

New Generation Cooperatives: What Motivates Producer Participation?

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Why is producer motivation important?

“The greatest barrier to the attainment of a satisfactory degree of solidarity in the co-operative livestock undertaking as a whole is the failure to develop adequate support by a intelligently participating membership.”

EG Nourse and JG Knapp -- 1931

What really motivates producer participation?

“...historians have usually identified co-ops as the children of distress.... Hard times accentuated the dislike of the perceived monopoly-monopsony powers of agribusiness.”

V. James Rhodes -- 1985

Market conditions that characterize producer perceptions of “hard times”

- Low prices
- Wide farm-to-retail price margins
- Thinning spot markets
- Limited market access

Producers employ multiple strategies to address these market conditions

- Public action
 - antitrust enforcement, mandatory price reporting, direct support
- Farm and commodity organizations
- Collective action in the market
 - traditional bargaining and marketing co-ops, value-added and new generation co-ops, alliances

Two questions to be considered concerning producer motivations and new generation cooperatives

- Can a cooperative affect the market conditions that motivate producers?
- By what means, methods, or mechanisms can a cooperative best address these market conditions?

Low Prices

“...higher hopes and keener interest seem to be directed toward the strengthening of farmers’ price situation.... There are, of course, real possibilities... But there are also limitations”

Nourse and Knapp -- 1931

Farm-to-Retail Margins

“Farmers that organize an operating cooperative thereby acquire a formal property right to the residual income streams generated through the performance of those vertically-related economic functions.”

Peter Vitaliliano -- 1985

Thinning Spot Markets

“...we may expect to find a system of merchandising which would be dominated by direct movement from producer to processor and the sale of only a minor fraction of the product taking place under quasi auction conditions....”

Nourse and Knapp -- 1931

Market Access

In a consumer driven food system where product characteristics depend on a high degree of coordination among market levels, timely access to marketing services is essential to maximize value

Is a New Generation Cooperative THE Answer?

- Low prices -- Cooperatives can affect prices, but only in a limited way.
- Margins -- Cooperatives give producers the opportunity to increase net returns through participation in up-stream margins, but to do so, the cooperative must be competitive and efficient.

Is a New Generation Cooperative THE Answer?

- Spot markets and market access: shares in a new generation cooperatives include the **right** and **obligation** to deliver:
 - the obligation to deliver actually reduces use of spot markets
 - however, the right to deliver maintains and increases market access.

So, Why Use a New Generation Cooperative?

All Rights Reserved



New Generation versus Investor-owned

- Producers have claims on profit
- Control is vested in producers
- Producers maintain delivery rights
- Single taxation

New Generation versus Traditional

- Willingness to invest up-front capital
- Equity is more liquid (transferable shares)
- Assured supply
- Capitalization is always proportional to use
- Limited motivation for unallocated earnings

Summary

- Producers are motivated by perceived market failures
- Producers have a number remedies that they can consider
- A new generation cooperative increases opportunities but does not guarantee results