THE POWER OF PRODUCER COLLABORATION

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Consolidation among firms in the US food marketing system has been well documented. Recently, Martinez reviewed the concentration in the food processing and retail sectors. Most agricultural producers in the United States have relatively little power with the large agribusinesses, processors, grocery retailers or foodservice companies that purchase their commodities. Thus, individual producers are at a disadvantage as sellers in the marketplace.

Producers began formally organizing cooperative organizations in the early 1800s. By joining together, they could obtain volume buying discounts and negotiate better trade terms. When they collaborated to market their products, they gained power in the marketplace and more control over their products. In 1922, the Capper Volstead Act was enacted to clarify how producers can act together to process and market their products collectively, without reprisal from antitrust laws.

In the 21st century, cooperative organizations can continue to play an important role in strengthening market access and competitive returns for specialty crop producers. After briefly outlining key economic conditions facing specialty crop producers, several ways how the cooperative structure is utilized to benefit producers are described below. Reduced market risk is often associated with these benefits.

Underlying Economic Conditions

As specialty crop producers engage with their customers in the marketplace, they face several economic conditions that put them in a weaker negotiating position.

- There is significant evidence that producers are victims of the oligopsony power (few buyers) in the current US food marketing system. Many small producers negotiate with a few large customers—such as food processors, grocery retailers and foodservice operations—who are able to negotiate more favorable terms for themselves, due to their size.
- Often, producers are marketing highly perishable crops. Their supply is very inelastic (unresponsive to price) because the planting decision was made either earlier in the season (for annuals) or several years ago (for perennials). In such cases, economic theory indicates buyers will exercise their market power and set prices like monopsonists.
- Without collective decision making, competitive sellers of specialty crops will bid against one another and drive prices down. During this destructive competition, they often force prices down to the floor set by harvest costs (Sexton, Richards and Patterson).

- Demand for many specialty crops is inelastic. When market supplies increase and prices drop, demand increases; however, producers' revenues decrease if demand is inelastic (because the price decline is proportionately greater than the volume increase). Volume controls can generate higher grower revenues, if demand is inelastic.

Utilizing the Cooperative Structure

These economic conditions emphasize the need for joint action among producers. If small producers act individually, they cannot countervail the market power that their customers appear to exercise. Sexton, Richards and Patterson reviewed the conditions required for successful collaboration among producers. Among the conditions needed is agreement must be reached among sellers; as independent sellers, producers must reach agreement on a marketing strategy. Additionally, cheating must be detectable and once detected, it must be punished; otherwise, the agreement will dissolve as sellers make side deals. Capper Volstead allows cooperatives to require members to sign binding agreements. However, because agricultural markets are very volatile, it is difficult to detect cheating even when market prices are available.

A final condition for successful producer collaboration is deterrence of outside entry; this is difficult to achieve because markets for agricultural products are now global. The cooperative could reduce this potential by successfully differentiating its product from other "similar" products, by offering a proprietary variety or attributes that are difficult to duplicate (such as extensive food safety guarantees).

Producers have several options in how they can use joint action to strengthen their marketing situations—such as forming marketing cooperatives, bargaining cooperatives, information sharing cooperatives and quality assurance cooperatives. The benefits of each type of cooperative are outlined below.

Marketing Cooperatives

A marketing cooperative processes and/or markets its members' products. There are prominent marketing cooperatives in various commodity sectors. The benefits of marketing cooperatives to their producer/members include:

- Countervailing market power can be gained. The cooperative markets jointly for all of its members, rather than producers competing against each other.
- Pooling of members' deliveries average returns over many sales transactions. This reduces the volatility of members' returns.
- Most marketing cooperatives guarantee a home for their members' production. While this does not include a guaranteed price, members have reduced their marketing risk by having an outlet for their production.
- By assembling products into larger lots, cooperatives achieve economies of scale. They operate large scale facilities to process their members' products.
- Cooperatives can provide markets and services that are not available otherwise, such as operating a processing facility that was closed by another firm.

Bargaining Associations
Bargaining associations are cooperatives that negotiate with buyers for price and other terms of trade on behalf of their members. Typically, they do not handle their members' products. Most bargaining occurs in processing fruit and vegetable sectors, where contracting is the dominant form of market coordination. In order for bargaining associations to be effective, there should be one or a few well-defined harvest periods. Effective bargaining is difficult to achieve if the crop is harvested continuously or if there are geographic shifts in production throughout marketing season.

The passage of the Agricultural Fair Practices Act in 1967 provided explicit support for bargaining associations, and included protection of producers from intimidation by processors. Several states, including California, have enacted measures to strengthen these provisions, such as compelling processors to bargain in "good faith" with bargaining associations.

Bargaining associations usually consider nonprice issues in their negotiations. Identifying and resolving such conditions reduces their members' marketing risks. The nonprice terms of trade often addressed by bargaining associations in their negotiations with customers include (Iskow and Sexton):

- timing of payments
- quality standards
- grading methods
- duration of contract
- volume requirements
- delivery conditions
- premiums, discounts
- weighing procedures

The benefits of bargaining associations to their producer/members include:

- Countervailing the market power of buyers by negotiating jointly for all members bargain for higher and/or stable prices.
- Assuring sales volumes and more uniform contracts, which also reduces members' marketing risks.
- Improving enforcement of contract terms, since the bargaining association acts as a third party (Hueth and Marcoul).
- Improving the price discovery process; even if bargaining does not have any direct influence on price, the negotiations promote price discovery especially when there is uncertainty about market supply and demand conditions (Hueth and Marcoul).

Additionally, some bargaining cooperatives extend their activities beyond negotiation to expand markets for their growers' production. For example, they implement programs to improve raw product quality, conduct research to identify additional product benefits and engage in new product development

Hueth and Marcoul concluded that while the scope of bargaining associations has been limited, their importance could expand as the increasing prevalence of contracting by processors has created new marketing problems for producers.

Information Sharing Cooperatives

Information sharing cooperatives are a relatively new structure. Members meet, share volume and price information, and agree on pricing strategies. They often set floor prices, which are not permitted in marketing orders. Unlike bargaining associations, they do not engage in joint negotiations with buyers.

An information sharing cooperative produces the following benefits for its members:

- increasing grower market power, since joint information sharing and floor prices keep producers from bidding against each other.
- improving price discovery, by facilitating the flow of current market information among producers.

Central California Lettuce Producers is considered the grandfather of information sharing cooperatives. Founded in 1972, this cooperative provides the following services to its members: three daily market updates, weekly meetings, data tracking, product exchange and credit services. Its members agree to sell all of their lettuce at prices within the limits of floor and ceiling prices set by the cooperative. An appeals court ruling in 1978 regarding Central California Lettuce Producers confirmed that the Capper Volstead Act was applicable to associations of agricultural producers who met to discuss pricing strategies but did not conduct any selling through the cooperative (Sexton, Richards and Patterson). Since then, producers of grapes, kiwis, citrus, tree fruits, melons, mushrooms and potatoes (see United Potato Growers of America--beginning on page 29) have formed information sharing cooperatives.

Capper Volstead enables the members of Central California Lettuce Producers to legally act as a cartel, unless they unduly enhance prices (which is not protected by Capper Volstead). Without the cooperative, its members could be subject to predatory practices by their customers in the highly concentrated grocery and foodservice industries. Such large buyers could force prices to be set for the entire industry by the weakest producer.

Quality Assurance Cooperatives

Quality assurance is the newest use of the cooperative organizational structure. While producers and handlers have traditionally utilized marketing orders to achieve this objective, a voluntary cooperative organization can serve the same purpose with greater institutional flexibility. As a private corporation, a cooperative is not subject to the significant operational restrictions imposed on marketing order programs.

A quality assurance cooperative produces the following benefits for its members:

- increasing grower market power through development and enforcement of rigorous production and harvest operation protocols.

- ensuring product quality to maintain customer confidence in the industry.

The cooperative, California Tomato Farmers, was formed in March, 2007 to ensure quality in California's fresh tomato crop (http://www.californiatomatofarmers.com/). It currently represents grower-shippers producing 90% of California's fresh market tomato crop. It has an advisory panel comprised of researchers, grocery and foodservice buyers, government officials and advocates specializing in pesticides, food safety and worker conditions.

Its program includes:

- establishing good agricultural and handling practices for its members
- developing standards regarding working conditions
- mandating third-party field and packinghouse audits

As individual grower-shippers, the members could not effectively ensure overall consumer confidence in their product. A quality control problem, such as the outbreak of a food-borne illness, will adversely impact demand for the entire industry, even if the problem is limited to a single producer. Thus, it is in all of the producers' best interests to use joint action to ensure product quality and thereby reduce their marketing risks.

Conclusions

A cooperative is a highly flexible organizational structure. Various forms of cooperatives—marketing, bargaining, information sharing and quality assurance—are being utilized currently to improve market conditions for producers. While these cooperative organizations usually create countervailing market power, producers' market risk is often reduced in the process.

A future application of the cooperative structure that producers may find desirable is promoting their California origin in order to capitalize on local food buying trends. Currently, prices for many California crops marketed to processors have been depressed due to foreign competition. The affected marketing cooperatives and bargaining associations could capitalize on their producers' geographic origins to promote their locally produced commodities. Such differentiation has the potential to enhance returns to producers, if customers perceive that California-grown (or US-grown) crops are superior to foreign-grown crops.

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