

5.2 Collaborative Marketing Groups and Agricultural Cooperatives

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Lecture Outline: Collaborative Marketing Groups and Agricultural Cooperatives

(Adapted from Gustafson and Moulton, 1989. Marketing for the Small Farmer: Marketing Cooperatives. UC Small Farm Center. See also the USDA Business and Cooperatives Program PowerPoint presentation "What is a Cooperative?")

A. Collaborative Marketing Groups (CMG) and Agricultural Cooperatives

1. Collaborative Marketing Groups defined: An organization owned and operated by a group of farmers producing similar products who join together in partnership to gain the advantages of the economies of scale and to gain more control in marketing their products. Marketing cooperatives may be formally established business organizations or an informal association that may contribute varying amounts of capital for infrastructure relating to the shared enterprise.
2. Agricultural Cooperative defined (adapted from Barton, 1989, "What Is a Cooperative" pp. 1-20): "A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use. More specifically, it is distinguished from other businesses by three concepts or principles:"
 - a. The user-owner principle: Persons who own and finance the cooperative are those that use it
 - b. The user-control principle: Control of the cooperative is by those who use the cooperative
 - c. The user-benefits principle: Benefits of the cooperative are distributed to its users on the basis of their use
3. Rationale behind CMGs and marketing cooperatives
 - a. Increase prices received for products
 - b. Increase bargaining power for purchased inputs and price received for products
 - c. Reduce the costs of marketing and agricultural inputs by purchasing collectively
 - d. Access new markets otherwise inaccessible
 - e. Gain access to knowledge and professional expertise of others
 - f. Make the markets for products more secure by having consistent supply and by selling in volume
4. How the CMG accomplishes these objectives
 - a. By performing certain functions, e.g., packing, storing, cooling, shipping, promoting, and selling, and negotiating contracts collaboratively; buying production supplies such as seeds, fertilizer, containers, etc. in large volumes at lower prices

B. The Benefits of Collaborative Marketing Groups to Small Farmers

1. Increasing the profit margin to farmers for their produce – By performing some of the marketing functions often done by middlemen who charge for their services, the CMG may be able to earn an additional profit that can be distributed to farmer/CMG members. The net result may be a higher price to farmers for their produce.
2. Reduced transportation costs – A CMG that owns transportation equipment may be able to provide lower-cost transportation services by using equipment specifically adapted to members' crops and volumes produced, and by using members for driving and maintenance of the vehicles.
3. Reducing marketing cost – Marketing costs can be reduced significantly by a CMG that carefully chooses the set of services and products it will provide and does all of the marketing of products of the group together. This reduces the amount of time and expense that individual producers spend on marketing their products.

4. Accessing new and larger markets – Marketing as a group, small farmers can also gain access to new and larger markets that can mean higher prices for products. Small farmers may be limited to local markets because their volume is inadequate to ship to more lucrative markets elsewhere. A CMG may have sufficient resources and volume to ship to larger markets where prices can be higher. In this way, the small farmer can benefit from new sales obtained by marketing cooperatively.
5. Name recognition and consumer loyalty – CMGs and marketing co-ops can develop and use brands and other promotional activities to provide the small farmer with markets that are more secure. Promotional activities can establish a loyalty for co-op products from wholesale buyers and consumers who will look for and buy the co-op brand. This will tend to stimulate the movement of co-op products even when the market is oversupplied with product.
6. Technical, state, and federal programs that provide technical assistance, grants, and loan guarantees for CMGs that are organized as cooperatives – Tax benefits enjoyed by cooperatives offer cost savings that can be passed along to members. Marketing co-ops do not have to pay taxes on the profits they earn. These unpaid taxes are distributed among the member-growers as additional profits.

C. Starting a Collaborative Marketing Group or Co-op

(See: "Getting Started" in King and DiGiacomo, 2000; UC Center for Cooperatives, 2000; and the USDA Business and Cooperatives Program PowerPoint "Organizing a Cooperative")

1. Step 1: Organize and identify the needs a CMG or cooperative is expected to meet
 - a. It is important that the organizers agree to these needs and the specific services a CMG or cooperative can provide
 - b. Farmers must be able to cooperate with each other in making the decisions that establish and operate the venture
2. Step 2: Have a preliminary study made – In order to justify a CMG or cooperative, there must be sufficient produce grown by the farmers in the area
 - a. The expected benefits to growers from the CMG or co-op must justify the investment required
 - b. If the preliminary study indicates a likely potential for benefits, then a careful financial plan should be completed that will show the amount, timing, and purpose or source of expenses and revenues
 - c. The CMG or co-op must make economic sense in order to succeed; it requires that the participating farmers do their best to ensure that the CMG or co-op has a dependable and quality product to market
3. Step 3: Establish the legal entity for the CMG or cooperative
 - a. The choice of an organizational form of a CMG or cooperative should be based on a careful analysis of business and legal considerations
 - b. Some legal options for CMGs or cooperatives
 - i. Legal Cooperative: In California, this means that the co-op must become incorporated under the California Corporation Laws. These laws must be followed to gain all the tax benefits to which a cooperative is entitled. The members must also set up and agree upon the operating, governing, and marketing rules that will determine how the co-op will be run.
 - ii. Limited Liability Company (LLC)
 - iii. Limited Liability Partnership (LLP)
 - iv. Others:
4. Other important considerations in establishing a CMG or cooperative
 - a. Determining the optimum location for any co-op facilities
 - b. Obtaining the necessary capital for starting the co-op

- c. Acquiring land, equipment, and facilities
- d. The people who manage and sell for the co-op must have the experience and expertise
- e. The number of personnel needed to efficiently operate the co-op will depend on the co-op's size and the services it provides

D. Challenges of CMGs and Co-ops

- 1. Lack of common mission among members
- 2. Lack of commitment by CMG, co-op members
- 3. Barriers to entry into and exit from the CMG or co-op
- 4. Time costs associated with group decision making

E. Collaborative Marketing Groups: Case Studies

(See: "Collaborative Marketing Group Profiles" in King and DiGiacomo, 2000; "Cooperative Marketing" in SARE/SAN, 2003)

Resources

LITERATURE CITED

- Barton, David. 1989. "What Is a Cooperative?" *In Cooperatives in Agriculture*, David Cobia (ed). Englewood Cliffs, NJ: Prentice-Hall.
A comprehensive treatment of agricultural cooperatives written by leading authorities in the field.
- Gustafson, Mark and Chris Moulton. 1989. *Marketing for the Small Farmer: Marketing Cooperatives*. UC Small Farm Center, Davis, CA.
Answers the essential questions with regards to marketing cooperatives: What are marketing cooperatives? How can they benefit small farmers? How are they established? And is a marketing cooperative right for you? Available online: www.sfc.ucdavis.edu.
- King, Robert and Gigi DiGiacomo. 2000. *Collaborative Marketing: A Roadmap and Resource Guide for Farmers*. Minnesota Institute for Sustainable Agriculture (MISA).
An outstanding detailed investigation of cooperatives that weaves examples from real experiences of 10 collaborative farmer/rancher marketing groups in Minnesota. Major categories include: Exploring Collaborative Marketing; Getting Started; Formally Explore and Develop Your Idea; Recruit Members and Raise Equity; Begin Operations; Collaborative Marketing Group Profiles; and References. 96 pp. Available online: www.extension.umn.edu.
- SARE/SAN. 2003. *Reap New Profits: Marketing Strategies for Farmers and Ranchers*. USDA Sustainable Agriculture Network (SAN).
Offers overview of the many alternatives to marketing commodities through conventional channels, including: farmers' markets; pick-your-own operations and farm stands; agricultural tourism; Community Supported Agriculture (CSA) farm; cooperatives; direct sales to restaurants; mail order and Internet sales; direct-marketing of meat; and value-added farm products. Online version at: www.sare.org/publications/index.htm.

UC Center for Cooperatives. 2000. *Starting an Agricultural Marketing Cooperative*. Second Edition. *Answers key questions related to the development and operation of an agricultural marketing cooperative. It was written for the small-scale cooperative, but provides key information for any producer cooperative. Includes sample legal and accounting documents. 45 pp. Available online: cooperatives.ucdavis.edu; anrcatalog.ucdavis.edu/index.ihtml.*

UC Center for Cooperatives. 2004. *Legal Sourcebook for California Cooperatives*.

This is the Third Edition of this publication from the Center for Cooperatives, and updates the California Consumer Cooperative Incorporation Sourcebook. It also incorporates and updates the information found in A Legal Guide to Co-op Administration. This Sourcebook is designed to help newly forming cooperative corporations effectively organize themselves, and it can assist existing co-ops in administering their ongoing affairs. Sample documents, legal sources, cross references, and definitions are included, along with advice on the need for legal counsel. Chapters cover choice of entity, articles of incorporation, board of directors, members and memberships, and financing issues. Available through UC DANR: anrcatalog.ucdavis.edu/index.ihtml.

WEB RESOURCES

Alternative Farming Systems Information Center's Organic Agriculture Products: Marketing and Trade Resources:
www.nal.usda.gov/afsic/index.html
A comprehensive listing of electronic resources addressing the following subject areas: Regulation, Laws, and Legislation governing organic production and trade; How-to Guides on Marketing, Business Planning and Sample Enterprise Budgets; Guides to Data, Suppliers, Outlets, and Events; Industry and Data Sources; Market and Consumer Studies; Support Organizations. Contains multiple online publications addressing the development of agricultural cooperatives.

ATTRA—National Sustainable Agriculture Information Service. Direct Marketing—Business Management Series:

attra.ncat.org/marketing.html

Contains extensive listings of concise online publications addressing all aspects of direct marketing and alternative marketing arrangements including: marketing organic products, institutional buying relationship, cooperatives, value added, selling to restaurants, agricultural tourism, farmers' markets, and CSA.

Direct Marketing Resource Guide Online Database:

www.sare.org/publications/dmrg.htm;
wsare.usu.edu/marketing/search.cfm

This extensive annotated listing includes practical, high-quality resources such as print publications, videos, and web resources that will help growers meet direct marketing goals. The resources are organized into 9 categories including: Farmers' Markets; Community Supported Agriculture; Agricultural Cooperatives; Farm-to-School/Selling to Institutions; Direct Marketing Livestock; Roadside Stands/Markets; Selling to Restaurants; and Value-Added Production/Marketing.

Minnesota Institute for Sustainable Agriculture (MISA):

www.misa.umn.edu

MISA is a partnership between the College of Agricultural, Food and Environmental Sciences at the University of Minnesota and the Sustainers' Coalition, a group of individuals and nonprofit organizations. The purpose of MISA is to bring together the diverse interests of the agricultural community with interests from across the University community in a cooperative effort to develop and promote sustainable agriculture in Minnesota and beyond. Contains the collaborative marketing group publication Collaborative Marketing: A Roadmap and Resource Guide for Farmers.

National Sustainable Agriculture Research and Education and the Sustainable Agriculture Network (SARE/SAN):

www.sare.org

The SAN is part of USDA's Cooperative State Research, Education, and Extension Service and funds projects and conducts outreach designed to improve agricultural systems. Produces publications on all topics related to the agronomy and economics of sustainable farming systems. Contains the following online publications and electronic resources related to collaborative and cooperative marketing: Reap New Profits: Marketing Strategies for Farmers and Ranchers, and the Direct Marketing Resource Guide Online Database (described below).

UC Center for Cooperatives:

cooperatives.ucdavis.edu

The Center for Cooperatives of the University of California was established to enhance the development of cooperatives through research, education, and outreach. Their web site contains extensive listings of resources on agricultural and other types of cooperatives. Despite extensive support from the cooperative community, funding from the University of California for the Center for Cooperatives ceased on January 5, 2004. Most publications formerly available from the Center for Cooperatives are available for purchase from University of California, ANR Publications (see below).

UC Division of Agriculture and Natural Resources (DANR):

anrcatalog.ucdavis.edu/about.ihtml

ANR Communication Services is a service branch of the Division of Agriculture and Natural Resources (DANR) of the University of California. ANR advisors, specialists, and academic staff produce a variety of practical, research-based educational media—publications, videos, slide presentations, interactive distance learning, audio recordings, and electronic multimedia. Contains an extensive listing of publications on agricultural cooperatives originally produced by the UC Center for Cooperatives (see above).

UC Small Farm Center:

www.sfc.ucdavis.edu

The UC Small Farm Center (SFC) serves as a clearinghouse for questions from farmers, marketers, farm advisors, trade associations, government officials and agencies, and the academic community. The SFC maintains a library of books, scientific and popular journals, reports, directories, and periodicals covering production, marketing, and policy issues. SFC publishes manuals, proceedings, pamphlets, leaflets, and a quarterly newsletter that includes news of upcoming events, publications, topical issues, and profiles of farmers and farm advisors. The SFC organizes and coordinates statewide conferences, workshops, and symposia and supports advisors, farmers' markets, and farm organizations in regional and local programs.

USDA Business and Cooperatives Program:

www.rurdev.usda.gov/rbs/coops/csdir.htm;

www.rurdev.usda.gov/rbs/pub/cooperative.htm

The mission of the Cooperative Services Program is to promote understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products. The program serves cooperative members, directors, management, educational institutions, organizations, rural residents, and all others with an interest in the cooperative form of business. Contains an extensive listing of publications, data on U.S. cooperatives, grant programs, and educational materials (including PowerPoint presentations and charts) addressing all aspects of developing and maintaining agricultural cooperatives.

