

**The Salinas Cheese Factories:  
Factors affecting the competitive strategy in Ecuador**

By

**Raul Martinez-Hernandez, Gareth Thomas, Luís Kluwe  
Aguiar and Francisco Gonzalez-Diaz**

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## **PROBLEM STATEMENT**

In Ecuador with little support from the Government, the Salinas Cheese Factories (SCF) is one of the most successful examples of what is possible to be achieved when farmers of one geographical zone co-operate to overcome poverty and to guarantee a sustainable livelihood.

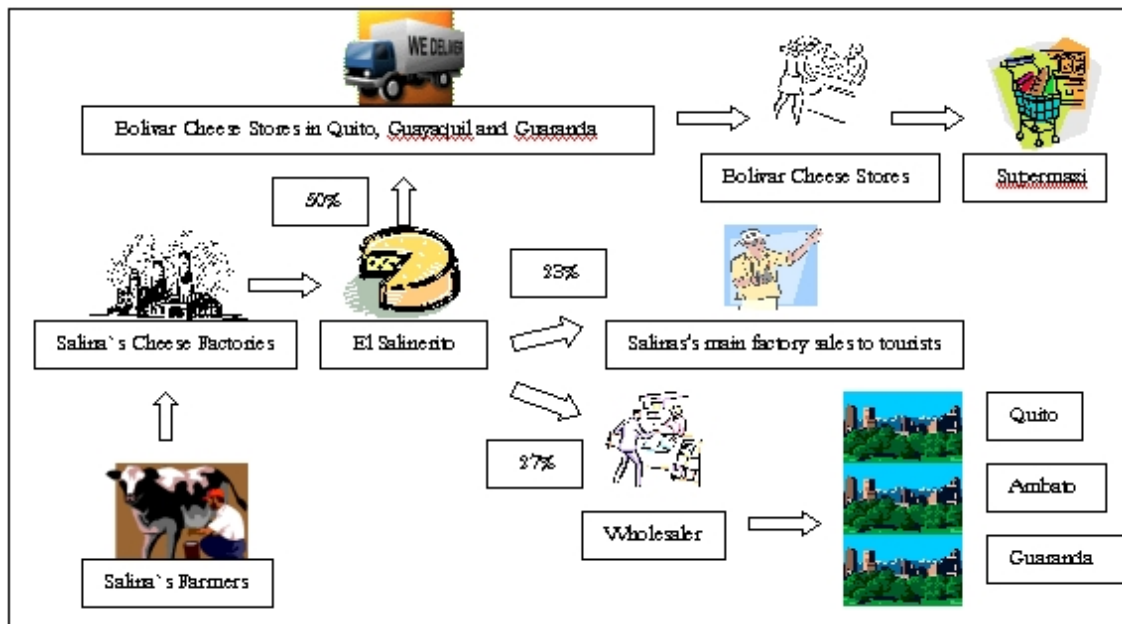
Some thirty years ago, farmers in the Salinas Parish faced numerous problems to move their produce to markets such as bad roads, long distances and inefficient commercialization channels. Moreover, the harsh climatic conditions of the Andes, the high slopes, declining fertility of the land caused by erosion and limited irrigation that added to the small size of the farms caused, as a result of declining incomes, farmers to leave the country side and immigrate to the urban areas.

The creation of the community enterprises such as SCF was an alternative for the region. Salinas Cheese Factory was set up in 1978 as part of a commercial arm of the Salinas Credit and Savings Cooperative. This was possible with the support of the Swiss Cooperation office and the Ecuadorian Ministry of Agriculture through 'Agro Industrial Support for Communities' programme. Nowadays, the SCF consists of twenty-two small rural cheese factories that are independent in the management of daily operations but that collaborate together following common regulations.

But the challenges that SCF faces are many as for collecting liquid milk from some 1,200 peasant farmers. From its humble start of processing 160 litres daily from 591 farmers, SCF throughput is now 769,800 litres per annum. The cheese production is around 85,600 kilograms annually from twenty small rural cheese factories in the Salinas region.

Fresh cheese varieties such as Andean, Tilsit, Dambo and Gruyere are marketed via three main channels of commercialisation: Bolivar Cheese Stores (BCS) 50%, Wholesalers 27% and to other retailers 23%. Despite Salina's preference for BCS still retains some direct contact with consumers allowing direct demand trends from the market.

**Graphic Number One: the value chain strategy "Salinas Cheese Factories" (SCF)**



Source: The author

The Bolivar Cheese Stores (BCS) have retailers in three cities: Bolivar cheese stores in Quito that represents 70% of the sales, Guayaquil 20% and Guaranda 10%. Quito distributes 95% to three main clients: Supermaxi (The biggest supermarket in Ecuador) with 60%, other Bolivar cheese stores (BCS) 30%, and sale agents 10%. The remaining 5% goes to the Salinas Cooperative Store, small and independent organization that has an agreement with SCF to keep this 5% quota.

The wholesalers have the 27% of the commercialization channel; they distribute to the cities of Quito 40%, Ambato 45% and Guaranda 15%. The wholesalers control other stores and help to sale sophisticated cheeses such as Gruyere, mozzarella, dambo and tilst (Suarez 2002).

The production chain of the rural cheese makers has been successful because they have competed the circle of production, transformation and commercialisation; whilst the management is independent for every part of the chain. But, at the same time they are linking together with the “Rural Cheese Makers Consortium”, FUNCONQUERUCOM.

The links of the chain in the Salinas cheese factories are:

**Primary producers:** small dairy farmers who deliver the milk to the closest factory, and usually they join together in an association such as: cooperative or labour group. The price paid by the cheese factories depends on the competition in the area from the intermediaries or other processing industries. The prices are around 25 cents of US\$ per litre of milk.

**Industry:** The transformation is made in the twenty-two small rural cheese factories located in the Salinas Parish. The technology is very simple, one person of Funorsal makes the quality controls of the milk, and this is random and not every day. The quality factors are the same in all the cheese factories.

**Transport:** Their own lorry transports the cheeses from the small rural cheese factories to the Bolivar Cheese Stores (BCS) in the cities of Quito, Guayaquil and Guaranda.

**Bolivar Cheese Stores:** They sell and re-distribute the products to all the clients; make extra quality controls, pack the product with a vacuum system and the brand of “El Salinerito”.

However, the great numbers of peasant milk producers also impose a problem due to the general poor level of quality control of the raw material. This imposes a weakness of SCF in the attempt to make high quality cheese from such a diverse cheese manufacturing process.

## **OBJECTIVES**

### **Research Questions**

What factors influence the competitiveness of the Salinas Cheese Factories with regard to the increase of long-term sustainability?

### **Objectives**

- To compare competitive factors that has affected the Salinas Cheese Factories (SCF) within the agro alimentary chain of milk and milk products.
- To recommend long term strategies to the Salinas Cheese Factories (SCF).

## **PROCEDURES**

Using an inductive grounded theory approach comprising a series of Delphi iterative face to face interviews, two rounds of guided interviews were completed. The rounds of interviews were carried out in Ecuador in January 2006. The sample comprised 22 farmers, and the respondents were selected based on a purposive sampling approach.

The survey also included primary data collection from visits to Salinas Cheese Factories (SCF) in the Salinas Parish, and Bolivar Cheese Stores (BCS) in Quito and other stakeholders such as FUNCONQUERUCOM, FUNNORSAL, Quesinor and the Dairy Farmers Association of Ecuador. The main focus of the investigation was to ascertain what factors have affected the competitiveness of the Salinas Cheese Factories (SCF). The focus of the research was aimed at gaining an understanding of the dairy supply chain strategy in Ecuador.

The objective of the first round of interviews was to identify the factors of competitive advantage in order to establish whether Ecuadorian dairy activities were sustainable or not.

## **BACKGROUND**

### **The Salinas Cheese Factories (SCF) success**

In Ecuador the participation of the Government in the rural zones is very limited; in spite of this the Salinas Cheese Factories (SCF) is one of the most successful examples in Ecuador regarding what it is possible to achieve when people from the same geographical zone work together and want to get out of the poverty.

### **History of the Salinas Cheese Factories (SCF)**

The first Salinas Cheese Factory was installed in 1978, like a productive activity of The Cooperative of Credit and Savings "Salinas Limited", with the support of the "Swiss Cooperation" office and the Ministry of Agriculture of Ecuador through a Social program called "Agro Industrial Support for Communities." "The Agro industrial support for communities program" was

orientated to small communities with the objective to help isolated farmers to process products such as milk, potatoes, barley, wheat and meat into agro-industrial products. Therefore, they could have added value products and less perishable to sell for longer periods, not being obligated to daily commercialization.

### Graphic Number Two: the Salinas parish



Source: Salinas Cheese Factories (SCF)

Source: Salinas Cheese Factories's website [www.salinerito.com](http://www.salinerito.com)

### Firms that control the Small Cheese Factories (SCF):

The firms that manage the different product activities of SCF are: FUNORSAL (Salinas Organization's Foundation), The Cooperative of Credit and Savings Salinas Ltda., Salesiana Mission (Catholic organization) and "The Salinas's Youth Group."

**Funorsal.** -They provide management support, and education to enable the people to improve in production, transport and marketing. In other words, in

spite of every part of the chain has autonomy; Funorsal supervises the activities on the entire chain of the SCF; they also control the quality of the raw material.

**The Cooperative of Credit and Savings “Salinas”.** -This cooperative started to work in 1972 in the Salinas parish under the initiative of a priest, Antonio Polo, and Mr. Jose Tonello. Until the present this is a successful cooperative that still supports the SCF. In 1978 they were the promoters of the first of the twenty-two cheese factories in the Salinas Parish.

**The “Salesiana” Mission.** -This is a non-governmental organization that started their operation in 1971, with priest Candido Rada, Vicar of Guaranda (Capital of the Bolivar province). The primary activities of this ONG were most of them with a Catholic point of view, but in the last years they have had an active role inside the Human Resources Management of the SCF to become aware of the importance of the values of the honesty, loyalty and hard work as part of the philosophy of the company.

**The Youth Group.** -This was created in 1975, this is part of the “Salinas Cooperative of Credit and Savings,” but they have a high grade of autonomy. They are young native people from the Salinas parish that help in the SCF.

Other entities involved:

**The brand “El Salinerito”**

“El Salinerito” represents the culture of the indigenous of Salinas. The brand “El Salinerito” has grown up with a good reputation and represents a strong label, “Ecuadorian quality award 2001” (Gonzalez 2001).

**FUNCONQUERUCOM (Rural Cheese Makers Consortium)**

The FUNCONQUERUCOM group consists of seventy rural cheese factories, and the Salinas Cheese Factories (SCF) are part of them; the objective of this entity is to regulate the activities, share experiences between them and help with the assessment of new projects. The FUNCONQUERUCOM can also finance projects such as the acquisition of new technology.

### **The FEPP (Popolorum Progressio Fund)**

The Popolorum Progressio Fund is a non-governmental organization created with the support of other non-governmental organizations such as “Belgium Technical Cooperation,” and “Swiss Cooperation”. The objective of this fund is to support all the rural organizations that would like to improve the quality of life of their communities. They have been in the last thirty years a very important support for all the rural communities dedicated to the production of meat, cheese, marmalades, jam, etc. The fund can also help with credits to the acquisition of land. Applicants must present a project that need to be approved as a requirement to the credit.

### **The systems of commercialization of SCF:**

Parallel to the first cheese factory in Salinas Parish (1978), started to work the first store of commercialization in Quito (Capital of Ecuador), “Tiendas Queseras de Bolivar” or “The Bolivar Cheese Stores”. The purpose of Bolivar Cheese Stores (BCS) was the commercialization, marketing for all the products elaborated in the Salinas parish without any obligation to the cheese factories to deliver all the production.

### **The Bolivar Cheese Stores (BCS)**

The BCS was born in 1999 thanks to FUNCONQUERUCOM (Rural Cheese Makers Consortium) because of the necessity to have a closer understanding of the market. Nowadays, BCS has five retailers in some of the most important cities in Ecuador: Quito, Guayaquil, Guaranda. Before 1999 the commercialization was in hands of every small rural cheese factory of the Salinas parish, facing problems such as: “dirty” competitiveness between them affecting the image of the good quality of the cheese in the area; working as a “joint venture” they could deliver the product through BCS or other channels of commercialization.

### **Channels of commercialization and Prices**

The commercialization is in hands of “The Salinas Traders Department”, that is part of “Funorsal”. They act as a coordinator with BCS, wholesalers and agents. The product of major commercialization is the “Andean Soft Cheese”, a soft cheese with only two weeks of maturing. The cheeses of less demand are the “smoke cheeses” because of the complex level of elaboration and its high prices.

The prices of one litre of milk could vary between US \$ 0.22-0.24 per litre, depending the distance from the cheese factories to the retailers, the volumes and the varieties of cheeses that factories can produce. The price to the wholesalers and retailers can be seen in chart one:

**Table No 1: Prices to wholesaler and retailers**

Variety	Weight (Grams)	Salinas Main Factory &Wholesalers	Stores
Fresh Cheese	500	1.2	1.55
Mozzarella	500	1.87	2.41
Andean	1000	4.00	5.15

Mini Andean	500	2.04	2.63
Mini Dambo	500	2.36	3.17
Tilsit	500	2.36	3.17
Gruyere	500	2.81	3.78
Parmesan	500	3.15	4.23
Fondue	1000	6.02	7.75

Source: Suarez 2002

## **RESULTS:**

According to the information gathered, the factors that have most influenced the process of competitiveness are:

### **Factors of competitiveness in primary production:**

## Factors that strengthen the process of competitiveness in primary production

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- The environmental conditions in the Salinas Parish (soils, grass quality and type, altitude, temperature and rainfall) are very favourable for the dairy activity, since the natural grassland can support natural grazing throughout the year.
- The genetic background of the Andean dairy cattle is suitable for achieving good levels of productivity.
- Animal nutrition based on pastures, provision of mineral and complementary feed could increase yields.
- Labour cost is low because peasant farmers use family labour in daily tasks.
- The farmers obtain a fair income because of the regular payments received for the milk.

## Factors that weaken the process of competitiveness in primary production -

- Many producers are small and use low technology inputs (infrastructure and equipment, grassing systems, complementary feeding, sanitary control, artificial insemination), which do not allow them to achieve better yields.
- There are deficiencies regarding animal husbandry such periods between deliveries, birth rate, effective weaning, mortality rate and animal load.
- The quality of the milk is affected by the lack of hygiene in the milking and lack of sanitary control of the animals. The quality control requirements are difficult to keep.
- There is no infrastructure for the cooling of the milk immediately after milking, which is a detriment for quality.

- Farmers have the habit to add water (that also does not comply with the sanitary conditions), to the milk in order to increase its volume.

### **Factors for the competitiveness in the Industry:**

Factors that strengthen the competitiveness process in the Industry -

- The cold climate (between 5° and 15° C) is favourable for the production and conservation of cheese.
- There are institutions such as Salinas Cooperative or FUNCONQUERUCOM (Rural Cheese Makers Consortium), with grants for new rural enterprises such as cheese factories as well as improvement of existing ones.
- The cheese makers receive training and most of them maintain adequate procedures, producing high quality cheeses of different types.
- The Salinas Cheese Factories (SCF) through Funorsal render services such as training, technical assistance, credit and provision of inputs to the primary producers and to the cheese makers.

Factors that weaken the competitiveness process in the transformation -

- As a result of the numerous random tests that have been carried out, they have that the quality of the milk delivered it is not always reliable.
- The consistency of the quality of the cheeses is difficult to maintain, in spite of that, the cheese factories try to keep the levels of homogeneity in taste.

### **Factors for the competitiveness in the marketing size:**

Factors that strengthen the competitiveness process in the marketing -

- The Salinas Cheese Factories (SCF) owns their retailers, the Bolivar Cheese Stores (50% commercialised through this channel) allow better sales forecasts and cost savings.

Factors that weaken the competitiveness process in the marketing

- The production cycle such as manufacturing, transformation, transport and commercialisation, is not sufficient to attend the demand, being the reason why wholesalers are also involved in the commercialisation of cheeses.
- Wholesalers or sales agents sometimes do not have the best cold transportation system
- Sometimes products are mishandled becoming unacceptable for consumption.
- The availability of the product is seasonal; milk production diminishes in the summer months (July to October).

### **Factors for the competitiveness in the consumption:**

Factors that strengthen the process of competitiveness in the consumption -

- The consumption culture in Ecuador for products with greater added value, such as mature cheeses, is growing, which represents great potential for the production of artisan cheeses.
- The external markets could have great importance as consumers look for exotic cheeses, such as the Andean cheese.

Factors that weaken the process of competitiveness in the consumption -

- The informal market, the informal organizations and the low cost cheeses, often of bad quality, still represent a big problem for the farmers who want to make the things right.
- The brand *El Salinerito* represents the culture of the indigenous people of Salinas. The brand has grown in reputation receiving the 'Ecuadorian Quality Award 2001' (Gonzalez 2001).

## CONCLUSIONS

- The weaknesses are related to the large quantity of producers and the deficient quality control of the raw material, therefore this makes the elaboration of cheese with superb quality on the twenty two small rural cheese factories very difficult.
- The factor that strengthens the processes on the other hand, are the channels of commercialization, especially the Joint Venture with BCS. The "know how" and the good marketing of BCS has convinced the customers about the quality of the product "El Salinerito." They need to keep working with this channel, but at the same time being aware of the risks that represents 50% of sales on one channel of commercialisation.

- BCS and SCF also need to revise the mutual goals and agreements every certain period of time. The alliances are healthy only when the principles and the size are the same, so from time to time it is recommended a revision of the mutual goals. In the same way, farmers and the association of the twenty-two small rural cheese factories should do the same.
- SCF has focussed some of the small cheese factories in downward integration saving costs in the elaboration of machinery by the production of cheese. The fabrication of some machines has avoided the import and dependency; therefore they need to put more effort on this side of the business that could benefit to the rest of the chain.
- Salinas Cheese Factories has a big advantage in controlling the change in an independent way. This means making alliances between small farmers, production with the small rural cheese factories and selling through commercialization channels such BCS, creating certain stability.

#### **RECOMMENDATIONS and COMMENTS :**

- Not always being big means being better and on the other hand keeping smaller could means being “unique.”
- The competitiveness factors are not always in one part of the chain, they could be at the beginning with the farmers for example, or at the end with BCS as a strategy of selling, could be also in the links or in the entire chain, in other

words, the competitiveness could be along the chain, not only in the product as many people could think.

- SCF could and should develop a better reputation of high quality food, this means customer satisfaction and loyalty with future revenues by the association.
- SCF could take advantage of the region and create the first “Andean Cheese” with denomination of origin to export. As a marketing strategy, for example people will love to know that behind the product, the process come from some “exotic” region in the Andes.
- Fair trade has not been explored yet in a proper way and there are still big opportunities for all farmers that would like to go for this approach.

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