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# COORDINATION AND EXCHANGE IN AGRICULTURAL SUBSECTORS

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# JOINT VENTURES INVOLVING COOPERATIVES IN FOOD MARKETING

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Joint ventures enjoy a reputation of being arrangements that promote coordination and facilitate exchange. Cooperatives also share that reputation. Thus, the Farmer Cooperative Service (FCS) study of *Joint Ventures Involving Cooperatives in Food Marketing* may be of interest to this seminar.

Although some cooperatives have long been involved in joint ventures of various kinds, food marketing ventures have received increased attention in recent years. But, despite this increased interest, little information has been available on the extent, characteristics and merits of cooperative participation in food marketing ventures.

Our study was essentially a survey designed to identify these arrangements and determine their structure, operating methods and problems as cooperative participants viewed them.

Early work convinced us that the term "joint venture" meant many things to many people and needed defining before a basis could be established for identifying cooperative participation in such arrangements.

## A DEFINITION

Accordingly, we defined a joint venture as the association of two or more participants (persons, partnerships, corporations or cooperatives) to carry on a specific economic operation, enterprise or venture, but with the identities of participants remaining apart from their co-ownership or co-participation in the venture. Participants share on an agreed basis expenses, profits, losses, risks and some measure of control over the conduct of the arrangement. The form of business organization (partnership, corporation or cooperative) adopted for the conduct of the arrangement's business will depend on participants' objectives and their willingness to assume risks.

This definition, with special emphasis on the sharing of profits and risks, was used in this study as a guide for determining which arrangements approached joint-venture status. However, not all arrangements judged to be joint ventures had all the features outlined in this definition, or at least not all had them to the same extent. Risk, for instance, was evidenced in quite different forms and to quite different extents in different ventures.

## VENTURE IDENTIFICATION

Of the more than 3,000 cooperatives involved to some extent in marketing food products, about 500 have annual sales of \$1 million or more. An initial questionnaire was mailed to the 500 asking if they were "engaged in any food or food product joint marketing arrangements with other cooperatives or other business organizations?" These inquiries went to fruit and vegetable, grain, poultry, farm supply, rice, sugar, dry bean, livestock, nut and cotton cooperatives. No dairy cooperatives were included because such ventures were believed to deserve special attention in a separate study.

Some 139 cooperatives reported one or more joint marketing arrangements. On further examination, 117 of these cooperatives were found to be reporting multimember federations or sales agency relationships, ordinary contracts, non-food or merger situations of no interest to this study. As a result we found 22 joint venture arrangements that met the criteria of our definition.

## PROFILE OF THE VENTURES

From the 22 ventures studied, the following profile developed:

**Structure.** Twelve were separate entities and ten were contractual arrangements. If the venture provided for a separate operating unit, it was called a separate entity. If it provided for one of the participants to perform services for the others, it was called a contractual arrangement.

**Organization.** All but one of the separate entity ventures was formally organized, 6 as cooperatives and 5 as conventional corporations. The one separate entity venture informally organized involved two cooperatives in an unwritten agreement to conduct a sales promotion operation.

**Products.** Fifteen of the 22 ventures provide services to cooperatives of fruit and vegetable producers. The other 7 served cooperatives of livestock, poultry and sugar producers.

**Participants.** Sixty-three participants were involved in the 22 ventures. Of these, 34 were cooperatives. If allowance is made for involvement in more than one venture, the total would be 57 participants of which 28 were cooperatives. All contractual arrangements involved two participants. Number of participants in separate entity ventures ranged from 2 to 11.

**Participant Mix.** Ten of the 22 ventures involved only cooperatives, 11 involved cooperatives with corporate partners, and one involved a cooperative with a group of large farmer producers.

**Services Performed.** Eleven ventures performed a combination of processing and marketing services and 8 provided essentially marketing services ranging from very simple sales arrangements to complicated marketing programs. Sales promotion, transportation and storage services were each provided by one venture.

**Gross Receipts.** Based on 1971 records, receipts ranged from \$200 thousand to \$105 million.

**Diversity.** Individual ventures varied in many ways from small, simple, almost informal arrangements to large, complex highly integrated operations, and from operations only months old to some with as much as 26 years of business experience.

### **CIRCUMSTANCES LEADING TO PARTICIPATION**

Circumstances or events that led to cooperative participation in joint ventures included: (1) need for coordinating or consolidating marketing efforts, (2) need for raw product supplies, (3) ownership changes affecting the availability of facilities, and (4) deteriorating services.

The need for consolidating marketing efforts was by far the most important circumstance leading to the formation of separate entity ventures designed to market a full line of products, to reach specialized markets, or to develop integrated processing and marketing operations. For contractual arrangements, the need for raw products was the most important consideration. However, for all these ventures, upgrading the efficiencies of services was an important motivation for participation.

Although we have no specific information on the motivation for corporate involvement in separate entity ventures, there appeared to be no reason for believing it was substantially different from that of cooperatives. In contractual arrangements where raw product procurement was a major consideration, and usually the objective of the corporate partner, motivations of the partners might reasonably be quite different.

### **PRICING INPUTS AND DISTRIBUTING MARGINS**

Six ventures—two separate-entity and four contractual arrangements—used some kind of formula to establish the prices of products delivered to the venture. Two other ventures simply depended on established price quotations, such as the cash market or commodity market quotations to determine the prices of the products they marketed.

These price formulas put heavy reliance on prices paid by competing firms or prices of competing products. Some consider industry yields of processed products, costs of processing, and byproduct value.

The operations of 14 ventures did not require pricing of parti-

cipants' product inputs. Some provided services, such as sales, on a fee basis and did not take title to the products involved. Others involved processing and marketing on a cost basis. Some pooled participants' products and one handled products for area producers, rather than participants.

Margins, if any, were distributed by six separate-entity ventures on the basis of dollar volume of product input. Three made these distributions on the basis of stock ownership, and one use a special formula that included incentives for management. Two were operated so that no margins occurred.

Seven contractual arrangements provided for formula or pool payments, leaving no margins subject to distribution. However, two contractual arrangements provided for distributions of margins on a dollar volume or product-input basis, and another provided for a percentage of pre-tax profits to be distributed to the cooperative participants.

## CONTROL OF PERFORMANCE

Venture performance is guided and controlled by business methods in common use, including regular board meetings and periodic sales and financial reports. All separate-entity ventures used these methods except the one that was informally organized.

Control of separate entity ventures is a function of the board of directors. Board composition is, therefore, important. Seven of the 11 formally organized ventures provided participants equal board representation and 4 provided representation based on investment or use of the services. Although majority interests usually control an organization, we encountered no venture in this study in which such control was abused.

Among contractual arrangements, performance controls were built into the contracts. Some provided for very complete monthly reports on operations, or audit privileges to verify processors' costs.

## PROBLEMS

Aside from the usual troubles of day-to-day operations, no major problems were articulated by cooperative participants. However, the pricing of raw products, market coverage, pricing problems and quality standards were areas of concern for many ventures.

The disadvantages of venture participation can be grouped into three categories: (1) the coordination required, (2) loss of flexibility, and (3) profit, price and cost problems. However, these disadvantages appear to be the price of attaining more market coordination.

## ADVANTAGES

The advantages of participation can be summarized in five general categories: (1) services received, (2) cost reduction, (3) price enhancement, (4) new enterprise opportunity, and (5) sources of product and sales opportunities. Although we put much emphasis on joint ventures as coordinating mechanisms, it is evident that participants place a high value on the efficiencies that can be achieved.

## SOME GENERAL OBSERVATIONS

Variations in organization and operation of these 22 ventures suggests their use in all kinds of business arrangements. Ventures can include the opportunity for cooperatives to work with other business organizations. Special arrangements or relationships may be developed providing venture management an opportunity to participate in the rewards of efficient operation. Although some ventures provided rather sophisticated services that make significant contributions to a highly integrated marketing system, others perform rather fundamental, simple functions.

In general, separate-entity ventures offer participants a greater opportunity to enter into decision-making that ultimately controls the conduct of the operation than do contractual arrangements. This means a better opportunity to control expenses, losses, risks and profits. On the other hand, contractual arrangements generally offer opportunities for sharing profits and risks without making substantial investment inputs.

Cooperative participants should be able to exercise a sufficient measure of control over the venture to assure the protection of their own operations and those of their members. A venture may best be judged by the opportunities it affords for extending the market power now held by cooperative producers.

Venture partners must be able to work together in an atmosphere of mutual trust and respect. Our study suggests that participants in the most successful ventures work diligently to create that atmosphere.

Joint ventures provide cooperatives an alternative way of securing needed services, especially services they are not able to provide on their own. In view of the recent interest in joint ventures involving cooperatives in food marketing, the 22 arrangements identified in this study appear to be a small number. However, joint-venture formations in the past few years and cooperative interest in possible and potential benefits from ventures, strongly suggest that their numbers may increase substantially in the next few years.

Table 1. Joint ventures studied, their participants, product specialty and service function, 1972

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| <i>Name and location</i>                              | <i>Participants</i>                                                                                                            | <i>Product</i>                  | <i>Service</i>                             |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------|
| <u>Separate Entities</u>                              |                                                                                                                                |                                 |                                            |
| 1. Ag-World, Inc.<br>Lake Wales, Fla.                 | California Canners and Growers<br>Citrus World, Inc.<br>Knouse Foods Cooperative, Inc.                                         | Processed fruits and vegetables | Transportation                             |
| 2. Blue Anchor - WOCF<br>Chicago, Ill.                | Blue Anchor<br>Wenatchee-Okanagan<br>Cooperative Federation                                                                    | Fresh fruits                    | Sales promotion                            |
| 3. California Valley Exports<br>San Francisco, Calif. | California Canners and Growers<br>Tri-Valley Growers                                                                           | Processed fruits and vegetables | Export marketing                           |
| 4. Curtice-Burns, Inc.<br>Rochester, N.Y.             | Agway Inc.<br>Pro-Fac Cooperative, Inc.                                                                                        | Processed fruits and vegetables | Processing and marketing                   |
| 5. Florida Sugar Exchange, Inc.<br>Belle Glade, Fla.  | Sugar Cane Growers Cooperative,<br>Inc.<br>Osceola Farms Co.<br>Gulf and Western Food Products                                 | Raw Sugar                       | Marketing                                  |
| 6. Four Square Market, Inc.<br>Marshall, Mo.          | Interstate Producers Livestock<br>Assn.<br>MFA Livestock Assn.                                                                 | Slaughter hogs and cattle       | Auction marketing                          |
| 7. Gromark Inc. of Central<br>New York<br>Clyde, N.Y. | Agway Inc.<br>11 Poultry Farms                                                                                                 | Eggs                            | Egg production-management and<br>marketing |
| 8. Marshall Farms Cooperative<br>Greenville, S.C.     | FCX, Inc.<br>J.D. Jewel, Inc.<br>M and C Farm and Feed Mill, Inc.<br>Tri-County Hatcheries<br>Whitworth's Hatchery and Poultry | Broilers                        | Processing and marketing                   |



- |     |                                              |                                                                                                        |                        |                          |
|-----|----------------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------|--------------------------|
| 9.  | Medford Pear Canners<br>Medford, Ore.        | Southern Oregon Sales<br>Associated Fruit Co.<br>Crystal Springs Packing Co.<br>Medford Pear Co., Inc. | Canned Pears           | Processing and marketing |
| 10. | Oregon Pear Sales Co., Inc.<br>Medford, Ore. | Southern Oregon sales<br>Crystal Springs Packing Co.<br>Nye-Namus Packing Co.                          | Fresh pears            | Marketing                |
| 11. | Sunland Marketing, Inc.                      | Sun-Maid Raisin Growers of<br>California<br>Sunsweet Growers, Inc.<br>Valley Fig Growers               | Dried fruits           | Marketing                |
| 12. | Taterstate Frozen Foods<br>Washburn, Me.     | Agway Inc.<br>Maine Potato Growers                                                                     | Frozen potato products | Processing and marketing |

Contractual Arrangements

- |     |                                                         |                                                                  |                |                                         |
|-----|---------------------------------------------------------|------------------------------------------------------------------|----------------|-----------------------------------------|
| 13. | CCF - Gold Kist<br>Atlanta, Ga.                         | Central Carolina Farmers<br>Exchange, Inc.<br>Gold Kist, Inc.    | Broilers       | Production, processing and<br>marketing |
| 14. | FOM- Coca-Cola<br>Orlando, Fla.                         | Florida Orange Marketeers, Inc.<br>Coca-Cola Company Foods, Div. | Oranges        | Processing and marketing                |
| 15. | Hi-Quality - Hi-Acres<br>Orlando, Fla.                  | Hi-Quality Growers, Inc.<br>Hi-Acres Concentrate, Inc.           | Oranges        | Processing and marketing                |
| 16. | IPL - Krey<br>St. Louis, Mo.                            | Interstate Producers Livestock<br>Assn.<br>Krey Packing Co.      | Slaughter hogs | Supply contract                         |
| 17. | Agway - Northeast Fruit<br>Exchange<br>Livingston, N.Y. | Agway Inc.<br>Northeast Fruit Exchange                           | Apples         | Storage                                 |

Table 1. Joint ventures studied, their participants, product specialty and service function, 1972 (continued)

|     | <i>Name and Location</i>                                                 | <i>Participants</i>                                                             | <i>Product</i> | <i>Service</i>           |
|-----|--------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------|--------------------------|
| 18. | TCX - Teksun<br>Edinburg, Tex.                                           | Texas Citrus Exchange<br>Teksun Corporation                                     | Citrus         | Processing and marketing |
| 19. | Waco - Seneca<br>Williamson, N.Y.                                        | Waco Cooperative, Inc.<br>Seneca Foods Corporation                              | Apples         | Processing and marketing |
| 20. | West Coast - Lykes Pasco<br>Dade City, Fla.                              | West Coast Growers Cooperative<br>Lykes Pasco Packing Company                   | Citrus         | Processing and marketing |
| 21. | Williamette - Consolidated<br>Foods<br>Salem, Ore.                       | Williamette Cherry Growers, Inc.<br>USP Div. of Consolidated Foods              | Cherries       | Processing and marketing |
| 22. | Equity - Wisconsin<br>Johnson Creek, Richland<br>Center, and Ripon, Wis. | Equity Cooperative Livestock<br>Sales Assn.<br>Wisconsin Feeder Pig Cooperative | Feeder Pigs    | Auction marketing        |