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Agricultural Bargaining: In a Competitive World

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Portland. OR

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Preface

These proceedings are published by USDA's Rural Development Admininstration-Cooperative Services at the request of the bargaining and-marketing cooperatives. This 38th National Bargaining Conference was combined with the Pacific Coast Bargaining Conference Dec. 2-4, 1993 at Portland, OR.

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Where Bargaining Associations Fit

Mahlon G. Lang

Editor's Note: Mahlon G. Lang is the director of the Center for Cooperatives at the University of California-Davis. This presentation was used to set up a workshop with participants at the National Bargaining Conference in Portland, OR, Dec. 2, 1993. As such, it does not reflect extensive discussion or conclusions by workshop participants.

You're good. Thanks in large part to American farmers, the United States has the world's best food system. Not everybody knows that. And, to complicate matters, farmers, who produce the basic food commodities, are increasingly isolated—economically, politically, and socially.

Economically, producers are challenged by industry concentration, global competition, vertical integration, and continued downward pressure on commodity prices. Politically, agricultural producers continue to account for an increasingly smaller percentage of the total U.S. population.

In California, the leading agricultural State, producers account for about one-fourth of 1 percent of the State's population. Socially, producers are isolated because few people even know them, let alone know enough about agriculture to develop an informed opinion regarding public issues affecting it.

This makes it important that we learn to tell your story. It isn't enough to be good, right, or useful. Increasingly, as growers and marketers of agricultural products, you will be called on to demonstrate your value to the public, consumers, taxpayers, and any group that shapes the future of agriculture, cooperatives, or bargaining associations.

Growers must learn to show how they, on their farms and through their cooperatives, contribute to the creation and maintenance of the world's finest food system. A first step in telling your story is to learn for yourself why ours is a superior food system and what you do to make it that way. Discover your value to the food-consuming public. That's who the food system exists to serve.

Producers need to recognize that they are not evaluated in terms of how hard they work, how much they risk, how uncertain their livelihood, or how good they are. And this probably makes sense. Instead, we are, and should be evaluated in terms of how much we contribute to the food system. This workshop is designed to help us take the first steps in learning how to tell our story

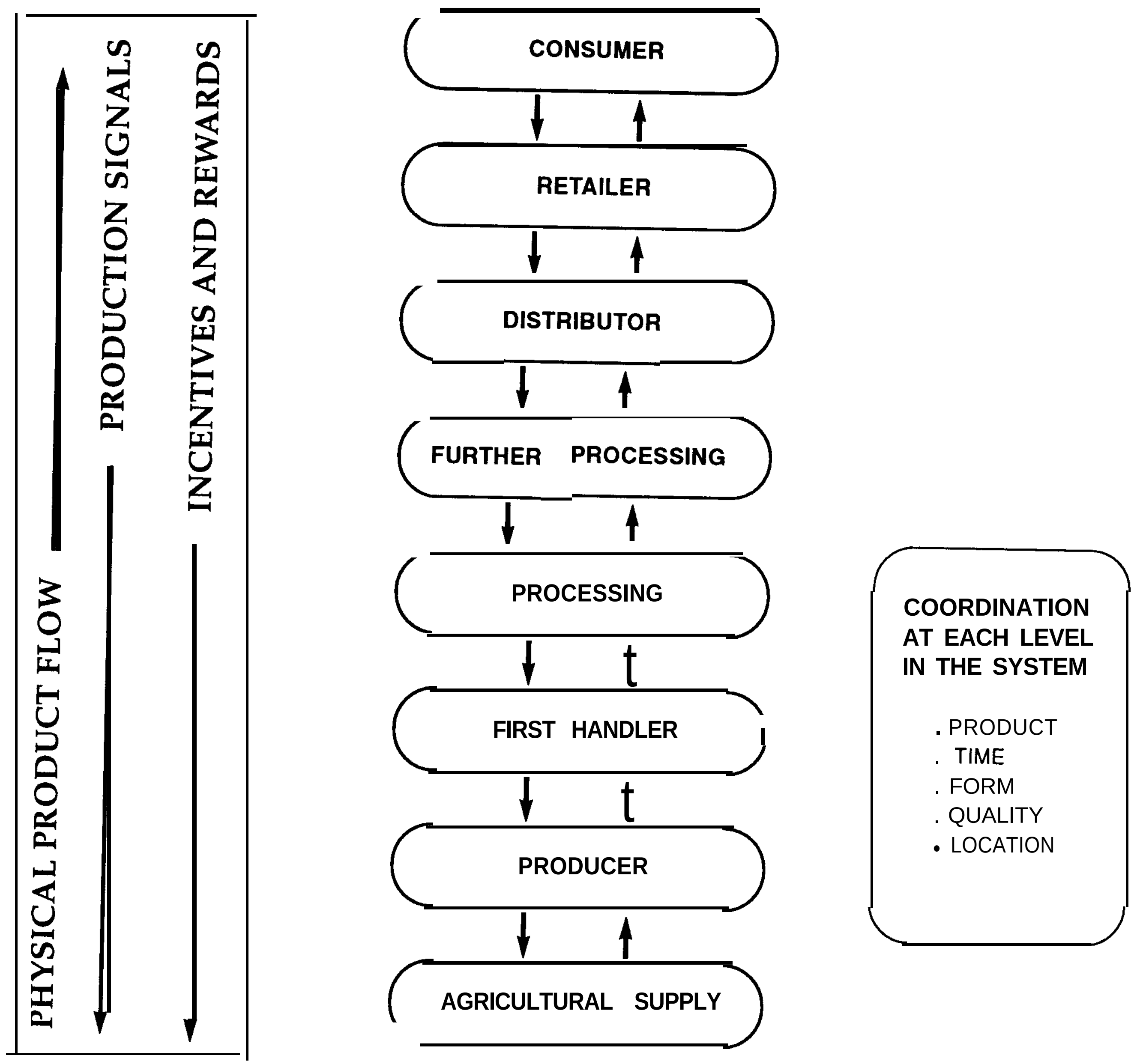
For these reasons, the questions "*What is a good cooperative?*" and "*What is a good bargaining association?*" cannot be separated from "*What is a good food system?*"

What is a food system?-A food system (Figure 1) includes all agricultural supply, food production, food processing, further processing, distribution, and retailing, plus all the intermediate steps between the supplier and the consumer.

The tasks of coordinating agricultural supplies, production, processing, distribution, and retailing are complex. Coordination must provide for market signals (prices and other terms of trade) that create incentives to produce food, keep inventories, process food, distribute food, and reward those who do so.

What is a good food system?-Some will question my claim that ours is the world's best

Figure 1. The Food System



food system. It is not perfect by any measure. Measuring the performance of any food system is

what is meant by a "good" food system. In this case, it is defined as "good" if it provides an abundant, stable supply of safe, nutritious, high-quality food and does so at a reasonable price.

In these terms, ours is an excellent food system. It rewards participants for responding to an enormous range of consumer preferences. These include highly processed, nationally branded, consistent-quality products, "natural" and "organic" foods, as well as a host of intermediate products. It

total income.

How do marketing institutions improve food system performance?-Growers, as well as nonfarm food system participants, do much more than produce raw agricultural products. Besides assessing final consumer preferences, the food industry must match food production with consumer demands in terms of time, form, quantity, and location at many intermediate steps along the line from production supplier to final consumer.

The system must provide incentives (rewards/profits) to all participants in ways that keep them in long-term production while avoiding overproduction. Inadequate rewards for production and marketing activities destabilize the food system just as excessive rewards do. Market information, marketing incentives, and market discipline are all required to avoid either extreme and to make our food system work as well as it does.

What do bargaining associations contribute?-Members are most likely to think of operating cooperatives and bargaining associations as a way to increase their income--and they do so. But to survive, these organizations, as all other marketing businesses, can succeed in the long term only by adding value or cutting costs in the market.

Bargaining associations bring unique strengths to the market. They specialize in providing information about pricing and other terms of trade at the producer/first-handler market. Various studies (Iskow & Sexton, Garoyan & Thor, Lang) have shown how bargaining associations can improve vertical coordination by stabilizing supply, creating handling efficiencies, enhancing price stability, and improving other facets of market information.

Operating cooperatives, bargaining associations, and investor-owned-firms (IOFs) vary greatly in terms of how they enhance food system performance. They simply bring different strengths to the marketplace.

Contributions of Marketing Institutions

Leaders representing each kind of marketing organization recognize the need for market discipline, market information, market sensitivity, and a system of rewards that keeps them all in balance. In asking where bargaining associations fit, it may be worth asking if some institutions are better designed than others to play some of these roles.

Each kind of marketing institution-operating cooperatives, bargaining associations, and IOFs—makes a unique contribution to the performance of the U.S. food system.

. Operating cooperatives feature grower ownership at both the production and the marketing levels.

. Bargaining associations may, more than other organizations, provide detailed information on pricing and other terms of trade.

. IOFs are largely driven by the need to return earnings gained by responding to consumers' market preferences.

. Given these basic differences (see Figure 2), to what degree are the following statements valid:

— Grower-owners of operating cooperatives have more market discipline than others because they have equity positions both as producers and handlers.

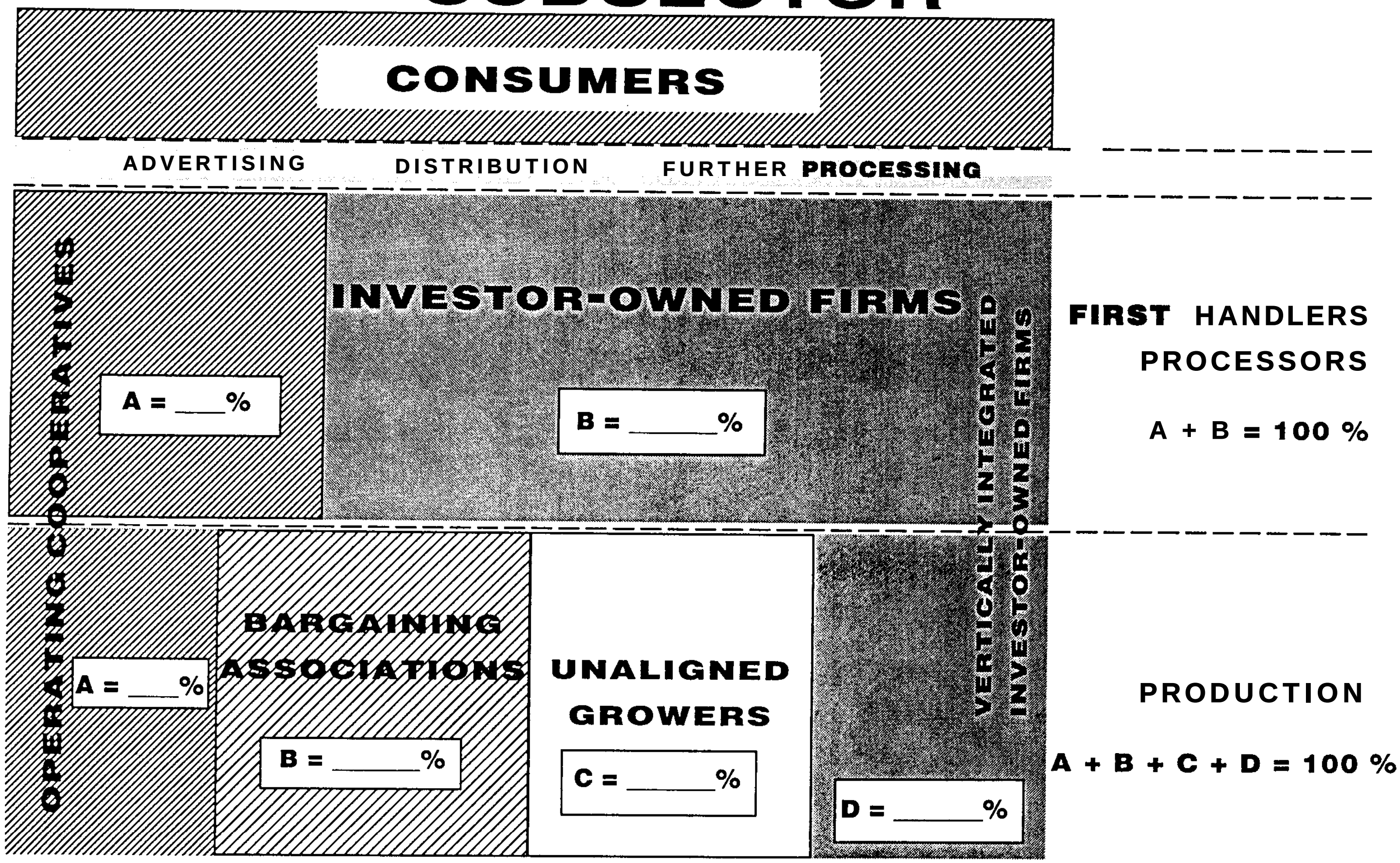
— In the course of negotiating for their members, bargaining associations develop substantial market information to match supply and demand.

— Investor-owned firms, because of their stockholders' interest in yield and appreciation, are

Figure 2. The Comparative Advantages of Various Food Marketing Organizations

	Bargaining Association	Operating Cooperative	Investor Owned Firm
Market Information	Best	?	?
Market Discipline	?	Best	?
Consumer Responsiveness	?	?	

FIGURE 3. THE STRUCTURE OF AN AGRICULTURAL COMMODITY SUBSECTOR



most concerned with the consumer market preferences.

None of these generalizations apply absolutely or exclusively to any one type of marketing organization. However, if they have any validity, two things are probably true. First, each kind of marketing organization contributes to the performance of the U.S. food system. Second, because the marketing task varies by agricultural commodity, the role of operating cooperatives, bargaining associations, and IOFs is bound to vary by commodity subsector.

For these reasons, such considerations should be kept in mind during industry-wide strategic planning. Such a process would, in the interest of food system performance, ask:

- Where do IOFs fit?
- Where do operating cooperatives fit?
- Where do bargaining associations fit?

Answers will vary by subsector and, if the analysts are honest with themselves, will be driven by a real concern about the long-term performance of the food system and, consequently, the long-term survival of those who make our food system as good as it is.

Author's Note: Workshop participants broke into four groups to discuss the design of their commodity subsectors. In doing so, they used Figure 3, The Structure of an Agricultural Commodity Subsector. All four working groups found roles, not only for bargaining associations, but also for operating cooperatives and IOFs. After group reports, it was pointed out that participants had just engaged in industry-wide strategic planning for their commodity. The workshop exercise appeared to be effective in providing participants with a broader view of the food system and their place in it. This was the intent.

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Director Responsibilities

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Financial responsibility also applies to directors. They must understand the cooperative's articles of incorporation and bylaws. Part of those bylaws usually refer to financial responsibility of the organization.

The board hires the manager, lets that person manage, provides adequate compensation, and periodically appraises the performance. Managers, not the directors or members, are on the front line of the day-to-day operations. The manager must report to the board on the operation of the cooperative.

The relationship between the board and the manager is a strong one that requires mutual trust. But, you also need written responsibility guidelines for that manager. That comes in the form of policies and/or reports required for board meetings. One is a financial report. You need to understand it and be concerned about what you get from a financial report.

You need to have a basic understanding of financial statements and know what questions to ask. The person who sits there and looks at a financial statement or a report that shows the operations and says, "Well, nobody is asking any questions, so it must be okay," may be misled. In fact, three or four others may be in the same boat, but are too embarrassed to admit it.

This is absolutely the wrong attitude. Question your manager and your auditor. It's not the auditor's responsibility to be your financial director. That's why you hired a manager who can be another source of information if you don't get a satisfactory answer from your independent audit.

You will review periodic financial reports. Management should prepare a budget to guide you through the next year or accounting period, although some organizations run longer than 1 year in their budget process.

That's the guidance that tells the manager what can be done. This is where the salary costs are going. These are our operating costs. If that manager significantly deviates from the budget, the board needs to know why. If revenues are lower, what actions are we taking? If revenues are significantly higher, here is what I recommend. The board should challenge that budget prior to the beginning of the period to which it applies. It does no good to suddenly look at a budget 6 months after the year has begun. It needs to be prepared, reviewed, and adopted prior to the beginning of the next fiscal year. Then, monitor it and make sure it is being followed.

The board must hire an independent auditor as required in most organization bylaws. The board may delegate that task to management, although I don't totally agree with that practice. Find an auditor at reasonable cost and take care of the task. That should not be a board-delegated responsibility. Yes, you can ask the manager to solicit an auditor, but the board hires that person. The auditor is responsible to the directors, particularly if a problem develops with management.

The Wall Street Journal and other financial publications discuss management responsibilities of the board and the independent auditor. If there is something askew in the company, how does it get communicated to the stockholder or potential stockholder? This area keeps attorneys in business forever. It's a serious issue because auditors are, in fact, working for the board of directors to review the financial operations of the company. We don't expect everyone to be financial accountants, but directors should ask the questions and make sure the examination is being accomplished.

Corporate Insurance

Corporate insurance is another area for the board to examine. How is the association being protected or not protected? The board should understand any contract the association selects. They may delegate the responsibility for negotiating the contract to management, but the board should understand the contract, what the provisions are doing to the organization, what they mean, their cost, and what exactly it has agreed to do, or not to do.

Financial statements or operating reports tell how the cooperative is progressing, like a financial report card. The budget we prepared and adopted is a big history lesson. We can't change much of what's there, so if that financial statement is slow in coming, it's of decreasing value. There are important reasons why publicly held companies are required to file their financial statements in 90 days. As that information gets older and if the trend continues, the damage may be beyond repair by the time it is discovered. So, if you're not getting current financial information, demand it and review it on a timely basis.

What are you going to review? A balance sheet is a snapshot in time. Balance sheets can really be prepared at month's end as well. A balance sheet reflects the historical cost of your assets and liabilities.

The greatest deviation is in those assets. Assets come in two categories: long-term (non-current) or concurrent. Cash is a good current asset and fairly easy to measure. Receivables get many people in trouble. Your organization may not have a major problem, but with some agricultural cooperatives uncollected receivables are a problem.

Receivables don't spend well and are harder to collect as they age. The further you get away from payment for what you provided, the more the person who purchased the service or commodity from you says, "Well, it wasn't really worth that anyway," or, "Aren't you willing to negotiate?" You should be concerned about the quality and age of those receivables because they indicate how management is performing. Are those receivables collectible? Are they being collected on a timely basis? Credit policy is extremely important.

Inventory is the next asset you find on most balance sheets. If your organization is an agricultural cooperative, obviously it produces some kind of foodstuff. If you're a retailer, it's something you purchased for resale. The problem arises in the product that's not saleable. If you can't get the value you show on that balance sheet, you have a problem. How saleable is inventory that has been sitting in the back of the warehouse for 6 years? Does anybody really want it? How often does the inventory turn? How well is it moving? What items are not moving? Directors need to ask their managers these questions.

Just looking at a statistic that says inventory turned x times during the year is not the total answer. If 20 percent of the inventory is 6 years old, you have a problem. If it's not moving, it's not doing anybody any good and it's not convertible to cash, the one element that makes the operation work.

Non-current assets are normally fixed assets such'as facilities and plants. They are shown at cost and have nothing to do with their current value. Directors, other than for insurance purposes, need to know the current value for ongoing operations. It's not going to change anything. But, if you want to sell or insure that facility, you need to know its current value.

The liability side tells what you owe people. It's your debt, payroll, and accounts. It tells your long-term debt. The concern on the liability side is not what's there, but what's not there. The director needs to look at that and say, "Is everything there?"

An age-old problem for organizations is deferred compensation. You may have told the manager that upon retirement the board will continue paying 50 percent of the manager's salary for the next 20 years. How are we going to pay for it? If it isn't on the balance sheet, it should be. You have either contractually or otherwise obligated your members to this liability for 20 years from the manager's retirement date. Accounting principles say you have to charge current activity over the person's active working life.

All that accrued vacation you owe employees is another item that might be on the balance sheet in case you have to pay them if they quit tomorrow. An accounting regulation that has been out for 6 or 8 years says accrued vacations must be shown.

If you take the assets and subtract all the liabilities, the result is the net worth. Remember, we're talking about a cost-base balance sheet. Hopefully, it shows a positive number. If so, it means your organization apparently has some net assets. We're assuming they were all reasonably valued, that the receivables could be collected, and that the inventory was saleable. We are also assuming you don't have an idle building shown for more than it's worth. Problems like that can distort net worth. Neither is it the value you probably would get if you liquidated the assets and liabilities, nor is it intended to be.

The operating statements talk about how well the cooperative performed over the time period we're measuring: a year, quarter, month, or multiyears. Have we achieved the revenues we put in that budget? If not, why not? What was wrong with our budget process? If we're selling a product, why aren't our sales where they are supposed to be? Why wasn't the price we received placed in the budget? On the other side, how well do expenses match sales? Most expenses are fixed such as payroll and the cost of operations. If the revenues decline, it's not automatic that the expense number also declines. Eventually, we have more expenses than revenue. Again, question the current financial report and say, "This organization seems to be losing ground." You can only falter for so long. Then you're in trouble.

Looking at these financial statements, you should be concerned about working capital-current assets such as cash, inventory, and receivables-which permits you to pay your bills on a current basis. If you have no current assets on that balance sheet, can't convert even what you show to something liquid, or can't borrow on your operating line, you'll have trouble repaying those current liabilities. So that working capital number-how far your current assets exceed your current liability or current ratio-is very important to you as a director.

Looking ahead, learn to use that independent auditor you've hired. The auditor should come to the board meeting after the annual audit is completed. Don't hesitate to ask questions. You may want to go one step further and ask management to leave the room so directors can ask the auditors candid questions. It's a common practice. Publicly held companies are required to have only outside board members on their audit committees and nobody from management. There is a reason for that.

You can ask the auditor about the systems of internal control. How do we process accounting information in this organization? Does it have adequate safeguards? Are you comfortable with the way we do things? You should get a management letter from the auditor that points out things the organization can do more efficiently and more effectively. They see a lot of accounting systems and can be helpful.

Director Responsibilities

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What does the term "fiduciary responsibility" mean? How do you learn to recognize it when you see it? There are really three aspects to fiduciary responsibility-loyalty, obedience, and "due care."

Loyalty

Loyalty is usually the most obvious. The first thing you think about regarding breached fiduciary responsibility to the corporation is conflict of interest. Essentially, it means taking advantage of your position, conflicts of interest, self-serving policies, or "looking out for old number one." I have seen instances over the years when a cooperative adopted a certain policy and then changed it. The accusation was made that it was an inside job with the board, that they basically were looking out for themselves.

Let's face it, the people who most frequently rise to the top of the pile on the board are usually the biggest growers in the organization. They have the most money in it; they have the most to lose; and they usually have the financial resources and the time to serve on the board.

Who has the time to attend all these meetings? Who has the time and money to fly to Washington, DC, all the time? It takes a whole day to get there and a whole day to get back. It may be somebody who is independently wealthy and has people running the farm operation. Those are usually your larger growers. As a result, the smaller members take pot shots at the directors.

Obedience

The second aspect of fiduciary responsibility is obedience. Obedience basically means doing your job in accordance with the cooperative's articles and bylaws, the State laws, or any kind of law for that matter.

But, the most obvious is obedience to the State statute that governs your organization. You will be amazed at how many times it comes up when we get involved with new cooperatives. They say their bylaws and articles are out-of-date and want them reviewed. When we ask to see their articles of incorporation, frequently we discover nobody has seen these important corporate documents for 40 years.

How can your directors know if they're running the organization right unless they know what the articles and bylaws say? When did you last look at them? I spend lots of time with policy manuals and goal statements. Do you spend much time with them? All too often, directors look at them once and never go back and review them. When you and other veterans retire from the board, a whole group of new directors is elected and nobody trains them about what the paperwork means. But, if, in fact, you authorize some action as a board member that conflicts with the articles, bylaws, or your State incorporation statute, then you have violated the aspect of "obedience" and have thereby breached your fiduciary responsibility.

When you get home, contact the attorney who represents your organization and say, "An attorney at this conference told us we should each have a copy of the State law under which we are organized."

Watch him shudder. Why? He may say it's really complicated; you won't understand it; it has been amended; and it has many different parts. Get him to put all the parts together for you. He may be thinking, "If you've got the law, you don't need to call me."

Nevertheless, one of the tools you need as a director is a copy of your own State co-op statute. It would be good for you to see the operating rules-the "building code" as it were for your organization-so you'll know whether you're straying off course.

Obedience also means complying with a contract. If your organization has a contract and you as a board member say, "Nuts to them, let's just breach it," that's a violation of this element of obedience and therefore a breach of fiduciary responsibility.

Due Care

The last aspect of fiduciary responsibility is "due care." Here, director personalities come into play. These personalities can range from one end of the spectrum to the other-the troublemaker, the silent director, the fence sitter, the absent or tardy one, the director who wants to be manager, the gabby one, and the prudent one.

Troublemakers love to agitate. They are not happy unless they are always stirring the pot. A client asked me to referee a dispute with a new younger board member who liked to stir things up. He would attend board meetings and bring his own agenda. He would have newspaper clippings that he wanted to talk about. He never worked within the system; never was obedient to the body, and never worked as a team member.

How about the silent director? How many times in a meeting have you seen old Ralph sitting there for 3 1/2 hours, saying nothing. How can you not contribute anything one way or another? This director does not fulfill his responsibility on the board. The purpose of the board meeting is to hear what everybody has to say-share all of your information, knowledge, and expertise. You may come **in thinking you want to do X** and by the time somebody gets through talking, you say, "I never thought of it that way." That's the idea, the strength, and the diversity of the board.

Fence sitters wait to see which way the wind is blowing. They are not doing their job. You need somebody who can stand on his or her own two feet, think for themselves, and be willing to stand alone.

Regarding the absent or tardy one, in the United States I think we suffer from a general disregard for punctuality. But, I'm irked by the one who doesn't come to board meetings or skips two months in a row, shows up at the third one, and starts to ask questions. He wouldn't have had to ask them if he had been at the last two meetings.

Another irritant is the person who constantly comes in 20 minutes late and leaves early. Many bylaws have a provision that if you miss so many consecutive meetings, the board can terminate you. I think that's a wise idea.

You've seen the director who wants to be manager. Frequently, it is the board chairman. You may have a weak manager or one not doing the job, or you may have a manager who is doing the job, but for one reason or another there is a personality conflict. So, the director, who has a personality conflict with the manager, in effect says: "You may be the manager, but we really own this place." There is constant tension. The director runs his own agenda and soon there is no relationship at all and no teamwork between the manager and the board, or at least not with this board member.

You can count on the gabby one, who-even though you were in executive session-will tell all the first time he gets out the door. This person has no wisdom about keeping quiet, goes into the plant, and starts talking to the plant manager about a planned plant closing in 3 days that nobody is supposed to know about. This director starts talking about confidential things in earshot of somebody else. In effect, it starts a whole forest fire and you wonder, "How in the world did that get out?"

This director also goes home and tells everything. I understand how difficult it is to avoid this, particularly if you have a strong marriage and share everything as husband and wife. There are times when you just have to keep it inside.

Perhaps it's a pending merger or sale, hiring or firing somebody, or your organization is about to announce something. The director who talks openly about it breaches the confidentiality of the board.

Finally, there is the prudent one who is everything that the others aren't. This director exercises general supervision over the corporation's affairs. There is a fine difference between directors supervising and trying to be manager. Directors are not managers. Directors set policies, goals, monitor performance, and-if the performance is not there-do something about it. They don't run the organization unless you are temporarily without a manager. I know of several cooperatives like this in that state right now.

In a case like this, everybody looks at the board chairman and says, "You're the designated manager for the interim until we can get somebody." Suddenly, here's Phil sitting at the desk with the phones and wondering, "Now what do I do?"

Generally, that is the exception. The important thing to remember is that directors and boards are not supposed to manage the organization. Rather, they set policy and let the manager operate it. If you're not willing to do this, you may have the wrong person as the manager.

The prudent director investigates and audits the corporation's decisions. You have to be careful. You can't be a lone ranger in how you investigate and audit corporation decisions. You have to work within the board and discuss things.

Prudent directors bring their business experience and common sense to the board. As a footnote, when you're electing people to serve, look at the needs of the board. They differ from one organization to another. It's nice to have someone on the board with legal, accounting, and insurance experience and representation from various different geographical areas. Those people should bring to the table the gifts that got them there in the first place. Otherwise, they are of no value.

The prudent director pursues the warning signs if something is wrong. Generally, there is a tendency to let officers of the board worry about conditions. The secretary or treasurer might tend to say, "I'll let the chairman worry about it." If you're the chairman, hopefully you're more awake than the rest of them. When you see a warning sign of something wrong, don't just sit back and let the manager worry about it. To do so violates your fiduciary responsibility.

If you see a problem, it's always easy to do something about it. Insist on regular and frequent board meetings. The person who doesn't like to attend meetings shouldn't be a director. Directors and meetings go hand in hand. The person who comes into the meeting saying "I hope we can get this one done early" doesn't really help the process. The person who likes to cancel meetings all the time or push them back 2-3 months doesn't have his hands on the wheel.

Insist on meaningful board meetings with full disclosure of operating results. This takes the most guts. I understand the tension between how much to tell or not tell board members and the time it takes a manager to prepare for board meetings.

When you get to the board meeting, there may be a thick packet of materials for the directors. It would have been nicer to see the material more than 15 minutes before the meeting starts. How can you have any meaningful discussion about something that you have had no opportunity to digest? The operating information is already a week old before you get it. The manager should provide you with advance notice of this material so you can digest it. If you don't understand something, ask for a clarification.

If you are not getting full disclosure and sense the manager is not telling you something, find out what's missing. It may be that the rest -doesn't make any difference and that's why the manager didn't tell you.

Often, there are things going on under the surface. You'd better push your manager to find out. In any event, the prudent director insists on meaningful board meetings with full disclosure of operating results and reports of director and committee meetings. If a subcommittee is conducting a special project, it's important for a couple of reasons for directors to make them accountable.

First, you'd like to know if this subcommittee is off track and doesn't know it. Second, it's important for the whole organization to be tied together. You need to be equipped and know what's going on in the organization. You're the public relations person for your organization on the front line, the one growers see. They figure if you don't know, nobody knows. It's important that you be fully equipped to provide bits and pieces of information.

The good news in all of this is that in 23 years of practicing law and representing 50-60 cooperatives, I have yet to see a single instance where directors were sued personally for breaching their fiduciary responsibility. Why? The fact is that a disgruntled member is usually interested in money and it usually is not necessary to pursue individual directors to recover damages. The cooperative, or its insurance company, is usually a sufficient "deep pocket."

However, it is important to remember that there are a variety of State and Federal laws which grant to the State or Federal government either a civil or criminal cause of action against directors, officers, or controlling parties of the cooperative. The government is usually not concerned about pursuing the deep pocket. They are usually concerned about making a point. So, do not assume that just because private lawsuits in this area are rare, that you are in the clear.

Regardless, shouldn't the driving force in all of this be your desire to be a good director? If so, then attending the meetings, arriving on time, being prepared, reading the advance materials, and participating in the discussion will take you a long way towards carrying out your fiduciary responsibility.

What Does the Future Portend for Cooperative Bargaining Associations?

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Rural Development Adminis tra tion-Coopera five Services

For the past 15 years, we have been hearing that markets for farm products are becoming more global. Recent passage of the North American Free Trade Agreement (NAFTA) suggests lower trade barriers will ease the steps toward freer trade in the North American hemisphere.

Because the U. S. represents one of the world's largest and most open markets, every country seeks ready access to it. And now we have better access to theirs.

Recognizing the nature of these new trade relationships is important in developing successful strategies for placing U.S. farm produce and manufactured products on shelves and in institutional and ingredient markets here at home as well as abroad.

Scanner data available from retail checkout counters is a significant technological change having an impact on the food system. Availability of this data is literally revolutionizing the flow of information, as well as inventory management and decision strategies in the food industry.

With events of this magnitude-both policy and technology driven-we need to sit back and look at the emerging "big picture." What types of institutional changes are happening and what are the implications for cooperative bargaining associations?

Fewer Public Farm Advisory Services

Budget cutbacks in many public institutions are affecting the availability and coverage of traditional farm management advisory services through Extension and other sources. A California growers' organization was recently lamenting the fact that Extension farm advisors' days appeared to be numbered due to budget cutbacks.

Questions were being asked whether this will become a void that marketing cooperatives and bargaining associations should fill as an extra service to members. Field staff members for many California cooperatives to a certain extent already act as defacto crop advisors. A logical progression may be to upgrade the education and training level of these positions to include a professional advisory role.

There are many examples of farm enterprise services being offered by cooperatives to grower or producer members on the basis of need for scientifically trained advice and counsel. A number of farm supply cooperatives have been in the vanguard of these services. They generally apply to agronomic services such as farm chemical and fertilizer applications, disease and pest control, recordkeeping, and other aspects of production.

With more stringent controls over pesticide use, and water and soil testing, it is anticipated that the opportunity will exist for cooperative organizations to expand these services to members as part of their bundle of activities.

Michigan Agricultural Cooperative Marketing Association (MACMA), for example, has initiated a Regulatory Compliance Assistance Program (RCAP) that provides literature and manuals to members regarding State and Federal worker laws and related programs.

A key decision by boards of directors concerns their willingness to hire professional advisors. Furthermore, they must decide if these are general membership services to be paid by dues, activioties covered by user-fees, or financed by some other income sources. If on a self-sustaining basis, would members be willing to pay for them?

Information, Market Intelligence Systems

Knowing the transfer prices of products as they move through the food system is critically important to growers as well as other market channel participants, yet like farm advisory services, market information for specialty crops is becoming harder and harder to get.

A number of states have dropped market news reporting for certain crops. Similarly, a number of firms no longer cooperate in reporting inventory data. They conduct their own detailed crop estimate plan each year, but hold this data as proprietary information and feel it is better than State estimates.

Some staff members are even sent to foreign countries such as Spain or Turkey to conduct crop estimates there. The issue of information availability has been raised at past conferences and continues to be discussed within the industry.

We once had a system in which it was relatively easy to collect price information, but hard to disseminate. Today, we have difficulty collecting such information, but can easily disseminate it. In short, there are changing incentives for providing data vs. consuming it. Inventory management in vertically controlled systems is the name of the game.

Should cooperatives adopt policies requiring mandatory reporting of prices? How do cooperative bargaining associations and other commodity associations access needed information? Should they be in the forefront of developing measures that provide an improved information base through State and Federal marketing orders or by other means?

If identity-preserved marketing grows as a percent of total, how does this affect making valid price comparisons?

Value-Added Opportunities

In most fruit and vegetable crop production areas, it is desirable to have at least 50 percent of a crop handled by a dominant marketing cooperative. Not only does this give growers direct access to final product markets through an organization they own and control, but it also, if correctly run and structured, permits them to achieve critical mass for improving member returns through value-added processing.

Opportunities to participate in value-added activities must be constantly evaluated. Sometimes opportunities present themselves unexpectedly, such as a plant closure or sale‘of plants or other assets.

A classic example was the sale of the Stokley plant to pear and other fruit growersnow known as Pacific Coast Producers-when they were faced with a plant closure in the early 1970s. This suggests an opportunity for more ownership and control in markets becoming increasingly characterized by larger and fewer players. A sound feasibility analysis should be conducted as a basis for any acquisition.

It is interesting to note that a number of cooperatives, or their subsidiaries, were bidders for Birds Eye, but were outbid by Dean Foods. In the food processing business there always seem to be active bidders for assets that have been well maintained and are in good position. Why? Because the food industry ranks second only to pharmaceuticals in sector profitability.

Joint Promotion Opportunities

A look at the array of organizations initiated by growers indicates some distinctive types, including general farm organizations, commodity associations, and cooperative businesses. A major function of commodity associations is to support research and promotion activities. State and national efforts are frequently involved.

In many sectors, cooperative bargaining associations have a dual role as negotiators of price and other contract terms and as major promoters of advertising and research efforts for their products.

Some cooperative bargaining associations struggle with the appropriate mix of time and effort devoted to these activities. For example, State Farm Bureau associations in a number of states manage statewide commodity promotion programs whether for soybeans, corn, and/or specialty crops.

Other single-line bargaining associations have become embroiled in disputes over generic versus brand name advertising and promotion. Raisins are an example.

A new opportunity for the industry is in joint research, advertising, and promotion programs across commodity lines. One of the best historical examples is the joint advertising of beer and cheese and wine and cheese. Others are dried fruits and nuts used in the baking industry and fruits in yogurt and ice cream. The number of combinations that make sense based on compatible and complementary products is limited only to your imagination.

Crossing National Boundaries

Given the recent passage of NAFTA, what types of institutional effects will happen to our respective commodity sectors and how they should be organized? No matter what the language, culture, or national boundary, growers are similarly situated structurally with the same levels of powerlessness, conservative orientation, and incentive to organize for more marketing influence.

If market barriers are reduced and products flow more freely across North America and, potentially, Central and South America, we have to look at organizational opportunities that are in growers' best interests. North American conferences of bargaining associations have been held for many years in crops such as tomatoes, potatoes, asparagus, and cherries. As a result, organizational leaders know each other personally and share information on crop conditions and marketing developments.

This type of strategy and cross-fertilization of ideas is constructive and necessary from a grower perspective. All have an interest in orderly marketing conditions for their crops.

Marketing cooperatives offer examples of expanding memberships across national boundaries. National Grape/Welch Foods has grape grower members in Ontario, Ocean Spray Cranberries has members in Nova Scotia and British Columbia; Blue Anchor has members in Mexico.

Marketing agencies-in-common also provide a mechanism for cooperatives to maintain their individual identities while working across national boundaries.

One opportunity facing farm leaders is to examine market institutions in each country such as marketing boards, marketing orders, and bargaining cooperative laws and see how they might be changed to encourage closer collaboration among grower interests so that producers in each country benefit from coordinated action in the marketplace rather than destructive undercutting of each other's markets.

Industrial Waste Disposal

Reports persist of growing environmental concerns among growers, processors and rural communities. One of the more sensitive areas concerns brine used in processing olives. Lindsay Olive Growers was adversely affected by this problem and reports are that Obertti operations are also of concern. This problem in the processing industry may have a cooperative solution.

Just as rural electric cooperatives were established with initial Federal support and encouragement in the 1930s, we may be approaching an era when industrial waste disposal has to be addressed in a similar programmatic fashion.

Professor Tom Sporleder of Ohio State University has done some initial work in this area that should receive wider attention. Cooperative solutions to utilities' needs in rural areas have been found to work well. Application of the cooperative idea to the waste disposal problem may represent a new horizon.

National Bargaining Legislation

This conference has discussed possibilities of amending the Agricultural Fair Practices Act or developing new self-standing bargaining legislation for a number of years. As time passes and grower numbers decline, getting improved legislation becomes increasingly difficult.

Bargaining leaders need to reach agreement on a strategy that will produce results. California Attorney Gerald Marcus several years ago drafted a series of amendments that deserve careful attention and support for a proactive initiative.

The future for cooperative bargaining associations is bright if proactive steps are taken in adapting to a rapidly changing marketplace. We have talked about member services, trade issues, market intelligence, technical services, and assistance from public agencies, value-added marketing opportunities, joint promotion activities, cooperation across national boundaries, waste disposal problems, and legislative strategy. While not an exhaustive list, it is designed to stimulate thinking about new programs and directions in your individual associations.

It's initially important for cooperative bargaining associations to focus on their core functions and not become so broad based that they become all things to all people and ultimately lose their bargaining orientation. There are also signs of innovative thinking and new programs that are keeping associations on the cutting edge.

Price Discovery and Field Price Determination

John Welty
California Tomato Growers Association

The motivation that led to this presentation was based on the desire to provide an objective basis upon which to bargain for price. It is my premise that the knowledge necessary to broaden my perspective and bring clarity and focus to the task of price discovery is largely available, in the body of information that is represented here—namely the members of the National Bargaining Committee.

This effort is by no means complete but represents a starting point upon which we can build. This is intended to provide an outline to price discovery for agricultural bargaining associations that is open to full review and comment. Each and every aspect of price discovery outlined here deserves our utmost attention and study. I would, therefore, like to ask the National Bargaining Committee for its continued support in these efforts.

It appeared that the best starting point in the quest for a better understanding of the price discovery methodologies used by agricultural bargaining associations was to survey current practices. Tom Butler, national bargaining committee president, and Randy Torgerson and Don Frederick, USDA's Rural Development Administration-Cooperative Services (formerly Agricultural Cooperative Service), felt that this effort was suitable to being sponsored by the committee.

Each bargaining association was asked to submit information on methods used to establish prices, including the details of their pricing provisions. Eighty requests were sent out to a variety of bargaining cooperatives and 15 responses were received. The responses represent perhaps the strongest and most active bargaining associations-most of them represented at this conference.

The large majority of bargaining cooperatives adhere to the traditional approach of price discovery, that of establishing prices and terms of trade that can be justified by the economics of supply, demand, and market conditions.[1] While everyone would agree that supply and demand play a prominent role in the determination of price, a closer look is warranted.

I. Supply

In the context of price discovery, it is essential that a broad definition of supply be utilized-one that encompasses all aspects of providing raw material and processed products to the market. This will include growing the crop, delivering to the first point of processing, processing, packaging, remanufacturing, and transporting the finished goods to market. The relationship is not necessarily linear in that a product may go to market in an industrial or value-added form.

A. Production

1. Grower Perspective

Certainly, the most common use of the term "production" relates to the growing of the raw product for sale. Cost of production plays a prominent role in determining an acceptable price.

[1] Bunje, Ralph B. 1980. *Cooperative Farm Bargaining and Price Negotiations* USDA-ESCS Cooperative Information Report No. 26

It is essential that there be a thorough understanding of the fixed, variable, and opportunity costs facing growers.

While fixed and variable costs may be well understood, opportunity costs present some difficulty in the agricultural setting. What exactly are the grower's alternatives to the crop in question? Not only must we ask what alternative crop is available but we must also look at alternatives outside crop production. This latter alternative is complicated by the fact that capital assets flow very slowly into and out of agriculture.

The most essential aspect of grower production rests with yields. Yields drive a grower's break-even price, therefore establishing a support level for pricing. Yields in relation to costs determine costs per unit and are a primary component of grower profitability.

2. Processor Perspective

The size of the crop is not determined solely by its weight as it crosses the scale. Case yields represent the ultimate measure of industry production. Case yields are influenced by the quality of the crop as well as the processing technologies and efficiencies employed by the processor.

Also of critical importance to the concept of production is an understanding of the quality of the finished product since product specifications lead to its market value. Production also needs to be viewed on a product category basis to give a proper perspective to a processor's product supply picture.

3. Total Production

In its most basic form, production, therefore, can be defined as the total number of raw tons adjusted for quality.

B. Imports

The second major component of production is imports into the United States market. On its face, this information is straightforward and readily available through the U.S. Department of Commerce. Once again, product categories and finished product quality specifications are of particular interest.

It is of interest to know the country of origin and the port of entry. Knowing the country of origin allows closer scrutiny of that country's production history, patterns, limitations, and opportunities.

These days the topic of imports and exports has become synonymous with barriers to trade, and it is no different in our case. However, a broader approach is needed. Namely, from the perspective of domestic processors, barriers to competition exist in the form of market niches developed through specific varieties and/or advertising. More traditional barriers may also exist in the form of production and export subsidies.

C. Carryover

Increasing emphasis is being put on carryover stocks as a determinant of price. The value of timely, accurate, and comprehensive data cannot be overlooked. If such data is available, product category and quality are of fundamental importance.

Carryover stocks need to be carefully defined because, depending on where in the marketing chain they are measured, significantly different results may be obtained. If stocks are measured in the processors' warehouse, then the results have a greater potential for accuracy because the information is held in relatively few hands. On the other hand, if the data is also being collected for stocks held in distribution centers, the information is less centralized, is sensitive, and therefore less comprehensive. Now we are seeing attempts at quantifying the amount of stocks throughout the distribution system that have not been consumed. This lends itself to high speculation and asks the question, "What are normal and desirable carryover levels?"

II. Demand

The definition of demand often used in our industries is based on the theory that all processed products are eventually consumed. It follows, therefore, that demand is the same as takeaway and takeaway is simply the calculation of raw product production plus imports plus carrying-in less exports and carrying-out. This may have some simplistic validity given the discussion above, but it is absolutely critical that production and carry-overs be known with a high degree of certainty or else the analysis will be unreliable.

A. Consumption

Once the total amount of product removed from the market is calculated, it is possible to determine per capita consumption. It is also important to know product category and whether the product was consumed at the retail, food service, or industrial level.

B. Exports

Data is available through the U.S. Department of Commerce and, again, the details with regard to category quality and destination are important. Of particular interest may be the difference between the commodity items and those that are considered value added. While commodity items are considerably more price sensitive, exports will vary depending solely (within a given quality specification) on the price, whereas value-added products are more price tolerant and tend to hold their markets during price changes.

C. Farm Gate

Unique to crops whose price is determined through a bargaining association is the relationship between the price and the quantity demanded by processors. When processors want greater quantities of raw product, the price increases; when they want less, the price generally weakens. Farm gate demand represents our primary market.

III. Market Conditions

A. Processed Products

The first thought that comes to mind, and one that is certainly perpetuated by processors when discussing market conditions, is the volume and sales price of the finished product.

Sales price is a central factor in understanding market conditions as it provides us with the pulse of the industry. One may go as far to say that the market "knows all." The implications are the same, the price in a perfectly competitive world is the level at which fully informed buyers and sellers are willing to do business. Price in this scenario performs its rationing function of matching supply with demand. Some speculate, therefore, that market price can give an accurate picture of carryovers and demand. As we are painfully aware, we do not live in a perfect world. Besides, when was the last time that two processors agreed on anything much less a reading of the current market. Add to this uncertainty the processor's need to project into the future and develop pack plans.

Of course processors only make one-half of the'finished products market. The "trade" comprised of many buyers uses its own greatly diversified strategies when it interacts in the market. In the big picture this market makes up one parameter that bargaining associations must consider during price discovery.

B. Farm Gates

The more immediate market that bargaining associations need to consider in assessing market condition is the processing sector they supply. This is best accomplished by looking at the structure, conduct, and performance of our respective industries.

1. Structure

The structure refers to the number, size, and concentration of firms in an industry. Concentration describes the amount of the market controlled by the largest firms. The higher the concentration the greater the potential impact of a firm or group of firms on price.[2]

Structure also includes ownership control and managerial and technological assets. A question for consideration: How do national brands impact concentration?

2. Conduct

Unfair Trade Practice legislation was enacted to address conduct issues that arose in our industries as processors reacted to the formation of bargaining associations. Processors continue, albeit in a much more subtle fashion, to discourage membership and hold bargaining associations' power in check. Growers are not truly free to join in a cooperative effort to market their crops without fear of reprisal of losing market advantage. I would urge the national bargaining committee to support a study in this critical area.

3. Performance

Performance is a measure of an industry's competitiveness, profitability, and efficiencies. All of these items should be of vital concern to bargaining associations.

IV. Summary

This brief look at the elements involved in price discovery does not do justice to the complexities encountered when they are allowed to interact.

A. Relationship

Some relationships are better understood and clearly recognized as playing an important role in price discovery. One is the relationship between stocks and the size of the crop. When we have large carryovers and are headed for a large crop, we know the result will be lower prices. Conversely, small carryovers and a short crop move price upwards.

Another relationship to consider is the matching of carryover by category and market with consumption. Are carryovers in categories and markets that expressed high demand or did processors pack product for poorly performing markets?

Another set of relationships spin off of the "discovered" price and therefore influence its development. The value of unsolved inventories will be influenced by the new price. Also, there exists a trigger price threshold wherein imports will be attracted into the domestic market.

B. Risk and Uncertainty

What do business people do when they face uncertainty? Well, it's my experience that they make a set of assumptions based on what they expect to happen and then make decisions. Expectations play a very big role in our industries. It's like a double exposure: Which image is real? The market makes decisions on expectations and adjusts in relation to whether their expectations have been fulfilled.

This makes our job of allocating risks through the price system that much more challenging.

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[2] **Knutson, Ronald D. Agricultural and Food Policy Printice-Hall, Inc. 1983.**

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