

Strategy and its Relationship to Restructuring in US Agricultural Cooperatives

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Motivation: US agricultural cooperatives in the United States are undergoing significant restructuring change. Many of these changes are in response to changes in strategy and finance. The 2002 Sarbanes-Oxley Act has mandated that board of directors have a fiduciary responsibility to provide input to an organization's strategy. The board cannot delegate all of this on the CEO. Many cooperatives are puzzled over their strategy and the director's responsibilities in the strategic thinking process. The National Association of Corporate Directors annual survey of its membership (in 2005, 2006, 2007, and 2008) reports that strategy is the most important issue facing boards in these annual surveys and that directors are only moderating effective in assisting the CEO in the strategic-thinking process. This research finds that many cooperatives, in fact, have a preeminent strategy and lack of director education is one reason why directors are confused.

Objective: The objective of this research is to describe the four broad types of strategies (perspective, pattern, positioning, and plan) and how US agricultural marketing cooperatives are using these strategies as part of the restructuring that is occurring in their respective industries.

Approach: Firms pursue all four strategies in one way or the other. However, one strategy is always the preeminent strategy among the four. Mitzenberg, one of the leading scholars on strategy, has defined the four broad strategies in the following manner.

A perspective strategy is associated with a firm's mission or vision. For example, CHS's vision is to "add value to its members' products." Producers analyze the effectiveness of this mission by evaluating CHS' performance based on their purchase of inputs and selling of their grains to CHS. The producers decide whether to buy and sell to CHS or a competitor.

A pattern strategy is associated with a firm's ability to repeat their performance. For example, some raisin-grape growers in California have the option of selling their grapes to brokers at harvest for an immediate cash price or to sell their grapes to Sun-Maid who markets the grapes in value-added products and pays the full value of the grapes over a 15 month period after harvest. Growers analyze the effectiveness of Sun-Maid by evaluating its consistency in grower prices over time and decide who should market their grapes.

A positioning strategy is associated with how the firm chooses to meet its customer's needs. For example, Wheat Growers has a diverse membership base and must develop tailored grain marketing and input purchasing programs for its members. Producers decide whether to participate in these programs or those offered by the competition.

A planning strategy is associated with a course of action chosen by a firm to achieve an objective. For example, Blue Diamond had an objective of reducing costs by 20% in 2002 which allow them to increase grower prices for almonds. Growers decide whether this goal resulted in higher prices and chose to market their almonds through Blue Diamond which would determine their value over the marketing season or sell their almonds at harvest to a competitor.

The conceptual model is the following:

Preeminent Strategy = f (Difference between field price at harvest of the product and the member's expected price for the product after it has been sold; cooperative's market share in that industry; demand variables including per capita disappearance; supply variables including production, inventories, imports and exports, and use data; average contribution of the product value to the value of the member's overall farm value in that year; number of producers and relationship to volume).

This theoretical model is based upon the Helmberger-Hoos model for the input supply cooperative and the Sexton-Staatz model for the marketing cooperative. Cooperatives pursuing the appropriate preeminent strategy behave as dictated by these two theories.

Since 2005, the author has conducted 38 personal interviews with the senior leaders of US agricultural cooperatives. More interviews are scheduled and Exhibit 1 identifies the cooperative, location, and other information. It is anticipated that additional interviews will be done prior to June 2009. Each interview asked questions to identify the variables on the right hand side of the conceptual model.

Due to the sample size it is not possible to conduct any econometric estimation of the model. Thus, a case study analysis is done with each case cooperative being considered one observation.

Results: The initial results suggest the following: Diversified regional cooperatives have a preeminent perspective strategy. Vertically integrated cooperatives such as those found in California have a preeminent pattern strategy. Local input supply cooperatives have a preeminent position strategy. No cooperatives have a preeminent plan strategy. Examples of cooperatives that have deviated from these preeminent strategies for their type of cooperative have had difficulties and some, no longer exist.

The results will be linked with the implications from the assumptions of the Helmberger-Hoos and Sexton-Staatz theoretical models and the choice of governance models being pursued by cooperatives as they restructure as reported by Cook and Chaddad, and Boland. Finally, the author will offer some thoughts based on his experience that many cooperatives are, in fact, pursuing an appropriate preeminent strategy and that directors are confused by the content of some educational programs being offered by some cooperative service providers.

Table 1. Cooperative, Commodity Marketed, Location, Persons Interviewed, Year of Interview, and Case Study Outlet for the Interview

Cooperative	Commodity Marketed	State	Interviewees	Date	Outlet
21st Century Dry Bean Cooperative	Edible Beans	KS	CEO, BC	2005	J
Agri Coop	Small Grains and Food Grains	NE	CEO, BC	2008	I
American Crystal Sugar	Sugar beets	ND	CEO, CFO, COO, BC	2008	J
Blue Diamond	Almonds	CA	CEO, CFO, COO, BC	2008	B
California Canning Peach Growers	Peaches	CA	CEO, BC	2008	I
Cass-Clay	Milk	ND	CEO	2007	J
Chippewa Valley Ethanol Cooperative	Corn	MN	CEO, BC	2004	P
CHS, Inc.	Small Grains and Food Grains	MN	CEO, CFO, COO, BC	2007	P
Dakota Growers Pasta	Durum wheat	ND	CEO	2008	J, B
Farmers Cooperative Grain	Wheat	KS	CEO, BC	2006	P
Farmers Direct	Wheat	KS	CEO	2006	J
Farmers Elevator	Wheat and Small Grains	MT	CEO	2007	B
Farmway Cooperative	Wheat and Grain Sorghum	KS	CEO, BC	2006	P
Garden City Cooperative	Small Grains and Food Grains	KS	CEO, BC	2006	P
Land O'Lakes	Milk	MN	CEO	2004	J, B
Michigan Sugar	Sugar beets	MI	CEO	2006	P
Midland Marketing	Wheat and Grain Sorghum	KS	CEO, BC	2006	P
Midway Co-op	Wheat and Grain Sorghum	KS	CEO, BC	2006	P
Minnesota Corn Processors	Corn	MN	COO	2002	P
MKC	Wheat and Grain Sorghum	KS	CEO	2006	P
Mountain States Lamb Cooperative	Lamb	WY	CEO	2005	J
Mountain View Co-op	Wheat and Barley	MT	CEO	2008	P
National Grape Cooperative	Grapes	NY	CEO, BC	2005	B
North American Bison Cooperative	Bison	ND	CEO	2008	B
Ocean Spray Cranberries	Cranberries	MA	BC	2003	B
Pro-Gold	Corn	ND	CEO	2004	J

Riceland	Rice	AR	CEO	2009	I
South Dakota Soybean Processors	Soybeans	SD	CEO	2008	P
Spring Wheat Bakers	Wheat	ND	CEO	2006	I
Sunkist	Citrus	CA	CEO, BC	2008	J
Sun-Maid	Dried fruit	CA	CEO, BC	2006	J
Sunsweet	Dried fruit	CA	CEO	2008	I
Tree Top	Non-fresh market apples	WA	CEO, BC	2007	B
US Premium Beef	Beef	KS	CEO	2006	P
Welch Foods	Grapes	NY	CEO	2005	B
Western Sugar Cooperative	Sugar beets	CO	CEO	2006	J
Wheat Growers	Small Grains and Food Grains	SD	CEO	2008	I
Wyoming Sugar	Sugar beets	WY	CEO, BC	2004	P

Interviewees: CEO is Chief Executive Officer, CFO is Chief Financial Officer, COO is Chief Operations Officer, and BC is Board Chair.

Outlet: J denotes published peer reviewed Journal article, B denotes Book chapter, a P denotes Farmer Cooperatives or Arthur Capper Cooperative Center Symposia Proceedings paper, and an I denotes Incomplete since the case is being written and has not yet been published.