A Study of Palm Oil Fruit Dealers’ Business Risks

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Abstract — This study examines the palm oil fruit dealers (FDs) risks within their business venture. We employed interview method to gather fresh data from five (5) informants in Selangor. The finding revealed that the fruit dealers possess some element of entrepreneurial risks comprises of willingness to accept calculated risks, ability to foresee opportunities, visionary and self-determination. The FDs have encountered business risks arises from the normal fresh fruit bunches (FFB) purchase and selling activities. FDs are also exposing to default risk due to the credit facilities or trust based-loans provided to the local palm oil smallholders. Overall, the fruit dealers seem to perform a defensive and reactive response towards the exposed risks rather than relatively employing pro-active strategies to mitigate the occurrence of the risks.

Keywords - Palm oil, fruit dealers, risks, business risk, agriculture.

1. Introduction

The intermediary entity within the production chain of Malaysian palm oil smallholders/operators referred to the fruit dealers (FDs). FDs play the role as the bulk purchaser for the local smallholders fresh fruit bunch (FFB) [5], [12]. The purchase of FFB in Malaysia are conducted through a few models - (1) smallholders may send their FFB to fruit dealers for immediate cash payment or deferred payment; or (2) the fruit dealers “purchase” the FFB sale document from smallholders and pay them with cash. The fruit dealer will wait for the payment date stated in the document and get cash from the mills. As far as fruit dealers are concerned, the palm oil intermediaries may expose to various diversified and undiversified business risks.

According to [9], entrepreneurship or business venture operation refers to the process of value creation, which incorporates various activities such as creating organizations, change, innovation and a unique combination mode of various critical resources. It aims to capitalize new opportunities and to obtain compensation in the form of profit and wealth accumulation. Entrepreneurs are individual who able to recognize opportunities meanwhile others merely see chaos and confusions. Thus, entrepreneurs possess different characteristics and behaviours from managers and small business owners [8],[9].

In this context, FDs can be regarded as an entrepreneurs based on their risk taking propensity. Therefore, this study will investigate the fruit dealer’s business risks exposure and profile within the context of Malaysian palm oil environment. The uniqueness of this study lies in its attempt to explore new knowledge regarding business risks faced by the agriculture intermediaries.

2. Literature Review

The salient characteristic of entrepreneurs is the risk taking attitudes. Entrepreneurs carry risks and uncertainties in their business process [4], [6], [11], [17]. According to [15], business risks arise due to uncertainty about the future effects of current decisions. Every business choice would consist of assessment of outcomes and possibilities that the actual outcomes differ from the expectations [16]. The business risks have increased due to current turbulence in the economic system [6]. Hence, all business entities are assumed to expose to various risks in market place.

According to [7], there are a few strategies for business risk management. The strategies comprise of (1) minimizing risk exposure thorough diversification of products/services; (2) transferring the risks to outsiders such as contracting and outsourcing risky activities; and (3) developing operation capacity to manage or bearing the potential risks such as maintaining liquidity of assets and other relevant techniques.

The palm oil intermediaries are recognize as a group of entrepreneurs who are willing to accept and manage relevant risks to operate the fresh fruit bunch trading activities [13]. Thus, this study examines the FDs’ business in order to comprehend the understanding pertaining to entrepreneurial characteristics embedded in the FDs venture, as well as identifying the business risks inherent in
their business venture. The justification for undertaking this study is due to the increasing challenges and uncertainties of current agriculture industry [1], [3]. For instance based on [10] study, the agricultural banking found to be more difficult and risky compared to other sectors. Thus, it reflects that any business related to the agricultural industry are expose to unique business risks that worth studied within the field of entrepreneurship and business.

3. Methodology

This study involves interviews with five fruit dealers (FD) in Selangor. Semi-structured questions was use to guide the interview session. The interview took approximately 2 hours per FD and held at the FD’s business premise. The FDs are selected through the non-probability sampling, namely the purposive sampling. The informant profile is present in Table 1.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Year Commencing as FD</th>
<th>Education Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1995</td>
<td>Malaysian Education Certificate</td>
</tr>
<tr>
<td>B</td>
<td>2003</td>
<td>Malaysian Lower Certificate of Education</td>
</tr>
<tr>
<td>C</td>
<td>2007</td>
<td>Bachelor degree</td>
</tr>
<tr>
<td>D</td>
<td>2000</td>
<td>Vocational Certificate</td>
</tr>
<tr>
<td>E</td>
<td>2015</td>
<td>Malaysian Education Certificate</td>
</tr>
</tbody>
</table>

The interview data are analysed through the thematic analysis to obtain the relevant themes.

4. Analysis and Discussion

This section presents the description of the FDs risks and risk acceptance according to the interview transcripts. Based on the interview, the fruit dealers show entrepreneurial characteristics through their willingness to accept risk to initiate business. They also show the ability to foresee new opportunities when others did not realize potential market in the future. This can be proved through the interview transcripts:

Respondent A:

“When I started this business 20 years ago, this area did not have much palm oil. Some of my friends ask me, what are you going to purchase with this business?”

Respondent D:

“This area is not the palm oil then. Only few years after that, then only the palm oil was planted in this area. At that time we just purchase other crops such as the coconut”

The respondents also show visionary and self-determination characteristic such as follows:

Respondent C:

“I am a graduate. I was employed before. But after a while, I started thinking that I want to start my own business. I started thinking what business I can involve… (in which if) even I am sleeping, the business can go on (progress) & generate income. At that time there were no fruit dealers in this area. The local people sell the FFB using the truck. No fruit dealer, so that’s why I started thinking to venture into this business”

As a result, the analysis show that the FDs possess the quality of an entrepreneur. This is due to the entrepreneurs definition which refer to a person who able to see and recognize opportunities, when others merely see the situation as chaos and confusion. As far as the FDs are concerned, they have able to perform unique thinking which a bit different from the thought of ordinary people at the particular point of time.

Another important characteristic of the entrepreneurs is the willingness to accept only calculated risks. Based on the interview data, a few risk themes inherent in the fruit dealers’ business. Table 2 show the themes related to the exposed risk of the FDs business.

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk Themes</th>
<th>Interview Transcripts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uncertainty due to unavailable market (demand) for FFB or rejection by processing mills</td>
<td>“...Yes, that happened… ...Last year…we have to bear the cost once the lorry is out (to send the FFB to mills). You know what that has cost us? One lorry meaning that 1 ton of FFB was rejected, so that means RM 1600 had sunk. Let say 10 (lorry) out, we will lose about RM 16,000 per day……”</td>
</tr>
<tr>
<td>2</td>
<td>Uncertainty due to non-compliance of FFB according to the prescribed</td>
<td>“Of course the mills can decide whatever they want. They can simply reject our fruits. So we have to look for other mills”</td>
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</tbody>
</table>
standard. more than 5% of unqualified FFB, that will cost you a penalty about RM 1,600”

Respondent A:

“…. The processing mills are the one who actually decide whether our FFB should be rejected or accepted. (For example) one trailer with 20 tons of FFB, the mills will decide how many of the fruits are unripe, young, damaged. All have its percentage. Then they will print out the slip and show us the grading results”

Respondent B:

“I do the selection process by myself. Taukeh (refer to himself) must really expert to look at the fruits whether it’s ripe or not. If the fruits bunches are not matured, I will ask them to take back their fruit. If they didn’t take it back I will throw away the unripe fruit. If the XXXX come and found the unripe FFB, each young bunch the penalty is about RM 1,000…. I think the authority should not penalize intermediaries like us, they should go for palm oil owners”

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<th>3.</th>
<th>Uncertainty of accepting low quality fruits</th>
<th>Respondent E:</th>
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<td></td>
<td>“Sometimes there are smallholders who send immature fruit to us. Although we inspect the fruits thoroughly but sometimes we are unable to detect the immature fruits because they are all mix together…. in that case we have to dispose the (immatured) fruit…… we have to get things cleared from our site. I have to charter lorry to move the fruit from our site and bear the cost.”</td>
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<tr>
<th>4.</th>
<th>Uncertainty due to commodity price fluctuation</th>
<th>Respondent E:</th>
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<tbody>
<tr>
<td></td>
<td>“We purchase fruits from smallholders. Then we send it to the processing mills. But the mills pay us on a monthly basis once a month. So the price can be lower that our purchase price”</td>
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<tr>
<th>5.</th>
<th>Uncertainty due to weather factor</th>
<th>Respondent E:</th>
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<td></td>
<td>“For this type of business, we encountered risk during the rainy season. Once a year, we will exposed to loss due to the rain season, at least 2 to 3 months a year”</td>
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Respondent C:

“There is a risk the FFB shrink. For example, the fruits we pluck yesterday will definitely shrink today. Because of hot weather. Normally once the fruits are loaded into the lorry, it usually shrink about 10%….that is my risk.”

The risk can be divided into the controllable and uncontrollable risks. One of the five (5) risks was recognize as a controllable/manageable risk. The controllable risk, which can be managed by FDs, relates to the uncertainty of low quality of FFB (item no. 3 in Table 2). Based on the interview, we found that the FDs take a specific action to overcome the risk. Most FDs overcome this problem by conducting through inspection upon receiving the fruit at the ramp site. The FDs conduct the inspection themselves or entrusted the task to the qualified expert workers.

Respondent B:

“I do the selection process on my own. The taukeh must really expert to look the fruits whether it is ripe or not. If the fruits are not mature, I will ask them to take back their fruit. If they didn’t take it back I will throw the unripe fruit”

Respondent A:

“We control it the during the fruit arrival (to FD site) and we will look carefully at the fruits”

Respondent D:

“we check the fruit (which) send to us. If I am not around, my mother will wait at the ramp and she will do the fruit checking. My mother now has become expert about the FFB… she doesn’t know anything about the palm fruit before. But now….I can rely on her help”

In terms of the non-controllable risk, the risk consist of unavailable of FFB market, non-compliance of fruit standard, price changes, and weather. The unavailable of FFB market refer to the occasion in which the processing mills reject or did not want to purchase the FFB brought by the particular FDs. The situation usually occurs when the FFB is oversupply in the market, the processing capacity of mills has reached its maximum level, the mill preference towards certain FDs and/or the mills simply reject to purchase fruit from any particular FDs. The non-compliance of fruit standard refers to the risk that the FDs unaware or wrongly accept a low quality of FFB from the smallholders. Despite the thorough inspection, the bulk quantity of FFB sometimes distorts the manual fruit screening process.

The commodity price fluctuation gives impact because FDs purchased the FFB from smallholders at a certain point of time and sell the FFB to the processing mills at other point of time in the future. Thus, differences in purchase and sell timing may lead to loss due to changes in the commodity price. Finally, weather is one of the typical risks exposed to any agricultural based businesses. Certain season or weather can affect the supply and the quality of FFB. For instance, the supply of FFB decrease in the raining season; while the hot weather leads to the shrinkage of the FFB. As far as weather factor is concerned, respondent C shared his strategy to deal with FFB shrinkage risk. In order to get back the portion of the “shrink tonne”, he will pour water on the FFB before transporting to the mills.

Respondent C:

“I have no choice. At the beginning of my business, I used to lose almost 18 tonnes a year. At
that time the price is RM700, the business was good, but still I don’t have money. So started to investigate and found out that it was because the fruits dried and the weight shrink due to hot weather. So since that, I will sprinkle water on the FFB before taking it to the mills”.

Meanwhile, Respondent A, C and D informed they mitigate the risk of not getting enough fresh fruits by contracting to manage the palm plantation on behalf of the smallholders. As a result, the FDs minimize the risk of not getting enough fresh fruits bunch during the low fruit season.

On top of the risk which connect directly to their business, there is an additional risk arises from the social service rendered by the FDs to local smallholders. The FDs provide cash loan or credit supplies purchase for the smallholders.

Respondent B:
“...During (their) emergency, they want to borrow. I must give. Most of the time for their children back to school season....”

Respondent D:
“If, let say they ask for help, money or anything else, we usually help...If they want to borrow money (from us) they don’t need to fill any forms. We simply give based on trust., that’s all. Just write their name in the (record) book.”

As a result, the FDs also have to bear risks due to payment default of the respective smallholders such as expressed by Respondent B:

“The loan (total amount) almost reach RM 100,000. Because why... they borrow RM 1,000, RM 5,000, after that they ‘run away’. There are some who borrow large amount but pay back in small amount, but we accept that too. When he had made loan here, he sell his FFB to another place. This loan we cannot take any action such as penalize, or take court order...because we don’t have any agreement. Besides, we did not charge interest on that loan”.

Therefore, FDs have encountered operating risks which arise from the main business operation as well as the social service. Based on the risk exposed, the fruit dealers’ business is challenging in nature. Profit seems to be uncertain to the operators. This can be identified from these statements:

Respondent A:
“I once didn’t get any pay from this business for 5 years... Nothing for 5 years. Many factors for that losses...20 years ago when I started this business, this area is not many palm oil here. I waited at my premise from 8 to 10 o’clock but the fruits are uncertain. So less fruits, less income but same expenses. You need to have 4 workers before you can open this business- 1 clerk, 1 manager, 2 drivers. I drove the big truck myself. So end up, I didn’t get anything for 5 years. My late father suggested me to stop (this business) and get employed to earn my own living.”

Respondent B:
“Last year I encountered a loss. (Last year) there came 2 (new) ramps. So all of us compete heavily on the offered price until we loss. Last year was really worst. Before this, I already get small amount of profit. I think the profit is only about RM 10,000. You figure this out, let say the MPOB price is stated as RM 40, the driver and truck assistant (wage) is almost RM 10 per tonne, plus fuel, summons, road tax. It was quite easy to make profit from this business then, but nowadays very difficult because the fruits are lesser but the workers and other expenses remain the same”

The respondents attitude towards implementing mechanisms/procedures to mitigate the business risks, subjectively described as low to moderate level. This is because the respondents do not implement any aggressive and proactive strategy to mitigate the risk or manage the risk prior its occurrence. Most of them voluntarily accept the loss whenever the risks took place. This can be understand from these statements:

Respondent A:
“This palm oil there are 3 situations. Low season, medium season and high season. There are time the fruit are less so in that case we usually get less profit. There must be in year that we encountered less fruit and profit...”

Respondent B:
“Have to accept the loss. There are months where the fruits are bountiful, while other period the fruit supplies are less. The raining season will give us more risk.....we can’t do anything. Just face it”

Respondent D:
“Just accept the loss. We cannot escape from the loss risk”

The situation probably be explained by the nature of agriculture business risks which mostly uncontrollable. Thus, the ability of the FDs to find mechanism(s) to manage the encountered risks is relatively limited. However, they some effort are showed to control the controllable risks through the rigour fruit inspections. In addition, respondent C has showed his creativity to overcome the weather born risks through certain tactic. Thus, the entrepreneurs are creative and able to learn through their daily observation/ experience.
Conclusion

Risks inherent in all type of businesses. As far as agriculture based business is concern, the risks may involve some unique element that parallel with the nature of the business in commodities. Based on our findings, the fruit dealers have encountered business risks arises from the normal course of activity which mainly involved the purchase and sells of FFB. Apart from that, the fruit dealers exposed to default risk due to the credit facilities given to the local smallholders. The fruit dealers seems to perform defensive and reactive responds towards the exposed risks rather a relatively pro-active strategies that mitigate the occurrence chance of the expected risks. Besides that, we found that the particular FDs possess characteristics of entrepreneurs, such as have willingness to accept calculated risks, able to foresee opportunities, visionary and self-determination.

Acknowledgement

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