PROCESS INNOVATION ACTIVITY IN A MIXED OLIGOPSONY: THE ROLE OF MARKETING COOPERATIVES

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Abstract

This paper examines the market and welfare effects of cooperative involvement in cost-reducing process innovation activity in the context of a mixed oligopsony where an open-membership marketing co-op competes with an investor-owned firm. The presence of the marketing co-op is shown to result in increased producer prices and welfare gains for all farmers, members and non-members of the co-op. The effect of the marketing co-op on process innovation activity depends on the relative quality of its final products, the degree of producer heterogeneity, and the size of innovation costs. A comparison of our findings with those of Giannakas and Fulton (2005) on the impacts of input-supplying co-ops, reveals that, regardless of whether they are a backward or a forward integration of their members, parts of an oligopolistic or an oligopsonistic market structure, the involvement of cooperatives in process innovation can increase the innovation activity in the market, is welfare enhancing and, thus, socially desirable.

Key words: marketing cooperatives, process innovation, mixed oligopsony, retained earnings.