

The Approach of U.S. Agricultural Co-operatives to Competing in Global Markets

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The Role of Co-operatives in Improving Producer
Influence in the Global Food Supply Chain

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Introduction

- Grew up as eldest of 12 children
 - I can milk a cow, bale hay, haul silage, castrate pigs, run an electric wire out, drive any tractor regardless of its color, hoe sugar beets, run a manure spreader, and understand the difference between a beet fork, a silage fork, a hay fork, and a manure fork
 - My beef consumption is three times the annual average; malt barley consumption is above average; and I am lactose intolerant so Bailey's is the only liquid dairy product I can drink in excess.
- Strong cooperative family
 - Worked four years for a farm supply cooperative
 - Feed, agronomy, crop nutrients, farm store, energy
 - Worked two years for a large wholesale farm supply cooperative
 - Worked two years for a cooperative trade association similar to ICOS
- Took my PhD in ag economics and have worked in agribusiness and cooperatives.
- Teach in 16 different states last year to more than 750 directors on governance, finance, and strategy topics
 - 16 board retreats; seven board evaluations; nine countries

Significant Research Interests

- Written more than 100 Harvard Business School type case studies on agribusinesses; many on cooperatives.
- Translated into 9 different languages
- Spend a lot of time trying to understand what owners want from their cooperative
- What have I learned? The co-op model works; especially one 1-2 steps beyond the farm gate.
- The co-op model is not broken!

Outline

- Examples of what U.S. cooperatives are doing in different sectors
- Understand that the U.S. domestic market is huge and cooperatives have been inward looking for most of their history.
- The 1996 Farm Bill and its ultimate conclusion in 2014 have changed this perspective
 - Pushed co-ops to look more globally
- Every five years or so, cooperative scholars such as myself do surveys and interviews with cooperative leaders to identify key strategic issues
 - In 2011, global competition was cited as the second most important issue by almost 60 percent of the respondents and one that has not been highlighted in previous efforts identifying pressing issues.

Approaches to Competing Globally

- Physically control the entire process of production, marketing, etc.
 - Almonds, beef, cranberries, hazelnuts, dried fruit, some milk powder
 - Attain dominate market share
- Control US production but buy into assets overseas
 - Dried plums and hazelnuts - Chile
 - Citrus - South Africa
 - Cranberries, blueberries, grapes grown in Canada
- Licensing products
 - Sunkist and “citrus kiss”; 600+ products in 60 countries;
- Seek joint ventures to understand technology and country
 - DFA and Fonterra
 - CHS and partners in joint ventures in South America, Ukraine, etc.
 - Land O’Lakes in China
 - Welch Foods in Japan
- Collaborate with one another on exports
 - DairyAmerica
- Other?
 - DFA and

What does competing globally mean?

- Ingredient markets
 - Milk powder, dried fruit or nuts used in pastes
 - Building of “Innovation Centers”
 - Almond, Apple, Citrus, etc.
 - Value-added lies in finding “solutions”
 - U.S. cooperatives have historically not invested heavily in Research and Development outside of dairy
- Sold in similar form as when it leaves farmer’s field or orchards
 - Almonds, dried fruit, other nuts, grains and oilseeds
 - Value-added lies in logistics, handling, packaging, volume, etc.

Dairy sector becoming alive

- New Zealand and EU firms entering USA in cheese and milk powder markets
- USA co-ops have not expanded overseas except through some joint ventures
 - Fonterra and DFA
- California and to a lesser extent, Idaho and New Mexico, dairymen “think” differently



Specialty crop co-ops have always been globally-oriented



In-shell almonds are marketed to India; biggest producer in world. Innovation is key.



Navel oranges Exported. World's biggest Food licensor



Dried plums and juices produced in Chile and California for world



Licensing program



Global dried apple producer

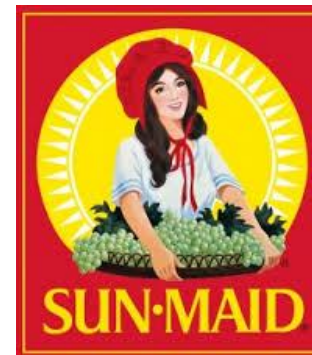


HAZELNUT GROWERS OF OREGON

Export-focused



Cranberries and juices exported all over the world



Designated as One of world's iconic brands

Bargaining cooperatives export.

Beef industry had processing co-ops.



Part of a diversified national cooperative that went bankrupt but meat division was consistently profitable until the end.

US Premium beef bought into an existing company and ultimately bought them out. Focused on exports of specialty cut beef from Black Angus cattle. Then they sold out to a group of investors but kept a supply agreement. Made a lot of money

Grains and oilseeds expanding



World's second largest co-op based on members and first in sales

Sunflower crushing plant in Argentina; ports in Ukraine, Romania, Argentina, Brazil, Canada, etc.

Doubled number of employees

Using international development
business development to look at
opportunities



U.S. cooperatives face competition.



Chinese canned peach imports



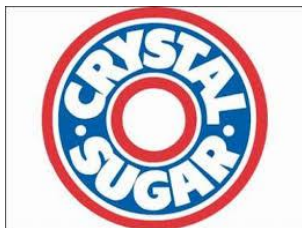
Brazilian juice imports



Chinese apple juice concentrate



Canned fruit consumption faces competition



Mexican cane sugar imports



Need Canadian imports

And of course dairy

What else are we seeing?

- Boards traveling internationally to understand what is going on globally
 - Brazil and China have been popular destinations
- Desire to have board chairmen from co-ops outside the USA on education programs for directors to hear their story
- Changes in governance systems to get faster decision-making and account for global strategies
 - Diversity, specific expertise

What are the big concerns?

- Three years and counting drought in California
 - California dominance in dried fruits, nuts, etc. was obtained after World War 2 and the destruction in Italy, Greece, Spain (Spanish Civil War)
 - Exit of dairies
- Regulations – immigration, CO2, etc.
- Sustainability and its definition
- China production of apples, fruits, nuts, etc.
- Possible antitrust scrutiny
- Transferring wealth (farmland) across generations and the co-op ideal
- Appropriate governance structures and organizational architecture as cooperatives get bigger in size.
- Concern about “Geographic Indications” (Feta, Munster, etc.) and US trade law in US – EU trade negotiations

Still . . .

- Canada and Mexico are big trading partners
- USA is a big market
 - Many co-ops will stay focused on North America

What are your questions?