

# California and National Issues for Cooperatives and Related Organizations

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# Motivation

- Global issues are creating change in various agricultural industries.
  - Fruits, orchard crops, dairy, and fertilizer are four such industries
- Boards of directors and producer organizations may lack knowledge about how these changes can impact their businesses.
  - Governance structure of producer-owned businesses relies on a CEO to provide information on these issues
  - Global issues have implications for strategy
    - Producer directors must participate in the strategy formation process (CEO also forms strategy and implements it)
  - Producers have a responsibility to be knowledgeable about these issues
- Producers need information on how these issues affect their industry.
- Global issues is the theme for 2005 Farmer Cooperatives program (November 7-8, Minneapolis) and 2005 National Council of Farmer Cooperatives program (January 22-23, Carlsbad).

# Objective

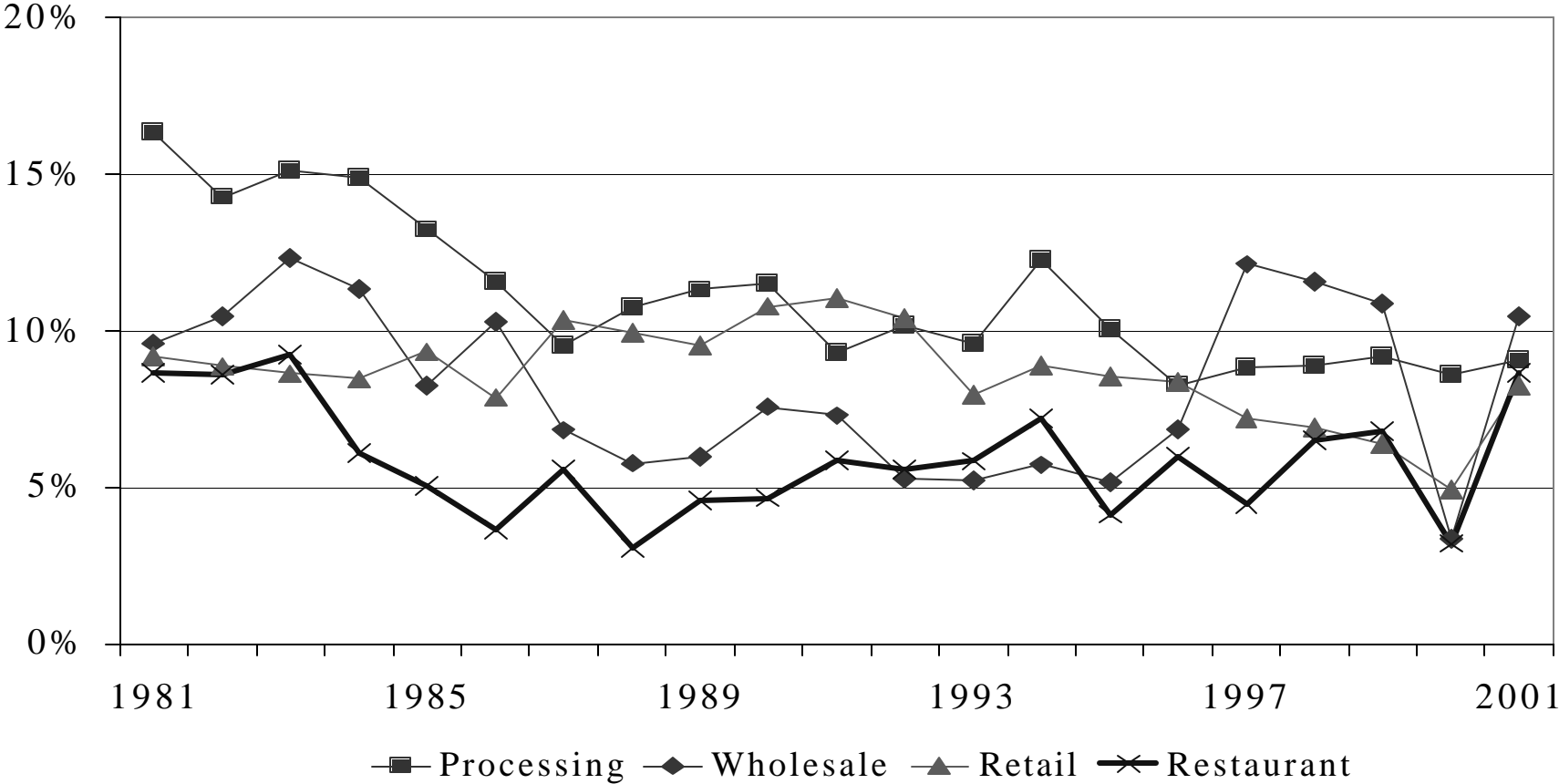
- The objective is to provide an overview of global issues that are affecting US cooperatives and other producer organizations.
- Data comes from USDA National Food and Agribusiness Management Education Commission (NFAMEC) interviews
  - 40 leaders in various industries
    - Eight were located in CA
- Research being done for Agricultural Marketing Resource Center
  - University of California Agricultural Issues Center, Iowa State University, and Kansas State University

# Overview

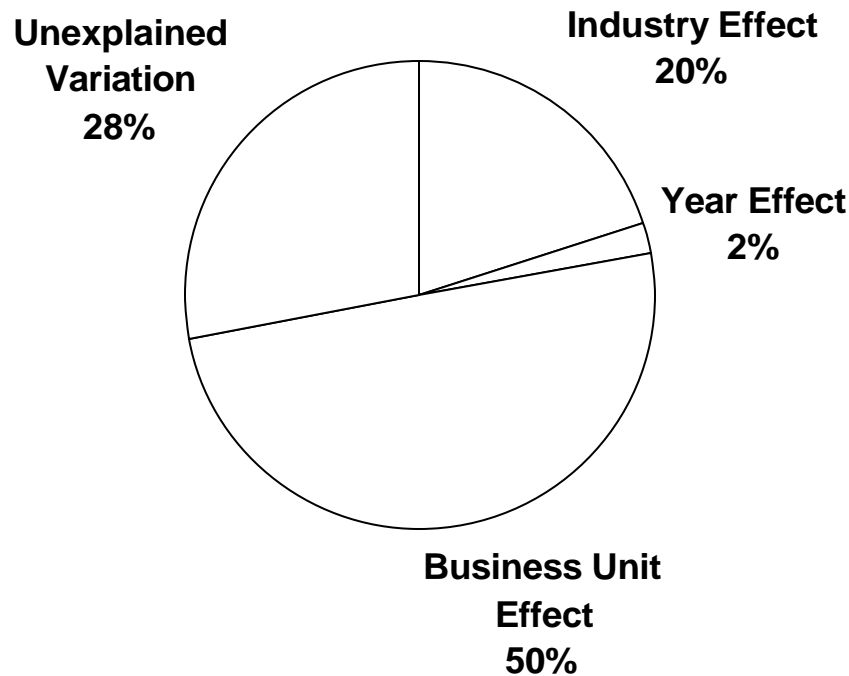
- Retail supermarket consolidation
  - Market power and expectations of buyers
  - Brands require greater differentiation
    - If not, must have the ability to be low cost
    - Global competitors may have lower costs
    - Free trade agreements
      - Greater opportunities and risk
- Implications for producers
  - Need to understand how this information affects their business
  - What does it mean for strategy formation?

# Profitability of Food Sector

Return on Assets for Four Sectors of the Food and Agribusiness Industry



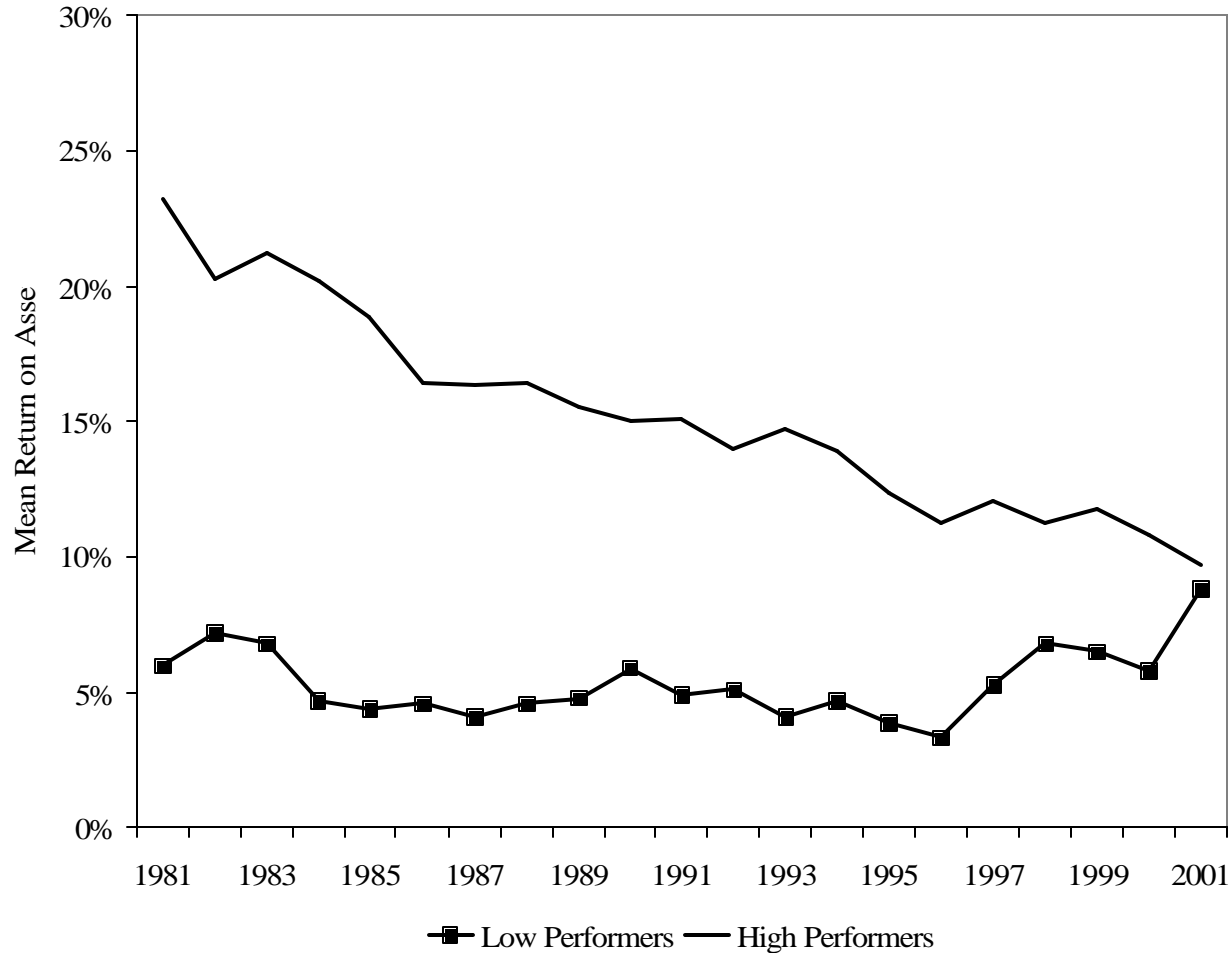
# What does the research say?



50% of profits in food economy firms is due to competitive positioning and 20% is due to industry. This means that there is more variation in profits within an industry and less variability across industries.

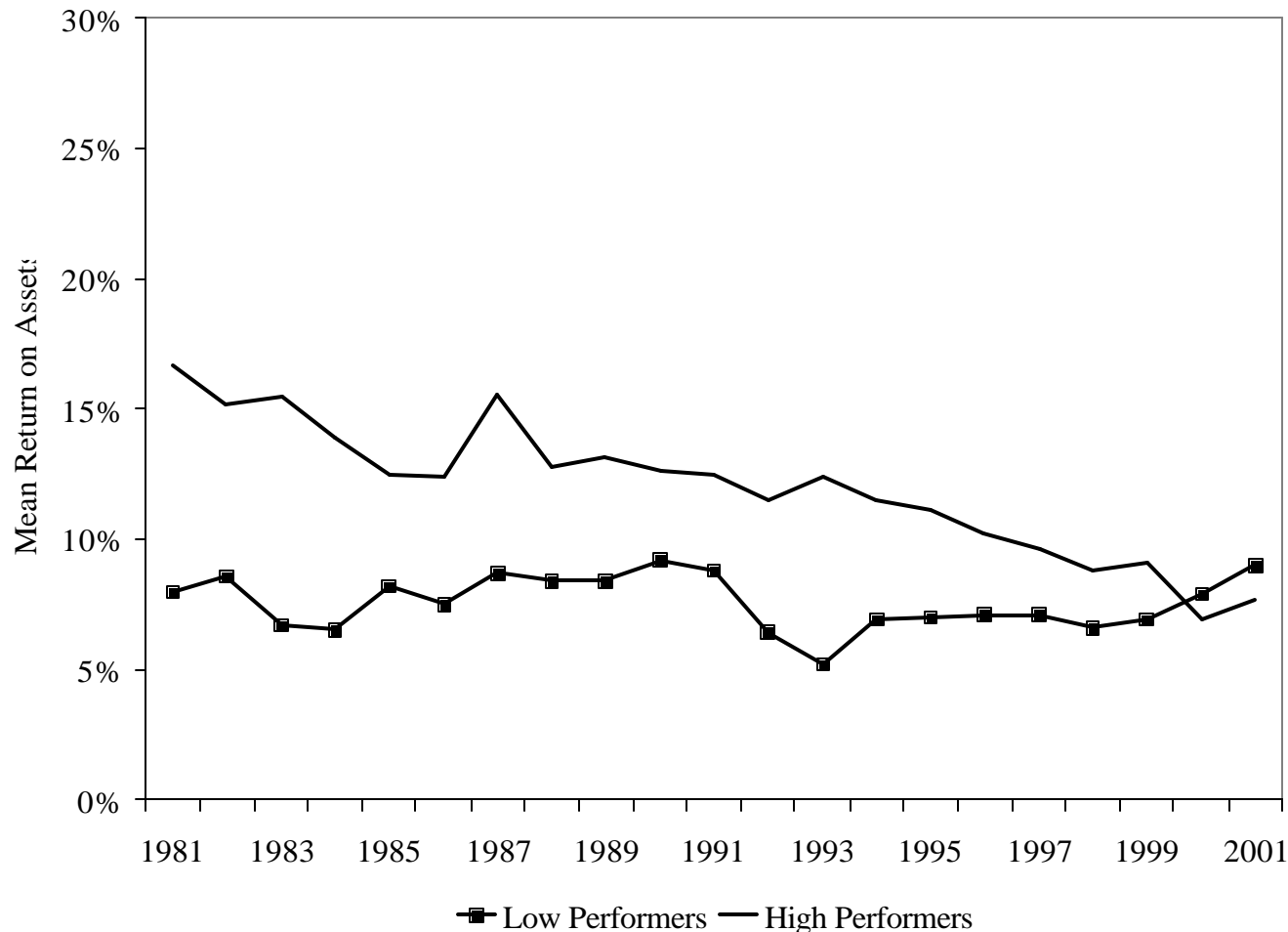
Source: Schumacher and Boland

# Difference in Return on Assets between Top and Bottom Performing Food Economy Firms



Source: Boland and Schumacher

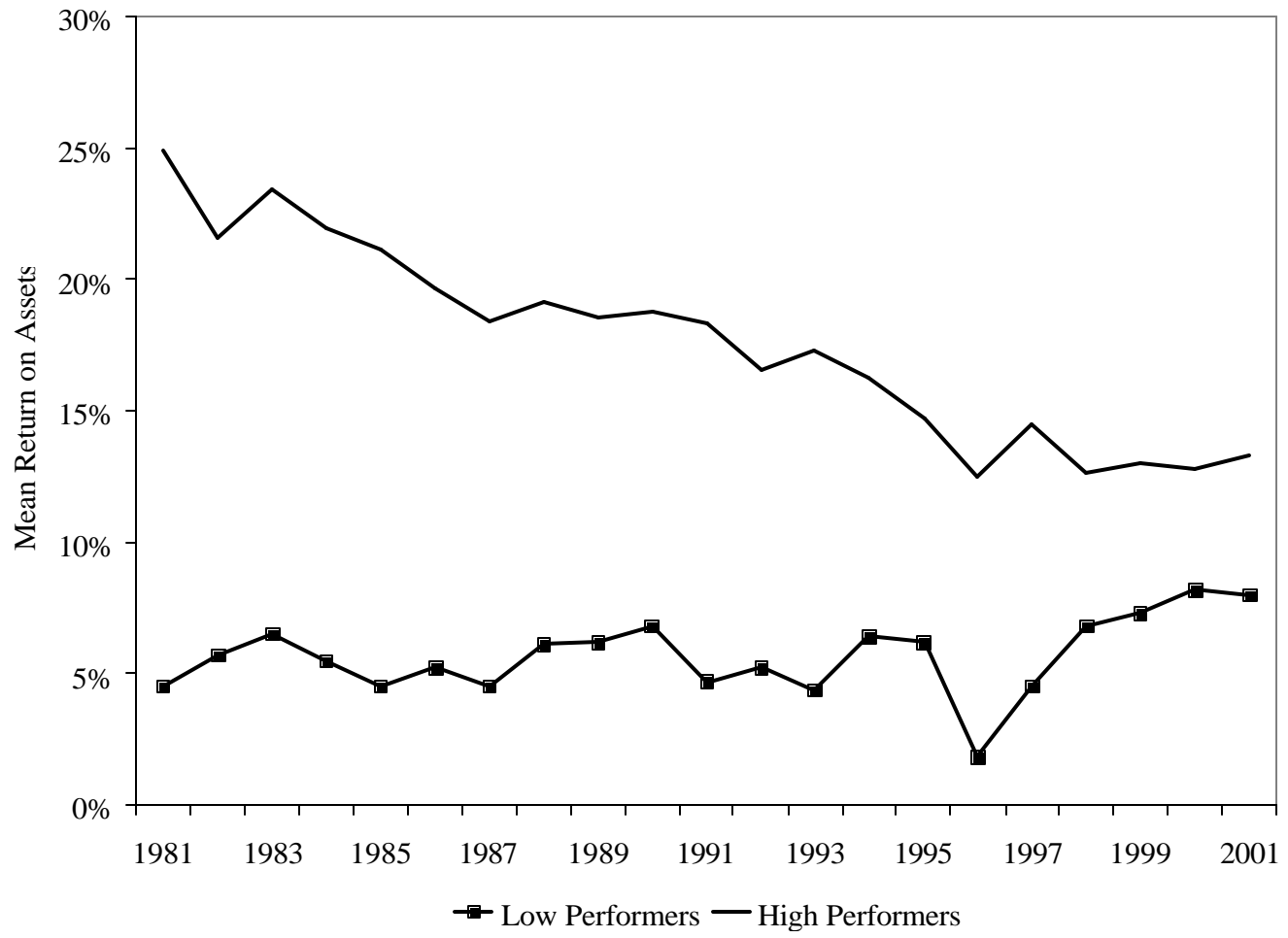
# Difference in Return on Assets between Top and Bottom Performing Retail Supermarkets



Source: Boland and Schumacher



# Difference In Return on Assets between Top and Bottom Performing Food Processors



Source: Boland and Schumacher

# Main Conclusion

- Profits are eroding quickly in these industries
- Same trends can be seen in non-ag industries
- Competitive advantage can erode quickly
- Producer cooperatives face rapid changes
  - Lake-to-Lake brand example

# Global Competition - Chile

- Chile is now the world's most important exporter of fresh table grapes and plums, the second most important exporters of avocados, and the third most important exporter of apples, pears and kiwifruit.
  - Many cooperatives operate in these industries.
- The United States is the primary destination for Chilean fresh fruit exports, with a 43 percent share of all exports.
- Chile's Central Valley is very similar to California.
  - Counter-seasonal production schedule with US.
- Concord grapes and cranberries are now being grown in Chile.
  - US cooperatives have competed based on differentiation based on variety in these two crops.
- Backhauls are available.
- Relatively low tariffs.
- Some US cooperatives have international members.

# Other Global Competitors

- Mexico is largest supplier of fresh and frozen fruit
  - Limes, tangerines, mangoes, grapes, pineapples, papayas, avocados, strawberries
- China (apple juice)
  - PNW producers have repositioned themselves
- Brazil (orange juice)
  - Florida producers have repositioned themselves

# Differentiation

- Many producer cooperatives in fruits, orchard crops, etc. have branded products.
- Becoming harder to sustain brand advantages
  - Requires marketing and promotion to be a “dry packaged goods company”
  - Not always that easy to find investment needed for creating the differentiation
  - Major strategy changes being undertaken by these firms with regard to marketing

# What does this mean for producer cooperatives?

- Increasing knowledge about what these issues mean for strategy formation
  - Industry knowledge is important for profitability
- Governance considerations
  - Lack of knowledge about marketing exists in many boards
    - National Grape Cooperative and Welch Foods is unique
  - Positioning is important for profitability
- Risk management
  - Weather risk traditionally handled by higher grower payments
    - Not that easy to do anymore
    - Crop insurance and weather derivatives exist
    - Not linked to quality and insurance stops when crop passes the scale
    - RMA Pilot projects
- Marketing and branding requires innovation (e.g., R & D)
  - Where does the capital come from?