
Support for Farmers' Cooperatives

Case Study Report
***The essential role
of territory:
Advantages and
disadvantages of
niche strategies***

Maryline Filippi



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Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

The collection of data for this report was done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis and comparative analysis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The author would like to thank the Chairmen and Managers of *Haricot Tarbais*, of *Maisadour* and of *Terres de Gascogne* for their willingness for collaborating in this project and for sharing information on the structure and the strategy of their cooperatives. The author would also like to thank other stakeholders and professional organisations for their collaboration: Coop de France: Chantal Chomel, head of the Legal Department, and Arnaud Camuset, in charge of Business Intelligence and Jacques Weill, manager of Coop de France Aquitaine.

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1. Introduction

1.1 Objective and research questions

The growing market internationalization brought about by increasing competitiveness pressure, combined with the need for more and more capital, is forcing cooperatives to modify their business model. One such cooperative business model, that of a niche, has been proposed by Van Bekkum (2001). He argues that that particular cooperative model can be analyzed as follows: it is characterized by low leadership costs, strong differentiation in high value-added products, with significant investments per unit of member produce, combined with highly-individualized relations between members and their cooperative.

The case study developed here focuses on the interactions between cooperative structure and the particular strategies adopted by the cooperatives, whether they are production-oriented or market-oriented. The topic of the specific structure–strategy match is further delineated in the following research questions: What are the links between cooperative structure and the adopted strategies? What is the effectiveness of the various policy measures used to help producers and their cooperative, or in what respect (or how) are their organizations affected?

Cooperative strategies can be divided into those based on costs, and those based on product differentiation. Cooperatives need to adapt their strategies and realign their organizational structures accordingly. Sustainable competitive advantage stems from managing the business value chain so as to maximize customer delivered value.

The central issue to be addressed by this case study is that of niche cooperatives which, as they benefit from, for example, Protected Designation of Origin (PDO) or Protected Geographical Indication (PGI) (Lucatelli, 2000; Barham, 2003; Sylvander *et al.*, 2007), are bound to their region, with ensuing external effects on rural development. But their links with their territories (terroirs) is much greater than that, since it includes their specific circumscription, a territorial delimitation referring to their French agricultural legal statute. It should never be forgotten that, in France, all cooperatives benefit from territorial specificity.

French cooperatives have a different legal specificity than that of other European countries: territorial constraint. That means that first-level cooperatives are the property of the member-owners located in a specific territorial area, and that cooperatives need to obtain **official territorial authorization** (10th September 1947 Law: see article L.522-2 of the French Rural Code) (Chomel, 2006). That authorization accords them the right to operate, but only within the economic sector applied for, and only within the limits of a specific and restricted territory (Filippi, Frey, Torre, 2011). That condition does not apply, however, to cooperative subsidiaries, which are not governed by the cooperative statute. This territorial constraint participates in defining the link between farmer-members and their cooperatives (Chomel, 2010). The **social purpose** of a cooperative is to help its owner-members enhance the value of their production. So territorial constraint defines the products to be collected or sold by cooperatives.

We have chosen to illustrate this case study via three cooperatives. The three case studies developed here show the degree of success of cooperatives in the different sectors and analyze the specific support measures that have been effective and efficient for the promotion and development of those cooperatives. We thus obtain comprehensive insights into their competitive position in the food chain, the internal and external governance of cooperatives, and the specific regulations and support measures used in particular sectors.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. Those factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, whether processors, wholesalers and retailers. Internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that go with the delegation of decision rights). Institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

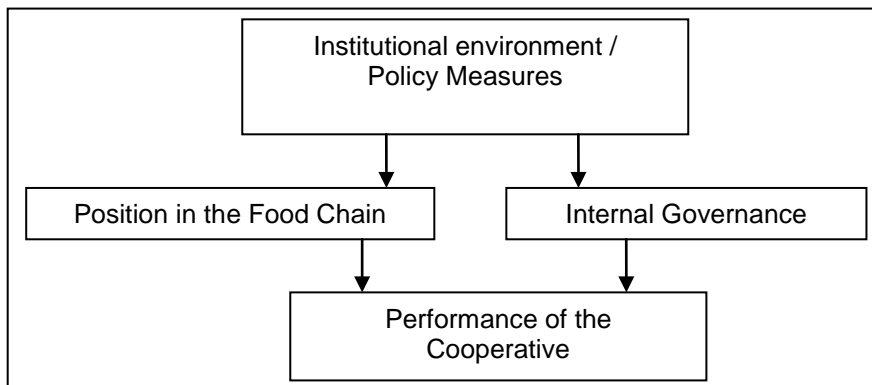


Figure 1. The core concepts of the study and their interrelatedness

Cooperatives are regularly criticized for having only limited access to capital investment and for having a slow and, therefore, inefficient decision-making process. Those two handicaps affect the competitiveness of cooperatives, especially in the case of liberalized markets. How cooperatives manage to adapt, is essential for their viability, but also for the performance of their member-owners (Kyriakopoulos and van Bakkum, 1999). The analysis proposed by van Bakkum (2001), seeks to evaluate *cooperative viability* in terms of organizational structure. The author then proceeds to explain how governmental market and prices strategies can lead to differentiated impacts on cooperatives.

As shown by van Bakkum (2001), cooperative patterns can be analyzed by combining three axes: (1) cost leadership, (2) product differentiation and (3) the degree of individualization of cooperative-member relations such as transaction of product, investment of capital, participation in governance and decision making. That leads van Bakkum to identify four extreme models: village cooperative, commodity cooperative, niche cooperative and value-added cooperative.

In the specific case of niche cooperatives, the cost leadership strategy (axis N°1) is low, which concerns small product throughput volumes, the differentiation strategy (axis N°2) is high, which concerns strong differentiation in high value-added products and, hence, significant investments per unit of member product and the structure (axis N°3) is high, which means that member relations are highly individualized (van Bakkum, 2001, p. XI). Those three axes offer a combined organizational and strategic approach to agricultural cooperatives. Van Bakkum, however, underlies the fact that the switch operated by cooperatives from cost to differentiation strategies introduces distancing between structure and members. So cooperatives need more individual incentives in order to perform in added-value food chains in liberalization markets.

Consequently, managers need to favour greater involvement of members before integrating other external equity funds. Cooperative leaders should “continuously reexamine their internal organizational structures so as to preserve positive member-incentives when business strategies are becoming increasingly demanding” (Van Bekkum, 2001, page XII). In this case study, focused on niche cooperatives, we analyze how the territory can play a role in adapting their organization and governance to market constraints and policy measures.

More than one century ago, Marshall (1890) was to highlight the role that territory plays in industrial organization. In particular, he demonstrated that an industrial organization, characterized by the existence of a network of small companies, often highly specialized ones connected to one another by commercial and/or non-commercial relations, is capable of operating efficiently. The reasons used to explain the success of those systems - their industrial atmosphere or the secrets of industry are in the air - have long been considered more intuitive than anything else. The usefulness of Marshall's industrial district concept is its analysis of a particular territory's ability to endogenize development, based on cooperation and trust relations rooted in the interactions between geographically proximate actors (Torre, Rallet, 2005). Seen in this light, localization in a given space should not be confused with the notion of embeddedness in a territory: being geographically proximate does not suffice to create a connection and/or construct a territory.

Issues of corporate embeddedness materialize within a framework defined by the activation of localized resources and territorial construction processes. In the case of agricultural cooperatives, this is a particularly delicate process because of the effects of the territorial circumscription, which activates an institutional connection to a territory (Filippi et al, 2011). Cooperative firms, owned by their members, and featuring a statutorily-defined territorial circumscription, are subject to a territoriality constraint that is one of the key elements in their identity, something which is absolutely not the case for commercial companies.

So cooperatives choose to associate territorial circumscription and members. That is why we need to analyze how owner-members combine structure and strategies, and to observe what the effects of Policy issues on cooperative development are.

In the present case study, the objective is to illustrate the capacity of cooperatives to win a competitive position in the food chain by improving the coherence of internal and external governance, and by adapting to policy measures. As suggested by van Bekkum (2001), one possible way of pursuing that analysis is to test the conceptual framework on different sizes of cooperative and different forms of business evolution. This case combines multi-purpose dimensions based on territorial constraint, including PDO, but without focusing on a specific product. Accordingly, we investigate in what respect territorial circumscription contributes to ensuring the position of cooperatives in the food chain, and in what respect the territorial area modifies internal governance.

POSITION IN THE FOOD CHAIN

The following hypotheses allow us to understand how cooperatives develop activities for their members and became competitiveness actors. However, in this particular case study, territory has also been added, in order to complete the analysis of the success or failure factors. Do cooperative strategies differ because of their territorial constraints?

H8A A higher degree of vertical integration of cooperatives in a sector is positively associated with higher producer income.

H8b The cooperative as an integrated processor develops better products and promotes them so effectively as to increase market demand.

H9 In sectors where agricultural cooperatives have a dominant position, producer prices tend to be more stable over time.

H10 Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods.

Internal Governance

In order to better understand in what respect the territorial area modifies internal governance, we propose hypotheses that allow us to understand how capitalistic property drives cooperative governance differently.

H 13b Agricultural cooperatives which accept all the produce delivered by their members perform worse than cooperatives which do not adopt that policy.

H 13c Agricultural marketing/processing cooperatives with a closed membership policy perform better than cooperatives without such a policy.

H14 Agricultural cooperatives which focus on increasing producer-member prices perform better in terms of economic performance than those which provide their members with a diverse portfolio of services.

H15 Agricultural cooperatives which focus primarily on achieving social goals do worse, in terms of economic performance, than cooperatives which focus primarily on achieving economic goals.

Policy issues that affect cooperative development

The development of agricultural cooperatives is crucially affected by several public policies. In designing and implementing policies for agricultural cooperatives at the regional, national, or EU level, a number of issues arise. We have chosen to address five of those policy issues that interact with, inform, and influence the answers to the research questions addressed in this project. We investigate two main policy issues:

- Is there a need to implement different policies toward agricultural cooperatives based on sectoral, spatial, or other criteria?
- If agricultural cooperatives are successful in achieving rural development goals, should they receive EU support and, if so, of what kind?

In order to address the above hypothesis and policy issues, we adopt a primarily qualitative approach. Information used for this case study is taken from the existing database on EU agricultural cooperatives, academic articles, the press or professional journals, websites, and from additional interviews with managers and presidents of selected cooperatives. The latter completed our information by advising us of their strategic plans and by furnishing us with their detailed Annual Reports.

1.3 Method of data collection

The French case study combines two different but very complementary aspects. First, France was the first country in which people tried to protect and enhance the value of their local agricultural products. France's national legislation, which concerns a vast range of products aimed at promoting local development, has strongly influenced European legislation. The second aspect refers more to the French agricultural cooperative statute. This means that first-level cooperatives are the property of the member-owners located in that territorial area, and that cooperatives are required by law to collect from and sell their products or services to all the members located within that legal area. That condition does not apply to cooperative subsidiaries which, as they are not governed by the cooperative statute, are not, consequently, subject to territorial constraint.

We have chosen three cooperatives which provide an excellent illustration of the territorial constraints and/or territorial advantages of French cooperatives. Although the three cooperatives are different, they all illustrate how they transform territorial constraint into competitive advantage, and how they mobilize their owners into a specific governance model. For each one we asked their management about the policy measures that impact their structure.

- *Cooperative du Haricot Tarbais* is a mono-activity vegetable cooperative, located in Tarbes. It is a small cooperative, with only 68 farm-members and 8 employees, but it is also the major producer of a type of bean: "IGP Haricot Tarbais – Label Rouge"; 150 tonnes of beans for a turnover of 1.2 million euros. That cooperative provides an example which helps us understand how farmers and advisory services set up a cooperative in order to promote an old-fashioned local product. We interviewed several farmers about their perception of the cooperative strategy. That cooperative illustrated how members find solutions to the cooperative dilemma, which arbitrates between income distribution and collective reserves. We collected a certain volume of information (Annual Reports, Studies on farmer-member governance in 2010, ...).

- *Terres de Gascogne*: That cooperative is an intermediate-size multipurpose cooperative localized in the Midi-Pyrenees, with 3,000 owner-farmers, 140 employees, and 143 million euro turnover for 2010-2011. Its strategy, based on four main territorial products (cereals, wine, seeds, flour), is driven by a quality-oriented strategy. We also collected information about the enterprise and the various analyses of the subject (Annual Reports, Strategic Plans, Press articles).

- *Maisadour*: its turnover is 1,206 billion euros, 4,500 employees in the group and 8,000 owner-farmers. It is a multi-purpose group, with 10 products, such as cereals, wine, seeds... and *Maisadour* is one of the two Foie gras leaders ... with and without PDO. All activities are certified, or use a quality label. *Maisadour* is a major actor at territorial level, but it is also developing at international level (Ukraine for seeds, China for Foie Gras, for example). It was the first French agricultural cooperative to be ISO 26000 certified. The Chairman of *Maisadour* also heads the INAO.

In order to identify the specific success and failure factors involved, we conducted interviews with managers and board members about the specific support measures that have proved effective and efficient in promoting and developing their cooperatives. That allowed us to draw some qualitative inferences as to the interactions between institutional environment and cooperative success.

The whole of this case study is based on a very extensive range of data sources. First of all, secondary data, such as academic literature, France country report of the Support for Farmers'

Cooperatives project, the popular press and electronic media and various archives were used. Additional information was collected via personal interviews with various co-operative stakeholders and, in addition, board members and the managers of three cooperatives were interviewed, as well as such other stakeholders as Coop de France.

2. Analysis by comparison

How do niche cooperatives benefit from regional specificity (like PDO), and what are the negative aspects (growth, competition issues)? We compare the answers given by cooperatives as to the interactions between cooperative structure and strategies adopted by agricultural cooperatives.

POSITION IN THE FOOD CHAIN

H8A A higher degree of vertical integration of cooperatives in a sector is positively associated with higher producer income.

Yes, this hypothesis was confirmed for all 3 cooperatives: the development of vertical integration exerts a positive influence on higher producer income.

For *Haricot Tarbais*, it is clear that the creation of the cooperative impulsed the renewal of this variety of bean. In 1985, the « group of 12 »¹ started production with only 4 hectares (under netting: *sous filet*). In 1988, the cooperative was set up. By 1998, bean production had increased to 55 hectares, and to 160 ha in 2004. In 2010, the cooperative had 200 hectares and 68 producers, with prices increasing proportionally. *Haricot Tarbais* has developed a niche product, but it has also integrated the whole food chain, from seeds to final products, such as dried beans or conserves. To produce those conserves, it has externalized the process to an industrial unit, but itself ensures the commercialization.

For *Terres de Gascogne*, vertical integration is also an objective, but it is carried out in different ways. Soft wheat is a product that is considered by *Terres de Gascogne* as a strategic product, its own specific asset. So that particular cooperative integrates the whole food chain. During the course of its history, that type of production system gave the cooperative the idea of developing the diversification of its production. *Terres de Gascogne* insisted on Research-Development for its seeds, and made use of its subsidiary, *Gers Farine*, in order to be competitive both in processing and as regards quality. *Gers Farine* was also involved as an innovative centre for the other regional cooperatives. The competitive advantage of *Terres de Gascogne* is its capacity to successfully manage all stages of the product, from plot to flour. For its other products, such as wine, *Terres de Gascogne* needed to set up a partnership with another cooperative, *Plaimont*. The choice of that partner was due to the fact that it is a leader in the Gers Region, which has developed its own quality production and export strategy. So, in order to ensure the best possible return on their investments, *Terres de Gascogne* arranged to supply *Plaimont* with greater volumes. This meant that *Terres de Gascogne* was able to obtain better income for all of its producers (in 2010, for example, it paid 262 euros t. for wheat which, at the time, was being paid at prices which varying between 130-200 euros t.). For contract-based food chains such as oleic-rich wheat, the high number of contracts indicated a strong progression in term of hectare and tonnes.

For *Maisadour*, « The stronger we are downstream, the stronger we are upstream, which is why we associate the other cooperatives to our projects » (interview with CEO Blandinière). Accordingly, ever since the beginning of 2000, *Maisadour* has drawn up a strategic plan “sub-speciality by sub-speciality, according to the logic of the internal Value Chain”. The logic involved in setting up that strategy was based on *Maisadour*’s firm intention to master the creation of added value from seed to market product, whether that concerned vegetables or animals. Internal sales to producers are based on obtaining the best yields possible, but at market prices. Associating other cooperatives at value creation levels is designed to obtain a leverage effect.

¹ With Pierre Pujol as an outside technical specialist.

70% of an animal's value, for example, is bound up with its feed. The downstream alimentary centre, including the slaughterhouse, aims at reaching critical size, based on labeling (cf. Project of the *Fermiers du Sud Ouest*). *Maisadour* adopted the same strategic objective for its vegetal and animal chains. For pigs and "Gastronomie du Sud-Ouest", it integrated *Jambon de Bayonne* in 2005. In 2010 its turnover was 402 million and 1,890 employees. In the case of Foie Gras, for which *Maisadour* is one of the two world leaders, all the stages are integrated. In that particular case, the obtention of the PGI «*Canard à Foie Gras du Sud Ouest*», led to 3 cooperatives assuming the dominant position, with just one other non-cooperative competitor, *Labeyrie*, (since taken over by another cooperative). *Maisadour's* leader position constitutes a guarantee for its farmers to continue their production in the area, and to receive extra income. But the profits obtained from that activity have also allowed various food chains to be structured (slaughterhouses, processing units and, above all, the development of strong brands and to extend their strategy internationally). That, consequently, has allowed *Maisadour* to diversify its product ranges over and beyond the GI denomination. One example of this is the purchase of *Comtesse du Barry*, a very well-known French distribution network, which illustrates the extent to which *Maisadour's* economic performance has been strengthened on various remunerative segments.

The weight of industrial tools remains for the most part in the Region, even if certain business production units have been set up internationally (Hungary.... 200 employees in all).

This H8A hypothesis must be handled with great precaution. Today, as a result of the volatility of raw material prices, vertical integration no longer suffices to guarantee a better revenue for producers (problem of risk management and contractualization). Members' engagement can help attenuate that risk (where the variations are very weak and to avoid any problems with product supply). When, however, costs increase significantly (e.g. cereal-based animal feeds), a food chain that could normally handle "reasonable price fluctuations", becomes non-competitive. Those fluctuations are especially dangerous for mono-product cooperatives, which are fragilised by their specialization, and cannot benefit from the solidarity of other food chains, unlike the multi-purpose cooperatives.

This illustrates the need for public policies (contractualization or sustainable funding) to be implemented.

H8b The cooperative as an integrated processor develops better products and promotes them so effectively as to increase market demand.

*Yes, that is true for all three cooperatives studies here. Economies of scale do play a role, but with the need for differentiated funding levels. Size helps cooperatives to develop more competencies, to increase their social capital and social funding... and to obtain bank support. But, for a cooperative group such as *Agrial*, a multipurpose group in Normandy, their strategy is to integrate other enterprises without resorting to cooperative unions.*

For *Maisadour* or *Terres de Gascogne*, the main idea is to become leaders on the basis of their core competencies, by developing alliances with other cooperatives. For the two groups it is those assets which are important, but not strategic, as Penrose or Richardson have explained.

For *Terres de Gascogne*, the hypothesis is correct provided it concerns the food-chain, and is in conformity with its territory. The hypothesis is conformed in the case of superior quality wheat (or "blé améliorant"), but is less true in what concerns feed wheat. Being competitive on the market, includes taking questions of logistics into account.

For *Maisadour*, « in order to be competitive at every price transfer level, all the various actors become profit centres, each with their own internal and external clients, starting from the initial price of the corn". 50% of the corn collected, i.e. 50 million tonnes, is used by the internal food chain (15% in feeds, 15 % in biofuels). As regards feeds, *Maisadour* is N°1 in the South-West. With 50% of the feed factory sales, the internal sales price corresponds to the average external

price. 90% of ducks are sold internally, and 10% are sold to external slaughterhouses at market price. The objective is to protect producers' margins by indexing feed prices on a quarterly basis, thanks to improved technical performance.

In the specific case of *Haricot Tarbais*, although there is no subsidiary, the cooperative does have a commercial partnership with an industrialist for conserving the beans.

N.B. In the case of innovatory products (such as green chemistry based on vegetal matter, biofuels, ...), as very substantial investments are required, the need for industrial and financial partnerships is really essential. That is why it is not so much the fact of obtaining critical size that is important for a cooperative, but rather the cooperative's capacity to create partner networks, including networks with other cooperatives.

H9 In sectors where agricultural cooperatives have a dominant position, producer prices tend to be more stable over time.

That is not really the case, due to the volatility of agricultural product prices. That particular hypothesis depends on specific types of product.

It is clear that, in the case of *Haricot Tarbais*, producer prices have tended to be relatively stable, because the cooperative has more than 70% of market share. But the impact of climatic change on farms productivity obliges the cooperative to increase its bean stocks and, consequently, to increase costs supported by the structure.

For *Maisadour*, in the case of cereals, producer prices also tend to be relatively stable. So *Maisadour* offers its members the possibility of selling outside the cooperative. Members can therefore see that, over time, selling to the cooperative is better than selling to IOs (*négoce*). In a volatile price context, more members prefer *Euronext* fixed price contracts than the account price ("prix d'acompte"). Accordingly *Maisadour* offers its members various formulas so that they can share the price-risk. In 2011, *Maisadour* commercialized more than 1,012,000 tonnes, which represents 86% of corn. All cereal cooperatives now propose information on *MATIF* and give other market news every day via members' cell phones.

The same approach is adopted by *Terres de Gascogne*. For its wine production, *Terres de Gascogne* has an alliance with *Plaimont* because, thanks to that partnership, *Plaimont* has a dominant position on market which allows it to obtain better prices. For superior quality wheat (« Blé améliorants »), *Terres de Gascogne* has stabilized its dominant position, which allows it to increase the security of its supplies without excluding market competition.

H10 Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods.

Yes, that hypothesis is confirmed in all cases. Going onto the market ("Aller au marché") is the best way to ensure that members benefit from a secure structure and have a better guarantee of income, and also reinforces cooperatives' credibility for investors, partners and IOs. The basic principles of cooperatives mean that they are collectors and downstream marketers but, due to competitive pressure, they need to mobilize new market tools. This leads them to rethink their governance so as to adapt to market conditions.

For *Terres de Gascogne*, producing for consumers was the primary objective involved in setting up the cooperative. They immediately developed quality control, so that *Terres de Gascogne* has been highly successful in its agronomic production process dedicated to cereal production

systems. Selling in the final market triggers competitive pressure. That either leads to introduce new methods of management, to new organization around its subsidiaries and/or to partnerships with other local cooperatives. Today, *Terres de Gascogne* participates in *InVivo* technical management in order to produce references and benefit, in turn, from competences (*Ephicles*, for example). “Cooperatives, because of their membership base, invest in the long term” (Interview with CEO). They have, therefore, the obligation of ensuring the sustainability of their strategies in order to guarantee sales turnover and the remuneration of their members. By building up their collective reserves, the members commit themselves to their production and to their territory. The trust thus built up stabilizes sales and customer relations.

In the case of *Maisadour*, its reorganization after the crisis of 2004, induced it to change its CEO, and to modify its competitive model. *Maisadour* has since adopted a value chain based on having a profit centre at every single level. The purchase of the *Comtesse Dubarry* was complementary to that of *Delpeyrat* for the « *Pôle Gastronomie du Sud-Ouest* », with its market of 400-500 million euros. A strong brand is essential in order to ensure high value for the product.

N.B.: Does cooperative size and organizational complexity necessitate the recruitment of managers from IOs firms? That is the case for *Maisadour*, but not for *Terres de Gascogne*. However, for *Haricot Tarbais*, the recruitment of salespeople is considered essential. Changes in the organization of the food-chain, lead to changes in member/cooperative relations. Voluntary membership is increasingly accompanied by contracts concerning production and differentiated remuneration. That represents a modification of the traditional functioning of cooperatives, which considered that contracts were unnecessary.

Internal Governance

H 13b Agricultural cooperatives which accept all the produce delivered by their members perform worse than cooperatives which do not adopt that policy.

That hypothesis is confirmed, but only under certain conditions.

Total “product supply” was one of the basic principles laid down when French cooperatives first started. The cooperative accepted to collect all the products, and its members accepted to deliver all of their products. But, in fact, that engagement was a heavy constraint for cooperatives, and could sometimes become a non-competitive factor. The growing emphasis placed on quality has made cooperatives far more concerned about the quality of their products, and has sometimes led to processing problems. For certain cooperatives, the signature of contracts between a cooperative and its members has been considered as an act of mistrust as regards the cooperative spirit, in which voluntary commitment prevails.

For *Maisadour*, as for *Terres de Gascogne*, partial supply is privileged in the case of cereals. Volume is a significant factor as regards weighing on the market, except when sanitary problems arise. Consequently, paying for quality is a system which improves market positioning, secures cooperatives’ supply, and guarantees better remuneration for members. Accordingly, total supply is of greater importance in the case of production in which volume is a major variable. The cooperatives propose contracts in which the quality and quantity are fixed, which allows them to set up downstream partnerships.

In the case of *Haricot Tarbais*, total supply is required in order to master the volumes that are collected. That guarantees that *Haricot Tarbais* can profit from its investment in a high-performance screening and conditioning tool (2008-2010), designed to deal with greatly increased volumes. The cooperative invests in order to help its members produce above-average yield, and to support them in their individual requests for financing, so that they can purchase equipment for their farms. Thus, 63 members are now in total conformity with the PO rule.

For *Maisadour*, in what concerns seeds, the member can buy from wherever he wants. The cooperative proposes, in addition to its own seeds, those of *Sygenta* and of *Pioneer*, in order to guarantee the competitiveness of its product quality/price. That example illustrates the strategy of the cooperative which is concentrated on its capacity to ensure the securization of its sales, the improved profitability of its collection and processing tools, while trying to safeguard its members' revenues. In the case of fresh vegetables (asparagus, carrots,...), despite great agronomic progress, their valorization on the market remains insufficient. That means that the development of alliances is ineluctable, with the cooperative adopting the same economic model that it has, for industrial vegetables, with its *Bonduelle* or *Arco* partners.

It seems that total product supply is less of a constraint if downstream differentiation is mastered and /or if it concerns a high-volume market, otherwise it becomes a very heavy constraint for the cooperatives.

H13c Agricultural marketing/processing cooperatives with a closed membership policy perform better than cooperatives without such a policy.

The relations between the cooperative and its members seem to be one of the keys behind the cooperative model's success. Cooperatives have, for several years, developed, different procedures and services, allowing them to be as competitive as possible (e.g. Agriconfiance).

For *Terres de Gascogne*, the less involved its members are, the less chance there is for the cooperative to perform successfully. Mastering such quality processes as respecting different norms and requirements makes it essential for the member to be fully committed to respecting all the constraints imposed on the cooperative because of its downstream position in the value chain. The certification of services (type *CRC*, *Agriconfiance*); and the corresponding support tools used for decision making, allow the cooperative to rationalize its farm advisory service and its performance, in order to offer better service to its members.

In January 2012, *Maisadour* obtained the *ISO 26000*. That engages both its members and its employees to reconcile economic, societal and environmental performance. Thanks to its respect of different indicators, *Maisadour* confirms that it is a fully committed actor as regards its members and its employees. *Maisadour's* engagement in such certifications as *Agriconfiance*, or in the certification of the *S314* benchmark advisory service, or in such norm types as *V01-007* for the environmental aspect, participates in improving technical and environmental economic performance, and in ensuring the security of supplies and food quality. Thanks to its 10% production of organically-farmed chicken, *Maisadour* reinforces its market positioning and confirms its engagement as regards its members. Whether that concerns the organization of the production, or enhancing the value of the origin and quality of its products, close association between members, employees and stakeholder is essential.

N.B. Cooperatives commonly use membership studies so that they can find out what their members need in order to individualize the solutions they propose. That also has the advantage of allowing a better match between value-added products and each specific type of farm. In that connection, the territory serves as a major reinforcing factor for policies favouring the commitment of members.

H14 Agricultural cooperatives which focus on increasing producer-member prices perform better in terms of economic performance than which those provide their members with a diverse portfolio of services.

Yes, that is true for all three cases. Those cooperatives which aim to increase the revenues of their members perform better than when they offer a large range of different services designed to take into account the various determinants of competitiveness.

In the case of *Haricot Tarbais*, its recent creation positioned it, from the very beginning, on a high-quality niche market focused on the best possible value enhancement in the market. Nevertheless, having suffered from a first supply crisis which led to its losing numerous clients, the cooperative was faced with the choice of either paying its members more, or else investing more in processing tools. Climate changes led to the need for more stock, thereby triggering cash flow problems. The cooperative's strategy was then discussed, and the initial choices were put into question. This shows that the increase of members' revenue is not a short-term affair, but needs to be envisaged on a much longer time scale.

For *Terres de Gascogne*, quality is the essential element which enables members' revenues to be ensured, whilst offering high-performance services. Effectively, commitment to quality necessitates high-performance services for the high added-value food chains, which is less the case for those oriented by volume/price.

In the case of *Maisadour*, it is economic performance which counts, and not trying to offer supplementary remuneration for members' supplies. Every single one of the food chain operations is calculated as a transfer of assets at market price. That strategy is based, consequently, on economic performance as a signal of effectiveness as regards its members. In return, *Maisadour* proposes a very extensive range of services to its members.

In France, for many years, the question of economic performance was often opposed to trade-union logic. The cooperative dilemma, the choice for members between having an increase in the remuneration of their product or building up collective reserves, with the possibility of investing in industrial tools, has often posed the problem of the management of agricultural cooperatives. It led, for example, to considering the interests of the structure as being detrimental to those of its members. That separation was felt even more strongly in the case of a group with a big increase in the number of its members, which aggravated the feeling of distantiation. Faced with competitive pressure, confrontation with the market, which led to very substantial regrouping - the cooperatives have progressively integrated economic variables so as to harmonize them with their social principles. Consequently, the perception of "service to be rendered to their members" has undergone considerable evolution, becoming associated with the concept of the sustainability of cooperative enterprises. The economic choices of cooperatives are envisaged over the long term; that is not the case for the CAC 40 companies, which need to pay dividends to their shareholders on a quarterly basis.

H15 Agricultural cooperatives which focus primarily on achieving social goals do worse, in terms of economic performance, than cooperatives which focus primarily on achieving economic goals.

That hypothesis, according to which the social objective should be secondary to the economic objective, has not been validated.

Terres de Gascogne sees this in quite a different light. Economic performance for a medium-size enterprise involving several production value chains, is influenced by social performance. In that respect, the installation of young farmers is emblematic. The presence of those young farmers allows production to be renewed and activity maintained and that, in turn, will improve the economic performance of the enterprise. *Terres de Gascogne* is confronted with a large territory which has a large number of value chains.

In what concerns *Maisadour*, however, its territory is far less extensive, but the large number of its value chains encourages it to develop a more constructed partnership policy. But, like *Terres de Gascogne*, and many other cooperatives, the training of employees, and helping in the installation of young farmers is a priority objective for implementing the cooperative's strategies. With its signature of *ISO 26000*, *Maisadour* has sent a strong signal that cooperatives

should not oppose economic performance and social performance. That possibility emanates from the specificity of the cooperative statute and model.

That hypothesis is also true for *Haricot Tarbais*.

As the statutory purpose of cooperatives is to ensure both social and economic goals, cooperatives render service *to their members by securing income as well as offering advisory services, market risk management tools, etc.*

See Table **Hypothesis testing on the niche cooperatives**

Hypothesis	Hypothesis Description	Hypothesis Testing
8a	A higher degree of vertical integration of co-operatives in a sector is positively associated with higher producer income.	Hypothesis <i>confirmed for all 3 cooperatives: the development of vertical integration exerts a positive influence on higher producer income. This H8A hypothesis must be handled with precaution. Today, as a result of the volatility of raw material prices, vertical integration no longer suffices to guarantee a better income for producers (problem of risk management and contractualization). Members' engagement can help attenuate that risk (where the variations are very weak and to avoid any problems with product supply). When, however, costs increase significantly (e.g. cereal-based animal feeds), a food chain that could normally handle "reasonable price fluctuations", becomes non-competitive. Those fluctuations are especially dangerous for mono-product cooperatives which are fragilised by their specialization, and cannot benefit from the solidarity of other food chains, unlike the multi-purpose cooperatives.</i>
8b	The co-operative as an integrated processor develops better products and promotes them so effectively as to increase market demand.	Hypothesis <i>verified. economies of scale do play a role, but with the need for differentiated funding levels. Size helps cooperatives to develop more competencies, to increase their social capital and social funding... and to obtain bank support.</i> <i>N.B. In the case of innovatory products (such as green chemistry based on vegetal matter, biofuels, ...), very substantial investments required, and the need for industrial and financial partnerships is really essential. That is why it is not so much the fact of obtaining critical size that is so important for a cooperative, but rather the cooperative's capacities to create partner networks, including with other cooperatives.</i>
H9	In sectors where agricultural cooperatives have a dominant position, producer prices tend to be more stable over time.	<i>This is not really the case, due to the volatility of agricultural product prices. This particular hypothesis depends on specific types of product.</i>
H10	Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods.	<i>Yes, this hypothesis is confirmed in all cases. Going onto the market ("Aller au marché") is the best way to ensure that members benefit from secure structure, have a better guarantee of income, and reinforce cooperatives' credibility for investors, partners and IOs. The basic principles of cooperatives mean that they are collectors and downstream marketers but, due to competitive pressure, they need to mobilize new market tools. This leads them to rethink their governance so as to adapt to</i>

Hypothesis	Hypothesis Description	Hypothesis Testing
		<p><i>market conditions.</i></p> <p><i>N.B.:</i> Does cooperative size and organizational complexity necessitate the recruitment of managers from IOs firms? That is the case for <i>Maisadour</i>, but not for <i>Terres de Gascogne</i>. However, for <i>Haricot Tarbais</i>, the recruitment of salespeople is considered essential. Changes in the organization of the food-chain, lead to changes in member/cooperative relations. Voluntary membership is increasingly accompanied by contracts concerning production and differentiated remuneration. That represents a modification of the traditional functioning of cooperatives, which considered that contracts were unnecessary.</p>
H 13b	Agricultural cooperatives which accept all the produce delivered by their members perform worse than cooperatives which do not adopt that policy.	<p><i>Hypothesis confirmed, but only under certain conditions. It seems that total product supply is less of a constraint if downstream differentiation is mastered and /or if it concerns a high-volume market, otherwise it becomes a very heavy constraint for the cooperatives.</i></p>
H13c	Agricultural marketing/processing cooperatives with a closed membership policy perform better than cooperatives without such a policy.	<p><i>The relations between the cooperative and its members seem to be one of the keys behind the cooperative model's success. Cooperatives have, for several years, developed, different procedures and services, allowing them to be as competitive as possible (e.g. Agriconfiance).</i></p> <p>Cooperatives commonly use membership studies so that they can find out what their members need in order to individualize the solutions they propose. That also has the advantage of allowing a better match between value-added products and each specific type of farm. In that connection, the territory serves as a major reinforcing factor for policies favouring the commitment of members.</p>
H14	Agricultural cooperatives which focus on increasing producer-member prices perform better in terms of economic performance than those provide their members with a diverse portfolio of services.	<p><i>Yes, this is true for all 3 cases. Those cooperatives which aim to increase the revenue of their members perform better than when they offer a large range of different services to take into account the various determinants of competitiveness.</i></p> <p><i>In France, for many years, the question of economic performance was often opposed to trade-union logic. The cooperative dilemma, the choice for members between having an increase in the remuneration of their product or building up collective reserves, with the possibility of investing in industrial tools, has often posed the problem of the management of agricultural cooperatives. It led, for example, to considering the interests of the structure as being detrimental to those of its members. That separation was felt even more strongly in the case of a group with a big increase in the number of its members, which aggravated the feeling of distantiation. Faced with competitive pressure, confrontation with the market, which led to very substantial regrouping - the cooperatives have progressively integrated economic variables so as to harmonize them with their social principles. Consequently, the perception of "service to be rendered to their members" has undergone considerable</i></p>

Hypothesis	Hypothesis Description	Hypothesis Testing
		<i>evolution, becoming associated with the concept of the sustainability of cooperative enterprises. The economic choices of cooperatives are envisaged over the long term; that is not the case for the CAC 40 companies, which need to pay dividends to their shareholders on a quarterly basis.</i>
H15	Agricultural cooperatives which focus primarily on achieving social goals do worse, in terms of economic performance, than cooperatives which focus primarily on achieving economic goals.	<i>This hypothesis, according to which the social objective should be secondary to the economic objective, has not been validated.</i> As the statutory purpose of cooperatives is to ensure both social and economic goals, cooperatives render service to their members by securing income as well as offering advisory services, market risk management tools, etc.

Policy issues that affect cooperative development

- Is there a need to implement different policies toward agricultural cooperatives based on sectoral, spatial, or other criteria?

Various policies have had significant impacts on the development of cooperatives, but those impacts have not always been negative. As underlined by Ménard (2010), the various hybrid forms, which include agricultural cooperatives, are not derogatory forms, because they are at the very heart of a dynamic market economy. So political measures should be reexamined in a much more positive perspective (Ménard, 2010, 14).

For instance, competition authorities can recognize the legitimacy of market organizations, as long as the limited restriction competition they impose is aimed at solving clearly identified market failures and is unlikely to harm consumers' interests. Another domain where competition authorities may look favourably at the farmers' stance is the critical relations between farmers and distributors, particularly large retailers. Again, competition authorities will not intervene systematically in favour of one side to the detriment of the other but will, rather, try to ensure that distributors' market power will not be excessive, to prevent the imposition of prices so low that farmers would be induced to decreased production, or to innovate less. In short, the tensions between CAP and competition policy may still be systematic on certain points, but the competition authorities' "rules of reason" approach opens a degree of convergence with farm policy that is increasingly based on farmers operating in more competitive markets (Spector, 2010).

Policy measures for PDOs focus on collective actors concerned by product labeling. A group of producers must define the product according to precise specifications. Authorities/control bodies ensure the respect of specifications for each product.

The EU encourages agricultural production diversity, protects product names from misuse and imitation and helps consumers by giving them information concerning the specific character of the products:

- **PDO**- covers agricultural products and foodstuffs which are produced, processed and prepared in a given geographical area, using recognized know-how.

- **PGI**- covers agricultural products and foodstuffs closely linked to the geographical area. At least one of the stages of production, processing or preparation takes place in the area.
- **TSG**- highlights traditional character, either in what concerns the composition or means of production.

(see http://ec.europa.eu/agriculture/quality/schemes/index_en.htm)

Council Regulation (EC) No 510/2006 of 20 March 2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs

Commission Regulation (EC) No 1898/2006 of 14 December 2006 laying down detailed rules of implementation of Council Regulation (EC) No 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs.

- If agricultural cooperatives are successful in achieving rural development goals, should they receive EU support and, if so, of what kind?

Yes, that is particularly true for French cooperatives, not only due to their territorial areas, but also because territory can become a competitive advantage. Spector explains how competition policy has also evolved, allowing certain specificities of the agricultural sector, to be taken into account. The most significant changes have led to the dismantlement of most CMOs, the elimination (or planned elimination) of quotas and to the decline in highly distorting subsidies. The tensions between CAP and competition policy may still be systematic on certain points, but the competition authorities' "rules of reason" approach opens a degree of convergence with farm policy that is increasingly based on farmers operating in more competitive markets (Spector, 2010). In that perspective, cooperative developments need to be integrated in order to better understand how public policy can be useful for farmers and their collective organizations.

With regard to the protection of the environment and the CAP Pillar II, having a "greener" CAP with support being more focused on the environment and natural resources, is indeed quite difficult to implement successfully. The CAP, in its current design, will quite clearly not remain after 2013, and by then other reforms will be undertaken. The impact of CAP policy on market orientations and support to farm incomes will be weakened and might simply be reduced to the supporting rural development and maintaining of the landscape and environment (Desjeux *et al.*, 2007).

We propose to summarize the analysis by comparison presented in this section. *The study of the three cooperatives clearly shows that there is not just one single strategy - research of critical size, but that other patterns of cooperative strategies emerge, as well as other modes of cooperative governance.*

In short, there is the need to:

- Find the right balance between size and target market to improve competitiveness - since developing 'critical size' is not the only automatic solution. A smaller size, but one that is adapted to its target market, may well prove very efficient. That means «heading for the market», via various labels, signs of quality and other certification systems.
- Become a leader by controlling the product from seed to finished product, which gives a competitive edge that allows value-enhancement to remain localized (processing tools, local jobs...).

- Build strategic choices around the cooperative's core competency. That means identifying the markets where the cooperative can become a leader, and subsequently using that core competency to set up partnerships with the concerned segment or value-chain leaders.
- Render different services to members to help them develop more sustainable farming activities. That means encouraging the economy of scope and the particular choice of the product value-chain. Even in the recent case of a cooperative being set up on the basis of a renewal of a traditional product, choices are governed by insisting on enhancing the value of a product that is already complementary to other existing production systems. The aim is to diversify revenues for products whose prices are negotiated internationally, without the cooperatives being able to intervene.

We see then that territory (*terroir*) is more of an action lever – and not really a brake - for both cooperatives and public policies. But, *terroir* is necessary it is not sufficient for niche cooperatives. From the strategy point of view, even if a cooperative is mono-product, the PDO is not sufficient to ensure real product differentiation and to ensure income for farmer-members. Other elements are needed to ensure niche cooperatives' strategies.

We can also consider that *Maisadour* is, for certain products, more of a value-added cooperative than a niche cooperative as regards membership heterogeneity and its large size.

3. Niche cooperatives: how they mobilize territory

We investigate the aspects of the niche cooperative model using the above-mentioned hypotheses². If there has been a great deal of research on governance, strategies, and structure-strategy fit, few studies have been dedicated to the influence of territory on the cooperative model. Here, using the niche cooperative model, we have investigated governance. How do niche cooperatives benefit from regional specificity (like PDO), and what are the negative aspects (growth, competition issues)?

Niche cooperatives match structure with individualized governance, individualized investment and individualized transactions, and implement a type of strategy which is defined by small scale and high differentiation in the sense given by Porter (van Bekkum, 2001). More precisely, van Bekkum considers that the problem for niche cooperatives, caused by the switch between cost leadership to highly differentiated products, induces distancing from the traditional cooperative structure. The niche cooperative needs to introduce more individual incentives in order to pursue its high added-value strategies. If added-value strategies are more valorised on the market, cooperatives need to coherently manager their structure and strategy³. A niche cooperative emerges when there is a strong decision on the part of its members to invest heavily in exclusiveness.

If New Institutional Economics gives a conceptualization framework (Brousseau and Fares, 2000; Ménard and Shirleu, 2008) to understand how cooperatives can be appreciated, as noted in the analytical framework proposed in Section 1, we have added territorial analysis, such as that developed by the Proximity school (Rallet and Torre, 2005; Torre, 2008) in order to measure territorial influence. We analyze the coherence between strategy and structure, stressing in what way territory exerts positive and negative influence.

As van Bekkum proposes, niche cooperatives can be characterized by

- Cost leadership

Yes in the case of niche cooperatives, costs are low but, even when volumes are very high as, for example, Foie Gras for *Maisadour*, management can innovate and find solutions (profit centres) in order to reduce costs increases. In terms of the EU definition of enterprise size, *Maisadour* is not a small enterprise.

- Product differentiation

Yes, but product signalization is not used alone. Certifications and brands are also mobilized to accentuate product differentiation.

- Degree of individualization of cooperative-member relations

² We mobilize a case study of three cooperatives in order to illustrated how the **territory** of French cooperatives confers on them a decisive role in local economic development and in the environmental sustainability of rural areas. We investigate in what respect territorial circumscription contributes to ensuring the position of cooperatives in the food chain, and in what respect the territorial area modifies internal governance.

³ "Its strategic orientation is essentially the same as that of the value-added cooperative, but it is a small organizations and focuses on equally small market niches: regional market, specific consumer groups (*e.g.* organic), specialty products, etc. Investments per unit of raw material are high, delivery conditions are very strict, membership is closed and fairly homogeneous. To provide its members with proper investment and supply incentives, its member contracts exhibit a highly individualized structure. That means: closed membership, obligatory investments in tradable production and delivery rights, differentiated voting schemes, etc." (van Bekkum, 2001, p. 50).

Not completely. Individualization mobilizes different tools, such as contracts, advisory services and total supply, but the property rights are not impacted in the same way as they are for New Generation Cooperatives (Chaddad and Cook, 2004).

3.1. How is territory able to become a competitive advantage for niche cooperatives?

PDOs allow product differentiation (Agreste, 2006): The small cooperatives are very marked from the territorial point of view, due to the localization of their members. More than half of them have an exclusively regional clientele, with more than $\frac{3}{4}$ of them having 50% of their sales turnover coming from the region. However, even those most of their activity is developed at regional level, they nonetheless have an average of 20% sales turnover at national level. The agribusiness cooperatives are more positioned on quality-oriented strategies than is the case for their supply sector counterparts (Chan Choi and Coughlan, 2006; Magrini *et al.*, 2011).

Structure of cooperatives are built on territorial circumscriptions: Initially, cooperative projects concern individuals who choose to constitute a collective structure in order to share their means of production for a particular market, with/without being preoccupied by considerations of quality (ICA Principles). The territory involved is at the crossroads of geographical, administrative, and even productive (production zone/basin) delimitations before it becomes a political project. *Haricot Tarbais* provides a particularly good example of those aspects. That cooperative, which was set up in order to relaunch a production system that had been abandoned, clearly shows that the initial intention was, above all, to develop quality niche production on a local basis. At that stage, geographical delimitation was, essentially, a secondary consideration. Its role, however, becomes fundamental once the construction of cooperative organizations is under way. At that stage, the territory becomes consubstantial with cooperative development. The French cooperative group is to be seen as a localized group whose territorial scale is developed on the basis of contiguity. That is confirmed by statistics (Agreste, 2009); by the number of head offices that remain in a particular region (Coop de France, 2011) - whatever their size and complexity - ; or by the localization of their production and processing tools (Filippi *et al.*, 2008). *See table in annexe: Typology of cooperative groups' spatial integration in 2003* (Filippi, Frey, Triboulet, 2007a). But territorial constraint seems negatively influence cooperatives' international strategy. The international weakness of French cooperatives is compared to that of European cooperatives (Filippi *et al.*, 2012).

Business law subsidiaries can provide a way to escape the bondage of territory: Subsidiarization seems to be a way to reduce territorial constraints, and to obtain more financial power. The development of subsidiarization was to accelerate in the wake of the Law of January 3rd 1991 on Agricultural Cooperative provisions, and that of July 13th 1992 on the Modernisation of cooperative enterprises, with most of the processing activities of cooperatives having since been transferred to subsidiaries (French Report, DG AGRI, 2011). Most subsidiaries operate under business law, and the employees of cooperative groups have now become more numerous than those in cooperative headquarters (Agreste, 2009). French agricultural cooperatives have become powerful actors in the organization of value chains: around 60% in wholesale, and 40% for Agribusiness (Agreste, 2009). The economic power of cooperatives is dependent on agricultural production conditions and on cooperatives' links with their owner-members. What started as an extension to the farm, gradually evolved into a support and service structure (*cf.* as in the case of *INVIVO*). Cooperatives choose and define product conditions (such as pesticide use, new varieties of seeds...) and introduce innovations and advisory services for farmers according to the needs of competitive markets. All of that involves integrating economic advice in order to acquire a deeper comprehension of their initial social purpose. The creation of cooperative

groups which combine primary and secondary cooperatives with limited-liability companies is a key factor in the development of French agricultural cooperation.

Territory enforces relations between cooperatives and their member-owners: We have already proposed three cooperative models to represent the combination of the perception of farmers, territorial relations and cooperative governance (Filippi, 2004). In the first case, as cooperatives are the continuation of farms, territorial areas define the perimeter of cooperative action. In the second case, cooperatives develop relations with the value chain. Accordingly, they became more organizationally complex, and territorial constraint with the development of commercial subsidiaries could, therefore, be less heavy. In the co-construction model, competitive pressure leads to investing up-level as well as down-level in order to combine cost reductions, tracability and innovation processes. The main idea is to share cooperative risks with farmer-members. Owner-members need to invest in strategic decisions. In that case, the use of their territorial constraint is different, because it represents the main link between cooperatives and members. The perimeter helps in developing strongly mutualised, specifically French networks of interdependencies, which differ in nature from the action of commercial firms.

Effects on property rights and individualization of member-owners: As indicated by van Bekkum, one of the problems of niche cooperatives is the individualization of member-owners, *i.e.* various characteristics, such as uniform pricing for all members, unrestricted delivery and intake obligation from members only, free and costless entry, collective reserves, price supplements, one man / one voice; decision-control by the Board of Directors, have all being eased to favor the individualization of relations. In the case of French agricultural cooperatives, property rights are not changed. Despite the fact that cooperatives are collective structures which develop individual relations, the rules concerning property rights remain unchanged. Put differently, although capitalistic property is not opened up, as it is in the case of the New Generation Cooperatives, individualization of member-owners can be introduced by means of subsidiarization. The extensive development of cooperative groups has triggered significant distancing between members and group heads (Managers and Chairmen).

Territory plays a major role in securing relations between members and in building proximity.

Choices made by owner-members are choices of governance. Members are the firm's owners and, at the same time, the suppliers of its agricultural raw materials. They have to choose between their own income redistribution and developing cooperative investments (Nilsson, 2001; Chaddad and Cook, 2004). That is particularly the case because, in accordance with French cooperative legislation, owners have to be engaged in cooperative activity. We need to distinguish two levels: first-level and second-level cooperatives. For the former, there is a direct link between member-owners and the cooperative structure. For the latter, cooperatives are member-owners of other cooperatives, such as unions. That distinction is important, because their governance is not the same. In the first case, the member-owners directly take strategic decisions, including that of internationalization, and the social capital is distributed between agricultural member-owners. In the second case, the property rights are more complex and need a pact between owners. That corresponds to the classical incitation problem, well-known in economic literature (Hansmann, 1988; Feng and Hendrikse, 2008). In that way, the decision is not only an economic or financial one, but also includes social and sustainable aspects (Filippi and Frey, 2012).

3.2. External effects of niche cooperatives on Rural Development

Developments in agricultural cooperatives' modes of governance equally reflect the search for ways to reinforce members and to involve them even more. The renewal of sources that anchor them can come about in two somewhat different steps in what concerns the development of those cooperatives' organization.

Various indicators, such as a cooperative's economic evaluation of members' output, its integration into local environment, and its sustainability actions, can be mobilized in order to measure the effects of cooperatives on Rural Development. All of those indicators are presented in the annexe on Simplified table of embeddedness indicators (Filippi, *et al.* 2011).

Economic effects: The first step in developing anchorage is bound up with the construction of strategic positioning in the food-processing value-chain, thanks to product traceability and to members' involvement in quality procedures (Filippi, 2004). Within that context, enterprise certification processes such as *Agriconfiance*, or private-sector norms regarding distribution, have obliged cooperatives to raise the technical level of their production systems by developing greater control concerning the value-enhancement of their raw material in their production basin/area. The groups organize their territories in function of their members. For *Terres de Gascogne*, with the sites it has set up every 10 km so as to ensure contact between its employees and its members, or *Agrial*, such a close-knit territorial grid is essential for ensuring interactions between stakeholders and cooperative members.

Short Supply chains: The second step in developing anchorage is due to more aggressive positioning aimed at capturing added-value. Integrating the down-stream food-processing stage seeks to go beyond being merely raw material suppliers so as to achieve greater production enhancement involving foodstuffs, in order to block the power of mass distributors. That way, cooperatives can develop or consolidate *netchains* (Giner, 2010). Accordingly, productive logic promotes the accelerated setting up environmental approaches, and the implementation of more sustainable systems to meet social desiderata. Thus it is that investing in 'short supply chains', such as being positioned on outside catering, can help give cooperatives a competitive edge. That, in turn, influences territorial anchorage strategies conceived of in a global context.

Tourism and Regional image: Regional Competition between Regions: French agricultural cooperatives are major actors in the Region. The French cooperative groups are groups with a long history and groups which are meant to last. As there is strength in unity, their principal motivation is to forge economic entities able to negotiate at the downstream stage. Although they are often the result of cooperative clustering, the aim of attaining critical size is not their only goal. Many times, their desire to invest in a common project, or their intention to keep value-chain negotiating power, can be invoked to explain the reasons behind such groupings. Sometimes, however, those groupings fail. The lack of a similar corporate culture and of any real societal project managed to annihilate all the efforts made to work together. Such efforts leave traces, whether at the level of governance (e.g. managerial changes) or at the level of members who, in certain cases, persist in their distrust (e.g. *Terrena*, after *Cana* and *Cavac* had come together). We see, then, that the long history of groups is very much embedded with that of regions and inter-regional development. The groups all have a particular bond as regards their various territorial stakeholders. They may, for instance, have brought partners and Agricultural Chambers together to implement a resource management strategy (2011 draft agreement between *Terres de Gascogne* and the *Aquitaine* and *Midi-Pyrenees* Chambers of Agriculture for collectively managing water).

Territory is more than just a simple space or "receptacle" for economic activity. Rather, it is a "dynamic construction resulting from interactions between different stakeholder actors" (Boschma, 2005). What we are dealing with here is no longer an ideal-type or a model that can be imitated and sometimes reproduced but, instead, an on-going construction, one that is constantly being renewed under the influence of the interactions between local actors and external forces. In accordance with Zimmermann, we define territorial embeddedness as the process of construction of a system of interdependency in a given geographic area, with the embeddedness incorporating both the territory's geographical dimension and the system of local relations established there. Because of globalization, companies are subject to rising tensions between that embeddedness at the local level and the nomadism characterizing many

corporate activities (Zimmermann, 2005). Thus, the role of institutional, economic and social structures has become very important in renewing their connection to a given territory.

Public policy measures, together with the evolution of the CAP, also help to consolidate the power of cooperative organizations, in order to structure the different value-chains and territories.

“The objectives of the agricultural policies described in the booklet fall into three categories: the level and variability of farmers’ income; qualitative and quantitative food security at the best price for the consumer; protection of the environment and landscape and the viability of rural areas. The first of these goals – “farm income” – and the third – “environmental and regional externalities” – are, unlike the second, extensively developed and used as a basis for the two key concepts advocated by the OECD: decoupling and targeting” (Analyse, 2010,p.1).

As explained in Agreste Analyse, priority to the 1992 reform, the main form of intervention was the provision of income support to farmers through action upon prices based on mechanisms involving storage, customs duties and export subsidies. This meant that EU prices were higher than those prevailing in international trade, but were more stable for consumers, who were ultimately funding the support provided to producers. With the reforms of 1992 and 2003, the CAP adopted direct support regimes increasingly decoupled from production. From the 1980s onwards, the increasing importance of environmental and regional considerations was reflected in a recognition of the functions fulfilled by agriculture in addition to the production of foodstuffs and fibres. The shaping of the landscape, contributions to regional activity and the upkeep of certain biotopes are all “positive externalities” or “joint-product” to certain types of agricultural production that are usually gathered together under the umbrella notion of agricultural “multifunctionality”.

“Agrifood value chains are characterized by very high levels of concentration in the processing and distribution sectors. This means that those downstream in the chain have greater bargaining power than those upstream. ... Now that direct payments have replaced market price support the effects of this market failure are apparent to all, but the provisions needed to correct this structural problem have received little consideration. But direct payments should nevertheless not be reduced to a merely temporary measure aimed at accompanying uncompetitive producers towards the exit, especially in a context where the hypothesis that all markets function optimally is being abandoned.”(Analyse, 2010).

4. Overall conclusions

This case study has focused on the following question: in what measure does territory reinforce or not niche cooperatives? The New CAP mobilizes the territorial dimension in order to propose new policy measures and to try to improve sustainable policies for farmers.

The strategies of niche cooperatives are characterized by:

- integrating value chains to be nearer consumer demands
- using a sign or label (with or without private brand) on the product to differentiate it on national and international markets
- adding certification to guarantee quality during processing and for the large retail sector
- developing an advisory service to help members improve their yields and to master production costs and technical systems
- localizing production tools close to members in order to justify the choice of collective reserves
- developing horizontal partnerships between cooperatives or vertical partnerships with industrialists to reinforce processing tools, increase the creation of added-value and maintain members 'decision-making power
- making the group more complex (multipurpose, animal/vegetable combination, internationalization) requires greater territorial mobilization to maintain proximity with members.

The governance of niche cooperatives means that:

- Total supply is privileged when the cooperation needs volume in order to ensure its competitive position and/or when it can set up alliances with partners to ensure downstream processing and to master differentiation and signalization of quality products.
- The development of partnership and alliances, and the maintenance of contractualization, reveals the needs for market management tools and for the stabilization of business relations between the different processing stages needed to secure producer remunerations.
- Product innovations, and the reorganization of supply chains, impact member/cooperative relations. Voluntary adhesion is complemented by production contract and differentiated quality remuneration. Consequently, because of the extensive development of cooperative groups, cooperative and members need to develop new management strategies in order to limit the significant distancing inside the group.
- In France, niche cooperatives have not become like the New Generation Cooperatives with the modification of first-tier cooperative social capital. It is more at business subsidiary level that stakeholders are introduced into the social capital of the holding.
- Studies on members correspond to the process of individualization of relations with cooperatives in order to propose a greater production value enhancement and a better advisory service. The goals are to increase both farm and cooperative group performances.
- Cooperatives mobilize new management tools such as contracts, and advisory services in order to reinforce links with members.

A case study such as this allows the role of PGIs to be seen clearly, as well as that of the various strategies aimed at enhancing the value of agricultural cooperative territory. Unlike the motivations developed in the 70s and 80s, subsequent developments within the context of

agriculture and food-processing reassign an essential place to the value-enhancement of raw materials, thereby justifying significant reinvestment in the original territory. Thus it is that cooperatives, through their positioning in the food-processing value-chain, have a competitive edge: one which is based on their mastery of territorial anchorage and on the renewal of more sustainably and environmentally oriented agricultural and food systems. Such developments are in keeping with those brought about by the CAP and various other public policies. The territory offers a competitive edge for creating value and, therefore, for improving competitiveness. That is true of its various quality labels, but also as regards territory's constituent role in environmental performance and in both local and social development. The territory, in the case of cooperatives, is their organizational pivot: for locally added-value, as well as for their business governance, including their links with each farmer-member.

It should not be forgotten, however, that territory can also generate negative effects for cooperatives, whether in what concerns collection costs or multipurpose cooperative activities. That is why the French Authorities have always chosen to compensate by giving a variety of different tax exonerations. The clear separation between 1st / 2nd tier cooperatives and their business subsidiaries is essential if relations between farmer-members and downstream level are to be differentiated. Investments in processing and retailing level are needed to create added-value for members and to ensure better competitiveness.

We have mobilized a case study of three cooperatives in order to better understand how the territory of cooperatives confers on them a decisive role in local economic development and the environmental sustainability of rural areas. We investigate in what respect territorial circumscription contributes to ensuring the position of cooperatives in the food chain, and in what respect the territorial area modifies internal governance.

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Commission Regulation (EC) No 1898/2006 of 14 December 2006 laying down detailed rules of implementation of Council Regulation (EC) No 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs

Annexes

Table 1: A spatial typology of French cooperative groups (Filippi, Frey, Triboulet, 2007a)

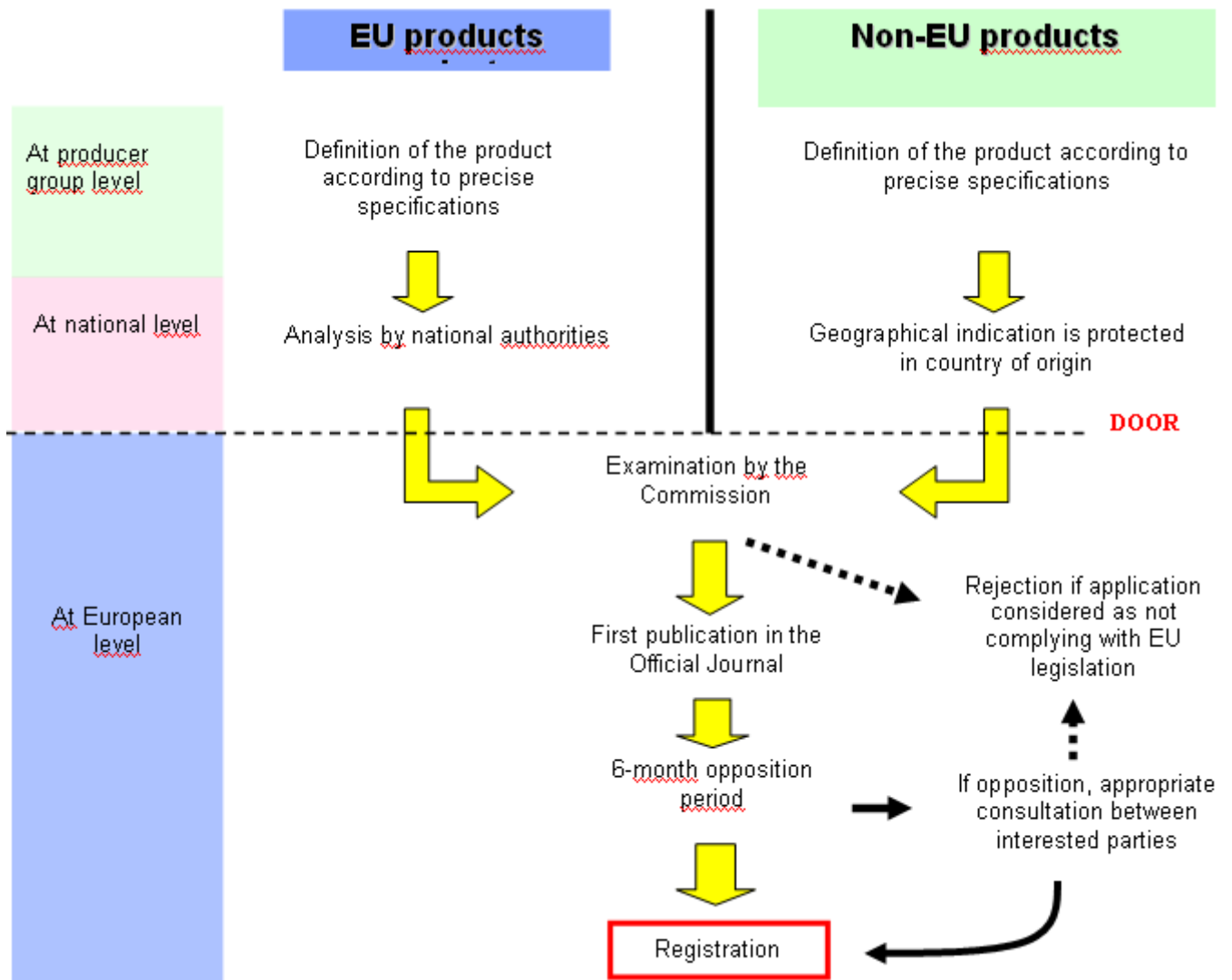
2003 Classes	Nbr. of groups	Avg. nbr. of firms controlled	Total nbr of employees	Avg. nbr. of employees per coop. group	Distribution of group employees (in %)					
					Group Head	Same county	Same region	Adjacent region	France	Abroad
Groups with dominant GH	84	3.8	16 959	201.9	85.9	11.7	1.8	0.6	0.0	0.0
Local groups	67	7.5	23 347	348.4	36.0	57.6	3.0	1.3	1.6	0.5
Multi-local groups	53	17.6	71 639	1 351.6	16.5	30.5	15.7	15.5	16.5	5.2
Total	204	8.6	111 945	548.7	31.1	33.3	10.9	10.3	10.9	3.4

Sources: INSEE; LIFI; EAE Manufacturing, Services, Agribusiness, Agricultural Cooperatives, Trade, 2003

Table N°2 Hypothesis Description

Hypothesis	Hypothesis Description	Measure dependent variable	Measure independent variable	Main results
8a	A higher degree of vertical integration of co-operatives in a sector is positively associated with higher producer income.	Producer income	Degree of vertical integration	Confirmed for all
8b	The co-operative as an integrated processor develops better products and promotes them so effectively as to increase market demand.	Market share of high quality segment by the cooperative	Degree of vertical integration	Confirmed for all
9	In sectors where agricultural co-operatives have a dominant position, producer prices tend to be more stable over time.	Market share	# price stability	Depends on the market conditions
10	Agricultural cooperatives that are successfully involved in selling final, consumer products, have a higher chance of adopting innovative ownership, governance, and capital acquisition methods.	# innovative ownership, governance, and capital acquisition methods	# successfully selling final, consumer products	Confirmed for all
13b	Agricultural co-operatives which accept all produce delivered by members perform worse than co-operatives that do not adopt this policy.	Market share	# mandatory purchasing obligation	Confirmed under specific conditions
13c	Agricultural marketing/processing co-operatives with a closed membership policy perform better than co-operatives without such a policy.	Market share	# closed membership policy	Confirmed for all
14	Agricultural co-operatives which focus on increasing producer-member prices economically perform better than co-operatives that provide their members with a diverse portfolio of services.	Market share	Diversity of member services	Confirmed for all
15	Agricultural co-operatives which focus primarily on achieving social goals do worse, in terms of economic performance, than co-operatives which focus primarily on achieving economic goals.	Market share	# focus on social goals	Not confirmed

Figure: How can product names be registered?



(source: http://ec.europa.eu/agriculture/quality/schemes/index_en.htm)

Table N°3: Simplified table of embeddedness indicators (Filippi, Frey, Torre, 2011)

Cooperative's valuation of members' output		Cooperative's integration into local environment		Cooperative's sustainability actions
Localised productive investment indicators	Product or service indicators	Local partnership indicators	Tourist project indicators	Environmental policy indicators
Construction/extension of factories in the region	Production under PDI/PDO certification system	Joint-venture located in a geographically proximate perimeter	Tourist route	Brought up to production tool standards
Takeover of factories or subsidiaries abandoned by private companies	Organic production	Minority stakes in regional companies	Bed and breakfast	Biomass investment
Renovation of local productive tools	Innovation Packaging	Relations with external supplies/industrial customers from the same region	Visits to farms or group's productive tools	Investment in renewable energy (bio-mass, solar, co-generation plants)
Young farmer start-up grants	Specific production or local products	Participation in competitiveness/rural excellence alliances		Quality approach with an environmental vocation (Agriconfiance, ISO 14000)
		Joint projects with other regional actors (laboratories, universities)		

Table N°4: Niche cooperatives: Facts and Figures of Haricot Tarbais, Maisadour and Terres de Gascogne

Cooperative	Haricot Tarbais http://www.haricot-tarbais.com/cooperative_haricot_tarbais.html
Year founded	1988 CUMA, becoming PO in 2000 with the obtention of PGI
Status and Tier	cooperative ; 1 man -1 voice ; total supply
Structure	-
Economic Data	
Turnover 2010	1.2 million
N° of members	73 farmer-members with 57 active producers
N° of employees	8 with 250 seasonal workers
Area (ha)	169 hectares (under netting /corn)
Production (t)	180 - 185 tonnes of beans
Bulk	20%
Packaged	80%
Market share	18 products (PGI)
Market share of packaged	78% of total production of PGI
Activities	<ul style="list-style-type: none"> - Packaging - Marketing and distribution: wholesale and retail - Supplies, exportation
Member services	<ul style="list-style-type: none"> - Counselling (economic and strategic) - Help in preparing financial support dossiers Technical assistance and advisory service : 2006 : 7 quintals per hectare / in 2011 : 11 quintals per hectare
Brands	PGI Haricot Tarbais and Red Label
Successfully selling final, consumer products	Goal : + 11% of sales in 2012 and increase in product volumes; product innovation and quality differentiation Large retail = 20% of volume; retail = 15% , wholesaler: 30% ; direct export
Particularities	Product extremely sensitive to Climatic Change (variation of 20%) requires constitution of a tool stock to ensure customer backup Problem of insufficient equity Many small customers Problems of price volatility and Climatic Change, leading to technical and financial risks
Member Relations	
Membership Policy	Small producers : cooperative incentives to increase size of farms Cooperative dilemma : maintain member income whilst ensuring customer backup Member relations organized with PO Cooperative backing to ensure that members obtain financial support for their treasury needs (Crédit Agricole)
Producer income	Basis : 30 tonnes at 180,000 euros, maintenance of income paid to members despite increased stockage costs Fixed remuneration price fixe paid in 3 instalments : 40% at 60 days, 30% at 120 days and balance the following year

	Future objective: members paid on a monthly basis
Focus on social goals	Best income for producers Ensure business policy and product enhancement (creation of sachets – 58% of sales volumes equal to 46% of sales turnover), investment in screening tool Development of commercial circuit: LISA and creation of 11 sales outlets Contribution to sustainable development (Award for water management innovation) Study of member typology to individualize advisory services
Collaborations	Collaborations processor (10% of turnover) Organization of promotional events with other producers
Governance	
Governing bodies	Board = 3-12 members with 2/3 trainees, monthly meetings Bureau of executive board: 5 people with Director and sales technician, monthly meetings Training : for administrators and employees
Public Policy	
Public aid	Need for the creation of support funds (treasury advance) for products subject to fluctuations Financial supports : From 1988-1996: to accompany the increase in size and technological tools 1996 : agro-food support State/ France/ Region financing for sales people 2000-2002 sales help, funding for quality IRQUALIM, and European supports

Cooperative	Maisadour http://www.maisadour.eu
Year founded	1936
Status and Tier	2 nd tier cooperative multipurpose (7 activities)
Structure	Cooperative / Holding / Subsidiaries
Economic Data	
Turnover 2011	1,206 billion euros (591 million euros upstream and 615 million euros downstream, (sales turnover multiplied by 2 in 6 years) This growth comes from size diversification
N° of members	8,000
N° of employees	4,500 employees (90% in Aquitaine)
Area (ha)	variable
Production (t)	1,012,000 tonnes of cereals collected
Bulk and Packaged	Leader of waxy corn production with 40% market share
Market share	South-west leader on feed 1 st European collector of corn : 900, 000 tonnes
Market share of packaged	Foie Gras one of the 2 leaders worldwide: 8.5 million ducks and geese, 1 st French Foie Gras processor = 25% of French production and sales turnover of 220 million euros.
Activities for all products	<ul style="list-style-type: none"> - Packaging - Marketing and distribution: wholesale and retail - Supplies, exportation
Member services	<ul style="list-style-type: none"> - Counselling (economic and strategic) - Technical assistance and advisory service
Brands	Delpeyrat; Saint-Sever; Canard du Midi; Jardinerie Maisadour ; Contesse du Barry
Successfully selling final, consumer products	Delpeyrat (PDI Jambon de Bayonne, PDI Canard à Foie Gras du Sud Ouest) Saint-Sever Canard du Midi
Particularities	ISO 26000 label. Development of management culture by insisting on quality either for products (label, PDI, PDO) or for systems (Agriconfiance) Beginning of 2000 : strategic plan based on Internal Value Chain for all the products Organization in profit centres per product Positioning on PDI or PDO for small territories and reinforcement of strong brands with other producers
Member Relations	
Membership policy	Members are free to decide their commitment level 11 territorial section GAs and 1 group GA Advance payment and supplementary sale price decided by member with cooperative council 2-year contractualization for certain products
Producer income	50 % of corn collected (= 50 million tonnes) for internal supply chain (15% for feed, 15 % for biofuels) For feed N°1 in the South-West, internal transfer price equals average external sale price

	90% of ducks are sold internally and 10% are sold to external slaughter houses at market price
Focus on social goals	Study of member typology to individualize advisory services
Collaborations	Partnership with the other cooperatives is based on non-competition as regards territories The project of union between cooperatives must be initiated by an economic project and then by a political project and not the inverse. The goal of cooperatives is to enhance members' production value by increasing volume. In the partnership, when sales are down, it is the minority enterprise which constitute the adjustment variable. That is why union leadership should depend on the product leader. The pact between shareholders is based on the supply process production volume Maisadour's strategy is based on its territorial area with local cooperative partnership
Governance	
Governing bodies	1 holding made up of all the subsidiaries Board of holding = Cooperative Board Chairman/Executive Board/CEO and Board are identical Each subsidiary keeps its profits to finance its own development Cooperative Dilemma: the subsidiaries finance their own development and generate capital share savings for the owner-members. The subsidiaries' profits are then distributed: 1/3 cooperative, 1/3 subsidiaries and 1/3 owner-members. Executive Board : meets every 15 days, Management committee controls the executive board, meets every 15 days Every specialized activity is represented by one administrator and one employee 2 trainees in Executive board with specific administration training 5-year business plan, bi-annual strategy seminar
Public Policy	
Public aid	n/a

Co-operative	Terres de Gascogne http://www.terresdegascogne.fr/public/
Year founded	
Status and Tier	2 st tier multipurpose cooperative (durum wheat, bread wheat, Wine, straw cereal, seeds)
Structure	Cooperative / Holding / Subsidiaries
Economic Data	
Turnover 2011	143 million of sales turnover (provision : 25 million; Ebitda : 13 million) ; 47% in cereals with 31% in agrofood, 15% in durum wheat; 21 % in milling; 33% in contractualised production; exportation 33%
N° of members	3,000
N° of employees	140
Area (ha)	65,000 hectares collected with 20,000 processed on its territory via its subsidiaries: milling, viticulture, seeds and feeds.
Market share of packaged	63% diversified baker's flour 37% of volume (processing, large retailing)
Activities	<ul style="list-style-type: none"> - Collect-supply: 3,000 t, 35% bread wheat, contractualisation of straw cereal market: 30% oleic sunflowers; Milling : 40% - Marketing and distribution: wholesale and retail - Supplies, exportation with other cooperative partners (depends on products)
Member services	<ul style="list-style-type: none"> - Counselling (economic and strategic) - Help in preparing financial support dossiers - Technical assistance and advisory service: for wheat in 1999, 20,000t. and in 2008, 160,000 t.
Brands	CROUSTIDOR Gers Farine
Successfully selling final, consumer products	Wine: PGI Cote de Gascogne : 55% of market shares and 60% export
Particularities	<p>1st referencing equitable contract central; « Controlled Cultivation and Resources » contract with strict CCP and SOQ specification between Miller/ Collector/Baker; 2 silos in organic</p> <p>Geographical proximity : 1 site every 10 km</p> <p>Consolidation of regional markets (end of 2012 merger in GASCOVAL to become bread wheat regional leader)</p> <p>Risks: Differentiation and diversification</p> <p>Regional image</p> <p>Quality Product and environmental approach for both members and consumers</p>
Member relations	
Producer income	<p>Total supply non-obligatory, variable according to product</p> <p>Possibility of partial supply with incentive (by bonus and service differentiation) favouring total supply</p> <p>Study of member typology to individualize advisory services and to help members buy plots of land, which are very expensive, and also implement contracts to ensure perennial income for young farmers</p>
Focus on social goals	Ensure best possible income for producers by creating added-value thanks to proximity and territorial grid

	<p>Volatility of feed prices (=60% of cost price) Wheat Price between 130 euros tonne to 200 euros tonne Decline in number of members (demographic reasons) but increase in land area and yield</p>
Collaborations	<p>IN VIVO for referencing supply and export Creation in 2012 of Coop GASCOVAL with Val de Gascogne, specialized in feed to complement food product A multipurpose group organized around 4 value-chains « to go to market and render service to members ». In 2010, Terres de Gascogne was 36th in the Top 40 collectors.</p> <p>Strategic partnerships according to products: Bread Wheat : leader position (Epid'Oc, Croustidoc) Durum Wheat: outsider position (InVivo...) Seeds: strategic complementarity (Epis de Gascogne, Actisem). The challenge is to maintain productive activity potential in the region: capital stake in SAS of Causade Semences; dividends are not returned to the cooperative, internal price at market rate Wine growing: strategic alliance (Plaimont) : IGP Cotes de Gascogne With GASCOVAL, Terres de Gascogne reinforces its animal activity, thereby strengthening its influence with members.</p>
Gouvernance	
Governing bodies	<p>Board= 15 members, meeting every 2 months, associating territory and value chain, no equal representation of men/women Executive Board= 8 members every month ; Board works in thematic commissions, with each vice-Chairman, with a value chain director, in charge of a mixed administrator/employee committee</p>
Public Policy	
Public Aid	<p>CAP 1992: drop of 30% of sales turnover, triggering problem to reimburse loans, with a loss of 10-15 million</p>