

## Farmer cooperatives in the food economy of Western Europe: An analysis from the marketing point of view\*

MATHIAS MEULENBERG

*Agricultural University of Wageningen*

### *Summary*

*This paper is concerned with an analysis of farmer cooperatives in Western Europe from the marketing point of view. The analysis is restricted to marketing and processing cooperatives. First some basic characteristics of farmer cooperatives are discussed from a systems point of view. Afterwards changes in the environment of farmer cooperatives are reviewed. Their impact on farmer cooperatives is analysed. Finally some hypotheses on future developments of West European cooperatives are presented. Our analysis suggests that West European cooperatives will become increasingly hybrid systems, being democratic in the general policy stage and hierarchical in the executive stage.*

### 1. Introduction

Farmer cooperatives originated in the nineteenth century in Western Europe as a reaction to the weak market power of farmers both in selling products and in purchasing raw materials, like fertilisers. Starting out as local and regional enterprises, many cooperatives in Western Europe have developed into companies doing business on a national or even international scale. In particular since World War II, many cooperatives have become large companies.

Post-war changes in the markets of food and agricultural products have affected cooperatives a great deal. Consequently farmer cooperatives have changed substantially, but differently in various West European countries; for instance, within the EC market shares of farmer cooperatives have increased, but they are especially large in the Netherlands and Denmark (see, for instance,

\* The author is indebted to Dr. F. Terlouw, Dr. A. van Tilburg, Dr. C. Utterström and Dr. B. Wierenga for useful comments and suggestions.

Cogeca, 1974). Such differences in cooperative development in West European countries are the result of differences in the socio-economic structure and the agriculture of these countries. Also, the importance of farmer cooperatives varies according to type of product: dairy cooperatives have a substantial market share in many West European countries, whereas cooperatives for pigs and meat have a much smaller market share.

Notwithstanding the great diversity in the characteristics and market share of cooperatives, there are some common trends in the West European market for food and agricultural products, in particular since 1960, which have similar effects on farmer cooperatives. In this article we intend to analyse how these market trends influence cooperatives in the West European food economy. Because data are scarce, our analysis will have to be of a rather general character. In view of the objective of this paper cooperative development is analysed from a marketing point of view. Another restriction of our analysis is that we shall consider marketing and processing cooperatives only. Because of the great many types of farmer cooperative, it is impossible to cover them all in this paper.

The plan of the paper is as follows. First some fundamental characteristics of farmer cooperatives are discussed. Afterwards we shall review briefly major changes in agricultural markets that seem relevant to the development of cooperatives. The effects of these major changes on farmer cooperatives will be considered. Finally some views on the future development of farmer cooperatives are presented.

## 2. Basic characteristics of farmer cooperatives, presented from a systems point of view

### 2.1 *General aspects of cooperatives*

Economic reasons for the origin of farmer marketing and processing cooperatives have been discussed at length by many authors (Ter Woorst, 1966). They can be classified in two broad categories:

- a) farmers want to get a bigger share of the consumer's dollar through a strong bargaining power vis-à-vis private wholesalers or private processing industry, and
- b) farmers want to get a bigger share of the consumer's disposable income by making marketing and processing operations better than those of private

wholesale companies and private processing industries.

Farmer supply cooperatives originated primarily as a countervailing power to private suppliers of fertilizers and of other means of production. Especially in their infant period, cooperatives had a multipurpose function both of selling farmers' products and supplying means of production to farmers.

Engelhardt (1971) distinguished the following general characteristics of cooperatives. There is real cooperation between economic units and not only mutual coordination, like between companies in a cartel; it is a personal cooperation and not a collectivistic cooperation imposed by public power; the cooperative members are separate economic units which are legally and economically independent; cooperation involves the integration of one or more functions performed by the cooperating economic units. Also Ter Woorst and other experts underlined as a characteristic of cooperatives the cooperation of independent economic units in some economic functions, which are essential to these economic units (Ter Woorst, 1966; Emelianoff, 1942).

West European farmers have established a great many cooperatives, like for the purchase of means of production, for production and for marketing of agricultural products.

At the input side of the farm, farmers cooperate in purchasing raw materials, like fertilizers and compound feed. Supply cooperatives have been established which do not only provide farmer-members with the means of production at reasonable prices but also offer them service and advice; supply cooperatives have become 'problem solvers' for farmers. Farmers are rarely obliged to purchase means of production from their supply cooperatives.

Farmer production cooperatives are less numerous in Western Europe than in some other European countries. They occur in Western Europe, for example, in the use of machinery.

In the field of marketing and processing of agricultural products, many cooperatives have been set up in Western Europe. These cooperatives are often linked to a specific agricultural product or a specific group of products, like milk or vegetables. The relationship between these cooperatives and farmer-members is more strict than for supply cooperatives: farmers are often obliged and have the right, to deliver their products to their marketing/processing cooperative.

Multipurpose cooperatives which supply raw materials to farmers and sell farmers' products have become less important in Western Europe with increasing size and sophistication of cooperatives.

## 2.2 *Elaboration of some cooperative characteristics from the systems point of view*

Some characteristics of marketing and processing cooperatives will be discussed on the basis of concepts developed in systems-thinking. In this section we will confine ourselves to some basic characteristics which have seemed important for cooperatives right from the beginning.<sup>1</sup> In section 4 it will be analysed how these characteristics have been influenced by changes in markets during the past twenty years.

*The economic goal* of marketing and processing cooperatives was originally 'to realize the highest price for products supplied by farmer-members'.

*The environment* of the cooperative at the output side is in principle the same for marketing and processing cooperatives as for private companies.<sup>2</sup> Both have to consider as the important elements of their environment: consumers, retailers, competitors and government.

Government, an important element in the cooperative environment, takes in many West European countries a favourable attitude towards cooperatives, for instance in taxation. A favourable attitude towards cooperatives can also be observed in exceptions to Article 85 of the Rome Treaty prohibiting a wide range of collusive practices. For instance, Article 2 of Regulation 26 says: 'Article 85 shall not apply, in particular, to any agreements, decisions and practices of farmers, farmer associations or associations of these associations, which belong to a single Member State, in so far as, without imposing the obligation to charge a specific price, these agreements and practices concern the production or sale of agricultural production or the use of joint storage facilities, treatment or processing of agricultural produce, unless the Commission finds that competition is consequently excluded or that the objectives of Article 39 of the Treaty are jeopardised' (Delagneau, 1976). Regulation no. 159 in favour of Producers' Organisations for Fruit and Vegetables is another exception to Article 85 of the EEC, which might be favourable to farmer cooperatives.

At the input side, the environment of marketing and processing cooperatives differs from that of private companies because of the special relationship with farmer-members. This seems to the advantage of these cooperatives since there is less time involved in acquiring input, in particular when there is a shortage in the market.

*Marketing instruments* to realize cooperative goals are, in principle, the same for cooperatives as for private enterprises. Product, price, promotion

and distribution, the 'Marketing Mix', should be used appropriately in order to supply markets. These instruments cannot always be used by marketing and processing cooperatives to the same extent as by private companies because of specific characteristics of these cooperatives:

- Farmer-members are entitled or are even obliged to deliver their products to the marketing and processing cooperative. Under these circumstances cooperatives have a limited influence on the quality and quantity of products delivered by their members.
- Marketing and processing cooperatives aim at realising the highest price for products supplied by farmer-members. Consequently cooperatives may not reserve enough for product research and technology improvements, leading to better products and better prices in the long run; they are tempted to prefer a short-term policy to a long-term policy. Also taxation systems for cooperatives can stimulate a policy of paying highest price to farmers at the cost of investments. This was the case in the Netherlands until 1969.
- Cooperative decisions are ultimately made by farmers who were and sometimes still are more product-oriented than market- or technology-oriented.
- The one man-one vote system or a variation thereof, the fundamental characteristic of cooperatives, makes prompt decision-making difficult; voting by all members, a valuable democratic attainment of cooperatives, is not conducive to innovative decision-making.

These characteristics influence in various ways the grip of cooperatives on their 'Marketing Mix'.

*Product.* Cooperatives have hardly any say in the quality of products supplied by farmer-members. Thus they can use product quality as a marketing instrument mainly through built-in services. Marketing cooperatives influence products supplied by farmers through grading, sorting and packing. They also try to influence quality of farmers' products by quality premiums. In addition processing cooperatives influence products by their processing technology.

The say of cooperatives in the quantity supplied by members varies, but is often limited. This can be illustrated by examples from the Netherlands. Some marketing and processing cooperatives in the field of cattle and meat have no statutory obligations about the delivery of products. Cooperative auctions for fruit and vegetables and dairy cooperatives oblige and entitle farmer-members to deliver products to the cooperative. Cooperatives for sugar-

beets oblige farmer-members to deliver a minimum quantity per share owned and entitle them to a maximum delivery per share. Finally cooperatives in the field of sowing seed and seed potatoes use contracts to regulate supply of farmer-members. This sequence of examples shows an increase in cooperatives' influence on quantity of products supplied by members.

It is not always easy for marketing and processing cooperatives which cannot influence the product supplied by farmer-members, to expand their product assortment according to the needs of the market.

*Price.* Compared with private companies, cooperatives do not seem to have fundamental drawbacks in using price as a marketing instrument. However, cooperatives sometimes use price more extensively as a marketing instrument than private companies because of a lower sophistication in product policy and promotion.

*Promotion.* Compared with private companies, cooperatives do not have specific disadvantages in promoting their products. It must be realised, however, that the potential use of promotion is correlated to product properties in particular, to the extent that products can be differentiated in the market. For instance, small cooperatives are not able to establish brands for their consumer products. This shortcoming, however, is not due to the cooperative system as such but originates from the small size of many cooperatives.

*Distribution.* In distribution of products, marketing and processing cooperatives have no shortcomings as a result of basic cooperative characteristics. Distribution problems are more the result of too little customer orientation and too much product orientation of cooperatives. Restrictions on the use of distribution as a marketing instrument are mainly temporary. They often go together with small size of cooperatives.

*Management.* Cooperatives' goals should be realised by an effective marketing policy and an efficient management of the company; sales minus costs ultimately determine what will be available to farmers. Differences in the quality of cooperative management depend to a large extent on factors which are not specific to cooperatives, like personal capacities of managers. When a board of farmers, who are primarily concerned about the price of farm products, determines cooperative policies, as happens to be the case in small cooperatives, professional management has limited room for innovative action. Moreover, risk-bearing capital of cooperatives is limited. Especially at the beginning, cooperatives were product oriented and to a lesser extent market-oriented. They have not been so innovative in terms of management and marketing in their branch and often have imitated private companies, in particular the large ones.

*The components of the cooperative system.* The most important difference between a cooperative and a private company is the subsystem of farmer-members and the subsystem of the cooperative company. A poor relationship between professional management which determines the day-to-day business of cooperative company, and farmer-members is detrimental to cooperatives. Farmers as a subsystem should determine main lines of cooperative policies, but leave the cooperative company enough room for creative and efficient management. There are a great many types of cooperative structure aiming at fruitful cooperation between the subsystems farmer-members and the cooperative company. Communication between these subsystems is very important in this respect; a satisfactory size of the cooperative is valuable. We will abstain from further discussion on optimum cooperation between the subsystems distinguished, since it would involve us in the domain of organisation theory.

*Policies.* In order to realise their goal, cooperatives apply policies, which vary according to type of product and market. There are elements in these policies which seem specific to cooperatives. Some of these elements will be discussed now.

a) Decisions have to be made about the extent to which a cooperative becomes involved in trading and processing.

One may observe the following range of cooperative structures characterised by an increasing involvement in processing and marketing of agricultural products:

- cooperative auctions, which provide only one way by which farmers can sell their products to wholesalers;
- bargaining cooperatives, which sell products of farmers at the best possible price without doing an extensive marketing job or without being involved in processing;
- marketing cooperatives, doing an extensive marketing job to realise a good price for the product as supplied by farmers;
- processing cooperatives, which transform products supplied by farmer-members and market them in the best way.

The cooperatives' grip on marketing instruments is increasing in this sequence, as is the cooperatives' responsibility for farmers' income. The cooperative structure to be chosen by farmers depends on the market structure in which the cooperative is operating and on the financial resources of farmers. For instance a marketing cooperative bargaining for the best prices requires

less risk-bearing capital than a processing cooperative using sophisticated technology: a substantial market share is a prerequisite for effective bargaining too.

A cooperative that starts with a modest grip on marketing instruments, may strengthen its policy by shifting to another structure providing more grip on these instruments; for instance, an egg-selling auction shifted to an egg-marketing cooperative. Marketing-policy can be changed also by offering additional marketing services but leaving the fundamental structure of the cooperative unchanged: for instance, a cooperative auction for fruit and vegetables which expands its activities by a minimum price scheme, by storage facilities to wholesalers, by advice about new products to their members and by promoting products.

b) To what extent should cooperatives work together horizontally or vertically with other cooperatives?

Cooperatives sometimes have insufficient capacities to attain their goals. In the early stages of the cooperative movement, small processing cooperatives sometimes joined a big secondary cooperative that was better able to market or process products of member-cooperatives. Cooperatives can get rid of problems of scale in marketing policy by amalgamation. Through concentration cooperatives have gained a stronger grip on marketing instruments. The trend towards bigger cooperatives has increased the economic importance of the cooperative companies as a subsystem vis-à-vis farmer-members as a subsystem.

c) Are joint ventures useful to cooperatives?

Especially to penetrate difficult or new market segments or to master new methods in technology and in selling, some cooperatives have set up joint ventures as an independent corporation, sometimes in cooperation with private companies. Such joint ventures were successful, if they had, as a company, enough room for their own policy and if their potential field of activities was large enough. Joint ventures of cooperatives sometimes failed because they were not sufficiently equipped both in terms of financial means and of entrepreneurial capacities. Some experts advocate strongly joint ventures between cooperatives and private companies as a method for farmer cooperatives to gain access to new technology (amongst others, R. A. Goldberg, 1972, emphasises this point).

d) Should cooperatives do business with non-members?

Essential to the cooperative company is its relationship with farmer-members. Nevertheless cooperatives are sometimes tempted to do business with non-members: they can operate at full capacity through attracting additional business, which might strengthen the competitive position of cooperatives in their markets. Also in this way cooperatives help marketing of agricultural products in a broader sense than by serving their members only. However, since non-members profit in this way from a cooperative without sharing cooperative financial risks with farmer-members, cooperative business with non-members can be only tactics, a short-term policy, and not strategy, a long-term policy.

### 3. The changing environment of farmer cooperatives

Many changes have taken place in the environment of West European farmer cooperatives since World War II. While the period 1950–73 might be characterised as a booming West-European economy with increasing population, the situation has changed fundamentally since 1973. We will briefly review some changes in the West European economy which seem of great importance to marketing and processing cooperatives, as a marketing system.

#### 3.1 *Changes at consumer level*

– *Increasing disposable income* per capita in Western Europe has been a stimulus to the demand for food and agricultural products. In spite of modest income elasticities for food in total the demand for food has increased in particular for meat, poultry, fruits, vegetables, beer and, in some West European countries, for wine.<sup>3</sup> Also farmer cooperatives have profited a great deal from this increase in demand. Since 1973, however, the West European economy has become more gloomy and growth of income is expected to be modest for the near future, which will have its impact on potential sales of cooperatives.

– *Changing cultural trends* have influenced consumer behaviour in Western Europe; changes in income and in prices are not the only important factors which determine developments in the demand for food. The following cultural trends seem important to food consumption.

*Health consciousness* has increased; there is more concern about 'modern' diseases, like heart diseases. Its impact on the demand for food can be observed in the sales of 'healthy' food as in the market for margarine.<sup>4</sup> This concern for health is a very important issue for a great many agricultural products like milk, dairy products, eggs, meat, fruits and vegetables.

*Nature' consciousness* of consumers has emerged as a reaction to the mass-production and mass-distribution of prepared and pre-packed food. Some consumers, a minor group as yet, have developed very strong attitudes in this respect and have become very strict in their demand for 'natural' food.

*The way of life* has changed in many respects. Increase of free time and tourism influence food consumption and type of food. Consumers have come into contact with foreign food. This experience and the promotion of producers and retailers have stimulated consumers' needs for variation in type of food and in way of consumption. Housewives working outside the home and increasing labour costs are characteristics of West European way of life that have created a demand for prepared food and for instant food.

*The youth* has become a group of consumers with substantial purchasing power. They have become a market segment with its own characteristics and opportunities, being important for some specific foods like snacks.

*Consumers have become more educated* and better informed and consequently take a more critical attitude towards products and producers.

– *Demographic changes* that affect food consumption are, for example, a decreasing growth in the West European population as a result of decreasing birth rates, and an increasing percentage of elderly people (Eurostat, 1977). The consequent increase in numbers of old peoples' homes is stimulating institutional demand for food too.

– *Consumerism* has become an important issue in food marketing. Consumers as an organised pressure group have become more powerful in influencing marketing regulations for food; West European governments and the EC Commission pay progressively more attention to consumers' groups before introducing regulations on issues like product content, advertising codes, packing methods and product pricing.

### *3.2 Changes in government influence*

Western Europe has been familiar with governmental interference in the market of agricultural products for a long time already. The EC Commission strongly influences production of a substantial number of agricultural products in a qualitative and quantitative sense by its market and price policy. Farmer cooperatives, but also private companies, have been influenced by measures of the EC Commission, which have been taken within the context of its structural policy.

The present structural problems of West European economies stimulate the government role both as a referee, putting limitations on farming and food industry, and as a change-orienting agent trying to improve employment and economic results in agriculture and food industry.

### *3.3 Increasing competition in food markets*

West European farmer cooperatives face increasing competition in their markets. Cooperatives experience competition from private companies, which evolved by merger to a smaller number of big companies having great potential in marketing and research. Because of a conglomerate structure, quite a few private companies are more flexible in changing assortment than farmer cooperatives which are linked up to specific raw materials like sugar beet or milk. This flexibility advances the opportunities of private companies to withdraw from unprofitable operations in processing and wholesaling of agricultural products. Consequently it might force farmer cooperatives to expand more in these less profitable operations than private companies.<sup>5</sup>

The number of suppliers in West European food markets has increased by internationalisation of trade. EC and EFTA have eased trade in food and agricultural products within Western Europe. Also by concentration food industries and retail companies have attained sufficient size to supply or to purchase in international markets. Another impetus towards internationalisation of markets is the increasing capacity of Mediterranean countries and of some developing countries to sell agricultural products in Western Europe; the market of fruit and vegetables is a case in point. Competition in some agricultural markets has increased also because of overcapacity in processing industry. Economies of scale and the marketing objective of companies to maintain or even increase market shares have stimulated investments, for instance in the dairy industry and in the broiler industry. In conjunction with a

satiating demand<sup>6</sup> for food in Western Europe, these factors have increased competition in markets for food and agricultural products.

### *3.4 Changing retail structure*

Changes in food retailing are most important to farmer cooperatives. The main changes, which are to a certain extent interrelated, are: (a) a concentration in retailing which increases bargaining power of retail companies vis-à-vis their suppliers; (b) the emergence of specific marketing policies of retail companies by a specific 'Marketing Mix': assortment, quality, price, promotion and service; and (c) a drive for efficiency in retailing because of strong competition between retail shops. These developments can be observed not only for big chains but also for voluntary chains, consumers' cooperatives and buying groups. These changes in food retailing require that producers and wholesalers fit their products into the marketing policy of specific retail groups; this is of utmost importance in developing new products. Also, retail companies take a more active part in production by specifying products to be made by the industry.

Price has become a very important marketing instrument in food retailing: retail shops have got more opportunities for price policy since retail price maintenance has almost disappeared and bargaining power of retail companies vis-à-vis supply companies has increased. The need for efficiency improvement stimulates the search of retail companies for low purchasing prices.

As a result of specific marketing policies of retail companies food retail trade becomes segmented: for instance, the policy of discount stores stresses low prices and that of specialty shops stresses quality of products.

### *3.5 Changes in farming*

Changes in farming have a very strong impact on cooperatives. Important changes in this respect are:

- a trend towards larger, more specialised farms, whose income depends on a smaller number of products (Eurostat, 1976);
- many farmers invest substantially in modern equipment and in other means of production and therefore incur great financial risks;
- young farmers are better educated and more business-minded;
- the political strength of farmers as a group decreases relative to other pressure groups like consumer-organisations;

- farmers have to live with an increasing number of government regulations to protect nature and the environment;
- in some West European countries there is an increasing number of part-time farmers who have other business interests.

#### **4. Changes in farmer cooperatives as a result of a changing environment**

The changes in cooperatives due to changes in the cooperative environment will be discussed now by analysing changes of goals, policies, marketing instruments, components and management of cooperatives.

##### *4.1 Adaptation of goals*

Marketing and processing cooperatives have to adapt their goal of 'realising a maximum price for the products supplied by farmer-members' into the more general goal 'a satisfactory income and continuity of business both for farmer-members and employees by marketing/processing a specific group of products of farmer-members'.

This broader goal is the result of (a) the trend towards specialised farms whose income depends on a limited number of products and whose owners have invested substantially in machinery, buildings and in other means of production for a long period, and (b) the greater importance of employees as a group having their own specific interest and aspirations, particularly in large processing cooperatives.

Since demand of consumers and retailers is changing, this broader goal in comparison with price maximisation requires marketing and processing cooperatives to support farmers by improving farm products or by stimulating new products at the farm. It implies for instance that in the declining stage of the life cycle of a particular farm product, a cooperative might better try to change product assortment at the farm level instead of increase efforts to accomplish the best price for this waning product. Also it requires more investment in research and marketing of cooperatives, to the cost of highest prices for farmers' products in the short run. These investments have to secure cooperatives' and farmers' income in the long run.

#### 4.2 *Change in cooperative policy*

In order to realise the broader goal described in subsection 4.1, cooperative policies have to be modified. Cooperatives must sell what the market is looking for so that a market-oriented policy is necessary. They have to supply specific consumer groups and specific types of retail shop in an appropriate way: market segmentation.

Also innovation of products in terms of assortment, quality and packing has to become an essential element of cooperative policy. Its distribution policy should aim at optimal access of products to the market so that there is cooperation with retail companies, for example in product development and service merchandising. Products should be promoted to stimulate demand and to differentiate products from competitive supply. Farmer cooperatives have to guide farmers from the marketing point of view.

Now it is convenient to comment on the specific policy-issues, discussed in section 2.

Marketing policies and organisational structure evolve in such a way that cooperatives have more opportunity for processing and marketing farmers' products according to the needs of the market. Selling farmers' products by cooperative auction or by cooperative bargaining without additional services is no longer satisfactory. Moreover, the optimum policy and consequent cooperative structure vary with the type of market to be supplied.

Costs involved in the recommended increase of research, development and marketing by cooperatives will enhance further amalgamation of cooperatives, and also horizontal cooperation of cooperatives in specific projects. Vertical cooperation between primary and secondary cooperatives has to be reconsidered too. Either primary cooperatives increase their marketing and processing capacities, because of amalgamation, to such an extent that secondary cooperatives have to accommodate their services to the policy of the primary cooperative or the secondary cooperative integrates processing and marketing functions of primary cooperatives to a large extent and leaves some minor functions to the primary cooperative. More marketing- and processing-potential of existing cooperatives by horizontal and vertical cooperation, as indicated, decreases the need for establishing independent corporations as a joint venture of cooperatives.

#### *4.3 Changes in the application of marketing instruments*

Marketing instruments of cooperatives will have to be applied more extensively in order to realise the policies suggested.

*Product.* The quality of the products of farmer cooperatives should meet the requirements of consumer and retailer. Cooperatives must therefore not only invest in research and development, but they should also be able to influence agricultural products of their farmer-members insofar as this is necessary for a good marketing policy. The latter can be pursued by price differentiation, by advice and instruction to farmer-members, by financial incentives to farmers for trying new products or new production methods and by contracting. The first mentioned procedures fit into a system of planning by persuasion and seem very applicable in the cooperative system. Whether they are effective depends, however, on the willingness of farmer-members to cooperate; they might not always bring about the described result. Contract farming is more powerful in this respect. Contracting, however, requires sufficient power of cooperatives vis-à-vis farmer-members and may therefore conflict with a farmer's right to deliver his products to the cooperative, whatever their quality.

Also, cooperatives should command sufficient quantities of homogeneous supply to establish a brand or to supply big retail companies. Then larger cooperatives would be stimulated because actual cooperatives are sometimes too small yet.

*Price* has remained a very important instrument in food markets. In particular, retail companies are very keen on purchasing prices. Increase of bargaining power by amalgamation of cooperatives and collusion between cooperatives has become a useful device for improving price level. Bargaining is useful but not always fully effective because of the strong bargaining power of big retail companies and because of the huge supplies in quite a few West European food markets. Cooperatives therefore should mitigate price competition also by differentiation of product and service and by branding. A product policy of cooperatives which spreads market risk seems a useful device in price competition as well. Finally, efficiency in operations is very important for the cooperatives to withstand severe price competition.

*Promotion* becomes a necessary instrument to large cooperatives because of the big markets they have to serve and because of differentiated products they offer to the market. Type of promotion depends on characteristics of the product and of the markets to be supplied. Promotion in collaboration

with big retail companies becomes extremely important to marketing and processing cooperatives in order to get access to markets.

*Distribution.* Besides serving a traditionally existing demand at a specific time and place, distribution becomes to a greater extent a demand-creating instrument: products have to be offered at a time and place, where *potential* demand for the product is available. Consequently, cooperatives have to compete for a place on the retailers' shelves and distribution methods should suit the type of customer, ranging from mass-distributor to specialty shop, by appropriate methods of personal selling, service merchandising and joint projects.

Physical distribution methods which diminish costs of storage, transport and warehousing, are of great use to retailers. Those cooperatives, who are able to offer retailers a good service in this respect, enjoy a competitive advantage. This distribution approach emphasizes the need for a customer orientation, which is a hard job for a 'product-oriented' farmer cooperative.

#### *4.4 Evolution of the components of the cooperative system*

The components of the cooperative, farmers as a subsystem and the cooperative company as a subsystem, have to evolve to facilitate an adequate marketing policy and a satisfactory command of marketing instruments. An adequate marketing policy calls for a good staff in the field of general management, of marketing, administration, research and development, and production. Overhead costs of such qualified personnel stimulate further amalgamation of cooperatives and collaboration of cooperatives in joint projects. A satisfactory command of marketing instruments requires that cooperative companies should determine what farmer-members should produce in view of market developments

Value added by the cooperative company is increasing and the cooperative company is gaining momentum vis-à-vis the farmer-members. Employees of the cooperative increase in number and strategic power within the cooperative system. Also because of the trend towards workers having more say in an enterprise, employees emerge in large cooperatives as a group in its own right. Employees expect from the cooperative continuity of jobs, good income and good working conditions while farmers want to realise the highest income from their products. These goals might conflict if a cooperative intends to expand potentially profitable activities that are alien to the farmer and his products.

The indicated developments in the distinguished subsystems of the cooperative system, namely farmer-members and the cooperative company, might cause a gap between these subsystems and consequently diminish farmers' loyalty to the cooperative.

On the basis of business arguments farmers should remain convinced that cooperatives are very important institutions. Quality of cooperative management, good communication within cooperatives and educational programmes should strengthen farmers' loyalty towards their cooperatives.

#### *4.5 Changing management of the cooperative*

From the development described it follows that business operations of cooperatives have to be managed increasingly by professionals. Farmer-members have to concentrate on making general policy decisions and controlling professional management. In order to determine general policy and to control professional managers, farmers on the boards of large cooperatives should have substantial administrative capacities. Also it is valuable that the ideas and opinions of young and efficient farmers filter through to the board of the cooperative, since these farmers constitute the core of the cooperative members of the future.

### **5. Future structure of farmer cooperatives: Some deductions and hypotheses**

Having discussed some major changes in cooperatives, we will now suggest some general characteristics of the farmer cooperative in the future.

#### *Structural characteristics of farmer cooperatives*

From the marketing point of view, farmer cooperatives will become increasingly a hierarchical system which transforms the stimuli received from the market – consumers, retailers, other customers and competitors – into a policy for the cooperative company and into requirements for production decisions of farmers; there will be a shift from 'bottom up' to 'top down' decision-making in cooperatives. Farmers will have to accept the leading role of cooperatives from the marketing point of view in their own self-interest. While becoming more hierarchical from the marketing point of view, farmer cooperatives should remain, however, a democratic system in which farmer-members decide about the general policy lines of the cooperative. Therefore, farmer

cooperatives will become a hybrid system, being democratic in the determination of general policy lines and hierarchical in the executive stage. Such a hybrid system can function only when farmers are willing to delegate to cooperatives the authority to influence quality and quantity of products supplied by farmer-members, insofar as this is necessary from the marketing point of view.

For such a hybrid system to function effectively, cooperative farmer-members should be sufficiently homogeneous. Effective quality specification by cooperatives might be difficult otherwise. But cooperatives sometimes contain a heterogeneous lot of farmer-members. Then a cooperative has to organise farmer-members in different homogeneous groups, on the basis of special programmes.

The growing involvement of cooperatives in production methods at the farm in order to realise the quality required by the market will stimulate collaboration between supply cooperatives and marketing and processing cooperatives. Supply cooperatives seem in a better position to change farming systems according to the needs of the market than processing and marketing cooperatives since they have become problem solvers to farmers. Processing and marketing cooperatives have a better insight in the needs of the market for agricultural products than supply cooperatives.

#### *Cooperatives' place in the food marketing system*

Agricultural products are produced and sold within a vertical marketing system from producer to retailer inclusive. Within this vertical marketing system, the farmer cooperative has a leading role in the subsystem of 'farm plus processing industry and/or wholesaler'. As such it has to coordinate policy of this subsystem with the policy of the subsystem of 'retailers plus distributive wholesalers'. Within this vertical marketing system for food and agricultural products, cooperatives experience the strong vertical competition between the farm-based subsystem and the retailer-based subsystem. It seems unlikely that farmer cooperatives ultimately will integrate retail companies to be sure of a good outlet for their produce. The breadth of assortment in mass retailing and depth of assortment in specialty shops are much greater than, and sometimes not even compatible with, the assortment that cooperatives have for sale.

#### *Increasing international orientation of cooperatives*

Cooperatives will reinforce market power by further concentration on a

national scale. They will, however, also have to increase activities internationally. In this way they can profit from international expansion as many private companies do. By international collaboration, cooperatives can increase their business and improve their profits without reaching too big a market share in national markets which for specific products, e.g. milk, might occur through further expansion of cooperative business on a national scale.

*The general role of cooperatives in agriculture*

The expected continuation of concentration in West European cooperatives, at least in the near future, poses the question whether cooperatives might become too powerful in some markets. It is our opinion that the ideal market situation would be fair competition between cooperatives and private business. A hundred percent cooperative agriculture at all stages of production and marketing will lack the necessary competitive stimuli to serve farmers and consumers best.

A leading role of cooperatives from the marketing point of view should not extinguish farmers' entrepreneurship. Farms plus cooperative company should not become one corporate vertical marketing system but preferably a system working on the basis of persuasion and administration and only, if really necessary, on the basis of contracts.

Finally, it is our opinion that cooperatives, developing along the lines as indicated, will be able to mitigate fundamental disequilibria between supply and demand for a specific agricultural product on a national or West European scale. They will lack, however, the power to restore fundamental disequilibria in the market. Also in the future fundamental disequilibria between supply and demand can only be solved by the total agricultural industry in cooperation with national governments or international authorities.<sup>7</sup>

**NOTES**

1. The concepts used are largely due to C. W. Churchman (1968). Our systems approach to farmer cooperatives differs from the approach taken by some other authors such as Torgerson (1977), probably because we analyse cooperatives from the marketing point of view, while Torgerson discussed farmer cooperatives in general.
2. The environment of a system is defined as 'a set of elements and their relevant properties, which elements are not part of the system, but a change in any of which can cause or produce a change in the state of the system' (Ackoff and Emery, 1972).

3. A systematic analysis on that matter is made for instance by FAO (1971) and by Kommission der Europäischen Gemeinschaften (1974). For the EC countries recently forecasts of demand for agricultural products have been made by G. Boddez et al. (1978).
4. For instance, in the Netherlands annual per capita consumption of margarine decreased from 19.6 kg in 1965 to 13.4 kg in 1976, while annual per capita consumption of halvarine, a low fat margarine, increased from zero to 3.1 kg during the same period (Centraal Bureau voor de Statistiek, 1977).
5. For an interesting discussion of such developments in France the reader is referred to a study of Ph. Nicolas (1977).
6. The annual per capita intake of calories in Western Europe is expected to stabilise. See for instance FAO (1971).
7. A scenario about a 'Cooperative Agriculture' is presented by Knutson and Black (1973).

## REFERENCES

- Ackoff, R. L., and Emery, F. E. (1972). *On purposeful systems*. Chicago, Aldine, Atherton.
- Boddez, G., Ernens, M., Frank, W., and Lommez, J. (1978) *Demand estimation 1985 of food and agricultural commodities in EEC and member-states*. Paper delivered at the Second European Conference of Agricultural Economists, Dijon, France, 4-9 Sept. 1978.
- Centraal Bureau voor de Statistiek (1977). *Statistisch Zakboek 1977*. 's-Gravenhage.
- Churchman, C. W. (1968). *The systems approach*. New York: Dell.
- Cogeca (1974). *De Landbouwkoöperatie in de Europese Economische Gemeenschap*. Brussel.
- Delagneau, B. A. (1976). Agricultural cooperative marketing within the context of the EEC competition policy. *Journal of Agricultural Economics*, 27: 53-77.
- Emelianoff, I. V. (1942). *Economic theory of cooperation*. Ann Arbor: Edwards.
- Engelhardt, W. W. (1971). *Der Funktionswandel der Genossenschaften in industrialisierten Marktwirtschaften*. Berlin: Duncker und Humblot.
- Eurostat (1976). *Yearbook of agricultural statistics, 1976*. Luxembourg.
- Eurostat (1977). *Monthly general statistics bulletin, 1977*. Luxembourg.
- FAO (1971). *Agricultural commodity projections 1970-1980*, Vols. 1 and 2. Rome.
- Goldberg, R. A. (1972). Profitable partnerships: Industry and farmer co-ops. *Harvard Business Review*, 50 (March-April).
- Knutson, R. D., and Black, W. E. (1973). A cooperative agriculture. *North Central Regional Extension Publication* 32(4). Champaign: University of Illinois.
- Kommission der Europäischen Gemeinschaften (1974). Projektion über Erzeugung und Verbrauch landwirtschaftlicher Erzeugnisse, 1977. *Hausmitteilungen über Landwirtschaft*, 129. Brussel.
- Nicolas, Ph. (1977). Differentiation et expansion de la coopération agricole dans l'économie agro-alimentaire. *Economie Rurale*, 121: 44-55.

- Torgerson, R. E. (1977). Farmer cooperatives. *Annals of the American Academy of Political and Social Science*, 429: 91–102.
- ter Woorst, G. J. (1966). *Coöperatie als vorm van economische organisatie*. Arnhem: Van Maastricht en Verhoeven N.V.