary/union level or tertiary level, depending on the nature of membership (Tchami, 2007). According to Tchami (2007), at primary level cooperative membership consists of individuals; at secondary level (union) the cooperative membership consists of primary cooperatives; and at tertiary level a cooperative has unions as its members.

2.2.7 The role of agricultural cooperatives on rural development

Agricultural-based cooperatives enable farmers to pool limited resources together for the members' benefits. In Africa, cooperatives are the popular economic and social organisations for the alleviation of poverty (Develtere et al., 2008). Meanwhile, agricultural-based cooperatives account for a significant part of agricultural production in Africa (ICA, 2009) and, in Africa, agricultural cooperatives promote an exchange economy by helping develop markets in remote rural areas (UN, 2009). For cooperatives to serve their members most effectively and strengthen the cooperative movement, they must work together through local, national, regional and international structures (Chambo, 2009).

2.2.8 Cooperative governance

Governance relates to decisions that describe the expectations of owners, give power of control and ensure that the performance of the organisation meets the intended outcome. There are three strands of governance which are more relevant to the cooperative business model. These focus on (a) benefits to owners, (b) relationship

with various stakeholders, and (c) social responsibility. With emphasis placed on benefits to the owners, Pellervo (2000) views corporate governance as the steps taken by the owners of a company to ensure that it produces for them the best possible benefit.

In a slightly different view that pronounces relationship, Claessens (2003:5) define corporate governance as “the relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations”. According to Claessens (2003), corporate governance would also cover the issue of corporate social responsibility, including such aspects as the transactions of the firm with deference to traditions and the environment.

Cooperatives as organizations are owned by members who use its services and are expected to adhere to the cooperative principles and values to maintain their cooperative identity. The cooperative principles set the conditions for defining members’ ownership, control and distribution of benefit from the business. In this light, Henry (2005) considers the cooperative principles as the basis for the core legal and governance standards in terms of composition and powers of the board of directors, audit provision and membership rights.

According to Kabuga (2010:10), “cooperative governance is about ways in which authority and controls, together with rights and responsibilities, are shared, exercised and monitored by the parties to corporate governance. The principal parties include the shareholders, the board of directors, the chief executive officer, managers and employees (staff)”. Therefore, the management and administration of cooperatives is

the responsibility of the members, board of directors and management staffs. There is a very close link among these three groups. None of the three components can function effectively without the support of the other. The cooperative members are the legal owners of the cooperative society and they have controlling authority over the society. The society's success or failure depends to a greater extent on the support the members give to the society. These members plan and form a society. It is the members too, who receive the benefits of very gainful cooperatives business. Therefore, the members are the key to very successful cooperative enterprises.

In a cooperative organisation, the supreme authority resides with the shareholders (cooperative members) and they exercise that authority at the Annual General Meeting (AGM). The General Assembly of Members is held annually which elects the Board of Directors from amongst the membership. The board is a governing body in the cooperative and their responsibilities include hiring, monitoring of management performance and setting of policy direction which incorporate marketing and distribution. The paid management reports to the Board. In most cooperatives, the success or failure depends largely on management competence. The management team is headed by the Chief Executive Officer (CEO).

In discussing the role of a Board of Directors in cooperative governance, Carver (2002 cited in Kabuga 2010) suggests four categories of policy governance model. The model provides a useful guideline on how the board ought to delegate and monitor the use of delegated authority to the paid management. The four policies are:

- Policies that guide the Board's own internal operations (governance process policies). These spell out the Board's expectations of itself; assure performance through self-discipline and demand honouring the self-imposed rules through continuous board / stakeholder interaction all the times.
- Policies that define the board's relationship with the general manager board/general manager/CEO linkage policies). These spell out how the Board passes on power and responsibility to management, what is expected of management and how management should be compensated and evaluated.
- Policies that spell out what decisions and activities are reserved for the board (*executive limitations*).
- The fourth set of policies is that guide the manager about what should be accomplished (*ends policies*). In this category, the benefits or results that the cooperative organization must deliver to its shareholders are articulated. The anticipated benefits/results serve as criteria against which performance is evaluated.

If this governance framework is properly conceived and executed, it has the potential of producing the most desirable governance results (Kabuga, 2010). Normally, investor-owned firms are associated with good governance principles like transparency, integrity, accountability and fairness. However, these principles are also applicable to cooperatives and they are related to the cooperative values and norms.

Like other business sectors, recuperating governance principles for cooperatives is now becoming a main concern and is progressively more debated within the cooperative movement (Shaw, 2006). The significance of corporate governance on

cooperative societies is supported by various researches. For example, Gatamah (2003) wrote about governance, citizenship and social responsibility in Africa, Shaw (2006) wrote an overview of corporate governance issues for cooperatives, Pellervo (2000) published an article on corporate governance and management control in cooperatives, and Cloete and Kulati (2003) in Amaral, Meek and Larsen (2003) wrote on managerialism within a framework of cooperative governance. For more detailed literature on cooperative governance also refer to Cueva and Fisher (2006); Develtere and Pollet (2004).

2.2.9 History of coffee farming and agricultural cooperatives in Malawi

2.2.9.1 Introduction

The history of coffee farming and cooperatives is discussed in four time-line segments. The first segment comprises the pre-independence era between 1800 and 1963; events after independence follow between 1964 and 1993. The third segment embraces discussions of the events between 1994 and 2003, and the fourth segment includes discussions on the formation of Mzuzu Coffee Planter Cooperative Union in 2006.

2.2.9.2 The pre-independence era between 1800 and 1963

According to Chirwa et al. (2008:1), “coffee production in Malawi is dominated by a small number of large-scale commercial estates, located mainly in the Southern region of the country. In contrast, in the Northern and Central regions, coffee is grown predominantly by large numbers of smallholder farmers on customary land”.

Coffee came in Malawi in the 1800s and it was first grown in areas of the Southern region mostly Blantyre and later on it was picked up to northern region with the missionaries. According to Bigger (2006:18), “the basis of a flourishing coffee industry in Nyasaland (Malawi) was introduced by a Scottish missionary, John Buchanan of the Universities Mission who took a single tree of coffee from the Edinburgh Botanic Gardens to Nyasaland in 1878”.

Palmer (1985) and Waller et al. (2007) reported that small farming communities grew coffee in the Southern region of Malawi in the 1890s. According to Palmer (1985:214) “coffee briefly boomed, but the peak year was as early as 1900, when over 2 million lbs were exported. Thereafter the industry rapidly collapsed as a consequence of impoverished soils, pests and diseases, and Brazilian competition”.

Prior to independence, Africans were almost totally absent in the ownership and management of larger scale enterprises, whether in the public or private sectors (Kydd and Hewitt, 1986). In 1946 the cooperative movement started when a cooperative ordinance was passed by the colonial government (GoM, 1996). Malawi being an agricultural country, most cooperatives were developed and engaged in farming and selling cash crops such as coffee, cotton and tobacco, and food crops like maize and rice (GoM, 1996; Chirwa et al., 2008). With the participation of smallholder farmers in cooperatives, coffee production grew strongly in the 1950s. According to the Government of Malawi (1996), the first coffee cooperative was registered in 1950 and was known as Nchenachena Coffee Producers Cooperative Society.

2.2.9.3 After independence under the one party rule between 1964 and 1993

Kydd and Hewitt (1986:349) observed that “a striking feature of Malawi’s post-independence economic development was the rapid development of estate agricultural sectors”. For the smallholder sub sector, the government formed an organization called the Farmers Marketing Board (FMB) responsible for purchasing of both cash and food crops grown by peasant smallholder farmers (GoM, 1996). In 1967, the Farmers Marketing Board was replaced by the Agricultural Development and Marketing Cooperation (ADMARC). Agricultural cooperatives were left to die naturally in the hands of the newly formed giant government organization, ADMARC. Due to political interference all agricultural cooperatives were completely dissolved in 1971. Then government established state-owned enterprises known as smallholder crop authorities for all cash crops including coffee (GoM, 1996). The dissolution of agricultural cooperatives paved way for the development of financial service cooperatives called Savings and Credit Cooperatives (SACCO). The first SACCO was initiated by missionaries in the early 1970s (GoM, 1996).

After the dissolution of agricultural cooperatives, government saw the need for crop development and established crop authorities owned by the state. One of the crop authorities established in 1971 was the Smallholder Coffee Authority (SCA) to provide extension and marketing services, and input loans, to smallholder coffee farmers. The SCA did not live long; it was disbanded in 1974 because of administrative problems. However, the SCA was re-established in 1979 with the assistance of the British Commonwealth Development Corporation.

The economy of Malawi in 1979 had a large deficit on the overall balance of payments (Kydd and Hewitt, 1986) and therefore, in 1980 the World Bank and the IMF approved a loan agreement with the Government of Malawi under the Structural Adjustment Lending (SAL) program. According to Kydd and Hewitt (1986:348), “the loans were designed to assist borrowing countries meet the transitional costs of adjustment, and act as a catalyst for the inflow of private capital”. The loans to Malawi Government were disbursed over two years; a loan in 1982 and a second loan in two portions, one in 1983 and one in 1989.

2.2.9.4 The first decade of the multiparty democratic era between 1994 and 2003

The second phase of SCA started in 1979, as mentioned above, and operated up to 1999 when it collapsed again because of administrative and financial problems. At that time the government had already established under the World Bank a reform program of privatization, a condition that was attached in the 1989 loan. “The smallholder coffee sector is one of the sectors that underwent reforms under the auspices of the Privatization Commission” (Chirwa, Dorward and Kydd, 2007:2). According to Chirwa et al. (2007), the restructuring and commercialization of state-owned enterprises started in the late 1980s, and government established the National Privatization Policy in 1995 and the Public Enterprises (Privatization) Act of 1996. By mid 1999, the government reintroduced agricultural cooperatives and formed the Smallholder Coffee Farmers Trust (SCFT).

2.2.9.5 The formation of Mzuzu Coffee Planters Cooperative Union in 2006

Following the re-introduction of agricultural cooperatives in 1999, an agricultural cooperative union was established by transforming the SCFT into the Mzuzu Coffee

Planters Cooperative Union (MZCPCU) in 2006 (MCS, 2008). Officially farmers took over ownership of the cooperative from 2006, but started operations in April 2007 as Mzuzu Coffee Planters Cooperative Union.

2.3 Mzuzu Coffee Planters Cooperative Union

2.3.1 Background of the country

Malawi has an agriculture based economy with the agricultural sector contributing 38.1% to the total GDP and 85% of export revenue (Central Intelligence Agency, 2010). Agricultural products for exports come from both commercial estates and smallholder farmers, with tobacco, tea, macadamia nuts, cotton, coffee and sugar being the major exports. Malawi's Arabica coffee is the fourth most important export crop in the country (MCCCI, 2010).

As mentioned in section 2.2.9.5 the SCFT was transformed into the Mzuzu Coffee Planters Cooperative Union (MZCPCU) in 2006. The MZCPCU is currently an apex organization for the five primary coffee growers' cooperatives of Misuku, Phoka, Viphya North, South East Mzimba and Nkhata-Bay Highlands in the northern region of Malawi. According to MZCPCU (2010), the five primary cooperatives provide its members with coffee seedlings, farm inputs, farmer mobilization services and primary processing of the coffee. Coffee is transported and sold to MZCPCU for secondary processing and marketing.

2.3.2 Achievements of MZCPCU

Currently, the union processes and packs coffee in its own brand 'Mzuzu Specialty Coffee' for the local market and exports green coffee beans to international markets. Mzuzu Specialty Coffee, which is packed in eye-catching re-sealable red and gold foil, is sold to supermarkets, hotels and other national outlets (Dale, 2006 and MZCPCU, 2010).

According to the MCCI (2009), coffee production in Malawi in the 2008/09 season was 1500 tonnes, of which 100 metric tons were distributed on the local market. From this total production, Malawi exported 1400 tonnes, and MZCPCU contributed 400 tonnes to the export figures of 2008/09 compared to about 100 tonnes exported in 2005/06 season (GoM, 2009; MZCPCU, 2010). The future of coffee contribution to the economy of Malawi is therefore very bright. But how does the union operate to achieve such a great success? What is the business model used that has brought these achievements?

2.4 The Business Model Concept

The concept of a business model facilitates analysis of the way in which a firm derives economic value (Rasmussen, 2007). There is no generally accepted definition of a business model (Morris, Schindehutte and Allen, 2003). For instance, Chesbrough and Rosenbloom (2002, cited in Rasmussen, 2007:3) define a business model as "the construct that mediates the value creation process between the technical and economic domains, selecting and filtering technologies and packaging them into a particular configuration to be offered to the market". Rasmussen (2007) quotes the six functional components of a business model suggested by Chesbrough and

Rosenbloom (2002, cited in Rasmussen, 2007) as: value proposition, market segments, value chain, cost structure and profit potential, value network and competitive strategy. Morris, Schindehutte and Allen (2003:727) define a business model as “a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture and economics are addressed to create sustainable competitive advantage in defined markets”. Morris et al. (2003) proposed a framework consisting of three decision making levels called foundation level, proprietary level and rules level with six decision components of a business model. Lambert (2010) considers that what is common in all business model frameworks and definitions is the concept of value, and that a business model encompasses what the enterprise offers its customers in terms of value and how it is delivered; be it products, services or information or a combination of all three. In view of the value creation and how it is delivered, the Porter’s (1985) value chain model would be another tool for such analysis. The value chain analysis of Porter is a model that helps to evaluate particular activities through which firms can generate value and competitive advantage. Value creating through the generic categories of activities is valid in all industries (Porter, 1985). However, the specific activities undertaken by a firm depends on the industry in which it operates.

Looking at these definitions and the proposed components of business models, one would find that the descriptions are focusing on the provision of a clear and explicit account of how the company creates value, and how the operational and tactical strategies complement each other to deliver the value and generate revenues. Most of the models feature an element of how profit is made by the enterprise. Unlike the

integrative framework developed by Morris et al. (2003), it does not include the element of profits but talks about how the firm makes money.

The findings in chapter four will be presented and discussed following a pre-determined integrative framework developed by Morris et al. (2003). The components simply guided the presentation of the findings, but the actual sub themes were developed from the issues presented by the research participants.

The six components in the framework are:

- How will the firm create value?
- For whom will the firm create value?
- What is the firm's internal source of advantage?
- How will the firm position itself in the market place?
- How will the firm make money and what are the entrepreneur's time, scope and size ambitions?

2.5 Marketing and Distribution Concept

2.5.1 Introduction

The following sections give a detailed account of the marketing and distribution functions. The details include the definition of marketing and distribution channels, the functions of marketing channels, marketing channel structures, alternative marketing channels arrangements, the marketing channel strategy decision and the levels of distribution intensity.

2.5.2 Definition of marketing and distribution channels

Definition of Marketing

Palmer (2000) believes that there are many definitions of marketing, which primarily revolve around satisfying customers' needs as part of an exchange process. For instance, the Chartered Institute of Marketing defines marketing as, "the management process which identifies, anticipates and supplies customer requirements efficiently and profitably" (Palmer, 2000:3). The American Marketing Association (AMA) defines marketing as, "the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives" (Lamb, Hair, McDaniel, Boshoff and Terblanche, 2008:4).

The importance of marketing cannot be over emphasised. It is a basic function of every organization as Drucker (1973, cited in Wilson and Gilligan, 1998) puts it in a definition for marketing: that marketing is so basic that it cannot be considered a separate function from manufacturing or personnel. It is a central dimension of the entire business from the point of view of its customers who buy the products. One important element from the definition of marketing by AMA is that the objectives of organizations and individual customers need to be satisfied. As such marketing must be a continuous process because the needs and wants of consumers for goods and services are ever changing over time. Producers must keep their eyes and minds open and be alert to the changing customers' needs.

Based on the definition of marketing by AMA in Lamb, Hair, McDaniel, Boshoff and Terblanche (2008), the main marketing functions of an organization can be deduced as product concept development, pricing, promotion and distribution.

Definition of marketing and distribution channels

A marketing channel has been defined as, a system of relationships existing among businesses that participate in the process of buying and selling products and services (Bowersox and Cooper, 1992, cited in Palmer, 2000). Lamb et al. (2008:262) define marketing channel as, “a large pipeline through which products, their ownership, communication, financing and payment and accompanying risks flow to the consumer”. According to Lamb et al. (2008), a marketing channel, also called a channel of distribution, is a business structure of independent but interdependent firms which enable products to reach the final consumers. According to Palmer (2000), people and organizations involved in the process of transferring title of a product from the producer to the consumer are referred to as intermediaries.

2.5.3 Functions of marketing channels

The generic value chain of an organization describes the activities involved in the manufacture, marketing, and delivery of a product or service by the firm. It is rare for producers to control all these activities themselves, and therefore marketing channels play a vital part in boosting the value addition (Palmer, 2000). Lamb et al. (2008) identify three essential functions of the intermediaries in the marketing channels: transactional functions, which involve contacting and communicating with prospective buyers about the existing products, their advantages and benefits; logistical functions, which include sorting products, accumulating and allocating them

according to grades or features; and facilitating functions, which include research for information about buyers and buyers needs, and financing channel members. In order to decide whether manufacturers should undertake their own distribution direct to consumers or whether it would be more efficient and effective to use intermediaries, it is necessary to understand these functions of the intermediaries. Perhaps the most significant role of channel intermediaries is to reconcile the differing needs of manufacturers and consumers (Palmer, 2000).

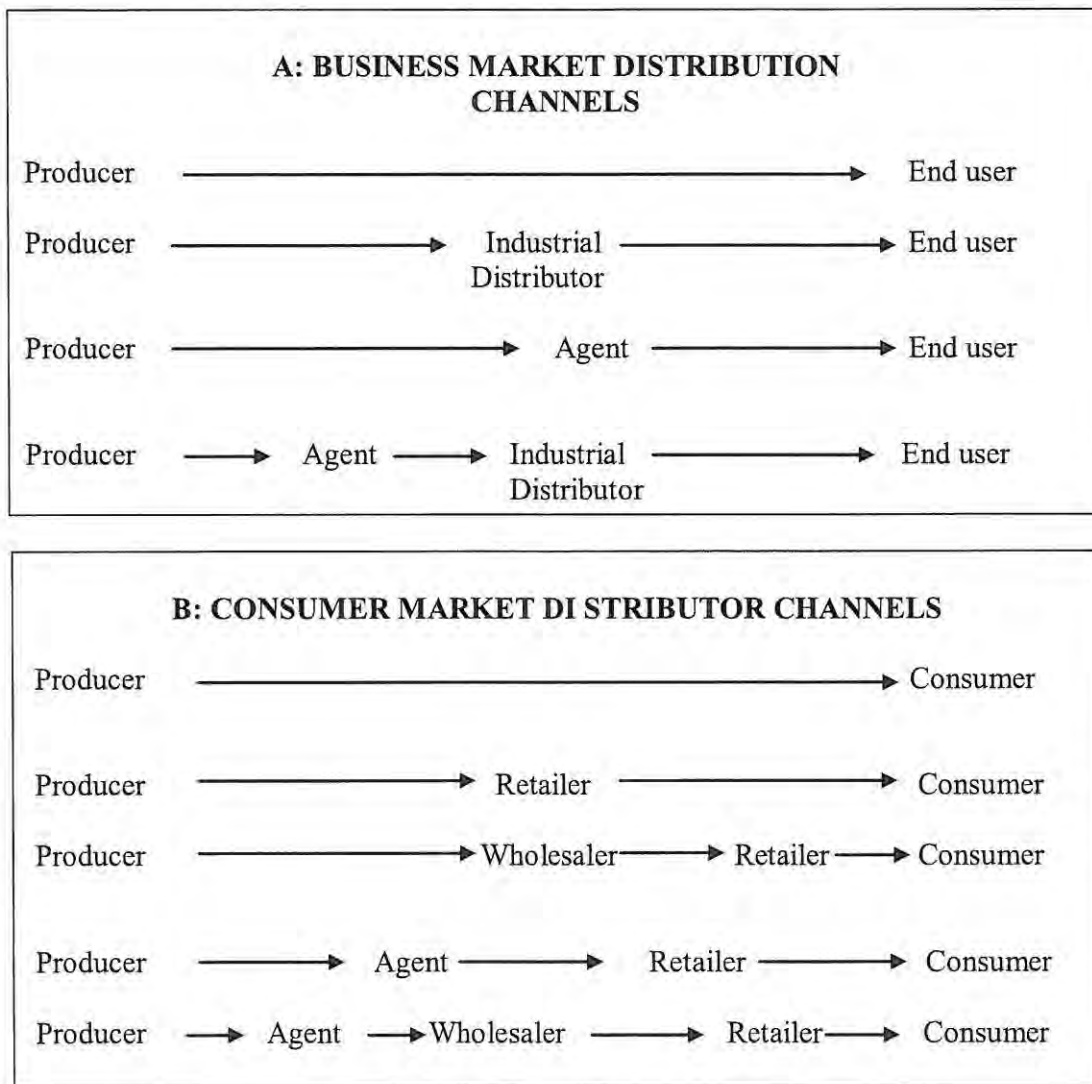
2.5.4 Types of marketing channels

Ideally, marketing should result in a customer who is ready to buy and all that is needed is to make the product or service available (Drucker, 1973). Products made by business organizations like cooperatives may pass through a number of hands or intermediaries. Each stage of intermediaries has its own costs and value added to the product. According to Palmer (2000), value adding can be done by adding further components, changing the form of a product, or adding ancillary services to the product offer. Porter (1985) argues that value can be added at any stage during the movement of goods from suppliers (of raw materials or components), through the manufacturing organization and on to the end customer.

Managers can choose from among three generic marketing channels (Doyle, 1998). According to Doyle (1998), the three generic marketing channels are direct marketing, use of independent sales force team and use of channel intermediaries. Lamb et al. (2008) identify four generic marketing channel structures similar to those suggested by Doyle (1998). The four channels are: direct channel, retailer channel, wholesale channel and agent/broker channel. However, Lamb et al. (2008) point out that

marketing a consumer convenient product (consumer market) differs from marketing a speciality product (business market). The nature of marketing channels depends on the category of markets being served. An integration of the two marketing channel perspectives gives simplified marketing channel structures that fit in the two market categories. The marketing channels for the two market categories are listed in figure 1 as suggested by Lamb et al. (2008).

Figure 1: The marketing channels for A: consumer market and B: business market.



Source: Lamb et al. 2008:265

2.5.5 Alternative marketing channels

Rarely does a manufacturer use just one type of channel to move its products. It usually employs several different or alternative channels (Lamb et al., 2008). Lamb et al. (2008) identify four alternative marketing channels: multiple channels, non-traditional channels, strategic channel alliance and reverse channels. According to Lamb et al. (2008), multiple channels exist when a manufacturer uses two or more channels to move the same products to target markets; non-traditional channels exist when internet, mail order and other non-traditional channels are used. Strategic channel alliance is established by creating a marketing channel relationship with already existing channels. Finally, the reverse channels occur when products move in the opposite direction to traditional channels, say from consumers back to manufacturers.

2.5.6 Choice for marketing channel

Lamb et al. (2008) suggest that the choice for a marketing channel depends on an analysis of several factors like market factors, product factors and producer factors.

These factors include:

- Product analysis by considering the product characteristics (product factors) like size, price, perishability, status attached to the product, and the nature of benefits offered by the producers.
- Market analysis by considering market characteristics (market factors), size of target market, profile of potential buyers, geographical dispensation of the market, and customer expectations.

- Producer analysis considers the manufacturer's financial, managerial and marketing resources. Financial position of an organization for example involves consideration of ability to supply the required quantities, to offer adequate promotional support, and to supply at a price acceptable to the channels of distribution used.

According to Palmer (2000), manufacturers distribute their products by considering three options: intensive distribution, exclusive distribution and selective distribution for the purpose of maintaining a competitive advantage on the market

2.5.7 Marketing management in agricultural cooperatives

Agricultural marketing is the performance of all business activities involved in the flow of goods and services from the point of initial agricultural production until they are in the hands of the ultimate consumer (Kohls and Uhl, 1985 cited in Tilahun, 2007).

As mentioned in the previous sections, this study is about the marketing and distributional channels of a union of coffee planters cooperatives. The record of success of increased coffee exports attracted a lot of interest in the agricultural cooperative sector with regard to the success factors of the MZCPCU. Most people, especially members of other agricultural cooperatives, partners in cooperative development like the Non-Governmental Organizations (NGOs) and the Ministry of Industry and Trade may wish to know how the union managed to increase its exports and what were the factors that contributed to that success.

In order to determine the success factors of the MZCPCU, a research study was proposed and designed to appraise the marketing and distribution channels of the union so as to determine the factors contributing to its success. The success factors can be the lessons that the interested parties can use as guiding principles in the management of the marketing and distribution channels for the agricultural cooperatives in Malawi.

CHAPTER 3

3 THE RESEARCH METHODS AND DESIGN

3.1 Introduction

The purpose of this chapter was to discuss and interpret the methods used in the study. The chapter includes a discussion of the description and justification of the research design, the research paradigm, the details of the research method chosen and procedure followed and the data collection techniques. Other important aspects discussed in this chapter were data reliability and validity, data analysis, difficulties encountered and ethical issues.

3.2 Description and Justification of the Research Design

This research took a naturalistic research approach through an evaluative case study of the marketing and distribution channels of the MZCPCU. The purpose was that the cooperative members, management staff and other stakeholders in the coffee industry, should freely give realistic details, their experiences and personal opinions of the marketing activities and distribution channels established and used by the union while in their natural setting.

The logic behind concentrating efforts on one case rather than many is that MZCPCU is an apex body of five primary coffee growers' cooperatives; by studying the union, therefore, one would also visit the members of the five primary cooperatives belonging to the union. Descombe (2007) comments that by looking at an individual case, the researcher may gain more insights which can have wider implications and, importantly, that would not have come to light through the use of a survey approach.

In this case study, the cooperative members and other stakeholders have multiple opinions, different perceptions, and different descriptions and interpretations of the factors contributing to the increased coffee exports. The difference in opinion and description of success factors occur because realities are multiple and they exist in people's minds (Guba, 1990). According to Guba (1990:26), "no single realities exist except that people make their own interpretations of their surroundings". The evaluation of the marketing and distribution channels would help to create the realities existing in the participants' minds. This study therefore took a qualitative research approach to create those realities.

"Qualitative research is broadly described as interpretative and naturalistic, in that it seeks to understand and explain beliefs and behaviours within the context that they occur" (Draker, 2004:642). Draker (2004) is of the view that qualitative research builds a complex, holistic picture, analyses words and detailed views of informants, and conducts the study in a natural setting. The researcher therefore needed full participation of the research participants while in their own operational locations to allow flexible discussions and data collection.

Denzin and Lincoln (2003) produced a useful research process which sets out the overall framework in which qualitative research is conducted. The research process by Denzin and Lincoln (2003) is summarized as: the theoretical paradigms and perspectives, the research strategies, methods of collection, and the art and politics of interpretations and presentation. Similarly, Arminio and Hultgren (2002, cited in Tobin and Begley, 2004:391), recommended the following six elements which may be used in an interpretive study:

- Foundation (epistemology and theory)
- Approach (methodology)
- Collection of data (method)
- Representation of voice (researcher and participants as multicultural subjects)
- The art of meaning making (interpretation and presentation)
- Implication for professional practice and recommendation

According to Tobin and Begley (2004), these six elements of the research process should be embedded throughout the study because they are central to communication of the study. This evaluation study took the two research processes and merged them (followed both of them concurrently) to have a comprehensive research design. A research design is simply the framework or plan for a study used as a guide in collecting and analysing data (Churchill, 1991).

Surely the researcher firstly enters into a field of research that has complex, diversified and conflicting characteristics (Mbigi, 2008). The complexity, diversity and conflicting characters simultaneously constrained and guided the study process. Blaikie (2007) suggests that the relationship between the researcher and the researched would either be a detached observer, or partially an observer or a fully engaged participant and offers three research possibilities: firstly the researcher is an expert and the researched are merely subjects or respondents; second the researcher is still the expert, but acts as a consultant, and thirdly clients are in charge of the research and the researcher is the facilitator. In this case study, the researcher is partly involved and partly detached to accommodate multiple opinions and active interaction between the researcher and the research participants.

3.3 Research Paradigm

The second element considered in the research process is composed of the theoretical paradigms and the perspectives. A paradigm is defined as “a set of basic beliefs that deals with ultimate or first principles and represents a worldview that defines its holder, the nature of the world, the individual’s place in it and the range of possible relationships to the world and its parts” (Denzin and Lincoln, 1994:107). The set of basic beliefs outlined by Denzin and Lincoln (1994) are about the nature of reality (ontology), the nature of knowledge (epistemology) and how to get to know the world (methodology). Mbigi (2008) suggests that the nature of the research problem under investigation, the definition and meaning attached to the problem and the personal assumptions about the problem influence the choice of the research paradigm.

The research paradigm was considered to be a research philosophy to provide guidance and suggestions of what to pay attention to and to forewarn of any possible problem (Rubin, 2005). The philosophy underpinning this study is that of constructivists. “Constructivists desire participants to take an increasingly active role in nominating questions of interest for any inquiry and in designing outlets for findings to be more widely shared within and outside the community” (Mbigi, 2008:19).

According to Guba (1990), ontologically, constructivists take a position of relativism if there are always many interpretations; epistemologically, constructivists choose to take a subjective interaction position when realities exist only in respondents’ minds, and methodologically, constructivists proceed in ways that aim to identify the variety of constructions that exist and to bring them into as much consensus as possible. In

agreement with the views of Guba (1990), the philosophical context of this study considers its primary field of interest to be precisely that subjective and inter-subjective in the social knowledge produced by human consciousness.

The unstructured nature of the research problem prompted the use of qualitative research. The term qualitative research, according to Strauss and Corbin (1991:17), means “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification”. As mentioned above, this study followed the qualitative approach to uncover the success factors for the increased coffee exports for the union and used qualitative methods for data gathering and analysis.

The fourth element of the research process outlined by Arminio and Hultgren (2002, cited in Tobin and Begley, 2004), representation of voice (researcher and participants as multicultural subjects), is covered later in this chapter, while the fifth and sixth elements, the art of meaning making (interpretation and presentation) and the implication for professional practice and recommendation, will be covered in the fourth and fifth chapters respectively.

3.4 Research method and Procedure Followed in the Case Study

The Mzuzu Coffee Planters Cooperative Union (MZCPCU) has over 3, 500 smallholder coffee farmers linked to five primary coffee growers’ cooperatives. The researcher selected thirty farmers to participate in the evaluative case study research, and details of the participants are given later in this section.

The starting point in this evaluation research was an understanding of what is meant by evaluation (O'Connor and Frew, 2003). According to Ballantine and Stray (1999, cited in O'Connor and Frew, 2003:182), "evaluation is the process of establishing, by quantitative and/or qualitative means, the worth of an investment". This study is an evaluation case study of the marketing and distribution channels of the MZCPCU. The researcher felt that by evaluating the marketing and distribution channels, more information about the union's success factors for the increased coffee exports will be explored. In the ideas of Trochim (2006), an evaluative research seeks to assess in some way, providing useful information about something other than by taking a mere observation or investigation of relationships.

In order to conduct the evaluation of the marketing and distribution channels of the union, the researcher used a model as a method of doing evaluation. It was assumed that a model will help to predict the generic functions of the marketing and distribution channels of the union that can be applied in a wide variety of the agricultural cooperatives while recognizing the diversity of business environments and settings in which these functions are implemented. Payne (1994) identifies four types of models which include the Management Models, Judicial Models, Anthropological Models and the Consumer Models. Stufflebeam (1971) developed the CIPP Model to provide information to management to help them in making decisions about programs. According to Stufflebeam (1971; 2003), the CIPP model is a comprehensive approach to evaluation and stands for context evaluation, input evaluation, process evaluation, and product evaluation. Trochim (2006) comments on process evaluation of the CIPP model that it examines how a program is implemented monitored and audited to make sure that the legal and ethical guidelines are followed.

The process evaluation also helps to identify defects in the design or in the implementation decisions of the programme.

In the case of MZCPCU, one of the major outcomes over the past three years is the increase in coffee exports of 156 tonnes in 2005/2006, then 260 tonnes in 2006/2007 up to 410 tonnes in 2009/2010 session. This represents a growth of 58 % in the tonnage of exports in 2009/2010 from those achieved in 2006/2007. It is assumed that such achievements have come about as a result of effective marketing and distribution channels. Therefore the marketing activities of the union are the focus of this research and they need to be evaluated to establish how (process evaluation) they facilitated the success.

Evaluation of the marketing and distribution channels is part of a marketing function audit in which an organization uses the marketing elements to analyse the organizations functions such as products, price, place and promotion (Ranathunga and Medis, 2009). Kotler (1997:777) defines marketing audit as “a comprehensive, systematic, independent and periodic examination of business units and activities to determine problem areas and opportunities and recommending a plan of action to improve the company’s performance”. According to Kotler (1997), the marketing audit examines six major components of the company’s marketing situations which include: the environment (macro and task) audit, marketing strategy audit, marketing organization audit, marketing systems audit, marketing productivity audit and the marketing function audit. In carrying out the marketing function audit at MZCPCU, the researcher evaluated the marketing performance by asking questions related to product, price, place and promotion. (See Appendix A)

Mode of Entry into the Organization

Entry to this group-owned organization was not easy. The organization, MZPCU was contacted by e-mail to express interest to conduct research on its marketing and distribution channels. This was followed by a telephone call to confirm and verify whether the message was received and that the proposals were in order. The issues of anonymity of participants and strict confidentiality of information were raised. With all these efforts, access was denied. Additionally, the researcher went in person to plead for access because the preliminary inquiry on the cooperative movement in Malawi had indicated that coffee cooperatives were one of the leaders in the agricultural cooperatives, places where one could learn about cooperative business models in the agricultural sector. It was during the second attempt that access was granted for the proposal and interviews, thanks to the Director of Operations who recognised the benefits that would follow to the researcher as a student, to the union and the entire nation of Malawi. Subsequent letters were sent to the coffee association and the Ministry of Industry and Trade requesting interviews. The two organizations were more than willing to contribute to the study. They deserve a word of appreciation for their generosity in contributing to academic studies.

This study was then designed to use qualitative methods for data gathering and analysis. As such, the whole process went through three phases: document analysis, qualitative interviews and focus group discussions.

Phase one: Document analysis

- Documents from various sources were analysed in order to:
- To establish the description of the cooperative business model for the Mzuzu Coffee Planters Cooperative Union;

- To gain insights into and to describe coffee marketing activities;
- To make a cross-examination of the distribution networks of Mzuzu Coffee Planters Cooperative Union.
- Establish the trends in trade or the patterns of coffee exports over a period of three years.

Phase two: Qualitative interviews

Interviews were conducted separately with three officials from three different organizations that are involved in the production, processing and marketing of coffee, and the development of cooperatives in Malawi. The first interview was conducted with the technical and marketing manager of the Coffee Association of Malawi (CAMAL). The coffee association is a body overseeing the coffee sector, both smallholder coffee farmers and the big coffee estates. The second interview was with the deputy registrar of cooperatives in the Ministry of Industry and Trade. The Ministry of Industry and Trade through the Department of Cooperative Development is responsible for the creation of a conducive environment for the development of sustainable cooperatives in the country. Besides the formulation and implementation of various policies, the ministry also provides entrepreneurship development programs and other cooperative promotion initiatives. The third interview was with the Director of Operations, heading the marketing and logistics functions for MZPCU.

Phase three: Focus group discussion

Focus group discussions were conducted with some representatives of the smallholder coffee growers who are organized under the five primary geographically-distinct

cooperatives. Geographically, the five cooperatives are far apart. Due to the long distances between them it was rather difficult to interview all the 3 500 farmers. Economically, it was not viable and practically almost impossible within the time frame of this study to visit every farmer in the five cooperatives. Therefore, focus group discussions were more appropriate for the study. Three focus group discussions were arranged and conducted during the research. Details for the arrangements and preparation for the sessions follow later in this chapter.

3.5 Data Collection Techniques

The smallholder coffee sector is concentrated in the northern region of Malawi in the districts of Chitipa, Rumphi, Mzimba and Nkhata-Bay (Mulwafu, 2004, cited in Chirwa et al., 2007). The philosophical context of this study considered mostly the use of qualitative research methods as opposed to quantitative methods. Methods of research are the actual techniques or procedures used to gather and analyse data (Mbigi, 2008). According to Rubin (2005:2), “naturalistic or qualitative researchers gather information by observing, by talking with, and listening carefully to the people who are being researched”. Similarly, McNamara (2006) commented that data in qualitative research can be collected through structured or semi-structured interviews, focus group discussions and document analysis, and that the choice of data collection techniques depends greatly on the merits and demerits of the technique and the situation or purpose of the research.

Therefore, data for this study was collected through interviews, focus group discussions and document analysis to discover the participants’ different understanding and experiences about the marketing and distribution of coffee.

Document analysis

The first method of data collection followed in this study was document analysis. According to Hitchcock and Hughes (1995; 212), “documents are mainly written texts which relate to some aspects of the social world and range from official documents to private documents”. Hitchcock and Hughes (1995) distinguish documents on the basis of their accessibility. Those which are readily accessible are considered to be public documents, and those which have little or no formal accessibility are private documents; such documents differ in their functions, design, location and accessibility.

This study mostly used the public documents as a source of data because of their accessibility. Both external and internal documentary sources were used (Hitchcock and Hughes, 1995). The external documents used were: Cooperative Societies Act no. 36 of 1998 and Cooperative Societies Regulations of 2002 from the Ministry of Industry and Trade and the government end of the year reports from 2006 to 2009. The internal documents were sourced from CAMAL on coffee exports. Exports detailed records for MZCPCU were not available for public use during the study time.

Interviews

According to Rubin (2005), naturalistic researchers obtain data through qualitative interviews, which are conversations in which a researcher gently guides a conversational partner in an extended discussion. Trochim (2006) is of the same opinion about personal interviews, that they are a far more personal form of research

than questionnaires and that the interviewer works directly with the respondent; the interviewer has opportunity to probe or ask follow-up questions.

Qualitative interviews were used to explore the experiences of the key officials of coffee organizations, the relative ministries and the union about the marketing and distribution channels used by the coffee sector, and their knowledge of the cooperative movement and its business model. Qualitative interviews were personally conducted with three officials from three different organizations that are involved in the production, processing and marketing of coffee and the development of cooperatives in Malawi.

Preparation for interviews

Interviews are among the most challenging and rewarding forms of measurement (Trochim, 2006). The preparation requires personal commitment and seriousness. The researcher stayed within the bounds of the designed protocol by having thoroughly structured interview guides for each of the three interviews (See Appendix A, B and C).

The preparation for interviews involved the following tasks as suggested by Trochim (2006):

- Locating and enlisting cooperation of interviewees;
- Motivation of the interviewees to do good job;
- Clarification of any concerns;
- Observing quality of responses;
- Conducting a good interview.

The interviewer had to find interviewees who were also considered as conversational partners for their active role in the research study (Rubin, 2005). The three interviewees were contacted by e-mail to inform them of the researcher's intention to conduct interviews. To enhance credibility, knowledgeable and well experienced interviewees were chosen whose combined views present a balanced perspective on coffee production, processing and marketing. The manner in which the interviews were to be conducted, the place, date and time were proposed by the interviewer and agreed upon by the interviewees.

The issues of anonymity of participants and strict confidentiality of information are important in a research (Golafshani, 2003) and were observed in this study. Consent was requested to have the proceedings of the personal interviews recorded, interpreted and analysed. Consent letters were offered, discussed, agreed and signed by both the interviewees and the interviewer. (See Appendix E)

During the interviews, the conversational partners were firstly briefed about the topic, the purpose, procedure and importance of the research to their organization and the nation at large. The reason for this was to motivate, but not force, them to actively participate in the research. The interviewer responded informatively to the concerns of the interviewees, especially from the MZPCU who had initially been unwilling to accept the idea of research on any activity of the union, until compliance to anonymity of participants and strict confidentiality of information was agreed.

Three interviews were conducted in semi-structured manner at the interviewees' places of work as proposed in the communications. Open-ended questions were used

in the interviews where interviewees were free to choose how to answer the questions. The proceedings of all the interviews were recorded; the proceedings were also captured and written down on a note book for backup. The recorded proceedings were subsequently transcribed and typed on paper. The voice of the interviewer was kept partly neutral and partly active, especially in asking for clarity. The typed version was then sent by e-mail to all interviewees for verification and confirmation of being a true transcript of the interviews. The participants endorsed the documents with few amendments.

Focus group discussions

The qualitative approach also involved focus group discussions with smallholder coffee growers. Focus groups are a powerful means to evaluate services or test new ideas. Basically, focus groups are participatory interviews, but of 6–10 people at the same time in the same group. One can get a great deal of information during a focus group session (McNamara, 2006).

The smallholder coffee farmers are organized under five primary geographically-distinct cooperatives as stated earlier on. The distances between them were so big so that it was very difficult to cover all of them within the available resources. Thirty farmers were selected by cluster sampling. The researcher considered the five primary cooperatives as clusters of farmers. The five clusters (primary cooperatives) were ranked based on their performance and membership status for 2008/09 season to find the best performer and the poorest performers (Table 2). The ranking indicated that Misuku cooperative was the best, Phoka came second, South East Mzimba came third, and then Viphya and Nkhata-Bay came fourth and fifth respectively. Based on the

performance and membership records, three business zones were selected from three primary coffee growers' cooperatives of Phoka, Viphya North and South East Mzimba. These cooperatives were purposefully selected for the study, Phoka cooperative being one of the successful ones, while Viphya North and South East Mzimba are the poorest performers. Misuku cooperative was left out due to the distance of about 450 kilometres away from Mzuzu. Additionally, the road to Misuku was slippery, impassable and required four by four type of vehicle which was far away beyond the financial resources provided by this research. There was also no public transport to Misuku during the period of field data collection. The Union has its own trucks which periodically collect coffee from Misuku and sometimes hire vehicles especially during peak periods. These trucks were also not available as alternative transport to Misuku at the time of data collection. Nkhata-Bay Highlands was not considered as it had just started coffee farming.

Therefore, thirty farmers from three primary cooperatives were selected as research participants. At each primary cooperative the farmers are organized in three levels (clusters): at village level as a business centre; at an extension planning area level as a business zone; and at society level as a cooperative society. At each cooperative society one business zone was selected using the same criteria membership and production. The groups composed of members from functional committees for production, processing, finance, marketing, logistics and audit. The focus group members from the three cooperatives were contacted by letters through the Business Promotion Officers based at the district headquarters.

Table 2: Coffee Cooperatives' membership and production for 2008/09 season

Ranking	Name of Cooperative	Membership			Production in tonnes
		Male	Female	Total	
1	Misuku	840	560	1400	246.00
2	Phoka	563	199	762	77.90
3	Viphya North	333	117	451	32.80
4	South East Mzimba	292	133	425	24.60
5	Nkhata-Bay Highlands	210	133	343	28.70
	Total	2,239.00	1,142.00	3,381.00	410.00

Source: Calculated by author from Mzuzu Coffee Planters Cooperative Union, 2009

According to McNamara (2006), researchers using the focus group method should have to prepare for the session with the following activities:

- Identify the major objectives of the meeting;
- Carefully develop questions for the session;
- Plan the sessions;
- Call potential members to invite them to the meetings;
- Send a reminder for the meetings.

Planning for the focus group meetings involved scheduling, setting venues, dates and times, developing ground rules, circulating the research questions (see appendix D) and listing of membership for the groups. The group members were a cross section of all function committees at the business zone. The planning activity was assisted by the Business Promotion Officers (BPO) from the Ministry of Industry and Trade and the Agricultural Extension Development Coordinators (AEDC) from the Ministry of

Agriculture and Food Security. The ministry officials were part of the group, but not so active as to inhibit the farmers from contributing freely. Two days before the meetings, a follow-up invitation was sent with a proposed agenda, session time, date and list of questions the group would discuss. Responses from the farmers were very positive.

Therefore, three focus group discussions were conducted with three business zone members. Each focus group was composed of two ministry officials (one from the Ministry of Industry and Trade and one from the Ministry of Agriculture and Food Security) and ten members from the selected cooperatives' business zones who were heads of function committees of production, finance, marketing, logistics and audit.

The focus group discussions took between two and three hours. Questionnaires were not administered due to limitations of low literacy levels of most farmers. The sessions were conducted using the commonly spoken vernacular languages Chichewa and Tumbuka for flexible and active participation. Participants were also free to communicate in English. Tumbuka is the vernacular language for the northern region of Malawi. The researcher is conversant in these languages. However, some deep rooted Tumbuka words were interpreted with the assistance of the ministry officials. The proceedings of the focus group discussions were recorded, translated in English, transcribed, interpreted and analysed.

3.6 Data Validity and Reliability

Strauss and Corbin (1991) believed that data should not be analysed, but rather be gathered and presented in such a manner that informants speak for themselves in order

to give an honest account with little or no interpretation of, interference with those spoken words or of the observations made by the researcher. The major difference between qualitative data and quantitative data is that qualitative data typically consist of words while quantitative data consist of numbers (McNamara, 2006).

In research, the term reliability means repeatability or consistency, and a measure is considered reliable if it would give the same result over and over again, whereas validity refers to the approximate truth of propositions, inferences, or conclusions (Golafshani, 2003; Trochim, 2006). Trochim (2006) agrees with the proposal of Lincoln and Guba (1985) about using four criteria to judge the soundness of qualitative research and explicitly offers them as an alternative to more traditional quantitatively-oriented criteria. Riege (2003) also makes use of the four criteria to establish quality in qualitative research. The traditional quantitatively-oriented criteria mentioned by Lincoln and Guba (1985) are internal validity, external validity, reliability and objectivity. This means that in quantitative research data, validity and reliability are key issues for measurement of the quality of research data. The four proposed criteria by Lincoln and Guba (1985:290) are credibility, transferability, dependability and confirmability.

Measures were taken to ensure that the four criteria were observed and that the quality of data analysis was maintained. The findings of the data analysis were submitted to research participants and colleagues for their reactions and opinions. The data collected from interviews and focus group discussions were compared. The idea was that data should be free from error or distortions (Hitchcock and Hughes, 1995).

3.7 Data Analysis

Research data are the raw materials that come unprocessed in various forms either in words or numbers from the primary data sources. Thorne (2000) suggests that qualitative data are not the exclusive domain of qualitative research, rather refer to anything that is not quantitative, or rendered into numerical form. Gibbs, Taylor and Lewins (2005) defined Qualitative Data Analysis (QDA) as, the range of processes and procedures whereby the researcher moves from the qualitative data that have been collected into some form of explanation, understanding or interpretation of the people and situations in which the investigating takes place. Yin (2003:109) described data analysis as “consisting of examining, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study”. Data analysis is therefore considered as a method of interpreting the raw data into a variety of fields that others can understand. Yin (2003) gives three general strategies of data analysis: theoretical propositions approach, rival explanations approach and descriptive framework approach.

This study uses the descriptive framework approach for analysing the research data. Under this approach, according to Yin (2003), the researcher analyses the data on the basis of establishing the links between the conceptual propositions of the intervention, the research objectives and the real-life context in which the case occurred. The case of Mzuzu union is based on the assumption that there is a business model (context) under which the union does its business. According to Rasmussen (2007), a business model facilitates the way in which a firm does its business or creates its economic value. To build the business model of the union, a pre-determined business model (descriptive framework) was used as a benchmark for the evaluation. Examples of the

business models which were explored included the Morris et al. (2003) business model, Rasmussen (2007) business model and other two models cited in Rasmussen (2007): Chesbrough and Rosenbloom (2002) business model and Porter (1985) business model. Most of the models featured an element of how profit is made by the enterprise.

For sure, from the beginning the Mzuzu union was unwilling to discuss anything about finances and profits. It was almost impossible to collect data on revenues and profits. The integrative framework developed by Morris et al. (2003) was chosen simply because it does not include the element of how profits were made but rather talks about how the firm makes money. The choice was based on the fact that the Mzuzu union business setup fit well to some degree in the Morris et al. (2003) business model in terms of levels of decision making.

The integrative framework developed by Morris and colleagues (2003) discussed in Chapter 2, consists of three decision making levels: a foundation level with six basic decision areas (components); a proprietary level; and a rules level. The six foundation level components are: how will the firm create value (value proposition), for whom will the firm create value (market proposition), what is the firm's internal source of advantage, how will the firm position itself in the market place, how will the firm make money and what are the entrepreneur's time, scope and size ambitions (Morris et al., 2003:729)? The six components simply guided the presentation of the findings, but the actual sub themes were developed from the issues presented by the research participants, by following the data analysis procedure as suggested by Creswell (1994). According to Grey (2004) one of the objectives of data analysis is to find

relationship and contrasts between variables, as such data from the focus group discussions and interviews were compared and contrasted to identify the outstanding issues on every item discussed. The philosophical suppositions were made about the union in three research objectives discussed in the previous sections.

The proceedings of all the interviews and group discussions were recorded; the proceedings notes were captured and written down in a note book for backup. The voice of the participants remained intact; no changes on the wording were made except where it was difficult to interpret. The interview transcripts have been described by explaining the basic features of the data in the study. Specific quotations were highlighted on the interview transcripts especially those which were found to be relevant to the research questions and the literature that was read. Common highlights emerged and summarized into themes. The data collected from personal interviews were compared and the same was done for focus group discussions. The data was interpreted to give meanings and then compared to what the theoretical model predicted.

3.8 Ethical Considerations

The inclusion of participants' values in an inquiry makes ethics an intrinsic issue (Guba and Lincoln, 1994:115). Ethical issues were considered in conducting the research. Participants were informed of the purpose of the research and the topic under investigation. Participants had the right to participate or not. Their participation in the evaluation process was voluntary.

Assurance was given on the anonymity of participants, and strict confidentiality of data and information collected during interviews and group discussions. Participants were also informed of the need for recording the proceedings of the interviews and the group discussions. According to the Rhodes University (2009), the researcher should be open to the research participants and should be informed of the relevant information like the research topic and objectives and should be given assurance of anonymity of participants and strict confidentiality of data and information provided to the researcher.

An informed consent form was signed by the researcher and the research participants after discussion and assurance of their protection, the purpose of the research, the evaluation process and how any information associated with them would be reported. Upon agreement on the necessary ethical issues, like anonymity of participants and strict confidentiality of information, an informed consent form was signed and then interviews started. For the purpose of anonymity and confidentiality interviewees are not mentioned by name but by numbers: interviewee 1, interviewee 2 and interviewee 3. The same format appears with focus groups where F1 is for group 1, F 2 for group 2 and F 3 for group 3.

3.9 Difficulties Encountered

Geographically the five cooperatives are separated by long distances which made it uneconomical and impractical to interview most of the 3 500 farmers. The data collected is subject to bias because it is the views of a cross-section of the coffee farmers and officials. The fact that the research participants are at different management levels created room for different understanding on the same side of the

coin. A low literacy level of most farmers was another challenge faced by the researcher with regard to interpretations of policy issues on cooperative development and coffee marketing. Financial data collected was considered to be sensitive information as such most of the data may not be so exact but approximate figures.

The group discussion sessions were conducted using the commonly spoken vernacular language in Malawi, Chichewa for flexible and active participation. Although participants were free to use both English language and Tumbuka as media of communication during the sessions, Tumbuka is not the mother tongue of the researcher. The deep roots of some of the words used for clarity limited the scope of understanding in some cases. This was handled by the ministry officials who accompanied the researcher and knew the language. But the meanings in translation were second hand understandings, again subject to bias.

CHAPTER 4

4 RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings collected as primary data through interviews and focus group discussions; and secondary data was collected from documents analysis.

Discussion of the findings is covered in chapter 5.

As discussed in Chapter 3 the purpose of the research was to establish how the Mzuzu union has managed to increase its coffee exports from 156 tonnes to over 400 tonnes from 2005/06 to 2009 financial year.

In order to discover the factors that have contributed to that success, data was collected through interviews, focus group discussions and document analysis. The findings are hereby presented following a pre-determined integrative framework developed by Morris and colleagues (2003) as suggested in Chapter 3. The following sections present the understanding, experiences and opinions of the cooperative members (focus group members) and the interviewees from the union, coffee association and the Ministry of Industry and Trade about coffee marketing and distribution by the smallholder farmers under the Mzuzu union. The interviews and focus group discussions were complemented with the findings from the documents analysis.

Section 4.2 is the history of coffee farming; 4.3 is the foundation level where basic issues have been presented. Then section 4.4 is about how the union creates unique

combinations of foundational components for sustainable advantage; and section 4.5 is about establishing guiding principles for the operations of the union.

4.2 History of Coffee Farming

Coffee farming in Malawi has a long history compared to other cash crops grown by smallholder farmers. The farmers and officers in the smallholder coffee industry had almost similar views about the history of coffee in the country. Some farmers reported that by the time missionaries arrived in the northern part of Malawi some local farmers were already growing coffee while others said that the missionaries introduced coffee in the north. For example, interviewee 1 said that:

“ Coffee come in Malawi first before tea in the 1800s and then it was first introduced in the southern region in Blantyre-Limbe somewhere there and later on it was picked-up by the settlers in the Thyolo-Mulanje belt, they started growing there. Apparently in the 1930s it was moved up north with the missionaries, what we see in the north here. Then the farmers with the seed, the seed was given to the farmers to grow and then they were selling to the missionaries”.

According to F 3, coffee farming in the north started around 1930s:

“We started growing coffee as early as 1930s while our colleagues from Phoka, they first had coffee from Mwalabu of Uzumara. Mwalabu started growing coffee from 1929. Since that time we are still growing coffee”.

In addition F 1 echoed that:

“Coffee in our area came in 1931 in Mphompha. So our cooperative which is in the eastern part of Rumphu got coffee from Mwalabu”.

Historically, Malawian farmers grow Arabica coffee. Interviewee 1 reported that:

“In Malawi we grow only Arabica coffee. The reasons could be two fold. One is the introduction by the missionaries. We were only introduced to Arabica, and not the other type is Robusta. So, we just went ahead with Arabica what was there introduced by the missionaries. The other reason could be the growing conditions in Malawi are favourable to Arabica coffee. Looking at the market Arabica fetches more money than Robusta coffee”.

Participants reported that after the introduction of coffee in the north, came the cooperative movement in 1948 and some cooperatives in the north were engaged in coffee growing. F 3 shared the same experience about coffee cooperatives as reflected in this statement:

“There were a number of cooperatives in Malawi, including the coffee cooperatives”.

By 1950 the cooperative movement was strong. It was also reported that around 1967, the post independence administration moved the smallholder coffee industry from the cooperatives to state enterprises and cooperatives collapsed. According to F 2, the cooperatives collapsed because of poor leadership.

“The cooperatives collapsed because there was blemished leadership; they also politicized the cooperatives”.

Other participants had different views. For example, one participant reported that:

“Cooperatives collapsed because the leadership in the cooperatives politicized the cooperatives activities and had foreign ideologies”.

It was commonly said by participants at different meetings that government formed the Smallholder Coffee Authority (SCA) to handle issues related to coffee farming, for example, provide the extension services; but the SCA did not live long. It was disbanded because of administration problems in 1974. It was also reported that later in 1979, the coffee authority was re-established. The SCA worked for 20 years and collapsed again in 1999. According to F 2:

“The authority worked until somewhere in 1999, but still the coffee industry never functioned well. So the government decided to sell the premises occupied by the coffee authority”.

According to F 3, the Smallholder Coffee Authority (SCA) failed because it had foreign ideologies borrowed from the colonial government and the local farmers did not see their participation in the management of coffee farming. This was aptly reported as follows:

“But coffee farmers saw that things were not going on smoothly. We wanted also to take part in running the affairs of coffee farmers. We saw things like coffee farmers were cheated. So we made a lot of noise, to the extent that offices were closed. What we wanted is that management of the authority should be in the hands of farmers themselves and not agricultural officers. So government accepted and in 1999 we started the trust”.

After the collapse of the Smallholder Coffee Authority in 1999, government established the Smallholder Coffee Farmers' Trust (SCFT) to enable farmers to participate in management of the coffee farming. It was explained by interviewee 1 that government gave the farmers under the trust administration three years as a transitional period before completely handing over to the farmers.

"If you are going to get this, we give you three years, because farmers have never done things successful".

It was reported that the number of coffee farmers was steadily growing. F1 said that:

"We started with few members and now the figures have doubled compared to what we had at that time when we started the cooperative. What is very interesting is that in the past coffee farmers were mostly elders and among them there were just a handful of women, but now more women have joined coffee farming".

In 2006 the Smallholder Coffee Farmers' Trust was transformed to the Mzuzu Coffee Planters' Cooperative Union under the privatization program of the Government of Malawi with funding from the World Bank. At present, the union comprises of five primary cooperatives as shareholders in the union. Interviewee 1 said that:

"The smallholder farmers simply produce the coffee and sell to the union through the primary cooperative at an agreed price. The union is the farmers' own entity; it is their vehicle for the movement of all their requirements right from the production to inputs. The primary cooperatives carry out the primary processing and the union does the secondary processing and then export".

4.3 Foundation Level

4.3.1 How value is created by MZCPCU

4.3.1.1 Farmers' organization structures

The views given by the research participants indicate that smallholder coffee farmers have four structures through which they carry out their work. The four structures are the cooperative union, the primary cooperative, the business zones and business centres.

Cooperative union

According to F 3, farmers recognize the union:

"Mzuzu coffee is our union. In total there are five cooperatives like Phoka, Misuku, Vipysa, Nkhata Bay and South East Mzimba and these five cooperatives formed a union".

Primary Cooperative societies

Membership of primary cooperatives is paid for, and only serious farmers do that.

According to F1:

"The primary cooperative is just a secretariat for management and administration purposes. The actual processing is done at the business zones. The primary cooperative simply coordinates the deliveries and keeps records of every sale and activities".

Business zones

Business zones have small factories with machinery called pulperies for coffee processing. F2 reported that:

“Each cooperative has a processing unit under it which we call the business zone. A business zone is like a section under an Extension Planning Area. Each business zone employs workers like zone clerks, machine operators, graders, watchmen and messengers”.

Business centres

Business centres are like farmer clubs where farmers have extension services, and they access the loans as stated by F1:

“These centres are like clubs, but we regard them as business centres where we have the general members”.

According to Interviewee 1, farmers belong to business centres:

“Each cooperative has a processing unit under it which we call the business zone and the extension services unit which we call the business centre and then the farmers”.

4.3.1.2 Coffee production

Coffee growing

Most participants regard coffee farming as similar to planting trees in the forests. That is because coffee is a natural bush crop. The actual growing process of coffee starts

with land preparation, then preparation of nurseries and later transplanting after one year. F2 explains:

“We prepare nurseries in September and October and the seedlings remain for one year in the nurseries. Once the seeds shot up we remove them and put them in polyphony tubes, water them once or twice a day until they are ready for transplanting. When the seedlings are ready, then we start land preparations by digging trenches 60 cm by 60 cm by 60 cm in the month of May while the soil is still fresh. If we dig the trenches late when the soil is dry the work is always hard and tough for farmers. We plant them either 60 cm apart or 90 cm apart depending on the variety we have grown”.

Coffee processing begins with coffee harvesting. According to F1:

“Coffee harvesting begins in the month of June. It is the time that coffee is fully matured and starts to ripe. We normally take a look at coffee cherry and see how matured the cherry are and the degree of ripping. We assess the quality of coffee while in the fields, pick only the cherry that has fully matured and is ripe enough to go for processing; grading of coffee starts in the fields”.

4.3.1.3 Coffee varieties grown by smallholder farmers in the northern region of Malawi

According to interviewee 2, only one type of coffee is grown in the country, but there are many varieties under that type.

“The growing conditions in Malawi are favourable to Arabica coffee, and not Robusta coffee.”

All participants agreed that only Arabica coffee is grown in Malawi. This was confirmed by F 2:

“We have long term varieties and short term Arabica varieties. Among the long term varieties we have Geisha, Agaru and local (Nyasa) varieties and the short term varieties are the hybrids of Catimor group. The long term varieties take long time to start harvesting, but they have high resistance to diseases, while the short term varieties have high production rate within short time, but are easily attacked by diseases. The short term coffee varieties have high production rate per hectare about 1.5kg of cherry (fresh coffee) per tree per harvest and the long term varieties have 0.9kg of cherry per tree per harvest.”

4.3.1.4 Good agricultural practices and farm management for coffee growing

Some of the good agricultural practices and farm management observed by farmers were explained by Interviewee 2 as follows:

“What we have done is introducing good agricultural practices among our members and good management practices like record keeping. So everything that they do, they have to record, and will start collecting that information and probably use it for certification and labelling purposes”.

F 1 reported that:

“The field staffs from the Ministry of Agriculture provide us (farmers) with extension services to increase coffee production and to diversify our farming. With diversification we are able to improve our income levels. As you know the costs of inputs for coffee production are very high and coffee prices not all that good. So the shift from using chemical fertilizers to organic manure cannot

be done at once, it should be a gradual process. We diversify coffee farming to livestock production like chicken, cows, pigs, and other domestic animals for manure. While getting income from the main products (animal sales), it will also help to improve our production from manure. We also keep bees”.

4.3.1.5 Coffee processing

Primary and Secondary Processing

Mzuzu union exports green coffee beans on the international markets and also sells roasted coffee on the local market after primary and secondary processing. Participants had similar details about the two processes. For example F 1 described primary processing as follows:

“Basically, when we talk about primary processing (it) involves cherry handling where we separate the coffee pulps from the coffee bean using a machine called pulpery”.

And according to F 2, secondary processing is done at the union before exporting.

“The secondary processing is the hulling, where we remove the outer shell because what we export are green beans, not parchment, and we also do sorting, grading and weighing”.

4.3.1.6 Sustainable production

Coffee grows very well in the natural environment among the natural trees and in high altitudes areas. According to F 3, sustainable farming goes hand in hand with fair trade. They commented that:

“The fundamental requirement for members of fair trade is the discouragement of the use of chemicals; they are promoting the use of manure. The fair trade message is that coffee grown without the use of chemicals, and applied manure instead of inorganic fertilizer is coffee of good quality at the market”.

Interviewee 1 commented on sustainable coffee production by citing organic coffee as one area in sustainable coffee production, that:

“You can grow coffee without chemical fertilizers, and you can grow coffee with chemical fertilizers. We have coffee planted without any chemical fertilizer or chemicals to spray on it, it is called organic coffee. We have gone all over the cooperatives with the sustainable farming systems whereby we are involving a lot of farmers into using of organic fertilizers, and we have got one zone in Livingstonia where quite good progress has been made for the past four years there are certain women who have sold their organic coffee this year for the second time in four years time. In addition, the Twin Trading of the UK formed partnership with Cooperatives to boost exports through organic coffee growing”.

F 3 also mentioned good hygiene as part of sustainable coffee production.

“Coffee is very sensitive and you need to have good hygiene all the time when doing the primary processing. For example, smoking and perfumes or cosmetics also affect cup taste quality of coffee. If the coffee fields are surrounded by citrus fruits during pollination there is cross pollination. Coffee for sure will have a flavour of the citrus fruit”.

According to F 2, some buyers are promoting women farmers to grow more coffee as part of sustainable farming. This was their comment:

“Recently we had buyers who are interested in promoting women coffee farmers. In one of the cooperative in Misuku there is one zone of women coffee farmers only. This year those buyers came and they bought all the coffees produced by those women at very good prices.”

4.3.1.7 Delivery systems used by coffee farmers

It is the responsibility of the union to provide logistics even if the cooperatives have lorries for carriage. F 3 explains:

“We have our own means of coffee deliveries like wheelbarrows, bicycles, manually with family members. Most of the fields are within walking distances to the processing centres. In terms of the farm inputs there two options. Under normal circumstances we do not have any problems in delivering farm inputs and produce; we use our own trucks or hire during peak days”.

On exports there are two options of delivering coffee to buyers. Interviewee 1 gave the following details:

“On logistics, if it is Free On Board (FOB), it is our responsibility from here to Beira or from here to Durban. We hire the transport from here to Lilongwe and from Lilongwe it is our shipping agent who will take over to Beira or to Durban; these are independent organizations and there are big shipping companies. And if it is Free on Transit (FOT), it is the responsibility of the buyer. So the buyer has to send his truck here so we load the container and seal the container from here”.

4.3.1.8 The significance of coffee farming in the smallholder sub sector

The benefits of coffee farming are viewed through different lenses among stakeholders.

F 3 see coffee farming as:

“At first coffee was perceived as a rich man’s crop because of the introduction by the white settlers and most of them dominated in coffee growing in large estates as plantations. Unlike the youths, elders take coffee like a bank because we do not plant coffee every year”.

F2 see coffee farming as:

“We consider coffee farming as our pension scheme. We plant coffee trees this year, we can harvest for long time after retiring from active farming. What is important is to have more resources invested into cooperatives”.

Then, interviewee 2 sees coffee farming as insurance:

“The beauty with smallholder farmers is that they take coffee farming as an insurance. Even when prices are bad, they never think of uprooting the plant to plant other crops as estates do. They pass on the farm from one generation to the other and this ensures continuity too”.

4.3.1.9 Challenges in coffee farming

The following are the common challenges from research participants:

High costs of farm inputs

F 1 complained that:

“Presently farming requires a lot of fertilizer and other inputs. Now with high costs of fertilizers, farmers are unable to source enough fertilizers. The costs of inputs are quite high. Most smallholder farmers cannot meet the costs. For example, the J-compound fertilizer costs as high as MK11 295, Nitrogen fertilizers are at MK4 950 and Urea fertilizers are at MK5 995”.

According to F 3:

“The cost of production is a major challenge. There are some diseases called borer and the treatment for this is not readily available or available at high costs like MK15 000 for one liter of that chemical. As a result most trees died of Coffee Berry Disease and White Stem borer. Sometimes the chemicals are available but at high costs. So, high costs of production and diseases are reducing coffee production every year”.

Climate change and shortage of water

Interviewee 2 said that:

“We have actually observed lots of changes in terms of production due to the fact that the rainfall pattern has changed because the climate has changed too. In Malawi now the biggest challenge we are facing is the shortage of water that has come about because of climate changes. Yet, coffee needs a longer period of rainfall. The changes in rainfall patterns have seriously affected production. Even those in estates that are irrigating they do not have enough water to irrigate coffee. The country lost about 400 metric tons of coffee last year due to shortage of water”.

F1 also commented on the issue of climate change and had this to say:

"Farmers have a feel of the climate change as seen from the changes in rainfall patterns. Sometimes we receive heavy rains and sometimes little rains, all those changes are due to climate change. Because we have seen the effects we have embarked on a big project on manure, planting trees inter-planting with other crops as a cover crop."

F1 also commented on the positive side of coffee farming towards mitigating the impact of climate change. They (F1) reported that:

"Coffee farmers are doing a good job in terms of reducing carbon dioxide in the atmosphere because coffee farming is like planting trees in the forests. We have advices from our agricultural specialists here that coffee should be grown in shades. Coffee under shade cover has good taste. In addition to that, no nurseries along river banks or steep slopes and we are in agreement to reducing all factors causing climate changes".

On climate change and carbon dioxide emissions, Interviewee 2 commented that:

"Probably even the roasting is not much in Malawi. It is very small. Probably also the washing and the wet processing of the coffee where we use a lot of water and as I said we are encouraging people to bring in eco-friendly machines. But we are not a big industry. I don't think we are emitting much".

On the same, Interviewee 1 had this comment:

"It is something we are just studying now. We don't have anything concrete and how we go about it. We have some documents on it, but seriously we

haven't looked at that. However, we have done where we are more concerned with the environment especially the primary processing".

Lack of funding for coffee research

Coffee research was described as a dead end. There is no funding for coffee research in the country; the coffee research unit was closed because government could not fund it any more. According to Interviewee 1,

"I can see that the research is getting disbanded by the government. Coffee research was in two sectors in Malawi. The first one was by the government which has been there for a long time. The second one was a coffee research unit in Mulanje funded by donors and contributions which we paid to Coffee Association of Malawi. However, the coffee research unit in Mulanje had to close because we could not fund it any more. Then in the government research unit some officers retired and no replacements have been made. No financial resources from the government to do research work, so is basically dead as well".

Interviewee 2 commented on lack of funding for coffee research that:

"In our country unfortunately there isn't much that has been done on coffee. As a result, we don't have a reliable engine that can produce new technologies in terms of planting materials, control against pests and diseases. There are no trials on coffee diseases, coffee pests and things like new coffee seeds. As such farmers just recycle what they have in their fields and produce that into seed. Diseases and pests take advantage of that because the validity of the crop is reduced. So the biggest thing that we need to do is to have a vibrant research".

Logistics

Interviewee 2 reported that most of the coffee sales are ex-warehouse in Mzuzu. So the buyer has to arrange for transportation with the private transporters to collect coffee from the union's warehouses in Mzuzu. It was mentioned that:

“Transportation is not their core business. Their core business is production and marketing of coffee. So they want to reduce the burden of transport costs, the buyer has to pay. So if the buyer wants transport it is additional costs, they separate the initial cost and the price and the buyer agrees”.

It was also reported by F1 that:

“Basically buyers send their own trucks to Mzuzu or they ask the union to deliver to Beira. Both options have advantages and disadvantages. Those who send their own transport once we sell at the union all the responsibilities lie in their own hands. Whatever happens we are not responsible. But if the union delivers to the port, then it is our responsibility to ensure that the container reach the port. The prices differ depending on the agreement in terms of deliver”.

According to Interviewee 1, logistical problems have been the major cause of delays in delivering coffee to international buyers.

“Meeting the deadlines delivery time has been a big problem. There have been issues when a consignment could arrive late at the buyer's warehouse because of logistics. And because of that, as a country we are less competitive because we are land locked country”.

Less political will of government

Participants complained that government was more concerned with tobacco and maize, leaving coffee, cotton and other crops to suffer. For example, Interviewee 2 said that:

"We do not have much private research in terms of agricultural research, and most research in Malawi is done by the government. The government is more of tobacco and maize. However, farmers depend on government for support, and government have the entire network through which they can work with the farmers to introduce new technologies. Farmers need more support from the government. But, the government political will is not there."

Lack of government funding on coffee research projects was cited as an example of less political will on coffee farming. According to Interviewee 2:

"We are asking the government to give us access to the research centres so that we can work with their staff and we source a little funding to support coffee trials, but nothing has been done".

Interviewee 1 commented that the government has invested heavily in tobacco, not coffee. But who is the real beneficiary in tobacco; it is the government but not the farmers.

4.3.1.10 Support structures for coffee growing

Government support on coffee growing

Coffee farming involves a number of players like the government, the coffee association and donors (both local and international). It was reported by interviewee 1 that:

“The government facilitates business in terms of payment through the reserve bank and the commercial banks”.

Partners in coffee farming

In addition to self financing, cooperatives get finances from donors, as Interviewee 1 explains:

“Coffee cooperatives also get funding from donors like Flanders International Cooperative Agency and the European Union”.

According to Interviewee 3, cooperatives are sometimes linked to the rightful organizations for information and had this comment:

“For example, information on how to grow coffee, and how they care it then we link them to the ministry of agriculture. When it comes to sourcing of markets then we link them the Malawi Export Promotion Council or we link them to Malawi Chamber of Commerce and Industry. When it comes to may be getting farm inputs we link them either to Optichem (fertilizer manufacturer) or any other supplier of farm inputs. So that is the role we play but we do not provide financial assistance, no we do not”.

It was also reported by Interview 3 that agricultural cooperatives that were supported by projects funded by international Non-governmental Organizations from Italy, like COOP (Italy), the largest supermarket chain store in Italy.

4.3.2 For whom does MZCPCU create value?

4.3.2.1 Coffee markets

Smallholder farmers sell coffee on the local markets and on the international markets.

Local markets and International markets

According to interviewee 1, only 10 percent of coffee from the smallholder farmers goes to the local market:

“The union sells its coffee mostly on international markets. About 10 percent is sold on local market and 90 percent goes to international markets, especially the European market. Probably 20 percent goes to the American market”.

According to Interviewee 2, the principal target is the international market; most of the coffees, over 98 percent of the coffee grown in Malawi are exported and about 2 percent is sold on the local market.

“Our major target is the international market and this usually is the European market. Probably 20 percent goes to the American market. Of late we have joined the new markets in Japan and China.

4.3.2.2 Coffee markets segmentation for international trade

The union sells its coffee on the international markets in several segments.

Interviewee 1 gives the details:

“We have five market segments. We sell on the specialty market, premium market, commercial market, commodity market and on fair trade market as well. In terms of percentages of how we traded in the segments, in 2007/08 we had: specialty 30%, premium 29.3%, commercial 27.2%, commodity 13.1% and fair trade zero. In 2008/09 we had: specialty 24.6%, premium 68.8%, commercial zero, commodity zero and fair trade 6.6%”

F1 and F3 also commented on the marketing segmentation and according to them:

“The market is one a global market”.

4.3.2.3 Marketing activities for coffee on local and international markets

To make sales on the international markets the union and other stakeholders had to do more work to market coffee. Interviewee 2 explained that:

“Within the past five years we have done a lot of marketing of our coffee. We have to prove to the international world that our coffee is equally as good as the Kenyan coffee and the Tanzania coffee. We found ourselves opening up new markets because of our participation in international exhibitions, conferences”.

According to Interviewee 1, there are two teams for the international marketing, the sales force and the promotion team.

“The sales force comprises of the chief executive himself, the accounts personnel and the quality control staff doing the role of logistics. The promotions team comprises of the chief executive, then the director of operations, the quality control staff and one farmer (chairman of the union’s board of directors). For the local market, normally the sales team is also responsible for domestic markets”.

In addition, Interviewee 1 mentioned their promotion strategy, that:

“We have moved to every country to promote our coffees at exhibitions and conferences in German and South America, Costa Rica and in the United States of America”.

4.3.3 Internal source of advantages of MZCPCU

4.3.3.1 The union’s core competences

Participants had different perceptions about the core competences of the union. According to interviewee 3, the core competence of the union is in the nature of ownership of the business.

“Farmers growing coffee own the primary cooperatives and primary cooperatives own and control the union and at the same time union employs staffs (management) who run the business on day to day basis”.

Interviewee 2 agrees with Interviewee 3 that the strength of the association lies in that the cooperatives are owned by the growers themselves and led by the growers. They decide whether to increase or reduce production volumes. However, Interviewee 2 considered the core competence of the union to be in the quality of employees:

“The cooperative Union employs well qualified people (technocrats), most of them are university graduates whom 90% are paid by funds generated by themselves, not too dependent on donor funds. The team is willing to pass on the knowledge to others thereby ensuring continuity”.

4.3.3.2 What keeps Malawi coffee on the market?

Participants had different views about the success factors of the union on the international markets. Interviewee 2 had this to say:

“I would say there are long term relationships that were built with the international markets, the buyers. Most of our farmers (cooperatives), they have been in good relationship for more than 10 years with a single buyer. Malawian farmers have been loyal to those buyers and those buyers have been loyal to farmers”.

According to Interviewee 1:

“The secret behind the success is actually in the processing, we have to do effectively with the processing so that we meet the standards that are required”.

In addition, Interviewee 2 reported that:

“Every farmer has increased production by opening up new gardens and productivity has also increased because they have new technologies (shade grown and organic coffee) coming in, they have more knowledge, they are growing”.

According to F3, production has improved so too the exports because of new technology like manure making.

“But if we talk of where we started to the present we can say our production is shooting because for example, we produced 350 000 kilograms during the last season but we started from 99000 kilograms of cherry. The changes are in the range of 300 and 400 thousand. Of course, production is increasing annually, our extension officers have trained us to produce composite manure using the ingredients that are found locally. So, in terms of export growth there is a big growth”.

Quality management for coffee

The union conducts pre-season training of all the operators and workers in the factory and other staff as a measure of managing the quality of coffee. Interviewee 1 commented that:

“We do have inspection checks and supervisions throughout the processing season. We get samples for every consignment from cooperatives and do cupping in the laboratory, checking the cup taste quality for final grading”.

According to Interviewee 2,

“We make sure the quality of coffee the farmer is offering is acceptable in terms of international standards before it goes to the market. So we have our quality control committee that looks at it and checks the quality that the farmer is offering”.

F 3 also commented on quality management in this way:

“The other factors that affect cup quality include the field management. If you have poor field management it also affects the cup taste quality of coffee. For example, if coffee is attacked by pests and diseases while in the field you end up with poor quality of cup taste. Coffee is very sensitive and you need to have good hygiene all the time when doing the primary processing”.

4.3.4 How does MZCPCU position itself in the market place?

4.3.4.1 Mzuzu union is a unique market

The union positions itself as a good market which is unique on the international market. According to interviewee 1:

“In African continent, apparently Mzuzu Malawi coffees are one of the best coffee and Kenyan coffees are the top coffees. Looking at the quality of coffee and the prices, you find that we are doing very well on quality and we offered competitive prices”.

In addition, Interviewee 1 reported that, coffee like the wine industry has good special characteristics which originate from the soil and the climatic elevations of the areas where it is grown. The comment was that:

“No two origin coffee will be the same in the world. They may have similarities but may not be the same. The climatic conditions, the altitude at which it is grown and the processing that you use and the soil type that you have all those will contribute to the type of quality of your coffee’.

According to F1, coffee grown by the cooperative farmers is inter-planted with other crops to add flavour, and that makes the difference among coffee grown by different cooperatives:

“The coffee fields are surrounded by an orchard for citrus fruits, during pollination there is cross pollination. Coffee for sure will have a flavour of the citrus fruits. Buyers like the flavoured coffee like orange flavour or lemon flavour or any fruit flavour because it induces more coffee drinking”.

The interviewee 2 commented that:

“One thing is, because of their growing system and the environment, their coffee taste very much different from coffee from plantations in the estates. The coffees in the north are grown among the natural environment, natural trees and things like that which also makes it tastes differently. The aroma is very different compared to that of coffee grown in the open environment in the estates. The other thing is that altitude is higher in the north and that is also a difference, it brings a different environment and probably it is cool all the times and coffee is not stressed a lot rather than the lower altitudes in the south. So among the coffees grown in Malawi among them they are different depending on their growing conditions”.

4.3.5 How does MZPCU make money?

4.3.5.1 Coffee sales within cooperatives

Coffee sales are conducted in three stages: sales between farmers and business zones, between business zones and the union, and between the union and the international buyers. F1 explains:

“It is a long process with many stages. The selling process begins as soon as a farmer brings coffee to the pulperies at the business zone. The business zone buys coffee from farmers right away at the zone and sells at the union”.

Interviewee 1 explains about payment process:

“When it was a government parastatal, farmers got 20 percent and 80 percent went to government itself. But now the pricing policy is simple, 60 percent of the export value goes back to the farmer and 40 percent remain for administration of both the union and the primary cooperatives.”

But F3 complained against late payment of the second instalment.

“Normally the upfront payments are small amounts just to ease financial problems of the farmers. We have observed this year that first payment was done in May, but the second payment has taken too long and many farmers have complained on that”.

4.3.5.2 Coffee sales on the international markets

To international buyers, the selling process was explained by interviewee 1:

“We don't sell by auction here, we sell by tender. We go to the prices on the internet (New York Commodity coffee market) and check for the prices for the day and we add a premium of about 25 to 60 percent, depending on the quality of that coffee; we add between 25 and 60 percent onto the commodity coffee market price, and that will be our reserve price”.

Coffee prices on the international markets have been different across the cooperatives.

Interviewee 1 commented that:

“The coffee prices have been changing and have been very erratic. I think since the collapse of international coffee agreement prices have been low and

they started picking up four years ago. The prices started picking up slightly and of course this year, 2010, prices have gone mad”.

According to Interviewee 2, coffee sales on international markets are done mostly by signing contracts. It was explained by Interviewee 2 that:

“In terms of pricing it is an agreement between the buyer and the seller. They usually have what we call contracts. They have private and forward contracts. It is that contract that regulates all the businesses between the two parties. Usually they have to produce first and get markets later when they have the crop. So usually they know that there is a market but to get a better market then they need to do a little bit more work; search for those markets, get information from here, from whatever source and get into touch with buyers and get into contracts and supply and get paid”.

On contracts trading, Interviewee 1 had this comment:

“Sometimes we fail to meet contracts and normally we reschedule the contracts. Say for example, we were supposed to send about 4 containers and we have only 3 and 1 is remaining and we do not have coffee, we reschedule the contracts’ time frame”.

4.3.5.3 Sources of cooperative finances

The primary cooperatives are legal business entities; they solicit their funding from the membership. Interviewee 3 shared the same ideas about cooperative finances in this comment:

“Primary cooperatives are legal entities in their own capacity. Our cooperative has farmers who have paid membership fee and have shares”. Sometimes, cooperatives get financial support from Non-governmental Organization (NGOs). For example we have Coop (Italy) supporting cooperatives in Salima and Malawi Enterprise Zones Association of Malawi (MALEZA) another NGO financing cooperatives in Dowa district.

In addition, Interviewee 1 had this:

“We also have projects funded by donors. For example, the European Union has assisted farmers for quite a bit of time, and they feel that these farmers are their baby. The union also has projects funded by COMPASS Malawi in its diversification programs- bee keeping, for financial sustainability among smallholder coffee farmers”.

Interviewee 2 also commented on sources of finances in the cooperatives. It was mentioned that:

“Usually, cooperatives get support from international partners like, I think they have a lot of support from the EU and other American organizations. What we are trying to do is to look ahead beyond this support. So the support that we are looking for now is not the support that subsidize the costs but to build their capacity”.

4.3.5.4 Benefits of cooperative business to smallholder coffee farmers

According to Interviewee 1:

“Our objective is improving farmer organization in terms of their management, administration and financial sustainability and the total income for the farmers come from honey and from coffee. “I think we have really moved because the average incomes have increased quite a lot and we have moved from somewhere else about MK12 000 per year per grower to at least MK50 000”.

Similarly, Interviewee 2, F1, F2 and F3 agree that farmers get income, while other people (non-farmers) get employment and the government gets foreign exchange.

But interviewee 3 saw it differently:

“Cooperative members get farm inputs from the union on credit. If they make any surplus after sales, that surplus is paid back to the primary cooperative society, and the same trickles down to the individual members of the primary cooperative society in a form of dividends or in a form of bonus, depending on what he sold to the cooperative societies.”

4.3.6 What are the union’s time, scope and size ambitions?

4.3.6.1 Corporate objectives of Mzuzu Union

The Mzuzu coffee union has a vision and objectives as explained by interviewee 1:

“Our first objective is the promotion of coffee production, processing and marketing; second one is looking at farmer organization improving in terms of their management, administration and financial sustainability; third one to protect farmers from the price fluctuations at international market. Now we are not dealing with coffee only but honey as well”.

4.3.6.2 The union's social responsibility

The union considers social issues under the fair trade. Interviewee 1 explains:

"For every kilogram of coffee sold under fair trade, part of it comes back as premium, which must go back into social projects like maintenances of some bridges, building toilets at one of the community day secondary schools and we have a nursery school".

4.4 Propriety Level

Diversification Programs

The union embarked on diversification programs funded by COMPASS Malawi as one way for financial sustainability among smallholder coffee farmers. According to interviewee 1:

"Now, we are not dealing with coffee only, but honey as well; the same farmer producing coffee and honey. Bee-keeping program is compatible with the coffee production in terms of cross pollination and division of labour. If you introduce bee keeping, you increase the coffee production between 10 to 25 per cent because of cross pollination".

4.5 The Guiding Principles of Mzuzu Coffee Planters Cooperative Union

According to Interviewee 2,

"Mzuzu coffee union is guided by its board of directors and this is reflected in daily operations as the management execute plans that are always approved by the board of directors".

Interviewee 3 commented that the union is guided by cooperative principles:

“Unions follow principles like democratic control through elected office bearers; concern for the community and Mzuzu coffee union has put up school structures within its area of operation. It distributes surpluses to its members and membership is open and voluntary to those who qualify”.

4.6 In addition, the following data were collected from documents:

- A situational analysis of the union’s internal resources revealed the following results presented in table 5.
- The Cooperative Act no. 36 of 1998 made mentioned about how the Ministry of Industry and Trade regulates, protects and promotes the cooperative movement in the country. In summary, the Act gives the procedures for cooperative registration and the rules and regulations of cooperatives societies in Malawi.
- By June 2009, 825 cooperatives were registered of which 379 are active Agricultural Producers and Marketing Cooperatives, 17 are Dairy Cooperatives, 2 Industrial Cooperatives, 13 Agro-processing cooperatives, 2 Fishing cooperatives and 167 Financial Cooperative Societies, and 245 cooperatives are dead.
- The Special Bulletin and Statistical reports on coffee exports from 2004 to 2008 indicate that Malawi produced a total of 9 704.77 tones and exported 7 926.20 tones of coffee beans giving total revenue of MK 1 715 861 433 (Source: Coffee Association in Malawi; Data attached as appendix F).

- No documents were available for public consumption at the union except for bulletin and video documentaries and the interviews. Notes were taken from the video documentary.
- Functions of the union: to continuously review the activities of the coffee business within and outside of Malawi.
- Coffee prices offered by the union to farmers have changed over the years as follows (Malawi Kwacha = MK): In 2006 coffee was sold at MK165/kg; in 2007 coffee was sold at MK170/kg; in 2008 coffee was sold at MK250/kg; and in 2009 coffee was sold at MK230/kg (due to economic crisis prices were reduced). On international markets the export prices were: In 2008 coffee was sold at US\$3.50, and in 2009 coffee was sold at US\$2.69 and in 2010 coffee was sold at US\$4.50.
- Total active membership of the union has also changed over the years. In 2006 it was at 3381; in 2007 membership was at 2123, dropping from 3381; in 2008 membership dropped to 1810 and 2009 membership increased to 2600.

CHAPTER 5

5 DISCUSSIONS OF THE RESEARCH FINDINGS

5.1 Introduction

This chapter discusses the research findings presented in chapter 4. The purpose of the study was to establish how the MZPCU has managed to increase its coffee exports. The findings in chapter 4 were presented following a pre-determined integrative framework developed by Morris et al. (2003) as discussed in chapter 3. The discussions in this chapter focus on the findings with regard to the factors that have contributed to increase in coffee export by the MZPCU from 2006 to 2009.

5.2 History of coffee farming and cooperatives in the smallholder sub sector

Coffee farming was the first cash crop to be grown in Malawi. According to Interviewee 1, coffee was first introduced by the missionaries before tea in the southern region of Malawi. Similarly, Palmer (1985) reported that there were some small farming communities growing coffee in the Shire Highlands in the south of the country by 1891. Palmer (1985) clarified the circumstances surrounding the rise and fall of the coffee industry during the colonial era. Generally, it was observed that coffee briefly boomed, but the peak year was as early as 1900, when over 2 million lbs were exported. Thereafter the industry rapidly collapsed as a consequence of impoverished soils, pests and diseases, and Brazilian competition.

However, there were two different opinions amongst the participants about who brought coffee into the northern region of Malawi. Some research participants

believed that coffee was brought to the north by the Scottish missionaries, and others, based on oral history, said that the indigenous Malawian farmers sourced seeds from Tanzania in 1929 and spread coffee to other areas in the northern region of Malawi. From this background, it can be concluded that both the indigenous Malawians and the missionaries grew coffee as early as 1930s. According to Government of Malawi (1996), the cooperative movement started in 1946 under the British colonial rule. Most cooperatives were engaged in coffee farming and the participation of smallholder farmers in coffee production grew strongly in the 1950s. This indeed supports the fact that cooperatives participated in coffee business.

After Malawi's independence in 1964 most of the agricultural cooperatives collapsed because of stiff competition against a newly formed giant government organization the Farmers Marketing Board (FMB) (GoM, 1996). Due to political interference all agricultural cooperatives were dissolved in 1971 and government established state-owned enterprises called crop authorities for all cash crops including coffee. With the failure of the state enterprises the Government of Malawi developed the required legal framework in 1998 and reintroduced agricultural cooperatives in 1999. The Smallholder Coffee Authorities became a trust in 1999 and was transformed into the Mzuzu Coffee Planters Cooperative Union (MZCPCU) in 2006. Since its inception the union has managed to increase its coffee exports from about 100 tonnes to over 400 tonnes in 2009.

The reintroduction of the cooperative system has laid a framework for the business model to be established in the rural areas where coffee is grown. The long history of coffee growing and knowledge of the farmers has enabled coffee to re-establish itself as an export cash crop.

5.3 Foundation Level

The following discussions fall under the six components of foundation level of the model. In each component sub themes are developed from the discussions.

5.3.1 How value is created by MZCPCU

5.3.1.1 Farmers' organizational structures

The smallholder coffee farmers are organized into four sub structures: the cooperative union, primary cooperatives, business zones and business centres.

- **Business centres**

Business centres are like farmer clubs, where farmers get extension services and access loans; it is where they have the general members. Business centres are at village level, consisting of 10–30 farmers.

- **Business zones**

From the business centres at village level, farmers regroup to bigger structures called business zones. These are processing units with machinery called pulper for primary processing. Each business zone has at least three business centres under it. Business zones purchase fresh coffee (cherry) from farmers, process the cherries into parchment (dry coffee) and sell to the union. Business zones employ workers depending on the production level and the financial muscle of the zone. Business zones have quality control teams responsible for quality management.

- **Primary Cooperatives**

Business zones are grouped into a legal business entity called primary cooperatives. The primary cooperatives are composed of the farmers under a particular business

zone. Cooperatives are owned by smallholder farmers who pay average entry fees of MK2000, purchase unlimited shares at MK1000 per share and make annual subscriptions of MK1000; it is just a secretariat for management and administration duties. Primary cooperatives employ staff just like any other organization. Procurement of farm inputs is done by the primary cooperative. Primary cooperatives have boards of directors and management teams lead by cooperative managers to run daily business operations.

- Cooperative union

There are five primary cooperatives under the union as share holders. The union is owned by the primary cooperatives, and has become the vehicle for the movement of all their requirements, from production to inputs. The structure of the cooperative union is similar to that of the primary cooperatives. On top is the board of directors: these are the elected officials from the five primary cooperatives. Below the Board of Directors is the Chief Executive Officer and management team. The authority is in the hands of the membership, the primary cooperatives. The mandate of the union is production, processing and marketing of coffee products. The union purchases farm inputs and delivers to primary cooperatives who sell to farmers on credit. Upon harvest, the farmers pay back their loans to the cooperative which in turn pays back to the union. The union is financed by shares and also gets funding from donor agents like the European Union.

The union structures have given the farmers the opportunity to engage in farming coffee, with assistance in finance, payments for crops, processing of the raw coffee and establishing markets for the coffee grown. Without this support it is doubtful if

the exports could have increased. The union is a window to the world, which rural people in Malawi just do not have access to.

5.3.1.2 Coffee farming (Sustainable)

Most coffee grown in Malawi relies on rain fed crop production and traditional clearing of natural vegetation and planting the crop in open fields. In recent years rainfall has become more erratic and this has affected coffee production. To mitigate the variation in climate, the union is training farmers to shift from the old farming system whereby they had to clear all the vegetation for coffee fields to new approach whereby coffee is grown within the natural environment without clearing the vegetation as it was the case in the past. Coffee is now grown under shade of the natural trees. Farmers also grow other crops like bananas to provide cover over coffee. This helps to conserve moisture and reduces stress on coffee caused by excessive heat. Coffee farming can be likened to planting trees in the forests. Coffee is a natural bush crop and does well when it is grown together with other trees imitating natural bush.

Sustainable coffee production is also encouraged under the Fair Trade agreement. Fair trade in coffee is usually among smallholder coffee farmers, where farmers are required to produce organic coffee. These are coffees planted and grown without the use of any chemical fertilizers or sprays and that farmers do not allow child labour. “Coffee was introduced as the first fair-trade certified product in the Netherlands under the Max Havelaar brand, in 1988” (Pay, 2009:10). According to Pay (2009), Max Havelaar and other national certification schemes were later grouped under the umbrella organization Fair trade Labelling Organizations International (FLO). The

most widely recognized fair-trade certification systems include: Utz Kapeh's "Utz Certified"-label, Rainforest Alliance, Starbucks' Canadian Association of Fairs and Exhibitions (C.A.F.E)"-label, Nestlé's "AAA" guidelines, the label of the Fair Trade Federation, and the "Common Code for the Coffee Community Association (Pay, 2009).

The aim of the fair trade is to ensure that smallholder coffee farmers are treated fairly on the market. Buyers are expected to offer fair prices for organic coffee so that the farmers should benefit. Under the Fair Trade, there is a premium which is given to the sellers (cooperatives) for social responsibility in the communities. The percentage of exports by the Mzuzu union under Fair Trade has increased from 0% in 2007 to 6.6 % in 2009 and represents a significantly area of growth for coffee exports in the future.

5.3.1.3 Coffee varieties grown by smallholder farmers in the northern region of Malawi

There are two major varieties of coffee, namely Arabica coffee and Robusta coffee (Tilahun, 2007). In Malawi, only Arabica coffee is grown and growing conditions in Malawi are believed to be favourable for growing Arabica coffee. The knowledge of the smallholder farmers in which varieties of Arabica to grow is important, as this impacts on the quality and hence the potential to export. According to the smallholder farmers, among Arabica coffee cultivars, there are long term varieties and short term varieties. Examples of long term varieties include Geisha, Agarú and local Nyasa, while the short term varieties are hybrids of the Catimor variant. The production of these cultivars varies considerably. The long term varieties have a high resistance to diseases whereas the short term varieties are easily attacked by diseases. Coffee in

Malawi is mostly grown in the high and mountains areas of the Northern Region where climate conditions are particularly good for the crop. The areas have altitudes between 1,000 and 2500 metres above sea level, temperature range of 0 degree Celsius and 32 degree Celsius and annual rainfall range of 1400mm to 2000mm (MCS, 2008). Thus, Arabica coffee is grown in relatively cool climates in the region. An understanding of local conditions and which varieties suit the environment, contribute towards the overall success of increasing exports. Most smallholder farmers were not willing to commit their resources to a crop that takes so long to start generating returns.

The introduction of an early maturing variety of coffee Catimor Populations, which takes three years to mature, has reduced the capital needs of coffee farming and as a result many smallholder farmers that had abandoned coffee farming have resumed coffee farming (Chirwa et al., 2007). According to Chirwa et al. (2007), about 86.5 percent of farmers grow Catimor Populations and that about 71 percent of the coffee trees that the farmers have on their coffee farms are of the Catimor Populations variety and 29 per cent of the coffee trees are of long term varieties. It was observed that this trend has changed insignificantly over the past three years. Still most farmers grow the Catimor Populations because of high production volume per coffee tree. The increase in exports was attributed to increased utilization of short term coffee varieties because they have high production rate per hectare that were estimated at 1.5kg of cherry per tree as compared to 0.9kg of cherry per tree from the long term varieties.

5.3.1.4 Coffee processing

The processing of the coffee is an important step in establishing the final quality of the coffee beans sold on the international market. The knowledge of the union in setting up the processing system ensures that international standard is maintained. This has come about because of the relationships that have developed with the buyers, for example Fair Trade.

- **Primary processing**

Mzuzu coffee union exports green coffee beans after primary and secondary processing. Primary processing involves cherry handling, done by farmers at the zone level where they separate coffee pulp from coffee beans using pulper machines. It also involves weighing, grading, soaking and drying. The quality control team ensures that the cherry has ripened enough to ensure good quality of parchment (dry coffee). After the primary processing, parchment is collected into hessian sacks and delivered to Mzuzu union for secondary processing.

- **Secondary processing**

The secondary processing involves hulling, in which outer shells are removed to provide green coffee beans for export, as well as sorting, grading and weighing the beans. The grades given to green coffee beans are AAA as first grade, AA as second grade and AB as a third grade and other lower grades. The grades are determined by the cup taste done in a laboratory at the union.

5.3.1.5 How quality of coffee is maintained

Quality of coffee is influenced by a number of factors, including the growing system and the environment where coffee is grown. Smallholder farmers are encouraged to

grow coffee without clearing the natural vegetation to keep coffee under shade. As a result coffees grown under shade on smallholder farms in the north taste different in terms of flavour and high nutrients content because they are grown in the natural environment, among natural trees, compared to coffee grown in open plantations in the estates. Another differentiating factor is that altitudes in the north are higher, where temperatures are cooler than in the lower altitudes in the south and central regions of Malawi. Farmers need to change the growing system and maintain the natural vegetation. As a result, the natural vegetation gives coffee a different taste and could be a contributing factor to increasing demand from international buyers.

In order to maintain the quality of coffee, the union carries out trainings in quality maintenance and quality management for all the machine operators and factory workers. The union also conducts inspection checks and supervisions during coffee processing. Farmers are also trained in good field management for them to harvest disease free cherry so as to meet the international standards.

5.3.1.6 Delivery systems used by coffee farmers

The establishment of the processing units near to the coffee growing areas enables them to transport their coffee to the processing units using wheelbarrows, bicycles and manual delivery with help from family members. This is a significant saving to the farmers as they do not have to pay for transport to get the crop to the processing units as very few have their own vehicles. After primary processing, coffee is transported to the union using vehicles owned by the cooperative. It is the responsibility of the union to provide logistics to collect the parchment from the business zones. The union simply provides fuel because all cooperatives have vehicles.

Rarely does a manufacturer use just one type of channel to move its products. It usually employs several different or alternative channels (Lamb et al., 2008). Basically the union uses two distribution systems: the direct channel for the international markets where there are no middlemen, they use internet price searching (non-traditional channels) and communication is done by mail order for delivering samples to bidders; and the second one is the use of middle men like the wholesalers especially for the domestic markets.

The union exports coffee through Beira and Durban ports. There are two options of delivering coffee to buyers on the international markets. Depending on the choice of the buyer, delivery of coffee is either Free on Board or Free on Transit. When it is Free On Board (FOB), it is the responsibility of the union to provide logistics from Mzuzu to Beira or Durban using hired transporters and a shipping agent. The role of the shipping agent is just to complete transactions on administrative areas of transportation to the port. When it is Free on Transit (FOT), it is the responsibility of the buyer to provide trucks to the union. The union prefers FOT for quick payments.

5.3.1.7 The significance of coffee farming in the smallholder sub sector

The significance of coffee farming cannot be over emphasized. The benefits are viewed through different lenses among stakeholders. In the past, coffee was perceived as a rich man's crop because it was introduced by the white settlers who dominated in coffee growing in large estates as plantations. This has now changed. Smallholder farmers are also engaged in coffee farming because coffee is an investment bank for future benefits. Farmers also consider coffee farming as a pension scheme where they can continue to harvest long after retiring from active farming. Smallholder farmers

also take coffee farming as insurance; even when prices are bad, they never think of uprooting the trees to plant other crops as estates do. They pass on the farm from one generation to the next and that alone is a strategy for continuity.

5.3.1.8 Challenges facing coffee farming

The following are the common challenges raised by research participants as major obstacles that limit growth in coffee production among the smallholder farmers.

- **High costs of farm inputs**

Farming needs a lot of inputs like fertilizer, seeds and chemicals. The high costs of fertilizers and chemicals have left farmers financially unable to source-out enough inputs for improved production. For example, the costs of chemicals are so high so that diseases are left untreated which result in low coffee production. Another example illuminated that the cost of J-compound fertilizer was MK11 295, Nitrogen fertilizers were at MK4 950 and Urea fertilizers were at MK5 995 while the cost of Fipronil chemicals for treating pests was at MK15 000. These were conceived by interviewees as high costs of production and were contributing to the reduction of coffee production each year.

- **Climate change and coffee exports**

Coffee in Malawi grows in high areas, with elevations starting from 1,000 metres above sea level. In most areas of the northern region, coffee grows well because they are mountainous areas with high altitudes. Coffee farming in the smallholder sub sector is dependent on rain fed water. The change in climate has resulted into changes in the rainfall pattern. Farmers have sometimes received heavy rains or little rains.

These changes are due to climate change. “Concern about climate change has stimulated interest in estimating the total amount of greenhouse gases (GHGs) emitted during the production, processing, retailing and use of many consumer goods” (Edwards-Jones, G., Plassmann, K., York, E.H., Hounsome, B., Jones , D.L. and Mila`i Canals, L., 2009:479). Farmers raised their concern about the climate change that, when there are little rains, there is shortage of water and production is also low because coffee requires a long period of rainfall. When coffee production is low, the amount of exports is reduced because the union sells what farmers have produced in that farming session.

- Lack of funding for coffee research

Due to lack of financial support from the government and the fact that coffee research station was closed in Mulanje, most participants considered coffee research to be dead in the country. Private agricultural research is nonexistent, and almost all research activities are done by government. The government, however, is more focused on tobacco and maize, leaving coffee, cotton and other crops suffering. There is currently no funding for coffee research in the country as it used to be in the past. As such, there are no new technologies that would help to cut costs and improve production. There are no new research activities on coffee seed production. Consequently farmers just recycle seeds. Diseases and pests take advantage of the recycled seeds whose natural defence against diseases is weakened. The quality of the crop is reduced and the result is low production. The issue of research is a critical factor for coffee production. There is need for vigorous research with support from the government, donors and farmers’ organization to maintain growth in coffee production. Farmers themselves need to initiate the change so that government can come in and help.

- Logistics

Logistical problems have been the major cause of delayed coffee deliveries to international buyers, and all other problems come secondary to logistics. Because of logistical problems, coffee from Malawi is perceived as being more expensive than coffees from the neighbouring countries. Sometimes the union fails to meet the deadlines for delivery. This is due to the fact that Malawi is a land locked country. Should there be any problem at the ports or with the shipment agent it affects all members of the coffee supply chain.

- Lack of government political will

It was a common concern of all the research participants that there is little political will for coffee. For instance, government stopped financing coffee research and coffee research officers who retired were not replaced. The government is more supportive of tobacco and maize, and neglects coffee, cotton and other crops. The coffee industry needs more support from the government because government has a network to control coffee marketing. According to Chirwa et al (2008), coffee farming makes intensive use of organic or inorganic fertilizers. For the past five years, farmers have had access to the subsidized fertilizers made available to maize and tobacco farmers, but the particular fertilizers like J-Compound that are important for coffee production are not subsidized. The government is unwilling to subsidize such fertilizers. This means that the crop has received only very limited support from government.

5.3.1.9 Mitigating factors for the challenges

Regardless of the challenges mentioned in section 5.3.1.8 the union increased its production and exports. The following are the mitigating measures taken by the Union:

- The Union has trained farmers under the organic coffee production system, to grow coffee without using pesticides, herbicides or chemical fertilizers and sprays that can potentially endanger the earth. Farmers are imparted with new production techniques such as composting, terracing, and natural pest controls as one way of reducing the impact of high costs of fertilizer and chemicals. With the introduction of organic coffee farming, the Union has managed to enter new markets and increase its exports. The organic coffee is traded on fair trade markets at premium prices. Fair trade organisations buy directly from farmers and pay them more than they would get for their coffee beans on the conventional world coffee market. Therefore, the Fair Trade is a viable solution to problems related to high costs of fertilizers. To become Fair Trade certified, buyers are required to meet stringent international criteria which include paying a minimum price per pound, providing much needed credit to farmers, and providing technical assistance such as help transitioning to organic farming (Global Exchange, 2009). According to Global Exchange (2009), Fair Trade for coffee farmers means community development, health, education, and environmental stewardship. The union is a certified cooperative recognised globally.
- In view of the climate change, the union has trained farmers to shift from the old farming system whereby they had to clear all the vegetation for coffee fields to new approach whereby coffee is grown within the natural environment without

clearing the vegetation as it was the case in the past. Coffee is now grown under shade of the natural trees. Farmers also grow other crops like bananas to provide cover over coffee. This helps to conserve moisture and reduces stress on coffee caused by excessive heat.

- “Fears have been raised that low-income countries will face greater difficulties in exporting in a climate-constrained world where carbon emissions need to be measured and certification obtained to enable participation in carbon labelled trade” (Brenton, Edwards-Jones and Jensen, 2009:243). According to Brenton et al. (2009), a possible mitigation mechanism to reduce greenhouse gas emissions is carbon labelling which involves measuring greenhouse gas emissions (carbon footprint) from the production of products or services and conveying that information to consumers and those making sourcing decisions within companies. “The carbon footprint of a product is expressed in terms of its global warming potential (GWP), which relates to the impact of different GHGs on global warming” (Edwards-Jones et al., 2009:479).
- The issue of carbon foot print labelling for all export commodities is likely to create non-tariff barriers to small rural businesses like coffee cooperatives. According to Edwards-Jones et al. (2009), there are at least three possible mechanisms by which carbon foot printing could impact trade: consumer-facing carbon labels, social contracts with producers to reduce footprints and a carbon tax on all imported goods. In response to these fears, the union conducted an audit of all its processing facilities to assess the environment impact of the primary processing where a lot of waste water and pulps are thrown away. At the time of

the study, the union was waiting for donor funding for a project on waste management. Participants' perception on carbon footprint was that the low income countries generally lack the capacity to measure and label carbon footprint (CFP) of their products; and exports from these countries often are produced by relatively small producers. Cooperatives like Mzuzu union in a low-income country like Malawi, have fairly small processing plants and tiny farms, hence the amount of carbon footprint can be much lower than cooperatives in the developed nations. However, the union should not overlook its contribution to environmental impact because transport is also a contributory factor to the carbon footprint of goods; the long distance from farmers to the union and from the union to the ports is a contributor to carbon footprint vulnerability.

- The union has also strengthened the relationship between the growers and the buyers who provide technical assistance to farmers on organic coffee farming. Because of the good relationship with buyers, they get advice on coffee processing and handling. The union also receive support on capacity building in terms of quality assessment and quality maintenance and was certified as a Fair Trade producer by the international organisations. The certification has enabled the union to enter the fair trade market to expand its markets.
- The union has diversified to bee keeping not only for money from sales of honey but also as cross pollination agents in order to increase production. With the assistance from the Coffee Association of Malawi (CAMAL), the Union is able to market all its products both locally and internationally. The coffee association is part of the quality control committee and, on behalf of the government, issues the certificates of origin to facilitate the trade.

5.3.2 For whom does Mzuzu Coffee Planters Cooperative Union create value?

5.3.2.1 Coffee markets

- Overview of coffee production and exports in Malawi

Smallholder farmers and large estates are the two sub sectors engaged in coffee production in Malawi. Coffee produced by the smallholder farmers is sold on local markets and on international markets. For instance, coffee production of the smallholder farmers under the MZCPCU, 10 percent is sold locally and 90 percent on the international market. Data presented in table 4, the coffee production and exports from 2005/06 to 2009/10 was used to develop a bar graph shown in figure 2; the graph indicates that the principal target of Malawian coffees is the international market. Thus, most of the coffee produced in Malawi from both the estates and smallholder farmers is sold on the international markets. In 2009/10 season about 98 percent of all coffee grown in Malawi was exported to international buyers, and only 2 percent was sold on the local market. Figure 2 also shows a general decrease in both production and exports of the county as a whole. Overall analysis indicates that coffee exports by the industry declined, dropping from 1950 tonnes in 2006/07 to 1450 tonnes in 2009/10.

- Coffee exports by the MZCPCU

The exports trend for the Mzuzu coffee union (in figure 3) shows that exports increased over the same period from 2006/07 to 2009/10 when the overall coffee exports were declining. Coffee exports for the union increased at different rates since 2006/07 and the highest volume was in 2009/10.

- From this analysis of figures 2 and 3, it can be concluded that there are some factors that have contributed to the increase in coffee exports by the union from about 260 tonnes in 2006/07 to 410 tonnes in 2009.

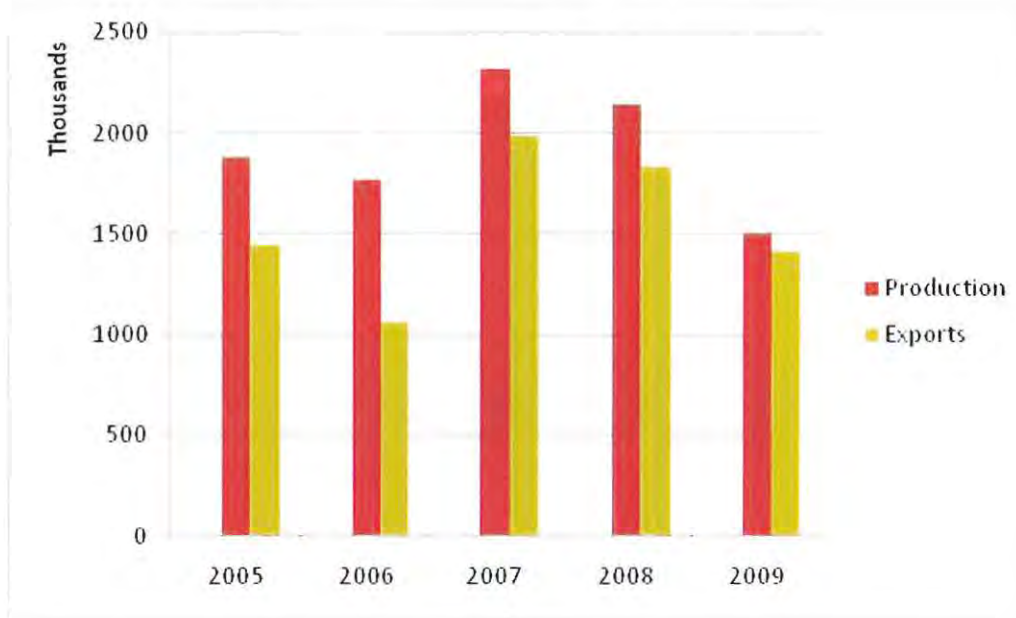


Figure 2: Coffee production and exports, Malawi

Source: Calculated by author from Coffee Association of Malawi, 2010 data

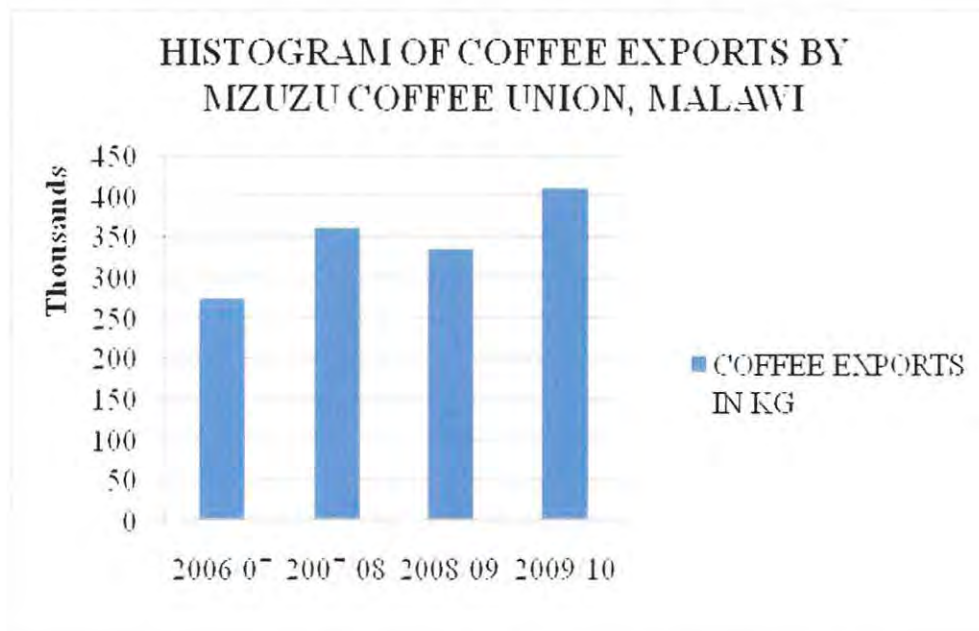


Figure 3: Coffee exports by Mzuzu Coffee Planters' Cooperative Union

Source: Calculated by author from Mzuzu Coffee Planters Cooperative Union, 2010 data

5.3.2.2 Coffee market segmentation for international trade

Organisations build up potential customers into groups in order to satisfy the needs of the customers by directing resources to specific profitable segment. According to Lewin, Giovannucci and Varangis (2004) the differentiated product market requires that producers distinguish their coffee by distinct origin, defined processes, or exceptional characteristics, such as superior taste or few defects. The differentiated segments suggested by Lewin, Giovannucci and Varangis (2004) include: Geographic Indications of Origin, Gourmet and specialty, Organic, Fair trade, Eco-friendly or shade grown and other certified coffees.

In order to satisfy the needs of its customers on the international markets, the Union segmented the customers into five market segments stratified on the basis of cup quality or cultivation processes. It was reported that on the basis of cup quality, the Union serves the specialty market, the premium market, the commercial market and the commodity market, and from 2008 coffee was sold on the fair trade market as well based on cultivation processes. The specialty market is for special quality coffee of cup taste scores above 85 percent. Such coffees are regarded as great taste with no defects (Lewin, et al., 2004). The premium segment takes coffee of cup taste scores between 1 and 9 percent. Whereas in the commercial segment scores are lower than the premium segment. Then the commodity market is the general coffee market, which is also called the New York Commodity market.

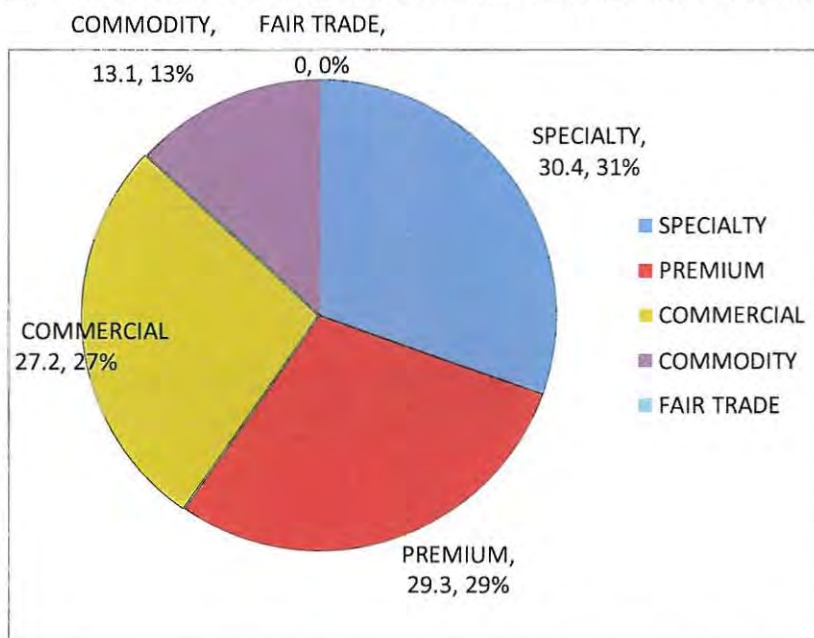
The fair trade encompasses the idea that producers earn at least the cost of production in the marketing process through direct negotiations between the buyers and the producers without middlemen for the benefit of the producers (farmers). It is a

requirement under the fair trade that buyers must meet a minimum price per kilogram of coffee which is aimed at protecting the growers from price fluctuations. “Fair trade’s mechanisms encourage community-driven investment in public goods such as education, healthcare, and infrastructure. It is the only major certification system that requires the buyer rather than the small producer to cover all of the costs, most of which are embedded in the base price” (Lewin, et al., 2004:37).

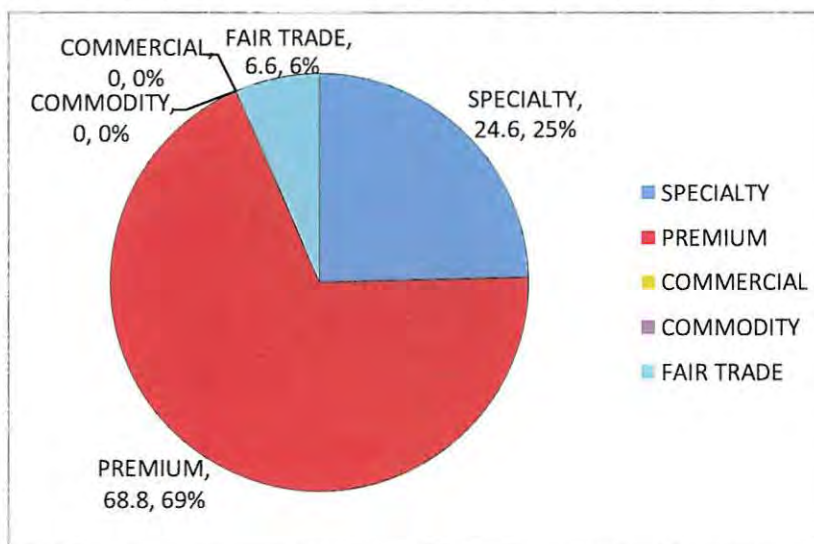
The union’s coffee exports for 2007/08 and 2008/09 were shared into the five market segments as shown in Figure 4 (a) and (b). In 2007/08 season most of the buyers were in the specialty segment, premium segment and commercial segment, while in 2008/09 the majority of the buyers were in the premium segment followed by the specialty segment and fair trade. The specialty buyers are from the UK, the USA and Japan. The premium buyers are German and commodity buyers from South Africa. The analysis reflects that most of the coffee in 2008/09 had average quality lower than that of 2007/08 when the biggest share was in the specialty segment.

Figure 4: (a) The market segments in 2007/08; (b) The market segments in 2008/09

(a): THE MARKET SEGMENTS OF THE MZCPCU IN 2007/08



(b): THE MARKET SEGMENTS OF THE MZCPCU IN 2008/09



Source: Calculated by author from Mzuzu Coffee Planters Cooperative Union, 2010 data.

5.3.3 Internal source of advantages of MZCPCU

The union's core competences

A situation analysis of the internal resources of the union revealed the major strengths, weaknesses; threats and opportunities of the union as listed in table 5. According to the analysis, the main strength of the union is the availability of competent Human Resource in the field of production, processing and marketing. The union is able to sell coffee in the specialty markets and the fair trade markets because of the good quality coffee produced by its farmers and management staff. The competent Human Resource is able to maximise the limited seed capital and make use of the available technology to increase exports. The transport facilities which is available at primary cooperatives is fully utilised to support delivery of coffee from farmers to the union in Mzuzu. Farmers believed that the achievements that have been made in increased coffee exports was due to farmers' commitment and hard work, maximum land use and the institutional support in providing soft loans for the supply of farm inputs. However, some weaknesses were also sported and the major ones were inadequate seed capital to supply enough farm inputs to farmers and high mortality rate of seedlings due to pests and disease pressure. The emerging of sustainable coffee markets (organic, fair trade, and shade grown coffee markets) were seen as opportunities that farmers can exploit. According to Lewin, et al. (2004:36), "sustainable coffees are predominantly produced by small farmers and characterized as paying farmers reasonable prices, providing incentives toward organic production and rewarding farmers for practicing good natural resource stewardship; they tend to promote water conservation and protection, energy conservation, nutrient recycling, and even community/cooperative development". The major threats that the union faces included coffee price fluctuations on international markets, low competitiveness

due to high transport costs, shortage of foreign exchange (forex) in the commercial banks, fuel crisis that cripples the transport net work, high input costs and the negative impact of climate changes (short of water). Delay in payments to growers was also mentioned as a threat that reduces farmers' morale and hard work and may result in low production.

From the analysis, the first core competence of the union was identified to be the competent Human Resource in the field of production, processing and marketing. The union has committed and hard work farmers. The farmers own, lead and control the union through the primary cooperatives. The union employs well qualified people (technocrats), the star cuppers (intermediate level qualification) and quality graders (advanced level) who hold international qualifications in terms of cupping the quality of coffee. Most of these employees are university graduates.

The second core competence is the unique business model. The cooperative business model indicates that the cooperative union is owned, led and controlled by the growers themselves through the primary cooperatives that are wholly owned by the growers who make business decisions for the union. The organization structure of the union on figure 6, shows that on top there is a board of directors which is a group of farmers' representatives selected from the primary cooperatives (usually chairpersons); then the chief executive with directors and other staff in various departments (management/employees) . The unique feature in this set-up is that farmers themselves are investors, farmers' representations sit on top of the decision making table of the union, and farmers give direction and control the management team for the benefit of farmers. According to ILO (2009:12) "cooperatives are

uniquely member- owned, member-controlled and exist to provide benefits to members as opposed to profit and this has an impact on business decisions; when the purposes of the business are aligned with those of members who are both investors and consumers of the cooperative, the results are loyalty, commitment, shared knowledge, member participation, underpinned by strong economic incentives”.

Mzuzu coffee has a unique taste that has attracted international buyers over the past four years. Most of the coffees are grown in mountainous areas and under shade. The soil composition and good farm management practices give a unique flavour of coffee which is liked by buyers. In the African continent, Kenyan coffees are the top coffees because Kenya invested a lot in the coffee industry in such a way that Kenyan coffees will fetch prices probably as high as \$8 on the auction. But that money, by the time it goes to the farmer is reduced to 50c of American dollar because of the hierarchical set-up (marketing structure). According to Export Processing Zones Authority (2005), the set-up of the marketing structure of the Coffee Industry in Kenya is a seven tier structure, set as follows, moving from top to bottom: On top tier are the smallholder farmers, then the cooperatives, followed by the commercial mills, then the marketing agents and then on the fifth tier is the Nairobi Coffee Exchange (Action by licensed dealers). At the sixth tier are the dealers and lastly exporters.). The \$8 on the auction is shared among the five members of the structure (chain of coffee dealers) leaving farmers with miserable income.

In Malawi, according to interviewee 1, 60 percent of sales go to farmers and 40 percent go towards management and administration of the union and the five primary cooperatives. This is a major motivator in encouraging farmers to grow coffee and

improve the standard of living for themselves and families. On average, an individual farmer contributes about 20 000 kg of coffee to the union and each cooperative is supplying 20 percent of the exports. Economically farmers are doing well, their average incomes have increased from about MK12 000 per year per grower in 2006 to at least MK50 000 in 2009.

In essence, exports revolve around the nature of ownership, the quality of employees and the business model. This is a win-win situation, the community as a whole is empowered, instead of one owner as is the case on the large company estates found in the south of Malawi.

5.3.4 How does MZCPCU position itself in the market place?

Mzuzu union is a unique market

On the international market the union positions itself as a unique market. Mzuzu coffee is believed to be one of the best coffees in Africa and has performed very well in international coffee competitions. The union came back from the taste of harvest competition with certificates of achievements during the 2009 competition. The union members use the smallness in level of production of Malawian coffees as a marketing tool to prove to the international markets that they produce high quality coffees; small is beautiful and easy to manage and improve on quality; that Malawian coffee is certified by internationally recognized organizations. The union moves to every country in the world to promote its coffees at exhibitions and conferences.

5.3.5 How does MZCPCU make money for its operations and investors?

5.3.5.1 Coffee sales within the cooperatives

Coffee sales are conducted in three stages. The first stage is the sales between farmers and the business zones, the second stage is between the business zones and the union and the third stage is between the union and the international buyers. Basically, the selling process begins as soon as farmers bring coffee to the pulperies at the business zone. The business zone buys coffee from farmers right away at the zone. There is a committee to handle sales. The business zones sell coffee after primary processing to the union via the primary cooperatives. Every zone has its own code number and all the zones in one cooperative send the parchment to the union as one consignment. The code numbers enable the union to know where exactly the parchment came from starting with the business zone and the cooperative. The selling process has changed over a number of years, especially the pricing policy and so too the payment process. It takes time to process sales to international buyers and to make payments to the farmers. The initial sale is done at the zone, but the actual sale of coffee to international buyers is done later by the union. However, it was agreed that while waiting for payment from the buyers, the union must source funds and make first payment (upfront payment) immediately after parchment deliveries to the union in November or December. The balance is paid after the union gets payments from the international buyers in February and March. This means that farmers are paid in two instalments.

The changes that occurred in the past were mostly on the pricing policy. When the industry was controlled by a government parastatal, what used to go to the farmer was between 18 and 20 percent and 80 percent was taken by the government itself. In the

current pricing policy, 60 percent of the export value goes back to the farmer and 40 percent remains for administration of the union and the primary cooperatives with the union getting 10 percent and the primary cooperatives 30 percent. Pricing policies are agreed during the Annual General Meetings of the union and its shareholders.

5.3.5.2 Coffee sales on the international markets

The third stage of coffee selling process is between the union and the international buyers. The union sells coffee to international buyers by tender where buyers bid for the sale. Prices are fetched by internet on the New York Commodity market and they add a premium of 25 to 60 percent on the commodity coffee prices depending on quality of coffee to make the reserve prices. Then the union sends samples by DHL to the buyers worldwide giving them a two-week tender period. There is a panel that evaluates bids from buyers on the basis of prices offered, how fast that buyer remits the money and other factors. Both winners and losers of the bids are communicated about the results.

As part of trade liberalization, the government does not intervene in the business. Government has given autonomy to the farmers, to the institution. The government benefits because coffee is sold in dollars so there is foreign exchange coming into the country. Prices are determined by agreement between the buyers and the union. Coffee prices on the international markets are very volatile. The prices are not the same in all cooperatives, which means that farmers do not receive the same price for their coffee; it all depends on the actual grade their coffee obtained during cup taste. Every single bag of coffee is different and unique in terms of its flavours, tastes and quality and because of those factors, the grades and estimates of value are different.

The cup taste was the basis for pricing on the international market. So each cooperative got prices according to the quality of coffee they sold. This means that prices have been different across the smallholder farmers sector. The changes of coffee prices have been very erratic since the collapse of international coffee agreement prices in 1989. The prices started picking up slightly and 2010 prices went as high as US\$5 per kg. But on average price farmer got US\$4.50 per kilogram in 2009/10.

In the past smallholder farmers were only producing 3 to 5 percent of the total coffee production, but now they have moved to 25 per cent. Their exports were about 100 tones but now they are in the region of 400 tones. This is due to the fact that farmers' total production has increased so too productivity has increased with new technologies like coffee grown under shade and organic coffee. The quality of coffees produced by the smallholder farmers has improved with the new technologies and improved growing system. Coffees in the north are grown among the natural environment, natural trees and the aroma is good. The market demand for the higher quality coffees exceeds the supply.

5.3.5.3 Sources of cooperative finances

The primary cooperatives are legal business entities in their own capacity while the business zones are just processing units but not legally registered. Farmers have to pay average entry fees, purchase unlimited shares and make annual subscriptions to become members. This means that primary cooperatives are financed by the individual members who are farmers through shares, they pay entrance fees or they make annual contributions or they put in place whatever levy they think fit as a mode

of income generation into the cooperative society. The higher the production, the lower the levy cooperatives pay because it is a question of efficiency. In most cases, the Union gets financial and technical support from international partners like the EU and Non-governmental Organisations financing sustainable coffee production, for example Flanders International Cooperative Agency (manure making) and COMPASS Malawi (bee keeping).

5.3.5.4 Benefits of cooperative business to smallholder coffee farmers

Coffee prices fluctuate every year, prices are low and farm inputs are high, but smallholder farmers never abandon the coffee business. The beauty with smallholder farmers is that they take coffee farming as insurance. Even when prices are bad, they never think of uprooting the plant to plant other crops. Like any other cash crop, coffee provides income to farmers. Apart from income to the owners, coffee also provides employment to other people who come to work in the coffee fields. By virtue of being cooperative members, smallholder farmers get many benefits. Since the primary cooperatives are members of the union, if they fall short of farm inputs then the union is approached to source the inputs to distribute to their farmers on credit and farmers repay upon harvest.

The Union is a non profit making body hence all the money realised is used to pay farmers. The Union pays 60 percent of the export value as a price to farmers. This is dependent on volume; the higher the volume the more the percentage paid to farmers and less percentage is paid to Union for Administration and operation. The Union is also supposed to pay dividends to Cooperatives which happen to be the Shareholders of the Union. Farmers are shareholders to the Cooperatives and not the Union. If the

Union makes any surplus after sales (exports) that surplus is paid back to the primary cooperative societies and the same trickles down to the individual members of the primary cooperative society in form of dividends or bonus (economical benefits) depending on what the farmer sold to the cooperative societies. However, due to low sales volume, the Union has never made any surplus for it to consider payments of dividends to the members who happen to be Cooperatives.

5.3.6 What are the union's time, scope and size ambitions?

5.3.6.1 Corporate objectives of Mzuzu Union

The MZPCU was formed in 2006 with five primary cooperatives as its members. Its strategic direction is to be Malawi's number one origin of fine coffees, honey and agricultural products; and its mission statement is 'economic empowerment of Malawian smallholder coffee producers through promotion of sustainable agricultural production, processing and marketing systems for coffee and other farm products (see Figure 5). The core values that drive cooperative members and employees towards the achievement of the mission are: Non-partisan, Quality at all levels, Independence, Dignity and respect, Commitment, Gender equality, Customer care, Competitiveness, Employee welfare; and Democratic values within cooperatives/associations.

In order to reach that destination the union developed three strategic objectives. First is the promotion of coffee production, processing and marketing. Thus the union is mandated to provide these three services to smallholder coffee farmers. The second one is looking at farmer organization, improving management, administration and financial sustainability. The union is considered to be a provider of financial services of last resort. The third objective is to protect farmers from price fluctuations on

international markets. In that respect the union diversified coffee farming with bee keeping. Farmers are not dealing with coffee only but honey as well, the same farmer producing coffee and honey.

5.3.6.2 The social responsibility of the union

Gatamah (2003:5) suggests that “corporate governance and social responsibility should become the philosophy of business enterprises in, among other things, setting standards of quality and integrity; respecting the physical environment by using and managing all resources including air, water and forests sustainably; recognizing the dignity and worth of all their employees and the people in their communities; and innovating to meet unfulfilled needs of the society”.

As part of its social responsibility, the Union undertakes community development activities with funding from fair trade premiums. For every kilogram of coffee sold under fair trade, the union gets a premium. The premium paid by Fair Trade has to be used for community development projects. Community projects like maintenance of bridges, building toilets for community day secondary schools and running a preparatory school are some of the projects funded by fair trade premiums. On environmental aspects, the Union has taken a positive stand to reduce waste of water during primary processing of coffee and a more sustainable approach to coffee growing.

5.4 Proprietary Level for MZPCU

Diversification Programs

The union embarked on diversification programs as one way of creating financial sustainability among smallholder coffee farmers' organizations. Coffee farmers are also engaged in bee keeping, generating further streams of income. The union introduced microfinance services and wheat farming in the diversification program to coffee production. These different agricultural activities coffee production and bee keeping are compatible with the coffee production. Coffee is basically an inbred crop because the flowers are easily self pollinated. Due to the resulting reduced genetic variability, it suffers from inbred depletion, in which the yield will go down. With the introduction of bee keeping, coffee production has increased between 10 to 25 per cent because of cross pollination and natural fertilizer from the bees themselves.

The second aspect of the compatibility of these activities is more effective use of labour. The bee keeping is compatible with coffee farming as it does not require the labour during peak periods. Honey is harvested when coffee is off season when coffee does not need much labour. Family labour requirements are highest during coffee harvesting.

5.5 Guiding Principles of MZPCU

Mzuzu union as a cooperative union is guided by the board. This is reflected in daily operations by the management executing plans that are firstly approved by the board of directors, which is composed of the chairpersons of the five cooperatives, representatives of the Ministry of Agriculture and Food Security and the Ministry of

Industry and Trade, and one professional co-opted member (business person, lawyer). The bottom line is that the union is guided by cooperative principles which include: democratic control through elections of office bearers, and concern for the community reflected in the social responsibilities undertaken by the union. Mzuzu Coffee union has put up school structures within its area of operation; its membership is open and voluntary to those who qualify. In summary, the cooperative principles that are followed are based on the core cooperative principles cited by FAO (1998) which include: Open membership, Democratic control, Member economic participation, Autonomy and independence, Education and Training and Information, Cooperation among members, officials and employees, and Concern for community and self help spirit. These cooperative principles are important in that they are guidelines that influence the behaviour of cooperative members and used for making management decisions. They are also empowering frameworks through which cooperatives can provide standards of measurements.

According to Gatamah (2003), “it has become increasingly evident that the continued prosperity of nations, communities, and even individuals, is closely linked with their ability to create, strengthen and maintain profitable, competitive and sustainable enterprises. The viable, competitive and sustainable modern enterprise requires an organization of basic resources (capital, material and human) concentrated in large aggregations giving the men and women entrusted to run those enterprises power over people, resources such that their decisions have great impact upon the society, the very lives of entire communities and can shape the future of nations”.

The sustainability of the Union and its primary cooperatives lies in the quality and effectiveness of leadership at all levels which is responsive, transparent and accountable; and must have emotional intelligence to acquire and apply knowledge and know-how for the production and creation of wealth for farmers.

5.6 Discussion of Major Findings on the Mzuzu Union Business Model, the Marketing Activities, Distribution Network of the Union

5.6.1 Description of the Mzuzu business model

The business model concept is used to describe the way the enterprise does business (Lambert, 2010). Now looking at the Mzuzu coffee union and how it does business, the union can be identified as a three-dimensional business model with four functional layers. The three dimensions of the union are: the union is the buyer, the processor and the seller of smallholder coffees in the country. At the same time, the union has four segments under it: one the union itself, below the union there are primary cooperatives, below the cooperative there the business zones and then the farmers.

At the centre of the business model there are the actual producers (farmers). Farmers sell raw coffee to the union through the business zones and primary cooperatives. From the farmer's perspective, the union is a readily available market for their coffees. Farmers produce coffee according to demand based on the information available from the union, their ultimate buyer. The prices at which the union buys coffee from farmers are lower than the market prices at the point of sale. Normally, prices for upfront payments are an average price of the New York Commodity market prices for the last six months. Half of the calculated price is paid upon coffee

deliveries to the union based on individual member supply records. At the point of sale to international buyers their coffee might have fetched high prices. Farmers receive a rebate if their coffee fetches a higher price than what was calculated as an average price of upfront payments. From the documents analysis and according to Interviewee 1, coffee prices offered by the union to farmers have changed over the years as follows. In 2006 coffee was sold at MK165/kg; in 2007 coffee was sold at MK170/kg; in 2008 coffee was sold at MK250/kg; and in 2009 coffee was sold at MK230/kg (due to economic crisis prices were reduced). On international markets the export prices were as follows: In 2008 coffee was sold at US\$3.50, and in 2009 coffee was sold at US\$2.69 and in 2010 coffee was sold at US\$4.50.

The union is also an ultimate source of farm inputs like fertilizers, chemicals and seeds. Without the input credit facility offered by the union most of the farmers would have called it a day for coffee farming, because the operating capital is always high. The union totally depends on what the smallholder farmers have produced. The farmers' ability to produce is the life blood of the union, without which the business would come to an end. The farmers' capability and commitment to coffee farming are the driving forces for the union to participate in the international exhibitions and conferences. The existence of cooperatives provides the organizational basis to market with direct contracts with the buyers and minimizes transaction costs.

The union does the value addition on coffee at the primary and secondary processing stages (factories) on behalf of farmers since the farmers own the union. Coffee is exported as green beans after processing. This means that the monetary value attached to coffee green beans is higher than that of parchment sold by farmers. At the same

time the union is controlled by the farmers. It all depends on what the farmers have produced. A good quality coffee comes from the coffee gardens and not the factory. The union can only have good coffee green beans if the farmers produced good coffee. The quality of coffee originates from the soils where it was grown and the farm management practised by the farmers. Farmers look at the union as a friend in need; a friend who would always want to see others prospering in life; a friend with the welfare of farmers at heart and a friend who is ready to protect a partner from the evils of fluctuating prices on the international markets. This is what Mzuzu coffee is seen to be doing from their strategic corporate objectives mentioned in the previous sections.

The union is owned by the primary cooperatives; primary cooperatives are owned by farmers and farmers own land that produce coffee depending on the availability of inputs, weather conditions and farmers commitment to work in their coffee fields. That is to say, coffee business starts with the farmers and ends with the union selling the coffee to international buyers. Farmers simply produce coffee, and the union steps in, collects the produce, and then sells to the local and international markets. On the local market, it is the only coffee union in Malawi; as such it enjoys the benefits of monopoly. On the international markets, however, it faces stiff competition from fellow African giants like Kenya, Uganda and Ethiopia. But it is surviving with its small production. Small is beautiful and easy to manage. Mzuzu union is supported by the farmers and in return the farmers are awarded 60 percent of the sales values, dividends and bonuses and certificates of achievements.

5.6.2 Coffee marketing activities carried out by the union

The American Marketing Association (AMA) defines marketing as “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives” (Lamb et al., 2008:4). The importance of marketing cannot be over emphasized. It is a basic function of every organization. Drucker (1973, cited in Wilson and Gilligan, 1998) puts in a definition for marketing that marketing is so basic that it cannot be considered a separate function on a par with others such as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result that is from the customers’ perspective. It is from this understanding that the marketing activities of the union were identified. The union performs its marketing functions through the Business Development department under the domestic sales unit, processing and quality control unit, and the export sales and logistics unit (See Figure 6 for the organogram of the union).

- **Product development**

The union currently processes and packs roasted coffee in its own brand name, Mzuzu Specialty Coffee, which is traded on the local market in retail shops. Sometimes traders sell Mzuzu Specialty Coffee across the border of Malawi. Mzuzu Specialty Coffee is the leader in the national market. On the international market, the union exports green coffee beans. The union maintains high cup quality of their coffees through a strong quality control team. It was commented that the secret behind the success on the market was actually in the primary processing. The process is done thoroughly well to meet the required standards.

- Price

The union follows two pricing policies, one for sales within cooperatives (between farmers and union) and the second one for export sales. The pricing policy for sales between farmers and the union is in the ratio 60:40 of the sales proceeds, where 60 percent goes to farmers and 40 percent goes to administration of the union and primary cooperatives, unlike the past when farmers were under the coffee authority and the division was 20 percent of sales to farmers and 80 percent collected by government.

For export sales, the pricing policy is plus 25 to 60 percent of the New York Commodity market price. The rationale behind such policies is to satisfy the needs of farmers. Farmers receive dividends or bonuses depending on the availability of surpluses from exports and what farmers sold to the primary cooperative societies. The union sells coffee on the international markets by tender. They check prices of the commodity coffees on the New York Commodity market for the day and add a premium between 25 and 60 percent of that price depending on the quality of coffee to make reserve prices for the speciality coffees. Mzuzu coffee is one of the top speciality coffees in the World and commands a high premium (25 to 60 percent). The price on the international market (New York Commodity market) is for the commodity coffees and not speciality coffee. The buyers in the speciality coffee markets are quite aware that they are buying a product of higher quality than the commodity coffees. Potential buyers worldwide generally scramble for high quality coffees during the tender bids which run for two weeks.

- Promotion of coffee

In the past, coffee production in Malawi was unknown on international markets because of inadequate marketing activities. To claim recognition on the international market, the union invested in marketing coffee from the smallholder farmers. From 2005, the union started participating in international exhibitions and conferences organized by the East African Fine Coffee Association. With support from the Coffee Association of Malawi (CAMAL), the international exhibitions and conferences assisted in opening up the markets against competitors like Kenya and Tanzanian coffee. This means that the union promotes its coffee on the global market through those two promotional activities. Foreign buyers have come to know more about Malawian coffees at the various international competitions organized by EAFCA.

Considering the claim that most Malawians do not drink coffee in their offices or their homes, the union developed some targeted promotions especially for the youth and visitors. Hotel staff has been trained to improve on their standards in terms of preparation and serving of coffee. Business promotional shows and community coffee shows have been organized in university colleges aimed at encouraging a culture of drinking coffee in students. The purpose of these promotions is to increase the market share nationwide to 50 percent against other imported coffee brands. The local market is very lucrative in terms of price per kilogram; coffee is sold at an average price of US\$12 while on international markets it is sold at an average price of US\$2.50. So by promoting the local market, a 50 percent sales increase is expected.

- **Distribution**

The union makes logistical arrangements with primary cooperatives to collect coffee from the business zones for transport to the union's premises in Mzuzu city. Each primary cooperative has at least one vehicle for coffee deliveries. However, during peak periods the union hires private vehicles for deliveries. At every processing unit there is a temporary warehouse for handling parchment before deliveries to the union. Likewise, with farm inputs the union sources out from suppliers on credit and distributes to farmers through the primary cooperatives. At this point, the union uses a direct distribution channel with its customers (farmers). On the other hand, the union sub-contracts the distribution function, especially the physical distribution of exports, to shipping agents. It is the responsibility of the agent to deliver the coffee to the docks in Beira and Durban. The union has warehouses for handling coffee before exporting to buyers. Weighing, grading and packaging of green coffee beans are the main operations carried in the warehouses. Coffee bags are labelled with identification and information on grades and destination.

5.6.3 Distribution network used by the union

A marketing channel has been defined as “a system of relationships existing among businesses that participate in the process of buying and selling products and services” (Bowersox and Cooper, 1992, cited in Palmer, 2000). According to Lamb et al. (2008), marketing channels are business structures of independent but interdependent firms which reach the points of production and link the products to the final consumer. For the union to sell the coffee to international buyers, they need to prepare samples, to send the samples timely, to evaluate the tenders, to communicate with the selected buyers, to do the pre-shipment samples and to prepare all the

necessary documentation. The bottom line of the matter is that the international marketing is demanding and needs relationships with other partners beside the buyers, for instance, the Reserve Bank, the revenue authority, the shipping agents, the couriers and the local transporters just to mention a few. In respect of the need for relationships and networking, the union developed good relations with the Ministry of Industry and Trade, Ministry of Agriculture and Food Security, private organizations and international donors. This shows that there is a network of suppliers. The union works very closely with members of the supply chain, like shipping agents and those already mentioned above. The shipping agents sometimes are not efficient: they delay deliveries and the worst period was when Beira was congested and one container remained at the port for three months.

The Union needs to adopt a Cost Efficient Supply Chain model throughout the supply chain management system to provide low cost, good quality farm inputs goods to farmers and good quality products to customers. Whether, the Union uses a single or multiple sourcing, the supply chain management is a key factor for successful service delivery. In managing the supply chain, the Union should undertake the following activities:

- Maintained long term relationship with suppliers through direct communication with suppliers.
- Supply planning, sourcing, buying and delivery should be balanced for sustainable cost-efficient supply chain. There is need for providing demand forecasts at corporate, business and functional /operational levels. The forecasts would help in production schedules and storage of products.

- Strategic information sharing and knowledge acquisition about customers needs at every level of the organization is fundamental to business success. Close relationship with customers so as to understand their needs will hold positive image in the eyes of customers.

5.6.4 Factors contributing to increase in coffee exports of the union

The findings reveal that the increase in coffee exports was not by mere chance, but was due to a number of factors which include the prior relationship between the buyers and growers, the pro-activeness of the union in international marketing especially promotional activities, the uniqueness of coffee taste and business model, improved farming system, the strong quality control team and strong external support.

- Prior relationship between growers and international buyers

There are long term relationships that were built up with the international markets. Cooperatives have been in good relationship with a single buyer through the union for more than 10 years. Thus, Malawian coffee farmers have been loyal to those buyers and the buyers have been loyal to the farmers. Some international buyers have formed partnerships with the cooperatives to help them sustain production. There are many relationships within this coffee industry. For instance, Twin Trading of the UK formed partnership with Cooperatives to boost exports. They also initiated a project on sustainable coffee production systems in order to move from inorganic fertilizers and chemicals to organic fertilizers and botanicals. With funding from Flanders International Cooperative Agency (FICA), the Union rolled out the project to all Cooperatives. In 2009, the Twin Trading successfully launched Mzuzu Coffee into the Sainsbury Chain Stores in the UK when they purchased 8 Containers of Coffee to the

UK of which 2 were for the Sainsbury Chain Stores; and in 2010, one container was sold to the Sainsbury Chain Stores. The Twin Trading was one of the best buyers for 2009/10 season offering better prices than all other buyers. Subsequently, the chairman of the union's board is a farmer who also participates in the international exhibitions and conferences. Because of the relationships, the union has market access globally; they have managed to open new markets under fair trade.

- Unique taste of coffee from smallholder farmers and the unique business model

Coffee, like the wine industry, has special good characteristics that originate from the soil and the climatic elevations where it is grown. It was mentioned that no two coffees, from different origins in the world, will be the same. They may have similarities but may not be the same. Coffee in Malawi has its own unique taste which cannot be found anywhere else in the world, not even in the neighbouring countries like Zambia and Tanzania. Because of the difference in the growing system and the environment, the aroma of coffee grown under shade by the smallholder farmers is different from coffee grown in the open environment in the estates. Coffee grown in high altitude taste less acidic because of cool atmosphere than those in lower altitudes where coffee is stressed a lot due to high temperatures. So there are some buyers who have found something they wanted in Malawian coffees and they always want to take advantage of that. The union considers the uniqueness of their coffee as a competitive advantage on the international markets.

The business model of smallholder coffee farmers is unique to sub-Saharan Africa. The model provides a readily available coffee market for both the actual farmers who sell to the business zones and the primary cooperatives who sell to the union. It is a model that empowers smallholder coffee farmers to increase their production because

they have a market. Farmers are energized by the market (the union) to produce more and sell to the union (their own organization). Farmers are both investors and customers of the union at the same time. As investors they receive dividends and bonuses when business is good, and as customers they receive cash after sales.

- Pro-activeness at international exhibitions and conferences

The union joined the East African Fine Coffee Association (EAFCA) and received international exposure through participation in the annual events organized by the EAFCA. The EAFCA promotes the coffees from East Africa and its other members. Promotional activities like international conferences and exhibitions are done in collaboration with the EAFCA, and the quality control is conducted in conjunction with an international certification organization. This signifies the good relationships that exist among partners in the coffee industry. Without the international recognition it would have been very difficult for Malawian coffees to participate in international competitions.

- Improved farming system in the smallholder farmers' sub sector

Production has improved because of new technologies like manure making for organic coffee and shade grown cropping systems. The shade grown technologies have assisted the farmers in promoting water conservation and protection, energy conservation, nutrient renewal, and community development. Planting coffee has also helped in soil conservation and has become a measure for sustainable coffee farming in the mountainous areas where soil erosion is a widespread problem. Farmers planted coffee in contour lines thereby controlling water run-off and reducing soil loss. In addition, agricultural extension officers have trained farmers to produce composite

manure using the local ingredients for organic coffees. By using good cultivation and farm management practices, farmers have managed to conserve soil structure and fertility. The union has capitalized on these measures to have its coffee considered organic for market certification purposes. Organic coffee certification has boosted coffee exports for the union to enter the fair trade markets.

- Strong Quality Control team for quality management

It was reported that the secret behind the success in exports was effective primary coffee processing. In order to qualify for international standards, the union maintains cup quality of coffees through a strong quality control team. The union conducts the pre-season training of all the operators and workers in the factories and the staff, and subsequently has regular inspection checks and supervisions throughout the processing season. To ensure that the quality of coffee meets the required international standards, the quality control team do coffee cupping in the laboratory, checking the cup taste quality for final grading of the coffee. Standardization of coffee markets has made most farmers to become conscious of their farming activities and the ecosystems. Some of the market segments like the specialty markets and the fair trade markets are demanding more quality products. The demand for high quality products has obliged farmers to change to eco-friendly farming systems.

- Support from Government and Donor agents

The union receive both technical and financial support from the government, local donors as well as international partners. Some participants raised concern for lack of political will in promoting coffee in the country. However, there are some traces of government support to coffee industry in different areas. For example, government

provide support to the union through the Ministry of Industry and Trade, Ministry of Agriculture and Food Security, the Malawi Export Promotion Council and the Malawi Chamber of Commerce and Industry. These ministries and government organisations provide regulations, technical know-how and market information to the union. With the support from the EU through the FIDP, the union is implementing a capacity building programme for self sustainability of the union's operations. The union is currently implementing bee keeping projects funded by COMPASS Malawi, a Non-governmental Organisation in its diversification programs for both improved coffee production and financial sustainability of its smallholder farmers in the Nyika plateau areas. In addition, the Flanders International Cooperative Agency funded the manure making project and provided training on sustainable production systems. CAMAL also assist the union with certificates of origin to facilitate export trade and capacity building in terms of quality assessment and quality maintenance.

From the above discussion, it can be concluded that the increased exports are a result of an integrated effort of many players in the coffee industry including the government, donors, NGOs and the primary cooperatives. On government support, however, it should be considered with caution because there area always trade off on such support. According to (Lewin, Giovannucci and Varangis, 2004:24) "government support may be useful in reducing the impact of strong commodity shocks on the more vulnerable segments of their population but should be cautiously undertaken because it also sends a false signal that the government is capable of bailing out growers from the consequences of unrestrained production increases; furthermore, government bailouts contribute to the creation (or continuation) of a culture of non-repayment of loans by producers, further discouraging private banks

from lending to the agricultural sector. In the long run, government support can be potentially more damaging, not to mention more costly, if it encourages the sector's inappropriate exposure to risk".

CHAPTER 6

6 RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

The purpose of this study was to discover the factors that have contributed to the increased exports by MZCPCU from 2006/07 to 2008/09. To achieve this aim an evaluation exercise was conducted on the marketing and distribution channels of the union. The significant performance of the union in increased coffee exports prompted the study because there is a general concern that most of the agricultural cooperatives in Malawi are struggling to export on the international markets and they hardly perform well on the local markets.

6.2 Conclusion

In summary, the major findings discussed above indicate that marketing and distribution are very important elements in a business set-up like the cooperative union, which requires strong relationships with members of the marketing channels. The increase in coffee exports is not a mere chance but due to an integrated effort by members in the supply chain from growers to buyers. For instance, the prior relationships that exist between growers and buyers are not a one man initiative but originate from the colonial ties established during the colonial era and maintained by the post independence governments. Similarly, promotional activities are carried out in collaboration with the EAFCA, and quality control is conducted in conjunction with an international certification organization and the CAMAL. The unique taste of coffee and the business model have many players involved in the process; for example the relevant ministries, the research institutions and other development partners. All these developments point out one strong success factor, the relationships that exist

among the members of the supply chain. The cooperative business model described in the previous sections is not an independent variable of success; it is dependent on other variables like farmers' commitment. The model is strong when dealing with growers at grass root level. It is a market readily available for the farmers but it does not have direct influence on exports; it simply empowers farmers to work hard, produce more coffee of good quality and export more to the global markets.

It was also noted that the union has started trading on the fair trade markets as part of sustainable coffee production. These coffees fill a market niche that is not only rewarded with premium prices but also provides other benefits to farmers. As mentioned in the previous section, Fair Trade for coffee farmers means community development, health, education, and environmental stewardship (Global Exchange, 2009). According to Lewin, et al. (2004), Fair trade coffee is purchased directly from internationally registered and certified cooperatives of small farmers who are guaranteed a minimum and consistent contract price; fair trade's mechanisms encourage community-driven investment in public goods such as education, healthcare, and infrastructure. Therefore, Fair Trade will promote sustainable farming practices and improved livelihoods with fair prices and providing community uplift projects.

The other important issue is the producers' price risk where they have fixed future prices by way of forward contracts as an alternative collective action against price fluctuations. The forward contracts tend to stabilise earnings mainly to the extent that the contract price fluctuates less from year to year than the actual or spot price. They also entail substantial performance risks in case of bad weather or other natural

causes. Usually the forward contract prices are lower than spot prices, such forward contracting may also lead to lower average earnings when actual prices increase. The Union needs to handle such cases with caution. Forward contracts are beneficial if prices rise significantly above the fixed future prices or they may simply fail to deliver according to specification. Forward contracts can be an effective tool where the economic environment is stable and the market is less competitive.

The other issue discussed was about the reduction of carbon emissions in the coffee industry especially the smallholder farmers that the issue of carbon footprint labelling for all export commodities is likely to be non-tariff barriers. It was discussed that the issue of carbon footprint labelling need to be planned strategically to offset the non-tariff barriers. In future, the union may consider other alternatives for carbon footprint reduction like emission trading. There are three major flexible mechanism or instruments that help governments or companies meet their emission reduction commitments. These mechanisms include the International Emissions Trading (IET), Clean Development mechanism (CDM) and Joint Implementation (JI) (United Nations Framework Convention on Climate Change [UNFCCC], 2007). According to the UNFCCC (2007), the International Emissions Trading (IET) allows industrialised countries to buy and sell emission units and use them towards meeting a part of their targets based on cap and trade scheme which sets an upper limit to emissions. Then, the Clean Development Mechanism (CDM) is a project-based approach under which governments or companies in developed countries can create carbon credits called Certified Emission Reductions (CERs) and the CDM projects are implemented in developing countries and the CERs created from them may be used to meet Kyoto targets set for developed countries. Finally, the Joint Implementation (JI) allows

governments or companies in developed countries to generate carbon credits from GHG reduction projects implemented in either another developed country or in a country with an economy in transition.

The implementation of these strategies would require the collaboration of all stakeholders in the agricultural industry, like the Ministry of Industry and Trade, Ministry of Energy and Mining, Ministry of Agriculture and a few other stakeholders, including the cooperative farmers themselves.

6.3 Recommendations

The key issues raised by participants include lack of effective leadership especially in primary cooperatives, delayed payments to coffee growers by the union, lack of training institutions for cooperative management and administration, lack of support for coffee research and new technology. Leaders in the primary cooperatives must be trained in effective leadership so that they are able to lead their organizations and explain to their members about the systems of international marketing. Members should also be oriented on good leadership to enable them to select the right personnel in various positions, the right people managing the affairs of the primary cooperative societies.

On the other hand, the government should consider establishing a cooperative college to carry out cooperative leadership and management trainings. The cooperative college would also champion the establishment of cooperative courses at basic, secondary and tertiary education institutions. The need to establish more agricultural cooperative unions for crops like cotton, tobacco, rice and cassava producers and

marketing cooperatives is expected and of paramount importance to the cooperative sector.

The union need to strengthen the relationships with buyers and all members of the supply chain. The growing demand of organic products like coffee must be exploited fully by the union as one way of mitigating the problem of high costs of farm inputs. Exporting finished coffees products is another area that the union need to explore to expand its markets in addition to exporting green coffee beans. South Africa for example is one of the largest consumers of coffee in Africa where the union could trade. However, the success of long-term relationship will depend on how the relationship is managed and requires substantial investments of time, effort, trust, respect and good personal relationships by both parties and at all levels. The trust and shared values create mutual understanding and strengthens the relationship.

6.4 Lessons from the Research

- The cooperative business model is an alternative business model for smallholder farmers.
- Farmers' organizational structures must be strong at the grass root level for sustainable business growth.
- Sustainable farming practices can help in mitigating the impact of climate change. All agricultural cooperatives need to participate in manure making for reduction of costs of fertilizers.
- Cooperatives must invest more in customer relationship marketing, value chain management, good governance and quality control management for sustainable cooperative businesses.

6.5 Proposed Area of Research

Establishing agricultural cooperative unions:

It was mentioned during the research process that there are 410 agricultural cooperatives in the country, with only one coffee cooperative union taking care of five primary coffee growers' cooperatives. This leaves 405 primary cooperatives without a mother body or an umbrella organization. The need for more agricultural cooperative unions is long overdue as proposed by one of the participants. Growers of crops like cotton, tobacco, rice and cassava have cooperatives but no union structures for technical and financial support as is the case with MZCPCU. This study provides the motivation and guiding principles for other agriculture cooperatives to establish unions.

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APPENDICES

**APPENDIX A: ORIGINAL INTERVIEW GUIDE: MZUZU COFFEE
PLANTERS COOPERATIVE UNION**

Background of the union

- What is the history of Mzuzu Coffee Planters Cooperative Union?

Business Mission

- What is the business mission for the union? Is the mission clearly stated in market-oriented terms? Is it feasible?

Products

- How does the union get coffee from its members? What are the production objectives for the union? When and how are farmers paid?
- What are the major market segments? Is the current product line meeting the target and the marketing objectives?
- What is the attitude of the foreign markets toward the quality of coffee from the union? Is the near future certain to be profitable for coffee farmers?
- What areas of product strategy need improvement?

Price

- What are the pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria?
- Do foreign customers see the union's prices as being in line with the value of its offer? Does the quality of coffee from the union match with the price?
- To what extent are price policies compatible with the needs of distributors and dealers, suppliers, and government regulation?
- Have coffee prices changed over the past four years? What is the change like?

Distribution of raw materials and coffee products

- What are the distribution objectives and strategies?
- Is there adequate market coverage and service?
- How effective are the following channel members: distributors, dealers and union's representatives?
- Should the union consider changing its distribution channels? Why?

Advertising, Sales Promotion, and Publicity

- What are the union's advertising objectives?
- Is the right amount being spent on advertising? How is the budget determined?
- Are the advertisement themes and copy effective? What do customers and the public think about the advertising?
- Are the advertising media well chosen? Are the internal advertising staffs adequate?
- How does the union promote its coffee products?
- Is the sales-promotion budget adequate? Are there effective and sufficient uses of sales-promotion tools such as samples, coupons, displays, sales contests?
- Is the publicity budget adequate? Are the public relations staffs competent and creative?

Sales force

- What are the organization's sales force objectives?
- Is the sales force large enough to accomplish the union's objectives?
- Is the sales force organized along the proper principles of specialization (territory, market and product)?
- Who handles the foreign sales and marketing activities?
- Are the procedures adequate for evaluating performances of the sales force?
- How does the union's sales force compare to competitors sales force?

Marketing Objectives and Goals

- Are the corporate and marketing objectives stated in the form of clear goals to guide marketing planning and performance measurement?
- Are the marketing objectives appropriate, given the union's competitive position, resources, and opportunities?

Strategy

- Is management able to articulate a clear marketing strategy for achieving its marketing objectives?
- Is the union using the best basis for market segmentation? Does it have sound criteria for rating the segments and choosing the best ones? Has it developed accurate profiles of each target segment including the foreign markets?

- Has the union developed a sound positioning and marketing mix for each target segment? Are marketing resources allocated optimally to the major elements of the marketing mix -- i.e., product quality, service, sales force, advertising, promotion, and distribution?
- Are enough resources or too many resources budgeted to accomplish the marketing objectives?

Marketing-Systems

- Is the marketing intelligence system producing accurate, sufficient, and timely information about marketplace developments with respect to customers, prospects, distributors and dealers, competitors, suppliers, and various publics?
- Are union's decision makers asking for enough marketing research, and are they using the results?
- Is the union employing the best methods for market and sales forecasting?

Export Markets

- What is happening to foreign market size, growth, geographical distribution, and profits?
- What are the major market segments?
- What are the export trends of coffee over the past four years?
- What keeps the union on the market despite the large number of competitors like estates?
- Any challenges in the foreign market?

Conclusive remarks and Recommendations

**APPENDIX B: ORIGINAL INTERVIEW GUIDE: COFFEE
ASSOCIATION IN MALAWI**

Products

- What are the production objectives of coffee in Malawi? What type of coffee is grown in Malawi, and why?
- What is the target market for coffee? (Local and international or just one of them)
- Are the current production levels meeting the target and the marketing objectives?
- What is the foreign buyers' knowledge and attitudes toward the quality of coffee from Malawi?
- What areas of production strategy need improvement?

Price

- What are the pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria?
- Do foreign customers see coffee prices as being in line with the value of its offer? Does the quality of coffee from Malawi match with the price?
- To what extent are price policies compatible with government regulation?

Distribution of raw materials and coffee products

- What are the main trade channels for bringing coffee products to the markets/customers? What are the distribution objectives?
- What are the efficiency levels and growth potentials of the different trade channels? Is there adequate market coverage and service?
- Should the association consider changing the distribution channels?

Advertising, Sales Promotion, and Publicity

- How do you promote coffee production, distribution and sales in order to increase export?
- Is the promotion budget adequate? Is there effective and sufficient use of promotion tools such as samples, coupons, displays, sales contests?
- What are the opportunities and threats in coffee markets?
- What steps has the association taken to deal with each them?

Export Markets

- What is happening to foreign market size, growth, geographical distribution, and profits?
- What are the export trends of coffee over the past four years?
- What keeps Malawi coffee on the market despite the market being so competitive?

Customers

- How do customers and prospects rate Malawi coffee and its competitors on reputation and product quality?

Competitors

- Who are the major competitors in the foreign markets? What are the strengths and weaknesses of small holder farming cooperatives in Malawi?
- What trends will affect future competition and substitutes for coffee?
- How effective are the marketing research firms on coffee?

Climate Change and Agriculture

- What is the Green House Gases emission profile of coffee industry in Malawi?
- The market is demanding products with Carbon footprint labels, how would you position Malawi coffee in that respect?
- What survival strategies would help to rescue Malawi coffee export in the future especially that produced by small holder farmers like cooperatives?

Conclusive remarks and Recommendations

**APPENDIX C: ORIGINAL INTERVIEW GUIDE: MINISTRY OF
INDUSTRY AND TRADE- COOPERATIVE
DEPARTMENT**

1. What are the remarkable developments in the history of agriculture cooperatives in Malawi from 2004 to 2010?
2. Coffee cooperatives like Mzuzu union export its coffee to foreign markets, what role does the ministry play in coffee exports?
3. What would be the enablers of the increased coffee exports by the cooperatives?
4. Is the current marketing system adopted by agricultural cooperatives effective enough to allow growth in foreign markets?
5. What is the role of government on cooperative development in Malawi?
6. How is the Cooperative Policy facilitating development of cooperatives in the rural areas?
7. Is there any Government Support either financial or technical in nature for agricultural cooperatives societies towards export commodities like coffee?
8. The issue of carbon foot print labelling for all export commodities is likely to create non-tariff barriers to small rural businesses like coffee cooperatives. How would the ministry rescue the cooperatives from collapsing due to such market developments?
9. Is there any bilateral agreement with organizations local and international for technical or financial support for cooperatives?

Conclusive remarks and Recommendations

**APPENDIX D: ORIGINAL INTERVIEW GUIDE: FOCUS GROUP
DISCUSSION AT PRIMARY COOPERATIVES**

Cooperative details

1. Name of cooperative society _____

2. Date of registration _____

3. Type of cooperative society _____

4. Physical location

a. District _____

b. Place of office _____

c. Contact address _____

d. Telephone numbers _____

5. Membership

	2007	2008	2009	2010
Female	_____	_____	_____	_____
Male	_____	_____	_____	_____
Total	_____	_____	_____	_____

Cooperative organization

6. Composition committees

	Executive	marketing	finance credit	audit	production
Female	_____	_____	_____	_____	_____
Male	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____

Production and Sales

	Qty produced	Qty sold	Price/kg
2007/08	_____	_____	_____
2008/09	_____	_____	_____
Estimates 2009/10	_____	_____	_____

Background of the cooperative

- What would you say about the history of your cooperative

Products

- What are the production processes for coffee? What type of coffee does the cooperative grow?
- Where do you sell your coffee? What are the selling procedures? How do you get paid after sales?
- Is the current production level meeting the demand of buyer?
- What is the buyers' knowledge and attitudes toward the quality of coffee produced?
- What areas of product strategy need improvement?

Price

- What are the pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria?
- Are you happy with the current pricing objectives and strategies? Does the quality of coffee match with the price?
- To what extent are price strategies compatible with the cost of production?
- Have coffee prices changed over the past four years? What is the change like?

Distribution

- What are the distribution objectives and strategies?
- Is there adequate market coverage and service?
- How effective are the transport systems?
- Do you consider changing the distribution channels?

Advertising, Sales Promotion, and Publicity

- What are the organization's advertising objectives and strategies?
- Are the advertising media well chosen?
- How do you promote your products?

Markets

- What is happening to market size, growth, geographical distribution, and profits?

Suppliers

- What is the outlook for the availability of key resources used in production?

Facilitator and Marketing Firms

- What is the cost and availability outlook for transportation services?
- What is the cost and availability outlook for warehousing facilities?
- What is the cost and availability outlook for financial resources?
- How effective are the company's advertising agencies and marketing research firms?

Conclusions and Recommendation

APPENDIX E: LETTER OF CONSENT

Dear Interviewee,

I am a student of the Rhodes University Investec Business School doing Masters in Business Administration (MBA). As part of my studies it is a requirement to conduct a research towards my MBA. During the third teaching block of the third year of reading an MBA at Rhodes Investec Business School students must carry a research project as part of the studies. The research topic is an evaluation of the marketing and distribution channels of the Mzuzu Coffee Planters Cooperative Union (MZCPCU): Malawi

Your participation will involve being audio taped during interviews and allowing the copying of your written work for research purposes. Your participation is voluntary. If you choose not to participate or to withdraw from the study at any time, there will be no queries as to why you have withdrawn. The results of the research will be in the university library for studies only, but your name will not be used unless you allow me to do so. Any audio tapes that are recorded and any written work collected as part of this study will be used only with the academic staff for educational purposes. The tapes will be erased or destroyed after the research project is completed. If you have questions concerning the research study, please call the Business school at 0027466038612/7 or you may also reach my supervisor at 0027 715 093965 or by e-mail at s.taylor@ru.ac.za. If you prefer, you may contact me at 0027789886053 or 00265 999573523 or by e-mail at chejussa@yahoo.co.uk.

Sincerely,

Leman A.W. Jussa

MBA 2009

I give consent to participate in the above study. I understand that I will be audio taped the interview and my written work will be copied as outlined above.

Print Name _____

Signature _____ Date _____

Table 3: Malawi coffee production and export statistics

MALAWI COFFEE HECTARAGE, PRODUCTION AND EXPORT STATISTICS [1984–2008]				
YEAR	HECTARAGE	PRODUCTION IN TONNES	EXPORT IN TONNES	VALUE MALAWI KWACHA
1984	3266.78	1,066.755	1,526.609	4,334,540.00
1985	3888.26	3,569.478	373.126	11,867,550.00
1986	4562.08	3,691.897	3,865.488	24,191,407.00
1987	5294.19	4,966.580	4,893.768	20,533,034.00
1988	5956.95	4,532.233	3,742.900	24,433,934.00
1989	6174.06	6,909.030	3,517.657	16,852,034.00
1990	6694.79	7,200.000	7,449.185	31,979,539.00
1991	6901.29	7,719.900	5,429.000	29,721,000.00
1992	6058.29	4,803.445	7,668.229	29,408,166.00
1993	3705.00	4,333.590	6,195.486	37,293,983.00
1994	3532.16	5,810.964	4,726.260	125,261,256.00
1995	3970.89	4,513.937	6,778.530	322,715,012.00
1996	3687.36	4,796.900	3,483.060	110,591,510.00
1997	3890.37	4,552.000	3,716.520	162,266,588.00
1998	3267.26	4,450.640	3,494.400	227,306,226.00
1999	3719.25	4,162.809	3,258.600	247,437,534.00
2000	3977.54	4,176.440	3,699.240	312,047,350.00
2001	3495.88	3,703.690	3,822.240	282,195,778.00
2002	3233.88	2,980.004	2,773.200	187,916,468.00
2003	2489.14	2,583.690	2,932.920	266,744,131.00
2004	2280.02	1,589.910	1,587.060	206,347,809.00
2005	1838.17	1,885.520	1,448.130	307,632,017.00
2006	1715.10	1,768.200	1,060.200	299,379,107.00
2007	2450.00	2,320.920	1,990.810	497,702,500.00
2008	2410.01	2,140.220	1,840.000	404,800,000.00

Source: Coffee Association of Malawi, 2010

Table 4: Swot analysis for coffee development

<p>Strengths:</p> <ul style="list-style-type: none"> • Abundance of technologies on coffee suitable for different farmer categories • Suitable land for cultivation • Institution supporting coffee production is in place • Seed capital to support coffee production is in place • Competent Human resources to support coffee production is in place. • Processing facilities to support production is in place. • Transport and technical logistics in place • Market to support production is in place. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • Unsuitable technological dissemination to farmers • Low production of coffee • Use of unsustainable growing methods • Inadequate seed capital to purchase inputs. • Inadequate staff to carry out extension programmes • High cost of production • High mortality rate. • Pest and diseases pressure • Low nutrition
<p>Opportunities:</p> <ul style="list-style-type: none"> • Good and firm market for coffee (sustainable coffee markets) • High grown coffee of good quality (speciality markets). • Well positioned coffee on the international market 	<p>Threats:</p> <ul style="list-style-type: none"> • Price fluctuations on the market. • Low competitiveness due to high transport costs • Economic instability i.e. forex • Fuel crisis crippling the transport net work • High cost of inputs • Delays in payments to growers due to logistics problem. • Climate change • High fuel costs

Source: Mzuzu Coffee Planters Cooperative Union, 2010

Based on the identified area of focus, the following are proposed as major strategic direction.

1. VISION OF MZCPCU

Malawi's number one origin of fine coffees, honey and agricultural products.

2. MISSION STATEMENT

Economic empowerment of Malawian smallholder coffee producers through promotion of sustainable agricultural production, processing and marketing systems for coffee and other farm products.

3. CRITICAL SUCCESS FACTORS

For the Mission to be achieved, the following priority critical factors are identified:

- (i) Identification of farmers with passion for the coffee business.
- (ii) Provision of staff and lead farmers to provide appropriate and timely extension and training services.
- (iii) Provision of timely farm inputs at affordable price including inorganic and organic inputs. (Sustainable production system).
- (iv) Provision of appropriate processing facilities at primary, secondary and tertiary level.
- (v) Implementation of appropriate marketing strategies including appropriate growers payment system.
- (vi) Appropriate provision of governance, management and administrative services at union, cooperative, zone and business centre level.

4. CORE VALUES

- Non - Partisan
- Quality at all levels.
- Independence
- Dignity and respect
- Commitment
- Gender equality
- Customer care
- Competitiveness
- Employee welfare
- Democratic values within Cooperatives/Associations.

Figure 5: Strategic Direction

Source: Mzuzu Coffee Planters Cooperative Union, 2010

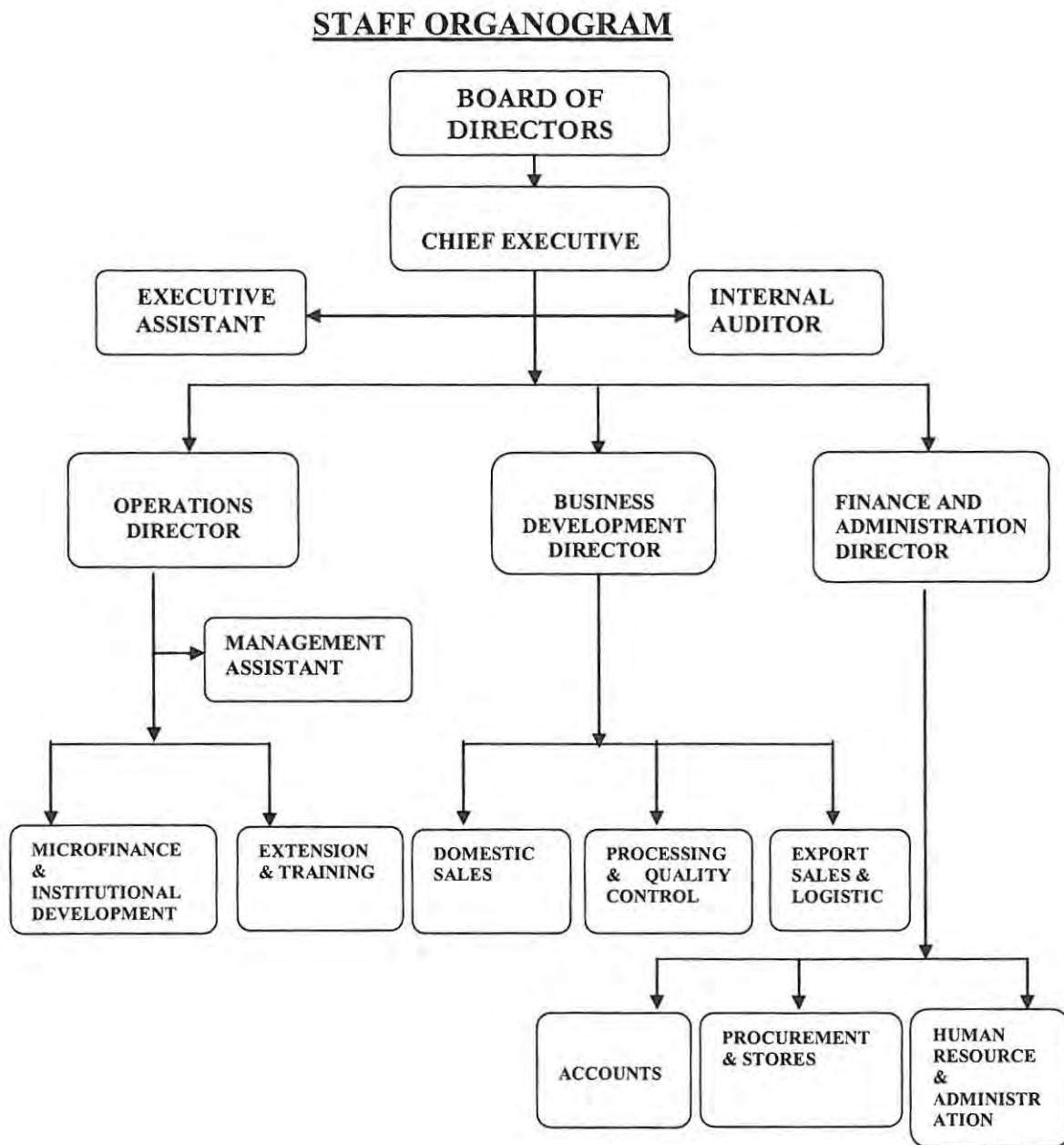


Figure 6: Mzuzu Coffee Planters Cooperative Union Limited Staff Organogram

SOURCE: Mzuzu Coffee Planters Cooperative Union, 2010