



# Cooperative Marketing: What does it take? Is it for you?

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## What does cooperative marketing mean?

“Cooperative marketing” can mean many things to many people depending upon your background. I like to ask people if they are using the word “cooperative” as a noun or an adjective. In the context of this fact sheet, we will be exploring “cooperative” as both a noun referring to a legal business structure and as an adjective to describe the agreement of people to cooperate with each other related to marketing efforts.

Let's deal with the legal business structure of a cooperative. Cooperative businesses are a type of corporation but have a few qualities that make them an attractive option for many small groups that want to maintain member ownership of the business. Cooperatives have three distinct characteristics that separate them from other businesses. Cooperatives are member-owned, member-controlled, and generate member-benefit. Member-owned is a function that guarantees that the members of the cooperative are the ones that provide the initial capital for the start-up of the business and are the current owners of the cooperative. Member-controlled continues down the same thought process because the members are the ones that elect the board who is responsible for making long-term decisions for the cooperative. The members are electing other members to serve on the board and make these decisions for the total membership of the cooperative. Member-benefit is the end result that ensures the profits made by the cooperative are being returned to the members, sometimes referred to as patronage refunds. These profits are not being returned based on the investment the members made in the cooperative, but rather the amount of business that members conducted with the cooperative throughout the year. For example, if you are a member of

the cooperative, but do not use any services or purchase any products from the cooperative during the year, you have no member-benefit or patronage refunds coming your way at the end of the year.

If you and your neighbor agree to sell your products in one roadside stand, you are practicing cooperative marketing. When you use cooperative as an adjective it describes the behavior or agreement of two or more parties in relation to marketing. These cooperative marketing arrangements are usually informal and have no legal binding between or among the parties involved. These cooperative marketing agreements can last years and never have problems; however, sometimes group dynamics make these agreements unpleasant and useless for the parties involved. There are many reasons why parties join a cooperative business or participate in a cooperative marketing arrangement.

## Benefits of Cooperative Marketing

### *Economies of scale*

There are economies of scale that can be obtained from the collective effort of joining forces and marketing as a group. It would be cheaper for beef producers to come together and assemble a semi-load of feeder calves for shipping to Kansas than it would be for each individual to get their calves to Kansas. When you are buying supplies, a consolidated order that contains pallets or bulk orders is cheaper than individually buying a small amount of supplies.

### *Bargaining power*

A group effort can combine available supply of product or consolidate services offered that allow bargaining power for the group. If you have 2 bushels of tomatoes,

you have little power to negotiate a price with a retailer, but if as a group you have 140 bushels of tomatoes, you can bargain for a better price because of the quantity that can be supplied by the group. This bargain force can be used to gain additional economies of scale with bulk purchasing arrangements.

### ***Flow of product***

Retail markets require some consistency in flow of product to their establishments. As an individual with 12 doe goats, you can in no way guarantee more than 2 kid goats per month for the year. Retailers are looking for a business that can provide them a set amount of product on a daily, weekly, or monthly basis. If you get together with 20 other producers and as a group you have 240 doe goats, you could guarantee up to 40 kid goats per month to the retailer. You will now have their attention and be able to negotiate a price that the group needs for the kid goats.

### ***Preserving markets***

Many markets are looking to reduce the costs of obtaining products or services. These markets are looking at buying their products or services but dealing with less people and having the same amount of product to sell through their establishments. If you are trying to market your 10 finished hogs to a processor and the cooperative down the road has members with 120 hogs ready for slaughter, the buyer will stop at the cooperative to make his purchase. He can obtain 120 hogs in one contact versus the contact with 12 producers your size to end up with the same end result. A cooperative marketing arrangement will preserve many of the markets you use for the future as businesses move to cutting costs associated with procuring products and services.

### ***Access to professional assistance/expertise (hire support)***

Many producers can benefit from professional services in marketing and sales of their products. If you are an apple producer, you are probably in the business because you are good at producing apples, but you have to sell them to make any profit. If marketing and sales are not your “cup of tea,” you are a member of the majority of today’s agricultural producers. If you join a cooperative marketing group that hired a marketing manager and all you had to do was raise a top quality apple for the person to market, your life would be much easier. You individually could not afford to hire that marketing manager, but as a group of 15 orchard owners you can consolidate your product and finances to increase the price you will receive for your product.

### ***Maintaining more of the retail dollar***

This benefit has been addressed in several of the previous discussions, but increasing the financial income for your operation is a huge driver in the reason to participate in a cooperative marketing effort. This can be achieved through reducing costs of supplies by bulk purchasing or increasing the income by tapping new markets, keeping existing markets or negotiating a higher price in new and existing markets.

Now you are thinking, well, why isn’t everyone a member of a cooperative marketing effort? There are some challenges to cooperative marketing efforts that you might not face operating as an individual. As an individual, you are making the decisions, but in a group cooperative marketing effort, there are several members who need to agree with the decision of the effort.

## **Challenges of Cooperative Marketing**

### ***Agreeing on one common mission***

The first step in moving towards a cooperative marketing arrangement is to make sure all individuals are on the same page. This is achieved by making sure that all members are onboard to operate for the same purpose. Most of the time, this is not present among the members, even though most groups or steering committee members think that they all want the same end result. Again, a facilitator can help the group move through this process, because a common vision is essential for moving any further on the marketing venture.

### ***Trust and sharing of information***

Many agricultural producers have operated individually for years and are skeptical about the idea of a cooperative marketing venture. There is a time and process for building a sense of trust among the members and generating an open sharing of information in relation to the cooperative marketing venture. This trust must occur among members to keep members loyal and make the effort function successfully in the future. You are going into business with all members of the effort and if you have trust issues, why would you ever agree to run a business with these people? This is a major roadblock for many groups but some facilitated discussions can be held with professionals who are experienced in dealing with the human components of cooperative marketing organizations.

### ***Group dynamics (democratic group decision making and costs)***

The group dynamic aspect of an organization depends somewhat on the size of the organization. A large cooperative marketing effort would have a board of directors that

govern the long-range planning and decision making for the cooperative, but in a case where the group only consists of 20 or 25 members all members might participate in making decisions. Most understand that a democratic process for making decisions ensures that the members are involved and their opinions are addressed, but the fact is that this process can take more time to reach the end goal of a decision. Some organizations operate on a basis that consensus has to be reached by all for the decisions to go forward. This is different than a democratic majority vote system and can take much more time for plans to move forward.

### **Lack of commitment from members**

Members can become disloyal members in the blink of an eye. This behavior exhibits why it is important that members “buy into” the vision for the group, have a developed trust for all members, and understand the need for sharing information and managing the group dynamics in the cooperative marketing organization. This issue is sometimes addressed by signing a marketing agreement or contract with the organization that outlines the repercussions that will occur should you, as a member, breach your contract/agreement with the organization. If you are not agreeable to signing the agreement, then I contend that one of the three above challenges has not been resolved for you as a member. Take a step back, readdress the situation, and let members know what your hesitations are before signing an agreement to market through the organization. This is necessary for the success of the organization. Human nature tells us that a member will sell outside the organization if he or she can make a dollar more. A large majority of producers would choose to market only with the organization when it can benefit the member.

### **Conclusion and Summary of Cooperative Marketing**

We have explored the definitions of “cooperative marketing” and compared the benefits and challenges of cooperative marketing efforts. So is a cooperative marketing effort a fit for you? Only you can determine the right

choice for your operation, but hopefully I have given you some topics to address and think about before participating. There are several benefits to joining a cooperative marketing venture: obtaining economies of scale, entering new market(s), accessing professional services, maintaining more of the retail dollar, increasing bargaining power, and preserving existing markets. These can benefit your operation by increased profits and efficiency, but you need to consider the challenges before you make the final decision. The challenges are not to discourage you from joining a cooperative marketing organization, but rather to make you aware that with benefits come challenges for the organization. These are all related to the human dynamics, commitment, and trust of the members who operate and own the organization. When it comes to generating income, many of us choose the option that will bring us the highest reward in the near future. With cooperative marketing organizations, you have to look at the reward you receive throughout the year from the organization. Is the average as a member of the effort better than the average you would have achieved as an individual? This requires you to look at the “whole picture” and determine the best option for the future success of your operation.

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