

Fernando Roxas
Andrea Santiago

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Milking the Future: DVF Dairy Farm Partners with the Filipino Farmer

It was early September and the rains had come late to the province of Nueva Ecija, located 130 kilometers north of the country's capital. The ground was still wet and Danny Fausto could smell the stimulating aroma of freshly cut grass.

Fausto, president and CEO of DVF Dairy Farm, stood by its front gate, visibly upset and shaking his head from side to side. The week had begun ominously. This was the second time that a farmer whose carabao (water buffalo) milk supply, originally earmarked for Fausto's production facility, had been sold to a different buyer instead (see **Exhibit 1**). The buyer was undoubtedly Fausto's competitor.

"Pole vaulting," the local term for the selling of agricultural produce to third parties outside existing contractual arrangements, had become a common practice in many contract-growing schemes. Furthermore, farmers felt it was simpler to sell to other dairies rather than to the DVF Dairy Farm because of DVF's higher quality specifications.

Fausto had had to raise the quality specifications for his raw milk supplies to develop the A and B markets¹ for his products. He surmised that the farmers who sold to his competitors did so because they did not want to exert the extra effort to institute the process standards required to meet the quality specifications for fresh milk. This was the market reality, Fausto presumed. His greatest fear, however, was that poor quality products would damage the reputation of carabao milk, a reputation that he had carefully cultivated in the minds of the premium market segments. Over the last twenty-five years, he had labored to create a premium market for carabao milk products: fresh milk, various milk-based confectionery, several types of cheese, yogurt, and flavored milk drinks (see **Exhibit 2**). The products, sold in urban outlets in Manila, provided additional revenue for farmers who supplied his company with fresh milk (see **Exhibit 3**).

Fausto felt his frustration growing exponentially. He had strategically developed his products for the premium market and demand was steadily increasing. The opportunities were vast because he had barely made a dent in the Philippine market that relied on milk imports.

¹ A and B are the top socioeconomic classes in the Philippine population.