# The Changing Federated Relationship

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## Introduction

Questioning the value provided by alternative configurations of supply chains has become routine among all parts of agribusiness. Cooperatives are no exception. A business environment forced to measure the profit of many transactions in pennies, not dollars, has led local and regional cooperatives to ask whether the prominent ties between each should be maintained in the same form as in the past.

As suppliers to locals, regional cooperatives have sometimes had ties with investor-owned firms (IOFs). Increasing consolidation has brought a stronger market presence for several mega-IOFs, such that locals are increasingly asking whether such companies are, in some cases, a better partner for them than regional cooperatives. They ask, "What can a regional cooperative do for me over and beyond what an IOF can do?" Such questions, inconceivable in an earlier era, have in turn led regionals to wonder if locals will continue to be part of a cooperatively-organized supply chain in the same manner as in the past.

It is important to note that many locals are very satisfied with the way their regional perform. Nevertheless, the questions and challenges posed by some larger locals--known as superlocals or mini-regionals--may well influence how and what regionals provide to *all* locals in the future.

This report is an outgrowth of a CS report, Locals' Role in the Identity-Preserved Grain Industry.[1] In that study, locals classified their approach to innovation as (1) rapidly innovating

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[1]Hogeland, Julie A. Local Cooperatives' Role in the Identity-Preserved Grain Industry. USDA: RBS Research Report 181, August 2002.

despite some financial risk; (2) delaying in anticipation of further improvements; or (3) focusing less on innovation than on perfecting service and pricing within a particular arena. These responses were classified by CS as "Innovator," "Follower," and "Status Quo" positions. Respondents were evenly divided among these categories.

Innovators handled a much larger volume of identity-preserved grain than Follower or Status Quo. Innovators were also more likely to view partnerships with regional cooperatives favorably. Followers and Status Quo appeared to adopt the cultural framework evident in the grain industry, where regional cooperatives must compete for locals' grain the same as any other bidder. The two groups were also similar in other ways.

From these results, it is evident that most cooperatives intrinsically prefer a predictable environment where they function as dependable, reliable suppliers. Although cooperative culture favors incremental, slowly absorbed changes, recent strategic alignments among regionals have imposed a degree of change on locals that many regard as uncomfortable. It is not always clear what membership in a cooperative means or requires or provides in this new setting.

Where do locals get their standards to evaluate regionals? What are those standards defined as? This study proposes that many such standards come from cooperative culture, defined here as the attitudes and marketing practices that differentiate cooperatives from other business organizations. One of the most important culturally-mandated expectations of cooperatives that I will address later on is the familiar "competitive yardstick" role.

This study also proposes that the balance of power between regionals and locals has shifted, altering how regionals express their power as leaders of a cooperative-owned and organized marketing channel. Locals have developed a degree of independent power, necessitating changes in the distribution of labor between local and regional, as well as expectations each has of the other. I will illustrate these changes by presenting a critique of a model of cooperative behavior which focuses on the primacy of services over profits. I will also focus on specialization and the development of internal supply networks as regionals' response to such countervailing power.

My analytical framework arose from conversations with numerous local cooperative managers over a one year period, June 2000-June 2001. Executives of prominet regional cooperatives, both federated and centralized, provided their perspective in mid-2001. The end result is expected to contribute to a more informed dialogue on what cooperatives realistically can and cannot accomplish, so that they are not evaluated by standards more appropriate to a previous era.

This report is not a report card on the various mergers and consolidations which have occurred at an accelerated pace within the last five years. That is a decision for farmers, as owners of local or regional cooperatives, and locals, as owners of regional cooperatives to make. Instead, this report will cast such events within a framework that will enable cooperatives to understand them as perhaps an inevitable answer to some of the challenges posed by the evolution of the marketplace.

**Regionals' Functions**

This reports focuses on federated regional cooperatives who market farm supplies, and meat, dairy, and grain products. Such cooperatives include Farmland, Growmark, CHS (formerly Cenex-Harvest States), Land O'Lakes, Missouri Farmers Assn., Southern States, and Tennessee Farmers Association. The specific focus are regional cooperatives serving the Midwest, as this is the area with the greatest amount of cooperative realignments and mergers.

Within farm supplies, regionals typically contribute to cooperative infrastructure and, indirectly, food processing and marketing. *Infrastructure* activities include:

- centralized purchasing and distribution on behalf of locals;
- building mills and other infrastructure needed for ingredient processing and marketing;
- facilitating transportation by truck fleets, unit trains, or coordination with rail depots;
- lobbying regarding rail abandonment, trade restrictions and other economic events;
- providing financing and other risk-management tools;
- manager and employee training and benefit systems,

As *food companies*, regional typically:

- create branded identities reflecting particular standards of production or processing;
- provide an integrated marketing channel that reaches from the farm gate to the grocer;
- partner with other agribusinesses to provide the necessary compliment of services and products for locals
- perform marketing research and training that expands the reach of local cooperatives;
- engage in overseas market development;

Who in the channel should perform these functions is a question increasingly open to discussion as some locals approach the size of the forerunners of the present-day regional cooperatives. For example, locals point to Felco, a merger partner of Land O'Lakes, as an example of their own potential. Nevertheless, explicit dialogue about the division of labor among cooperatives at different levels has been obscured, to some degree, by the considerable structural realignments and mergers among regional cooperatives.

**Functions and Sources of Power**

Opinions differ regarding the particular merger that triggered the onslaught seen through the latter part of the 1990s. A good starting point might be the 1991 merger of Indiana Farm Bureau and Countrymark Cooperative to form Countrymark, Inc. (Countrymark).

Regional cooperatives, like Countrymark, can be regarded as leaders of a cooperatively owned and organized marketing channel with leadership based on locals' willingness to market in a particular way, such as:

- using a regional's brand name ("Farmland Foods," "Land O'Lakes Pork System," etc.);
- using product standards established by the regional (premixes with a particular nutrient content or pork certification programs);
- using farm supplies and other inputs sourced or manufactured by the regional;
- adhering to managerial and professional standards either originated by or endorsed by the regional;
- using similar accounting systems; and
- adhering to the strategic vision proposed by the regional.

Adopting any of these practices is up to the local. Locals do not automatically do what the regional would like, unless they are owned by the regional and so function essentially as a dealership or franchise. Federated locals, the subject of this report, choose the degree to which they follow the lead of their regional--they have the right but not the obligation to do business with them.

Consequently, regionals must induce locals to follow their lead, and like other (noncooperative) channel leaders, they do this through a combination of positive and negative reinforcements, such as[2]:

- rewards--potential benefits to locals, such as manager placement within the cooperative system; participation in advisory councils; or patronage refunds;
- coercion--unfavorable terms of trade or limited managerial opportunities;
- legitimacy--internalized values that obligate locals to accept regional' influence;
- referent power--the value of explicit identification or association with a regional.
- expertise--greater knowledge or experience attributed to regional.

These are examples of the power exerted by channel leaders.

Power may seem to be an unusual term to use in the context of cooperation, but, in fact, it can represent the antithesis of exploitation. For example, of the many potential functions performed by regional cooperatives, Countrymark was said to "do it all" according to several observers. Countrymark represented channel leadership implemented by emphasizing the benefits or rewards of regional affiliation.

## Service Maximization Model and Critique

To some, Countrymark exhausted its resources serving member locals, in part by maintaining an administrative structure necessary to provide member services, as well as maintaining reputedly unprofitable locations.

In many ways, Countrymark's choices epitomize many of the dilemmas facing regional cooperatives. Cooperative culture emphasizes the primacy of services over profits, an orientation familiar to Countrymark. In its fullest expression, this model implies a regional will

[2] Hunt, Shelby D. and John R. Nevin, Power in a Channel of Distribution: Sources and Consequences, Journal of Marketing Research, Vol. 11 (May, 1974), 187..

provide, essentially at cost, most if not all of the services and product locals require. In turn, they will supply the regional with the raw material it requires to manufacture supplies and process foods. In this model, the support and patronage of local cooperatives is a necessary and, conceivably, sufficient condition for the survival of the regional. Essentially, the two exist in a closed, recursive (feedback) system, impervious to outside influence.

The service model has several implicit assumptions:

- the regional will be the primary supplier to locals;
- a local will be affiliated with only one regional;
- the regional's cost of production (COP) is sufficiently low so as to preclude competition from alternative suppliers;
- locals will get all needed services from the regional;
- the product received from locals is sufficient to meet the regional's requirements; and
- the role of the regional is to sustain the locals who own it--locals do not have a reciprocal obligation toward their regional.

*In reality*, these assumptions break down insofar as:

- locals can pick and choose among suppliers, regional or not;
- the regional, because of its multi-product and multi-service orientation, has a higher COP than alternative suppliers;
- locals are affiliated with more than one regional;
- locals need products regionals don't make or can't access;
- locals (or regionals) can meet their own needs internally;
- the volume or quality of inputs from locals fall short of the regional's needs;
- the regional acquires an identity and existence of its own, independent of locals; and

- outside (exogenous) forces like government policies alter exchange relations between local and regional.

This reality alters the effectiveness of regionals in such culturally-mandated roles as:

- competitive yardstick;
- creating change in the way industries are being run;
- being a purveyor of technical change to locals;
- having facilities commensurate with those of mega-IOFs;
- being a low cost supplier;
- being a multipurpose, multi-service organization;
- generating income (returning patronage, revolving equity);
- supplier of last resort (i.e., petroleum during shortages);
- integrated food system from farm to grocer;
- staying power as a long term supplier; and
- market access

These roles, which were identified through interviews with local cooperative managers, may be considered culturally determined. Typically, managers viewed regionals' effectiveness through the filter or two or more roles which had the potential to conflict. For example, managers chided regionals because they were not always the lowest bid (a low-cost supplier position), and at the same time, expected them to be as "basic" in certain supplies as some mega-IOFs (presumably incurring high fixed investment costs). Others wanted a low price for supplies as well as a nice-sized patronage refund at the end of the year.

Such conflicting expectations weigh in against regionals' power as channel leaders. Coupled with some locals' tendency (or ability) to operate independently of regionals in the ways suggested by the service model critique, they diminish the effectiveness of the traditional supports for channel leadership--rewards, legitimacy, and so forth.

Regionals have choices. They can try to “do it better” or they can try to *compel* locals' attention if the traditional motivations are no longer working. These include: (1) intensifying ties with locals through specific incentives and management structures (i.e., “regionalization”); (2) expanding the arena for cooperatives through globalization; and (3) making interface with locals inevitable because the regional is national seller of particular farm supplies. Generally speaking, CHS has pursued regionalization; Farmland, globalization; and Land O'Lakes, share growth.

In fact, these strategies are based on several of the culturally mandated roles noted earlier. Generally speaking, regionalization represents the local “as an extension of the regional” in the context of a multi-purpose, multi-service organization limited to a particular geographic area. Globalization stresses market access. Being a dominant vendor of particular farm supplies is perhaps a variation on the mega-IOF position of being “basic” in certain commodities. These strategies coincide with a more focused approach to delivering particular services through the recent formation of Agriliance (combining the agronomy business of Land O'Lakes, Farmland, and CHS), Country Energy, and the Land O'Lakes/Farmland Feed Joint Venture.

These arrangements represent a move by regionals away from being multiproduct to being product-specialized.

## Regional Specialization

### Regional as Resource Providers to Locals

In 1985, Professor Brice Ratchford predicted that separate systems for feed, chemicals, fertilizer, etc., would replace the multipurpose farm supply distribution system. He also expected investor-owned competitors would have a profound influence on the optimal role and structure of cooperatives.[3] In 2000, Harry Cleberg, past CEO of Farmland Industries, made a similar prediction, foreseeing that each regional would be associated with a single product area--agronomy, petroleum, meat, grain, or dairy.[4] This realignment would occur in response to significant environmental stressors, and ultimately alter traditional ways of relating between locals and regionals.

These predictions concern regionals' fundamental identity as resource providers to locals, a function particularly evident when locals were smaller and more numerous. By providing centralized buying and distribution for locals, regionals eliminated the need for individual negotiation with suppliers. Typical of a marketing channel comprised of isolated and autonomous decision making units, locals were unable to program distribution activities as effectively as their regionals.[5] The resulting asymmetrical power relations between regionals and member locals made regionals the natural choice for channel leaders. Locals seeking alliances almost automatically turned to the nearest regional cooperative.

Assisting this identification with a regional were territorial and cultural boundaries. Just as local cooperatives often represent a particular group's interest in having their "own"

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[3]C. Brice Ratchford, "Strategies for Cooperative System Design: The Case for Coordination Among Cooperatives: Discussion," in Farmer Cooperatives for the Future, A Workshop November 4-6, 1985, USDA: Agricultural Cooperative Service, 116.

[4]Cleberg, H.D., "Remarks: Cooperatives Working Together," 2000 Annual Meeting of the National Society of Accountants for Cooperatives, San Antonio, Texas, August 9, 2000.

[5]McCammon, B.C., Jr., Perspectives for Distribution Programming, in Vertical Market Systems, L.P. Bucklin, ed., Glenview, IL: Scott, Foresman, 32-51.

cooperative, regionals, too, became affiliated with specific commodity interests (Land O'Lakes and dairy); farm movements (Cenex and Farmers Union)[6], and regions (GoldKist and the Southeast). Scale economies encouraged regionals, whose role as resource providers includes manufacturing, to expand their geographic boundaries, and in so doing, enter one another's territory.[7] This process meant locals often invested in--and therefore, were members of---more than one regional.

As regional cooperatives (those that survive today) broke through their traditional boundaries to expand market share and so implicitly create the foundation for specialization, locals learned to play a price game: to cherry-pick regionals for the best deal. The price game has continued despite the formation of Agriliance and other ventures; locals simply substitute IOF bids for those of multiple regionals.

In this price game is the core of how locals as a group think of regionals: their purpose is to satisfy their own need for commodities--petroleum, fertilizer, feed, grain, some seed. These commodities are the gist of what locals sell to their own farmer-members. What regionals are known for, in contrast, is selling processed foods--meats, dairy, pasta, etc. This is why interviewed locals referred to regionals as "food companies."

A commodity orientation entails a different set of needs and resources than processed

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[6] Egerstrom observes that Cenex was founded by Farmers Union organizations. Egerstrom, Lee, Make No Small Plans: A Cooperative Revival for Rural America: Rochester, MN, Lone Oak Press, 1994, 142.

[7] Egerstrom makes several references to competition among regionals: "Will [Land O'Lakes" farm supply joint venture, known as Cenex/Land O'Lakes Ag Services, need to tread on other regional cooperatives' turf to expand its markets and assure future profits?" (p. 142). About Cenex, he says, "Changing rural demographics, changing agronomic practices on farms and environmental restrictions on use of its products, and what appears to be an inevitable geographic collision with Farmland and other petroleum supply co-ops create problems that will need creative responses" (p. 143).

foods. Part of the reason some locals have, according to interviews, a particularly hard time valuing what regionals contribute to the federated relationship is that they have no institutional tie to the food operations of regionals. Farmers are tied to the food operations of regionals through direct membership. The better prices dairy farmers receive from branded cheeses, the market access attained by pork producers, etc., flow from the regional straight to the producer. The local is sidestepped.

Moreover, this disconnect has been institutionalized through the mixed membership structure of Midwestern regionals: their membership is made up of both locals (as a group or federation) and individuals (representing producers in certain specialties). During the last decade, there have been efforts by regionals to tie locals to food production by having them sell specialty feed to the producers who are direct members. Discrepancies among locals' handling practices and other coordination issues have led regionals to abandon this effort. Their need to streamline distribution, to offer process verified production systems for processed foods, and to met other requirements of a marketplace geared to product consistency and food safety has become paramount.

Regionals are torn by the requirement to be resource providers to locals and their own need to protect their investment in food manufacturing. The dual focus of the federated system continually confronts regionals with the strategic issue of whether a dollar of investment capital should go into providing the commodities needed by member locals or providing the processed foods that are the core of regionals' identity.[8]

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[8]In describing Harvest States, Egerstrom observes, "But the bulk of the cooperative's profits come from the processing businesses, not the grain trading for which the co-op is widely

The splintering of a multipurpose, multi product cooperative structure into a meats company (Farmland), a dairy company (Land O'Lakes); a grain company (CHS),and an agronomy company (Agriliance) represents an uneasy accommodation with locals because it does not contribute, necessarily, to an integrated food system--a seamless web from farm to grocer. As long as each is essentially operating on a different level--regionals in foods and locals in commodities--the ability of locals to identify with regionals (referent power) will be constrained. So, the specialization advocated by Ratchford and Cleberg can be seen either as a transitional step to a more fully coordinated system (with the next step still unclear) or a way of formalizing the disconnect between the two levels by compartmentalizing it.

**How far should specialization go?**

Regionals perceive that Agriliance and other such horizontal integration "take costs out of the market," although, to some locals, eliminating multiple regional bids can appear more like "taking competition from the marketplace." Locals' position as middlemen limits their endorsement of a streamlined marketing system. The more bids they can sift through, the more they fulfill and justify their historically designated role.

Farmers innately fear situations where they get only one bid, and regional specialization is interpreted by some as a move in this direction. It is therefore not surprising that the short-term consequence of specialization has been some degree of share loss. A year after implementation, interviewed regionals commented that their collective market share

known." (p. 134). Egerstrom also cites Dr. Robert Cropp regarding a similar focus by Land O'Lakes, "There is still room for growth in all of Land O'Lakes' business sectors, but the surest way to is to reach out territorily and to raise up the foods. . .We know there are going to be fewer and fewer animals in Wisconsin and Minnesota, so this can't be the only place where the company does business" (p.141). Regarding Farmland's business mix, Egerstrom says, "food sales [are expected to be] emerging on top by 1995" (p.137).

through the specialized and combined ventures has been less than what they used to get selling individually.[9] Locals' reaction to restructuring makes it far harder for regionals to realize intended cost savings.

By massing the business of several regionals into one large entity, specialization opens up the possibility for each of the new companies to catapult into a position of industry leadership. From regionals' perspective, this is a good strategy: it diminishes the relevance of a price game and the dominant position serves to compel member-locals' attention. But it is not a strategy locals are used to.

Such a move conceivably positions regionals to take competition to the next level, from a focus on day-to-day commodity prices to a system orientation. The trace-back and identity-preserved methods of food production and safety embodied in a systems approach have become a way for food processors to differentiate themselves in the marketplace. Farmland's speedy application of process-verified pork production demonstrated that regional cooperatives are aware of what they need to do.

Paper-thin margins industry-wide coupled with a cultural bias toward competition-as-a-way-of-life may prevent many locals from stepping back and assessing how--and whether--they will position themselves for this further evolution of the food system. Study of locals' response to identity-preserved grains indicates that most maximize the prices received for their producer-members' grain by maximizing the number of bids. Different paths to the same end (livestock feeding, processed products) were hard for all but the most adventurous and

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[9]Agriliance's lackluster performance was documented in a Letter to Members, Second Quarter 2001, by Land O'Lakes.

innovative to see. Therefore, for specialization or industry prominence to be accepted by locals, it is extremely important for regionals to generate the patronage refunds that are the singular perquisite of a dominant supplier who is also a cooperative. Patronage refunds are the link between the old ways of doing things and the new, the one thing that can reassure locals that a system they may have trouble endorsing will in fact perform like--or even better than--the old.

To do this, regionals will have to consistently make money. Twenty years ago, the pre-eminence of the Service Model would have make such a statement heretical, if not impossible. Making money, achieving profitability, is the antithesis of the Service Model. Regionals who formerly sought to *induce* member business and loyalty through special programs or promotions (as the rewards of channel leadership) may have a better chance at overriding any tendency to stray from the federated relationship by *commanding* respect through patronage refunds and focused growth.

**Competitive Yardstick**

Some observers have interpreted specialization as a way of getting locals accustomed to one bid, to constrain their tendency to play one regional off against another. This may be difficult behavior to modify insofar as cooperative culture has looked favorably upon multiple bids and even used them as a justification for cooperatives.

Specifically, when multiple suppliers and differing COPs exist, cooperative culture ascribes the role of “competitive yardstick” to regional cooperatives: providing an additional bid in the marketplace to minimize the possibility of collusive behavior among suppliers. Note that the competitive yardstick argument does not require the regional to have the winning bid, it is sufficient that the regional “keeps everyone honest” by adding competition to the market.

The expectation that regionals will supply product essentially at cost (a dimension of the Service Model) apparently has led locals to expect that regionals will be, as one observer said, “always and at all times be the lowest bid.” If regionals turn out to be simply an additional bid because someone else was cheaper, interviewed locals have concluded that their regionals have been ineffective. Ironically, Nourse, the philosophical founding father of Midwestern cooperation, justified the formation of locally-owned cooperatives by pointing to the importance of providing an extra bid[10]--a role it turns out is apparently of little practical value when locals assess the performance of their regionals..

In contrast, interviewed regionals see their role as providing “reasonable prices, measured by an annualized rolling average, for example. They emphasize that they are “competitive in value,” implying that the total package of auxiliary services and technical support combine with the product price to provide a satisfactory transaction for most locals, most of the time. Many locals, fully satisfied with their regionals’, would agree with this performance criteria.

Fundamentally, however, locals favor absolutes: was the regional the lowest bid *today*?. The detachment embodied in this process of bid assessment has led locals to operate in what several managers described as an “arms length” relationship with regionals. Detachment maintains the historically-designated separation of roles embodied in the federated system,

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[10]Cook emphasizes the cultural imperative of the competitive yardstick role among local cooperatives: “Founded to provide a missing service or to avoid monopoly power or to reduce risk or achieve economies of scale, [local cooperatives] epitomize the Nourse philosophy of cooperation--that of a ‘competitive yardstick’ with the objective to keep investor-oriented firms competitive.” See Egerstrom, 146.

but may be an anachronism in terms of agriculture's increasing emphasis on systems built from interdependent stages.[11]

Detachment may also create a free-rider problem within the federated system: members may only invest--*and bid*--the minimum necessary to sustain the regional as an additional bid. Certainly, this behavior is at odds with the interest expressed by other industry segments in partnering or supply chain management.[12] When the bid is the singular measure of performance, all other aspects of locals' generally multifaceted investment in the regionals is vulnerable to being considered an "unproductive investment."[13] .

As a footnote, I would add that locals' viewpoints are affected by the cooperative culture they grew up in. Locals told me that Farmland generally tried to be a low-cost supplier with no dividend, whereas Land O'Lakes aimed for being sufficiently profitable to return a dividend.

**Regional as Self-Sustaining Entity**

As stated earlier, federated locals have the right but not the obligation to do business with their regional. They are free to sift among bids. Local managers interviewed for this study who operated closer to a dealership mode[14], that is, routinely accepting some products or policies from their regional, did not manifest the dissatisfaction of other managers.

This is an important point. Even though conflict is an intrinsic part of any marketing

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[11]Fulton, Murray, "Traditional versus New Generation Cooperatives," in A Cooperative Approach to Local Economic Development, Christopher D. Merritt and Norman Walker, eds. Westport, Connecticut: Quorum Books, 2001.

[12]Dupont article citation.

[13]This observation was made by managers of five superlocals.

[14]These were managers of locals affiliated with Growmark or CHS.

channel, (not as an end in itself but as a means to some economic objective),[15] regional cooperatives may find themselves implicitly favoring policies that make the local an extension of the regional and so minimize conflict. That policy virtually guarantees that there will be a market for the supplies sold by the regional as well as product from locals to fill processing and export contracts. With this “captive market,” there is less risk that the regionals’s facilities will be underutilized. Essentially, this is a way for regionals to protect their investment in manufactured foods.

With this, regionals are taking actions to preserve their own self-interest. This is radical behavior because it is completely at odds with the notion (from the Service Model) that the role of the regional is to sustain the locals who own it--locals do not have a reciprocal obligation toward their regional.

Most federated Midwestern locals interviewed for this study, particularly superlocals, resisted any concept of themselves as a captive market. Their independence has led them to essentially duplicate some of the infrastructure normally associated with regionals, particularly overseas offices and, to a lesser degree, product manufacturing.

Moreover, the push to differentiate themselves from regionals and achieve scale economies in a commodity-based business has led some locals, particularly superlocals, to view regionalization and other policies using selected locals as internal suppliers as a threat. To get bigger and position themselves on a par with regionals, locals, particularly need to grow, typically by absorbing other, weaker, locals. But if a regional sustains weaker locals through regionalization, there are fewer locals to merge with the [super]local. Conversely, if

[15]Stern, Louis W. and Torger Reve, Distribution Channels as Political Economies: A Framework for Comparative Analysis, Journal of Marketing (44), Summer 1980, 53.

the [super]local does succeed in horizontal integration and then goes on to develop some of the infrastructure already provided by regionals, there may be a net loss to the federated system as a whole through duplication of effort.

Industry competition in developing and sustaining branded processed foods (including slotting fees and advertising) makes regionals also, in important ways, less able to control their own destiny. Industry observers comment that the profitability of particular brands is dependent on the product choices of the very small number of major grocers. Casting locals in the role of internal suppliers reduces one element of uncertainty. Nevertheless, although cooperatives at each level face a common enemy, severe competition, they face it alone and not together.

**Conclusions**

The topics discussed today are rich in implications and the overview I have given highlights, but does not fully address, all of the issues involved in the regional-local interface. Nevertheless, it is possible to make some tentative predictions about this interface:

Internal supply networks will probably become a more pronounced feature of the cooperative landscape as a way to "force" a coordinated system on the cooperative sector. In the core of the Midwest, such networks have always implicitly existed because regionals had the power of channel leadership to decide, say, which of two locals would merit a new feed mill. Now these networks will become explicit as the federated system becomes more centralized, in the manner defined by Cobia:

> Centralized cooperatives have no autonomous local association members.
> Instead, they have branches, retail outlets and in a few cases, franchise dealers.

> Operational control and authority are centralized in the headquarters of the cooperative. Individuals are direct members. . . Operation of local units is vested in a manager hired by the management of the centralized cooperative.[16]

Cobia observes that the local units of centralized cooperatives are more easily standardized in product and services, leading to a lower cost system, overall. A low cost system is just what is needed for commodities that have reached the stage of product maturity.

Cobia also identifies three disadvantages of a federated system: less control and coordination over product flow between regionals and locals; locals' freedom to bypass regionals; and divergent goals at each level. It is clear that these have emerged as destabilizing factors in the federated system. Although centralized regionals face the risk of operating at both the regional and the local level, they may offer locals more of a stake in the strategic goals pursued by regionals, and so, in important ways, may correspond to the needs of the emerging marketplace better than the federated system.

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[16] Cobia, David (ed), Cooperatives in Agriculture: New Jersey, Prentice Hall, 1989, 45.