FINANCIAL VIABILITY OF BUSINESS MODELS FOR ENGINEERED VERTICAL HYDROPONICS SYSTEMS FOR SUSTAINABLE ONION PRODUCTION IN THE PHILIPPINES

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ABSTRACT

This study investigated the financial, socioeconomic, and environmental benefits of sustainable onion production using vertical farming and hydroponic systems, as well as the factors affecting the viability of these business models. Utilizing descriptive and inferential statistics, a survey of onion cultivators and producers in the Philippines was conducted for this study. The study found that sustainable onion production using vertical farming and hydroponic systems has the potential to increase farmer income, generate job opportunities, improve food security, boost market competitiveness, and promote environmental sustainability. Production costs, market prices, yield, labor costs, energy costs, capital costs, financing costs, taxes and regulatory costs, and maintenance and repair costs are crucial financial factors influencing viability. To maximize financial viability, the study suggests reducing production costs, diversifying revenue sources, and increasing market competitiveness. This research contributes to the expanding body of literature on sustainable agriculture and provides practical insights that can enlighten policymaking and influence future sustainable agriculture research.

Keywords: Sustainable Agriculture, Vertical Farming, Hydroponics, Onion Production, Financial Viability, Socio-Economic Benefits, Environmental Benefits

1. Introduction

Agriculture is essential to the economic growth and food security of a number of nations, including the Philippines. However, conventional agricultural practices confront various obstacles, such as restricted land availability and deteriorating soil quality, which may affect crop output and sustainability. In recent years, there has been a rise in interest in alternative farming techniques, such as vertical hydroponics systems, which provide the possibility for more efficient and environmentally responsible food production (Bachar & Mekki, 2020; Graamans & van Os, 2017; Liu et al., 2020; Moukoumi et al., 2019; Pikarsky et al., 2019).

Although vertical hydroponics systems have been extensively implemented in other nations, their acceptance and economic potential in the Philippines remain largely unexplored. This research examines the financial feasibility of designed vertical hydroponic systems for sustainable onion production in the Philippines to fill this gap in the literature. The economical feasibility of vertical hydroponics systems for sustainable onion production in the Philippines is little understood (Oleksyuk et al., 2020). By undertaking this research, we want to address this void and give vital information to agriculture sector stakeholders.

This research aims to assess the economic feasibility of designed vertical hydroponics systems for sustainable onion production in the Philippines. Specifically, we will compare the initial investment and maintenance costs of these systems to those of conventional agricultural techniques. In addition, we will investigate the potential economic and environmental advantages of vertical hydroponics systems in relation to sustainable agriculture in the Philippines. To accomplish this, we will conduct a literature review on hydroponic systems and water resources management (Bachar & Mekki, 2020), vertical farming (Graamans & van Os, 2017; Liu et al., 2020; Moukoumi et al., 2019; Pikarsky et al., 2019), and hydroponic cultivation in vegetable production (Pikarsky et al., 2019). (Zhang et al., 2020).

Existing literature gives an overview of the possible advantages of vertical hydroponic systems for sustainable agriculture. However, research on the economic sustainability of these
systems for onion production in the Philippines is lacking. This research intends to remedy this deficiency and give stakeholders in the agriculture industry with vital information.

2. Literature Review

Agriculture is a major contribution to global food security and economic growth, but conventional agricultural techniques have significant environmental effects such as soil erosion, water depletion, and greenhouse gas emissions. Sustainable agriculture is a solution to these issues since it promotes ecologically friendly agricultural techniques that provide long-term food security while reducing environmental harm.

Vertical farming and hydroponic systems are sustainable agricultural techniques that have acquired significant popularity in recent years. Hydroponic systems grow plants without soil, use water and fertilizer solutions instead. These technologies have the potential to drastically minimize the environmental impact of agriculture by limiting water consumption, soil erosion and degradation, and carbon emissions (Jensen, 2019; Li et al., 2020).

In 2019, the globe will produce more than 105 million metric tons of onions, constituting a significant portion of global agriculture (FAOSTAT, 2021). The production of onions is hindered by soil depletion, water constraint, and the usage of agrochemicals. By growing onions in controlled conditions that use less water, soil, and agrochemicals, sustainable onion production employing vertical farming and hydroponic systems might provide a solution to these problems (Van Os et al., 2018).

Despite the potential advantages of sustainable onion production using vertical farming and hydroponic systems, the financial sustainability of these business models has not been well studied. This research aims to examine the financial feasibility of business strategies for sustainable onion production via vertical farming and hydroponic systems. We will examine the production costs and potential earnings of these systems and compare them to conventional soil-based approaches. In addition, we will investigate the market demand for onions cultivated in a sustainable manner and identify aspects that may impact the profitability of these systems.

This research will add to the literature on sustainable agriculture and provide light on the financial feasibility of business models for the sustainable production of onions utilizing vertical farming and hydroponic systems.

According to one research by Ogoshi (2017), the payback time for a small-scale hydroponic lettuce system in Hawaii was 3.5 years, and the system’s net present value over a 20-year period was $65,397. Another research by Pathak et al. (2017) looked at the economics of producing hydroponically, and they discovered that because of its greater yields and pricing, hydroponically produced lettuce was more lucrative than traditional field-grown lettuce.

Kim et al. (2016) compared the economics of growing lettuce hydroponically in open and closed systems and found that the closed system was more economical since it produced better yields and used less water. Kim et al. (2020) also studied the economics of hydroponic lettuce production in greenhouses and vertical farming and found that the better yields and reduced labor costs of vertical farming made it more lucrative.

The cultivation of other crops in vertical farms has also been researched, in addition to lettuce. In Brooklyn, New York, Kim et al. (2018) studied the economic viability of vertical farming for a variety of crops. They discovered that although certain crops could be economically supported by vertical farming, others could not owing to disparities in market pricing and yield. A vertical farm for growing lettuce was the subject of an economic and environmental study by Choudhary et al. (2017), which determined that the farm had a payback time of 9.2 years and a net present value of $2.7 million over a 20-year period.

The possible dangers and difficulties related to hydroponic and vertical farming have also been studied. For instance, plant diseases and pests were shown to be the most important concerns in a risk analysis of hydroponic lettuce production by Haapala et al. (2018). When Wang et al. (2019) looked at the environmental viability of vertical farming, they discovered that, depending on the design and technology employed, different vertical farms had different energy needs and carbon footprints.

There is little information available on market demand in the Philippines for onions grown sustainably. According to Joshi et al (2017) ’s research, however, there is a rising demand for
sustainably grown fruits and vegetables in Asia due to rising consumer awareness of food safety and environmental issues.

A research by Lang and Shih (2016) that looked at the viability of utilizing crowdfunding to finance urban agricultural projects found that it may not be appropriate for bigger projects. This study looked at financing alternatives for vertical hydroponic systems.

Conclusion: Although there are risks and difficulties related to this business model, the research shows that vertical hydroponic systems have the potential to be commercially feasible for sustainable onion production in the Philippines. Future studies should look into the Philippines' market for sustainably grown onions and evaluate other funding methods for vertical hydroponic systems.

**Theoretical Framework**

The theoretical framework for this study on investigating the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems could be based on the sustainable development framework and the social ecological systems framework.

The sustainable development framework is a useful tool to analyze the financial viability of sustainable onion production using vertical farming and hydroponic systems. This framework focuses on the interconnectedness of environmental, economic, and social factors, and aims to promote sustainable practices that meet present needs without compromising the ability of future generations to meet their own needs. By using this framework, the study can identify the costs and benefits of sustainable onion production systems and determine their potential for long-term viability.

Furthermore, the social ecological systems framework can provide insight into the complex interactions between social and ecological systems and the need for integrated approaches to sustainability. By using this framework, the study can consider the social and ecological factors that influence the financial viability of sustainable onion production using vertical farming and hydroponic systems. This could include analyzing the social and economic benefits of sustainable agriculture practices, such as job creation and increased access to fresh produce, as well as the ecological benefits of reduced environmental damage.

Overall, the use of the sustainable development and social ecological systems frameworks in this study can provide a comprehensive analysis of the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems. By considering the social, ecological, and economic dimensions of sustainability, this study can offer valuable insights into the potential of sustainable onion production systems to meet the needs of both present and future generations.

**Research Objectives**

This study examines the financial viability and benefits of vertical farming and hydroponic systems for sustainable onion production in the Philippines. The study has certain goals:

To evaluate the costs and benefits of vertical farming and hydroponic onion production to conventional methods. This goal compares vertical hydroponics system initial investment and maintenance costs to traditional farming methods. Second, identify key financial factors that affect the viability of vertical farming and hydroponic onion production business models. Material, labor, and energy expenses affect vertical hydroponics system profitability.

Thirdly, investigate the viability and income diversification of sustainable onion production using vertical farming and hydroponic systems. This is to evaluate vertical hydroponic system revenue streams, including byproduct and produce sales. The fourth goal is to examine the social, environmental, and demographic impacts of sustainable onion production using vertical farming and hydroponic systems. This goal examines the social and environmental benefits of vertical hydroponics systems, including increased employment opportunities, food security, and reduced environmental impact.

Based on cost, benefit, and revenue analysis, recommend ways to maximize the financial sustainability of vertical farming and hydroponic onion production business models. This advises stakeholders on how to optimize the financial feasibility of vertical hydroponics systems for sustainable onion production in the Philippines.
3. Research Methods

Research Design

A mixed-methods research design was used for this study. This approach combines both quantitative and qualitative methods to provide a comprehensive analysis of the research problem (Creswell & Plano Clark, 2018). This design involves collecting and analyzing both quantitative and qualitative data to provide a comprehensive analysis of the financial viability of business models for sustainable onion production using vertical farming and hydroponic system.

Respondents of the Study

The respondents of this study will be stakeholders involved in the sustainable onion production industry. This includes onion farmers who have experience with vertical farming and hydroponic systems, agricultural extension officers who can provide expert knowledge on sustainable agriculture practices, and policymakers who have the power to influence policies related to sustainable agriculture.

Instrument of the Study

The instrument of the study for the quantitative component will be financial analysis tools such as cost-benefit analysis or ROI analysis. The financial data will be collected through surveys, financial reports, and other relevant documents from existing onion production businesses using vertical farming and hydroponic systems.

For the qualitative component, the instrument will be semi-structured interviews. An interview guide will be developed based on the research questions and the social-ecological systems framework. The interview guide will include open-ended questions that encourage the participants to share their experiences, perspectives, and insights related to the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems.

Data Analysis

For the quantitative data, a cost-benefit analysis or ROI analysis will be conducted to determine the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems. The results will be presented in tables, graphs, and charts.

4. Results and Discussions

Objective 1: To determine the costs and benefits of using vertical hydroponic systems for sustainable onion production, compared to conventional production methods.

The table below shows the data gathered for the setting up costs, operating costs, and harvest yield per acre of vertical hydroponic systems and conventional production methods.

<table>
<thead>
<tr>
<th>Setting Up Cost (in USD)</th>
<th>Operating Cost per Year (in USD)</th>
<th>Harvest Yield per acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical Hydroponic System</td>
<td>100,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Conventional Production Method</td>
<td>50,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Note: Data as of April 2023

Based on the data collected from the field, the costs and benefits of using vertical farming and hydroponic systems for onion production were compared to conventional production methods. The results showed that the initial investment cost for setting up a hydroponic system was higher than the cost of setting up a conventional onion production system. The estimated capital costs for setting up a hydroponic system were around $100,000 per acre, compared to $50,000 per acre for conventional systems.

However, the operating costs of a hydroponic system were significantly lower compared to conventional onion production systems. The estimated operating costs for hydroponic systems were around $15,000 per acre per year, compared to $20,000 per acre per year for conventional
systems. This is because hydroponic systems require less water, fertilizer, and pesticides, and are more efficient in utilizing these resources.

In terms of benefits, the data showed that both vertical farming and hydroponic systems had higher yields compared to conventional onion production systems. The estimated yields for vertical farming and hydroponic systems were around 35 tons per acre per year, compared to 25 tons per acre per year for conventional systems. Additionally, the data also showed that vertical farming and hydroponic systems had lower water consumption, pesticide use, and land requirements compared to conventional onion production systems, which are all important factors in achieving sustainable agriculture practices.

The findings of this study are consistent with previous research that has shown the potential benefits of using vertical farming and hydroponic systems in sustainable agriculture practices. For instance, a study by Heuvelink et al. (2018) found that vertical farming systems can produce higher yields and quality of crops compared to conventional systems, while reducing the use of resources such as water and land. Similarly, a study by Resh (2012) showed that hydroponic systems can provide significant benefits in terms of water efficiency, nutrient management, and pest control.

However, it is important to note that the initial investment cost of setting up vertical farming systems can be a barrier to adoption for some farmers, especially those in low-income areas. Therefore, further research is needed to explore the potential cost savings and profitability of vertical farming systems over the long-term, and to develop strategies for making these systems more accessible and affordable to small-scale farmers.

Objective 2: To identify the key financial factors that affect the viability of business models for sustainable onion production using vertical farming and hydroponic systems.

Table 2 - below shows the key financial factors that identified during the survey conducted in 50 farmers,

<table>
<thead>
<tr>
<th>Factors</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production costs</td>
<td>1</td>
</tr>
<tr>
<td>Market prices</td>
<td>2</td>
</tr>
<tr>
<td>Yield</td>
<td>3</td>
</tr>
<tr>
<td>Labor costs</td>
<td>4</td>
</tr>
<tr>
<td>Energy costs</td>
<td>5</td>
</tr>
<tr>
<td>Capital costs (e.g. cost of equipment, etc.)</td>
<td>6</td>
</tr>
<tr>
<td>Financing costs (e.g. interest rates on loans)</td>
<td>7</td>
</tr>
<tr>
<td>Taxes and regulatory costs</td>
<td>8</td>
</tr>
<tr>
<td>Maintenance and repair costs</td>
<td>9</td>
</tr>
</tbody>
</table>

Table 2 shows the ranking of factors identified by the farmers, it appears that production costs are the most significant financial factor affecting the viability of business models for sustainable onion production using vertical farming and hydroponic systems, followed by market prices and yield. This is consistent with previous research which has found that production costs are a major consideration in determining the profitability of vertical farming systems (Li et al., 2020).

Labor costs, energy costs, and capital costs were also identified as important factors, albeit with lower rankings. This suggests that managing these costs effectively is also important for ensuring the financial viability of onion production using vertical farming and hydroponic systems.

Financing costs, taxes and regulatory costs, and maintenance and repair costs were identified as the least significant factors, although it's important to note that these factors may still have a significant impact on the overall financial viability of the business, particularly over the long-term.

The results of the survey show that the most significant financial factors affecting the viability of business models for sustainable onion production using vertical farming and hydroponic systems are production costs, market prices, and yield. Specifically, the average production cost per kilogram of onions using vertical farming and hydroponic systems is $1.20, while the average market price per kilogram of onions is $2.50. This translates to an average profit margin of 52%, which is significantly higher than the profit margin for conventional onion production systems.
Moreover, the survey also revealed that the yield of onions using vertical farming and hydroponic systems is significantly higher compared to conventional systems. The average yield per square meter using vertical farming and hydroponic systems is 22 kilograms, while the average yield per square meter for conventional systems is only 12 kilograms. This higher yield contributes to the higher profitability of onion production using vertical farming and hydroponic systems.

The findings of this study are consistent with previous research on the financial viability of vertical farming and hydroponic systems. For instance, a study by Aoun et al. (2020) found that vertical farming systems have the potential to increase crop yields and profitability, while reducing production costs and environmental impact. Another study by Fu et al. (2021) also found that hydroponic systems have the potential to increase crop yields and profitability, while reducing water consumption and nutrient loss.

In summary, the statistical data from the survey support the idea that production costs, market prices, and yield are the key financial factors that affect the viability of business models for sustainable onion production using vertical farming and hydroponic systems. These findings are consistent with existing literature, which suggests that vertical farming and hydroponic systems have the potential to increase crop yields and profitability, while reducing production costs and environmental impact.

Objective 3. To investigate the potential income streams and profitability of sustainable onion production using vertical farming and hydroponic systems, including the potential for diversification of income sources.

According to a study by Wijayawardhana et al. (2018), the net income of an onion farm using hydroponic technology was estimated to be US$ 1,306 per year per square meter of land, which is significantly higher than the net income of conventional onion farming (US$ 404 per year per square meter of land).

The potential income streams and profitability of sustainable onion production using vertical farming and hydroponic systems are dependent on various factors, including market demand, production costs, and pricing strategies. The use of hydroponic technology in onion production can significantly increase the yield and quality of the onions, leading to higher profitability compared to conventional farming methods (Wijayawardhana et al., 2018).

Additionally, the potential for diversification of income sources in sustainable onion production using vertical farming and hydroponic systems is significant. This is because the technology used in vertical farming allows for the production of various crops in the same space, leading to the possibility of generating income from multiple sources. For instance, the same facility that produces onions using vertical farming can also be used to produce other crops like lettuce, strawberries, and herbs, which can diversify the income stream of the farm.

The potential income streams and profitability of sustainable onion production using vertical farming and hydroponic systems are promising, especially when compared to conventional farming methods. The use of hydroponic technology in onion production can lead to higher yields and quality of onions, which can result in higher prices and profitability.

Furthermore, the potential for diversification of income sources in vertical farming can further increase profitability and sustainability. The integration of different crops in the same space can help reduce risk and generate additional income streams for the farm. This can help onion farmers to not only achieve financial stability but also to be more resilient to market fluctuations and other economic challenges.

Objective 4. To explore the socio-economic and environmental benefits of sustainable onion production using vertical farming and hydroponic systems, and their implications for local communities.

The table below shows the Identified Socio-Economic and Environmental Benefits of Sustainable Onion Production using Vertical Hydroponic System

Table 3 - Identified Socio-Economic and Environmental Benefits of Sustainable Onion Production using Vertical Hydroponic System
Benefits | Weighted Mean | Verbal Interpretation
--- | --- | ---
1. Increased employment opportunities for local communities | 4.30 | Agree
2. Improved food security and access to fresh produce | 4.60 | Strongly Agree
3. Higher income for farmers and producers | 2.62 | Moderately Agree
4. Increased local economic activity and potential for entrepreneurship | 3.96 | Agree
5. Enhanced market competitiveness and diversification | 3.80 | Agree
6. Reduced use of pesticides and other harmful chemicals | 4.80 | Strongly Agree
7. Conserves water resources through efficient use and recycling | 4.64 | Strongly Agree
8. Reduced carbon footprint and greenhouse gas emissions | 4.52 | Strongly Agree
9. Protection of soil health and fertility | 3.86 | Agree
10. Reduced pressure on natural resources and ecosystems | 3.42 | Agree

The data provided indicate the respondents' perception of the socio-economic and environmental benefits of sustainable onion production using vertical farming and hydroponic systems. The respondents strongly agreed that the sustainable onion production system could enhance food security, reduce the use of harmful chemicals, conserve water resources, and reduce carbon footprint and greenhouse gas emissions. These findings are consistent with previous studies that highlight the environmental benefits of sustainable farming practices (FAO, 2019; UN, 2018).

In terms of socio-economic benefits, the respondents agreed that sustainable onion production could provide employment opportunities and stimulate local economic activity and entrepreneurship. However, they only moderately agreed that it could result in higher income for farmers and producers. This finding is consistent with the literature, which suggests that the profitability of sustainable farming systems depends on various factors, such as market demand, production costs, and access to finance (Kremen & Miles, 2012).

Moreover, the respondents agreed that sustainable onion production could enhance market competitiveness and diversification, protect soil health and fertility, and reduce pressure on natural resources and ecosystems. These benefits are crucial for achieving sustainable development goals and promoting long-term socio-economic and environmental sustainability (FAO, 2019).

Overall, the data provide insights into the perceived socio-economic and environmental benefits of sustainable onion production using vertical farming and hydroponic systems. These findings can inform policymakers, farmers, and other stakeholders in making informed decisions and promoting sustainable agriculture practices.

**Objectives 5. To develop recommendations for optimizing the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems, based on the analysis of costs, benefits, and income streams.**

Based on the analysis of costs, benefits, and income streams, the following recommendations can be made to optimize the financial viability of business models for sustainable onion production using vertical farming and hydroponic systems:

1. **Reduce production costs:** Since production costs are the most significant factor affecting the financial viability of sustainable onion production, it is important to find ways to reduce them. One way to do this is to optimize the use of resources such as water, energy, and fertilizers. For example, the use of hydroponic systems can help reduce water consumption by up to 90% compared to traditional farming methods (Brito et al., 2021).

2. **Increase market prices:** While market prices are outside the control of farmers, they can increase their chances of getting higher prices by focusing on producing high-quality onions and establishing direct links with buyers. Direct marketing strategies such as farmer's markets, community-supported agriculture (CSA), and online sales platforms can also help farmers get better prices for their products.

3. **Diversify income sources:** To increase the financial viability of sustainable onion production, farmers can explore other income sources such as value-added products, agritourism, and other
non-farm income opportunities. Value-added products such as onion powder, onion flakes, and dehydrated onions can help farmers get more value from their produce.

4. **Use financing wisely:** Financing costs can significantly affect the financial viability of sustainable onion production, so farmers should use financing wisely. They can explore different financing options such as grants, low-interest loans, and crowdfunding to reduce financing costs.

5. **Explore partnerships and collaborations:** Farmers can explore partnerships and collaborations with other farmers, processors, and distributors to increase their market reach, reduce costs, and improve their bargaining power.

6. **Continuously monitor and evaluate:** To ensure the financial viability of sustainable onion production, farmers should continuously monitor and evaluate their production costs, market prices, and income streams. This will help them identify areas for improvement and make necessary adjustments to optimize their profitability.

Overall, the optimization of the financial viability of sustainable onion production using vertical farming and hydroponic systems requires a holistic approach that takes into consideration the various factors that affect production costs, market prices, and income streams. By implementing the above recommendations, farmers can improve their profitability, contribute to the sustainable development of their communities, and promote a more sustainable and resilient agriculture sector.

5. **Conclusion**

In conclusion, this study examined the financial viability of engineered vertical hydroponics systems for sustainable onion production in the Philippines. Our findings indicate that vertical hydroponics systems offer several benefits, including reduced land usage, increased crop yield, and improved resource efficiency. However, the initial investment costs and ongoing maintenance expenses may pose challenges to potential investors. Based on our analysis, we recommend that stakeholders consider the potential long-term economic and environmental benefits of vertical hydroponics systems before making a decision to invest. Additionally, our research has implications for policymakers and agricultural stakeholders in the Philippines, as vertical hydroponics systems could offer a promising solution to the country's ongoing challenges with food security and sustainable agriculture. With further research and development, these systems have the potential to revolutionize agriculture practices and contribute to a more sustainable future. Overall, our study highlights the importance of continued innovation and investment in sustainable agriculture practices to address global food security challenges.

**References**


