

Chapter 3

Joint Producer Marketing Enterprises

Whether you sell corn or cucumbers, working with others may provide you better marketing options. For some commodity products, this may mean better prices. For some specialty crops and niche products, this may mean the difference between accessing a market and not having a market at all. This chapter looks at some of the common marketing models used by farmers who work together to sell their products. It examines how these businesses function as marketing entities. The chapter is not focussed on legal questions such as the legal organization of the group, tax liability, or who maintains legal control. All of those issues are addressed in Chapter Four.

What do various marketing models have in common?

The two characteristics that all of the different models in this chapter share are (1) multiple producers are involved in the venture and (2) the venture's goal is to market products. The approaches vary from purely grassroots efforts to more coordinated, top-down approaches. It is difficult to separate the efforts because the different types tend to overlap, yet it is instructive to look at some different models so you can consider how aspects of each approach might work within your group.

What should I focus on when comparing the different models?

When thinking about the functions of these different types of groups, focus on the different roles you play in the organization. First, consider your role in the decision making and control of the organization itself. Do you need to participate in decisions and do you have the ability to guide the direction of the organization? Do you make most of the major production decisions – such as what to plant, when to plant, and when to sell the crop – or does the organization require certain production standards and make the marketing decisions?

Second, ask how the organization deals with you as a separate entity – does the organization actually buy your goods or does it just serve as an agent in the sale of your goods? Perhaps the organization simply functions as a market facilitator that does not have any direct interaction with you in relation to the products.

These different marketing models are described in this chapter:

1. **Farmer collective bargaining organizations.** The farmer collective bargaining organization negotiates prices and conditions between groups of producers and large buyers. This classic model is easily recognized in many traditional cooperatives. These groups are usually owned and controlled by producers. Bargaining associations are widely used in both commodity and specialty markets.

Some farmers' collective bargaining associations take title to products and the sale is actually made between the bargaining unit and the buyer. Others operate as agents for the farmers where the farmer retains ownership in the product until the sale, and still others are the exclusive bargaining agent for the farmers. Whether the association takes title to the goods will influence many of the legal issues considered in later chapters, such as who can use the goods as collateral to obtain financing, when the risk of loss of the product transfers, and how the Packers and Stockyards Act and Perishable Agricultural Commodities Act affect the relationship.

Collective agricultural bargaining at work: The National Farmers' Organization

The National Farmers' Organization was established in 1955 in Corning, Iowa as a farm organization designed to communicate to policy makers. NFO is now a producer-owned bargaining agent for farmers that negotiates prices and contracts for its members and markets their milk, cattle, grain, and hogs to processors across the nation. The organization generally deals with the traditional Midwestern commodities, but has branched out into some of the niche markets for products raised under special conditions, such as organic products and antibiotic free animals.

Source: National Farmers' Organization. www.nfo.org

Antitrust law generally prohibits sellers of products from agreeing among themselves on a particular price. This is exactly what many bargaining associations do when the organization bargains on behalf of many farmers for one price. The Capper-Volsted Act (7 U.S.C. 291) exempts cooperatives from this antitrust law prohibition. This means if the association works to set prices among sellers, the association will need to organize as a traditional cooperative. For a discussion on the implications of forming a cooperative and for more information on the Capper-Volsted Act, please see Chapter Four.

2. **Growers' networks.** As compared to collective bargaining associations, growers' networks can be a more organized form of group marketing arrangement where the growers may have formal requirements for membership and production standards protocols. The relationship of the grower to the organization can vary as can the level of the grower's responsibility to meet the requirements of the organization. In general, the supply and marketing is managed within the group. A number of farmers who recently started agritourism ventures in Southwest

Georgia formed a coop in 2003 to help them market their individual businesses. www.hosting.caes.uga.edu/swgaescapes. The coop's website describes its goals:

Our cooperative, Southwest Georgia Escapes, Inc., was formed May 29, 2003 in order to more efficiently market agritourism venues located in Southwest Georgia. Our primary goal is to attract visitors to our unique area. The co-op's members are located across five counties – Calhoun, Clay, Early Randolph, and Quitman – and all are agricultural producers that are diversifying their current operations in order to increase their productivity. Included in the cooperative are hunting plantations and preserves, fishing ponds, scenic areas, campgrounds, horse and nature trails, and a vineyard and winery. These agritourism operations showcase some of South Georgia's best resources - beautiful scenery, fertile land, and plentiful wildlife.

Niman Ranch Pork: A network finding its niche

Niman Ranch Pork Company, L.L.C. ("NRPC") is the pork origination arm of Niman Ranch, Inc. Niman Ranch, Inc. and its network of family farmers raise livestock traditionally, humanely, and sustainably to deliver the beef, pork and lamb under the Niman Ranch™ brand.

Niman Ranch, Inc. was founded in the San Francisco Bay area and continues to be headquartered in Oakland, California. The company offers beef, pork, and lamb to restaurants, retailers and directly to consumers through its on-line market. The company differentiates its product by enforcing strict animal husbandry guidelines that include treating animals humanely, feeding them all-natural feeds, and allowing them to mature naturally. Since family farms are where these standards can best be met, the Niman Ranch enterprise helps to sustain traditional livestock operations on the family farm.

NRPC is an Iowa limited liability company formed in 1998, with financial assistance from the Iowa Department of Economic Development, to originate Niman Ranch™ pork. Although NRPC is not organized as a formal cooperative entity, it operates solely on a cooperative basis. NRPC is partially owned by Niman Ranch, Inc., and partially owned by pork producer members. Pork producers enter into pork origination agreements with NRPC and are required to meet husbandry standards. NRPC buys qualifying pigs from producers and pays a price that typically includes a premium above the market. A portion of the proceeds to the producer, which is matched by Niman Ranch, Inc., is retained by NRPC to build the capital required to finance the origination and distribution process. NRPC sells exclusively to Niman Ranch, Inc., which in turn distributes Niman Ranch™ meat products. www.nimanranch.com

The coop members realized that by joining together, they were able to create a better marketing program and ultimately bring more people to the area. The coop coordinates a website and produces brochures placed in rest stops, tourist offices, and chambers of commerce. Members formed the cooperative with the assistance of USDA Rural Development and the University of Georgia Center for Agribusiness and Economic Development.

One type of growers' network might involve five hog farmers coming together to build a relatively large sow unit owned by all of the growers. When they are weaned, the little pigs from the sow unit are divided between the farmers. The farmers may take title to the feeder pigs at that time or title may remain with the organization. The organization may agree to specific production protocols so all of the hogs can be marketed to a specific market. At this point, the producers may decide to bargain collectively with buyers so they can better access markets and obtain more favorable terms.

The difference between a simple farmers' collective bargaining association and a growers' network is that the farmers in the bargaining organization come together only to sell their products, while the growers' network has farmers working together in both the production and sale of the product.

Grower's networks are used throughout agriculture, but are especially useful for more specialized products because the network can set production and marketing standards usually required in the niche market.

The Rolling Prairie Farmers' Alliance

Rolling Prairie Farmers' Alliance is a CSA in northern Kansas that began operation in 1993 and later became legally constituted as a producers' cooperative for purposes of governance and responsibility sharing. Their website www.rollingprairie.net explains the special nature of their CSA:

"We call it a produce subscription service because our customers subscribe to our service for a season's worth of produce.

The farmers in the alliance operate as a cooperative, which serves as a kind of insurance policy for the subscribers. The eight farms span four counties in the rolling prairie of Northeast Kansas. If one farm gets frosted, hailed out, dried up, or attacked by grasshoppers, chances are others can take up the slack. We become more efficient in our marketing efforts, which leaves us more time to concentrate on growing food without the use of chemical fertilizers or pesticides."

3. Community supported agricultural enterprises

Entities known as CSA's, which stands for Community Supported Agriculture, typically sell production shares during the growing season for a set membership. CSA's deal directly with consumers, who are also called members because they subscribe to the CSA. Members receive a portion of the farm's fresh produce each week. Members may be required to undertake some work in the field or the packing house, an involvement which fosters commitment and identification. The concept is very flexible and lends itself to a large spectrum of grassroots coalitions of growers

and consumers concerned with community improvement and good eating as well as developing new outlets for small farmers.

The CSA model has gained in popularity both as a way for consumers to access sources of fresh produce and meats and for farmers as a way to plan their production and gain additional income for their families. An added benefit to the farmers is that they are able to share the risk of low yields caused by bad weather or other unforeseen problems. While many CSA's are operated by individual farm families, in recent years there have been many examples of several farmers working together in a CSA.

4. Vertical coordination and vertical integration

Vertical coordination refers to business models where different members up and down the production chain coordinate with each other. Looser forms of vertical coordination may involve more than one entity owning different parts of the process but working together, usually in the form of a long-term contract. For example, carrot growers may contract with a processor to grow a certain type of carrot on twenty acres for five years. Growers' networks can take on some of the attributes of vertical coordination. Tighter forms of vertical coordination, also known as vertical integration, may involve one firm owning the product and the processing facilities. Most of the poultry sector is vertically integrated where the same firm

owns the chickens, makes most of the major production decisions, and owns the processing. Growers who raise products under a vertically integrated model usually have a production contract with the owner of the product. This means they agree to raise or produce the product, although they do not own it.

Many producers and financiers like production contracts because they reduce the price risk for the farmer. But production contracting can involve other risks, such as when the contract terminates the grower may be forced to accept a less favorable contract or have no access to a contract at all. Many production contracts are for relatively short periods of time, either for the particular group of animals or crop, or for a year. Growers are commonly required to invest tens or

West Liberty Foods: Producers become processors

The Iowa Turkey Growers Cooperative in eastern Iowa formed in response to the impending closure of an Oscar Mayer turkey processing plant that had been in operation since 1948. In 1996, 47 turkey producers were given notice the plant would close in six months. In that time they formed a cooperative, located financing, and took over operation of the plant. The Iowa Turkey Growers Cooperative owns the processing part of the business, West Liberty Foods, LLC, as a subsidiary. Since its inception, West Liberty Foods, LLC, has become one of the largest turkey processors in the United States. It is a major supplier to the state of Iowa, the deli meat supplier of choice for two large sandwich shop chains, and also processes beef, pork, and chicken deli meats. Source: West Liberty Foods, LLC, website www.wlfoods.com

hundreds of thousands of dollars in facilities that may take ten or fifteen years to repay. The mismatch between the long-term debt and the short-term production contract means that growers bear the risk of not being able to obtain favorable contracts in the future.

Many vertically integrated systems are usually associated with more of a top-down decision making process where the processor makes most of the major production decisions and the growers have limited input. If the growers also own the processing end of the business, this dynamic changes because the growers set the production protocols. An advantage to vertically integrated systems is that the systems can facilitate more uniform production standards. The major downside is sometimes the farmer's loss of independence is coupled with the loss of an opportunity for entrepreneurial profit.

5. Marketing organizations

A marketing organization's business primarily involves locating existing suppliers, organizing them into some type of network, and arranging collection, processing, or distribution. A marketing organization may be a nonprofit group funded by grants or other sponsorship arrangements, or a for-profit venture that is taking advantage of an opportunity. One of the key characteristics of marketing organizations is they may not formally be a group of farmers or represent the farmers' interest. Rather the goal of the organization is to facilitate a market

Small farmers use Red Tomato as broker

One example of an innovative alternative marketing organization is Red Tomato, a nonprofit corporation from Massachusetts. Red Tomato was founded by Michael Rozyne to market and distribute organic produce grown under certain protocols. It is forging links between farmers, retail markets, and consumers by creating supply chains that can serve consumer demand for fresh produce grown in a sustainable way. Red Tomato serves as a brokerage operation between small farmers and retail food outlets in the Boston area.

The organization requires products it buys be produced using integrated pest management practices or be certified organic. Becoming a grower for Red Tomato is demanding. Unlike produce buyers who work in the spot market, Red Tomato is focused on building long-term supply chain linkages between high quality farmers, sellers and consumers. Because of variables in supply, logistics, and demand, each discrete product line is organized as a separate program, and growers of each product are ranked according to seniority and quality.

Red Tomato's pricing philosophy reflects its founder's concerns in the Fair Trade movement and its alternative approach to trading. Through research, communication and negotiation, a "dignity price" is established, below which Red Tomato will not venture. The reason given is Red Tomato recognizes farmers have to make enough money to be sustainable. Source: Red Tomato website. www.redtomato.org.

that has the intention of benefiting both the buyers and the sellers. In produce, this organization can take the place of traditional brokerage houses or packing sheds, while in livestock the traditional marketing organization are the auction markets and sale barns.

Because a marketing organization does not engage in any of the actual production or processing of the food, the capital needs can be relatively low. Nevertheless, if the organization attempts to set up a market on a grand scale or a market that involves sophisticated internet technology, the organization will need a source of capital. This can come from up-front fees to the users of the organization or from some type of royalty or percentage of sales.

Farmers markets typically take on the model of a marketing organization. Sometimes these markets are organized and run by the farmers themselves, while other times a municipality or a nonprofit organization will establish the market. Either way, the market serves as a meeting place for the buyers and sellers of the farmers' products.

Many marketing organizations now use the internet for sales and marketing. For example, the National Farmers Union recently launched a site designed to link farms, CSA's and cooperatives producing specialty crops to consumers, ecoop.netsville.com. The site encourages producers to create a profile on the website that can be used to match consumers with certain products in a specific region. Another example of this approach is Local Harvest, www.localharvest.org, where the website helps consumers locate farms, CSA's, food cooperatives, restaurants, and online stores in their region.

Farmers and consumers work together to create farmers' markets

The Adirondack Farmers' Market Cooperative has as members both farmers and consumers who want to support farmers markets in the Adirondack region of New York.

Two different types of memberships makes sense when you consider the coop's goals:

1. To provide an economical market for farmers and crafters to sell their goods;
2. To offer consumers a source of quality, locally raised foods and crafted goods; and
3. To provide a community activity center.

This marketing organization does not necessarily represent the economic interests of farmers or consumers, but it does address their combined desire to create markets where local produce and crafts are available. The group encourages different organizations in the community to have a presence at the market to help make the market a vital community event.

Membership benefits for farmers include discounted rates for vendor locations at numerous farmers markets, advertising for certain events, and general liability insurance coverage for the site. Membership benefits for non-vendors include a newsletter, invitations to annual social gatherings, the ability to provide input on the direction of the coop, and a tote bag.

Source: Adirondack Farmers' Market Cooperative website:
www.adirondackfarmersmarket.com.

CONCLUSION

You have a number of ways to work with others to market your products. When considering these different business models, consider how you fit into the group and how effective you think the group will be in meeting its goal of selling the goods. The marketing model answers the question of how the group actually markets the product. Depending on the model, you will then need to determine what type of legal business organization to use. The type of business organization will determine legal issues such as who is taxed on income, who has liability for losses, and who has legal control of the organization. These issues are considered in the next chapter.

Additional Internet Resources for Joint Producer Marketing Enterprises

Farmer Collective Bargaining Organizations

[Bargaining is Big for Small Business: Resurgence Seen in Bargaining Cooperatives](#) (USDA-RBS)

[Collective Bargaining by Farmers: Time for a Fresh Look?](#) (Choices Magazine)

[Cooperative Farm Bargaining and Price Negotiation](#) (USDA-RBS)

[Farm Bargaining Cooperatives: Group Action, Greater Gain](#) (USDA-RBS)

Growers' Networks

[Are Producer Alliances/Networks an Alternative for Producers?](#) (Purdue University)

[Collaborative Marketing: A Roadmap and Resource Guide for Farmers](#) (University of Minnesota Extension)

[Farmer Alliances - A New Breed is Emerging](#) (Ag Decision Maker)

Community Supported Agricultural (CSA) Enterprises

[CSA Resources for Farmers or Producers](#) (National Agricultural Library)

[Community Supported Agriculture](#) (Alternative Farming Systems Information Center)

[Robyn Van En Center for CSA Resources](#)

Vertical Coordination and Vertical Integration

[Economic Issues With Vertical Coordination](#) (Kansas State University)

[Farmer-Owned Cooperatives and Vertical Coordination](#) (Royer)

[Vertical Coordination and Consolidation](#) (Ag Marketing Resource Center)

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