

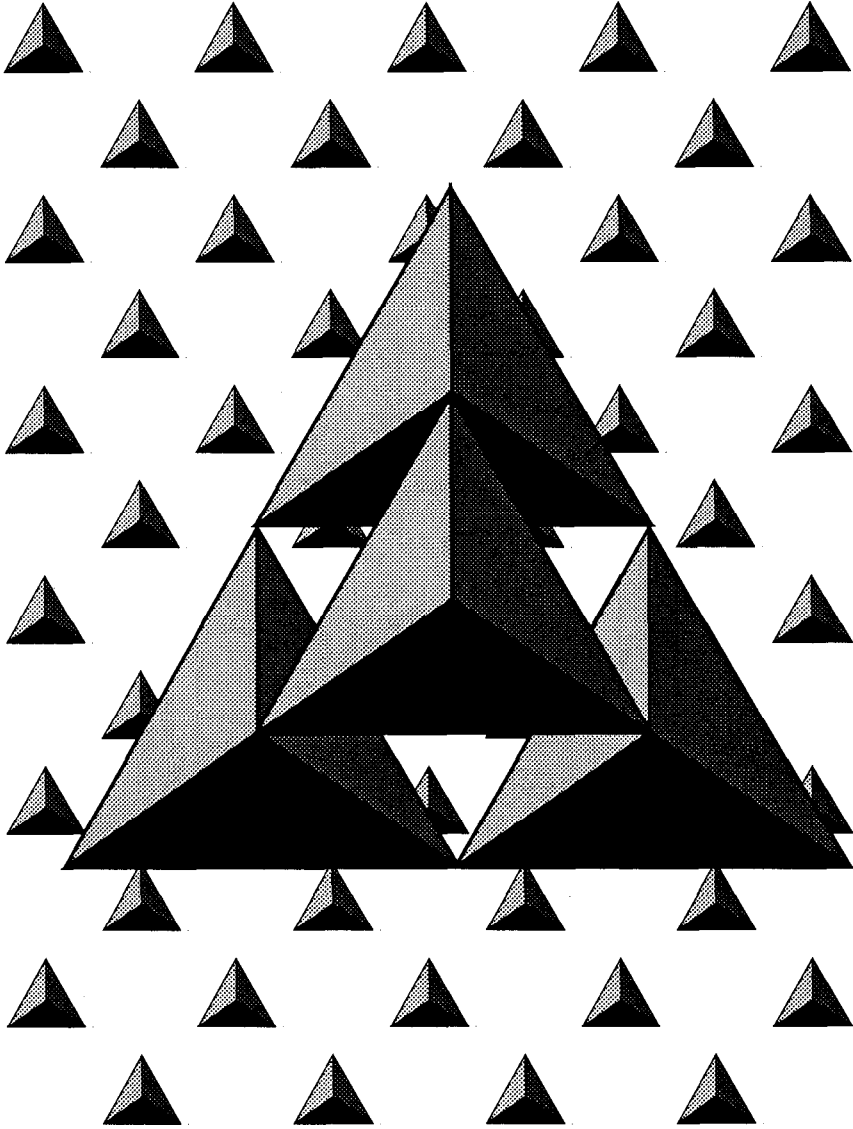


United States  
Department of  
Agriculture

Agricultural  
Cooperative  
Service

ACS  
Research  
Report 127

# Cooperative Marketing Agencies-in- Common



# Abstract

## Cooperative Marketing Agencies-in-Common

Bruce J. Reynolds

Marketing agencies-in-common (**MACs**) have been used by farmer cooperatives for many years to accomplish specific marketing activities. Relatively scant attention or concern has been given to adequately defining **MACs** in terms of how they differ from other forms of organization, particularly from other federated cooperatives.

Distinctions can be made in terms of the development and ownership of assets. Members of **MACs** retain individual member ownership of assets, with their MAC providing various supplementary functions such as group communications and product selling coordination.

Members often have assets that are highly specific to their own marketing programs and have developed significant expertise in their respective industries. With a membership of this kind, **MACs** are governed in a multiple principal structure, in contrast to the usual generalized single principal-agent relationship that prevails in most cooperative forms of organization.

Keywords: Cooperatives, marketing agencies-in-common, principals, agency, and federated.

ACS Research Report 127

January 1994

Price: Domestic \$2.00; foreign \$2.50

# Contents

- Highlights ..... ii
- Objectives of Study ..... 1
- Distinctive Form of Cooperative ..... **3**
- Multiple Principals and Single Agent ..... 7
- Principal-Agent Is a Control Function ..... 9
- Examples of Marketing Agencies-in-Common .....12
- Marketing Agencies-in-Common Versus Alternative  
Organizational Forms ..... 20
- Coordinating Strategic Plans ..... 27
- Appendix Tables ..... 31

## Highlights

Marketing agencies-in-common (**MACs**) can be incorporated as cooperatives or non-cooperatives. As cooperatives, they are a federated type, with organizations rather than farmers as direct members.

The purposes of **MACs** are, in most cases, coordinating sales of member products and extending the marketing programs that member cooperatives have developed. This involves relatively slight investment and ownership of assets, which provides an empirical means of identifying **MACs** from other types of federated cooperatives. An assets/sales ratio below 0.1 was effective in separating **MACs** from a 1991 data set of federated cooperatives.

Industrial organization economists, particularly in the antitrust field, have developed a theoretical model and definition of common agency. Their work, while not completely or readily applicable to cooperative organization of **MACs**, distinguishes the more general concept of common agency as having a multiple principal structure, in contrast to the single principal-agent relationship of most business and cooperative organizations.

The principal in a common agency takes a multiple form because assets are primarily retained by each member and include many which are highly specific to their individual operations. Each member is a principal in its own right because of its unique products and expertise. While tracking down federated cooperatives and determining their status as a **MAC** is complicated, there is adequate information on about 10 **MACs**, which demonstrate the multiple principal structure.

**MACs** are a distinct alternative for cooperatives seeking the benefits of coordination and economies of size. A comparison of several objectives and alternative organizational forms reveals more advantages for **MACs** when members want more interorganizational coordination but have a preference for maintaining their separate identities. **MACs** have some dis-

advantages in being the focus for developing distinctive capabilities and innovations.

The marketing coordination function of MACs can be extended to interorganizational planning and decision-making for certain areas of operation that involve mutual or interactive impacts on members. The commitment to develop and maintain services to members is a distinct and economically difficult challenge for cooperatives in many cases. Often a lack of coordination in planning and in carrying out certain operations renders less efficient outcomes for cooperatives than if such processes were handled within the framework of a MAC.

# Cooperative Marketing Agencies-in-Common

Bruce J. Reynolds

## OBJECTIVES OF STUDY

The strategy of forming a cooperative marketing agency-in-common (MAC) was in use before the Capper-Volstead Act was enacted in 1922. In recent years this strategy has received increased interest among dairy and other commodity groups.

The purpose of this report is threefold: (1) to provide a definition that adequately differentiates MACs from other cooperatives and federated organizations, (2) to examine MACs in practice and in a strategic decision making context of alternatives, and (3) to extend the business applications of MACs to a broader strategic objective of cooperatives' role in the farm economy that does not apply to firms operating on a non-cooperative basis.

Many of today's largest farmer cooperatives started out as relatively small organizations with memberships concentrated in local geographic areas. Over time, regional expansion of membership took place. Many of these cooperatives rapidly grew by consolidating or merging with cooperatives in neighboring areas.

Cooperatives have also pursued an alternative to consolidation by forming organizations for intercooperative coordination of certain facets of their operations. This alternative is particularly attractive, as certain marketing or processing functions may benefit from economies of size.

Although a merger would accomplish the same economies, intercooperative organization is advantageous when some functions are more effectively carried out in a decentralized structure of smaller and more geographically localized cooperatives.

Intercooperative coordination is usually organized as a federated cooperative. A board of directors consists of producers or managers or both from the member cooperatives. Federated cooperatives are organized for various purposes. Some carry out a substantial array of value-added and capital-intensive processing and marketing activities. Others coordinate marketing activities that do not involve intensive capital formation.

The latter type of federated cooperatives are called marketing agencies-in-common. The term “marketing agencies-in-common” is explicitly used in the Capper-Volstead Act as a way for cooperatives to coordinate their marketing activities.’

The first section of this report defines a MAC and empirically tests the definition as to its adequacy in identifying federated cooperatives that are MACs. The next two sections, “Multiple Principals and Single Agent” and “Principal-Agent Is a Control Function,” examine the principal-agent relationship as it applies to cooperatives, and specifically to MACs.

The *principals* are members of a cooperative whose responsibilities are primarily carried out by a board of directors. Agents are employees of cooperatives, primarily management. The principal-agent relationship establishes the control and objectives of a business.

More general and applied information about MACs is provided in the fourth and fifth sections of this report, “Examples of Marketing Agencies-in-Common” and “Marketing Agencies-in-Common Versus Alternative Organizational Forms.” These brief case studies and comparisons of MACs demonstrate the concepts and distinctions developed in the first part of the report.

A framework for developing new MACs and wider applications is provided in the last section of this report, “Coordinating Strategic Plans.” This section examines applications of MACs that go beyond the usual specific operating

---

<sup>1</sup> *Antitrust Laws: Legal Phases of Farmer Cooperatives, Part 3.* ACS Information Number 100, 1983, p. 293.

objectives to comprise a broader strategic planning responsibility.

The complexity of expanding a cooperative's business resources and opportunities, as well as of maintaining its objectives and governance integrity as a farmer cooperative, requires a certain amount of coordinated action and planning. It has no adequate parallel or analogy among non-cooperative firms. MACs can provide an organizational mechanism for coordinated planning of services to farmers and for strengthening the use of cooperative methods and forms of organization.

## **DISTINCTIVE FORM OF COOPERATIVE**

Marketing agencies-in-common can be applied to cooperatives or non-cooperatives. Concern over potential violation of antitrust laws may have reduced the number of MACs that non-cooperatives would have otherwise formed.

The limited exemptions from antitrust provided by the Capper-Volstead Act have enabled farmer cooperatives to have more experience with MACs than most other segments of American industry. Special legislation has provided some antitrust exemptions for both investor-owned firms (IOFs) and cooperatives to organize export agencies-in-common, but the numbers formed and the extent of their exporting activity have been relatively small.

Economic theory of common agency offers many critical insights, but much of this theory has not been developed for application to farmer cooperative MACs. Rather, theoretical work on common agency is to a large extent a special topic in the larger field of antitrust economics. In this context, the presumption is that a MAC formally organized by a group of firms would be used for purposes of collusion. As a result, economists' understanding of common agency is much different from a MAC as established by cooperatives.



Economists view common agency as arising spontaneously when one agent represents several major firms in an industry.<sup>2</sup> No overt planning or actual federated organization needs to exist for establishing common agency in this interpretation. Consequently, ideas on effective coordination and governance of common agencies to increase efficiencies and services are neglected topics.

The dearth of adequate definition and studies of the applications of MACs has also occurred in economics literature on farmer cooperatives. Most studies of cooperative organization point out that a MAC is a type of federated cooperative, but its distinguishing characteristics have been inadequately defined. In fact, it is even unclear how a cooperative MAC is different from a farmer cooperative, other than to say that the former has organizations, while the latter has individuals as members.

Some writers have defined MACs as a type of federated cooperative that does not take title in marketing transactions.<sup>3</sup> However, the distinction of title transfer is generally not applicable because there are far too many exceptions. In many cases, the process of title transfer is necessary for coordinating the marketing of a group of cooperatives.

While this definition is too restrictive, it makes an accurate assumption that information sharing and coordinated selling, the function of marketing agencies that do not take title to goods, is the major purpose of MACs, and not title transfer. Unlike many other federated cooperatives, MACs do not serve the purpose of sharing in the acquisition and ownership of financial and physical assets needed for adding value from processing or packaging. In other words, marketing agencies-in-common are organized by groups of cooperatives

---

<sup>2</sup> Esther Gal-Or, "A Common Agency With Incomplete Information," *The Rand Journal of Economics*, Summer 1991, Vol. 22 No. 2, p. 274-86.

<sup>3</sup> Robert Cropp and Gene Ingalsbe, "Structure and Scope of Agricultural Cooperatives," *Cooperatives in Agriculture*, 1989, p. 49.

to coordinate marketing, with each member retaining exclusive ownership over a unique set of physical and human capital. The marketing agency may coordinate a wide range of possible value-added services. But, it does not itself serve as an organizational entity for acquisition or development of the assets required to produce either products or services that constitute participation in any given industry.

The above definition can be tested by examining whether a group of MACs can be identified from a data set of federated cooperatives on the basis of having relatively low assets. Table 1 summarizes membership and financial data for 63 federated cooperatives at the end of fiscal 1991, as surveyed by ACS's Statistical & Technical Services Staff. Federated cooperatives with mixed memberships, i.e., farmers and organizations, are excluded from the data set.

These data are sorted in descending order on the basis of the proportion of assets to sales. Assets and sales are often expressed as a ratio of sales over assets to measure turnover or assets utilization. This particular ratio is meant to remove the

**Table 1 - Membership and financial data in FY 1991 for 63 federated cooperatives, 19 below and 44 above 0.1 assets/sales.**

	Members	Assets/Sales	Assets	Sales
			(millions) -----	
<b>63 Co-ops</b>				
Averages	56	0.43	\$47.9	\$203.8
Median	10	0.28	\$8.9	\$36.6
<b>19 Co-ops, with assets to sales below 0.1</b>				
Averages	9	0.05	\$6.7	\$247.6
Median	5	0.05	\$2.4	\$97.3
<b>44 Co-ops, with assets to sales above 0.1</b>				
Averages	76	0.60	\$65.7	\$184.9
Median	12	0.42	\$13.3	\$29.7

distortion of significant differences in the size of federated cooperatives. The assets of most MACs are confined to receivables and inventories, yet some with high sales volume will normally have current assets that are as high or higher than the total assets of relatively small processing federated cooperatives.

Out of 63 federated cooperatives, 19 have a ratio of assets to sales below one-tenth of total sales. Most well-known MACs are in this grouping and these organizations are listed by name in appendix table A-1. The designation of MAC is debatable for a couple of these federated cooperatives, but generally this definition holds. The 44 federated cooperatives above the 0.1 ratio threshold do not appear to contain any organizations that regard themselves as MACs. These federated cooperatives are listed in appendix table A-2.

MACs generally have a much smaller number of member cooperatives than other federated cooperatives. The variance in the size of memberships is quite high, as indicated by the difference between the average and median number of members for all 63 federated cooperatives and the subgroups of 19 and 44. Member organizations were significantly more numerous for federated cooperatives with assets-to-sales ratios above 0.1, an average of 76 compared with 9 members for those below 0.1.

When memberships are large, it is often a case of relatively small cooperatives having organized a federation to acquire critical assets for some type of value-added service that each could not feasibly carry out on its own. In contrast, small memberships usually involve relatively large cooperatives that establish a federation to coordinate marketing.

Results reported in table 1 confirm a characteristic of MACs -- they generally have limited assets compared with other federated cooperatives. Average and median assets are lower and sales are higher for the 19 MAC-designated federated cooperatives, as compared with the group of 44.

There are other ways to use assets as a measure for identifying MACs than an assets-to-sales ratio. For example, the condition that average or median assets of members be larger than total assets of the federated cooperative could also identify MACs. This latter approach would capture potential situations of MACs that might have assets-to-sales ratios greater than 0.1. Such cases could arise if federated cooperatives were to acquire assets for some type of specialized processing or packaging activity, while its members maintain exclusive ownership of much larger portfolios of critical assets. Future research in the area of using financial structures to identify different organizational structures could develop this or other techniques for analyzing MACs.

## **MULTIPLE PRINCIPALS AND SINGLE AGENT**

A principal-agent relationship in business involves an owner (principal), who has hired a manager (agent) to operate the business. The notion of a single principal is applied when there are multiple owners. A “multiple principals-single agent” relationship is a distinguishing feature of MACs, and relates to the condition that resources and assets be accumulated by each member and not by their MAC.

In recent theoretical work, Bernheim and Whinston apply the term “multiple-principal/single-agent” to the concept of common agency.<sup>4</sup> While common agency includes all types of formal coordination, in addition to marketing, these economists use a common marketing agency as an example. Their study is of a wholesale trade, where manufacturers establish contracts with merchandise agents or brokers to market their products to retailers. One of Bernheim’s and

---

<sup>4</sup> B.D. Bernheim and M.D. Whinston, Common Marketing Agency as a Device for Facilitating Collusion, *The Rand Journal* of Economics, V. 16, No. 2, Summer 1985. Also see their article. Common Agency, *Econometrica*, V. 54, No. 4, July 1986.

Whinston's requirements for common agency is that the principals do not cooperate in selecting and in establishing a fee structure for their common agent, nor do they communicate about prices. These economists say that when such cooperation exists, the arrangement becomes the standard **principal-agent** model.

Bernheim and Whinston do not address the opportunities provided by the Capper-Volstead Act for cooperatives to establish a MAC. Nor do they reference the application of **MACs** as authorized by the Export Trading Company Act. They appear to assume that most formal or incorporated common agencies, established under certain enabling legislation, would have a structural relationship of single rather than multiple principal.

One advantage of requiring that each participating firm in a common agency not communicate with one another is that they establish a definite and clear rationale for multiple principals. In their view, common agency is an unplanned occurrence of an agent seizing the opportunity to coordinate the marketing of several firms' competing products, without their explicit direction or instructions. Even though these firms do not control the system of coordinated marketing, they do monitor the common agent's performance with regard to their own product sales.

Bernheim and Whinston are the first agency theorists to develop the idea and conditions for multiple principals-agent relationships. The distinction between multiple and single principals provides a way to explain and understand some of the differences between **MACs** and other federated cooperatives or a cooperative with direct producer membership.

This report follows a slightly different line of reasoning from Bernheim and Whinston regarding criteria for multiple principals. **Some** cooperatives have characteristics that distinguish them as separate principals in a common agency relationship without the strict requirement that they not formally organize.

A broader definition of multiple principals, where they directly communicate and coordinate their control of agent performance, makes the distinction with a single principal structure less clear-cut. In some instances, the distinction can be made only on a case-by-case basis. Furthermore, a broader definition raises a question as to why all cooperatives cannot be viewed as controlled by a multiple principal structure.

Multiplicity among members or on the board of directors, and subsequent conflict of interests, is not uncommon in most cooperatives. However, the distinction of separate principal status for each member is not based on diverse interests. Rather, it hinges on the fact that some cooperatives, unlike producers, have developed distinctive expertise, asset specificity, and intellectual property over many years.

Each cooperative in a MAC has a unique set of these factors or resources that it would like to augment and protect but not transfer out of its direct and immediate control. The results of sorting federated cooperatives into a MAC category when assets to sales fall below 0.1 (table 1) reflect this specialization of assets by the reluctance of MAC members to share or to transfer such assets outside their organizations.

## **PRINCIPAL-AGENT IS A CONTROL FUNCTION**

The principal-agent relationship has not been widely used in economic studies of cooperatives. Some agricultural economists have used the theory of agency in the form of having both parties to a cooperative arrangement (members and management) as agents. Under this approach, the board of directors are referred to as the “representatives of the residual claimants,” rather than use the term “principal.”<sup>5</sup>

The reluctance to regard members of a cooperative, specifically the board of directors, as a principal, reflects a mistaken perception that control responsibilities are relatively

---

<sup>5</sup> John M. Staatz, Recent Developments in the Theory of Agricultural Cooperative, *Journal of Agricultural Cooperation*, V. 2, 1987, p. 85.

weak in most cooperatives. In fact, there is more control in most cooperatives, although exercised in a different manner, than in most publicly held IOFs. It is as a consequence of active control by directors that most farmer cooperatives confine their activities to those that either facilitate members' operations or benefit them by improving the market value of their farm production and assets, but may not yield the highest potential earnings.

Evidence of managerial influence on the formulation of policies and programs of a cooperative, and indications that these are consistent with possible private agendas of management, does not discredit the notion of effective member control. It is impractical to expect that managers would not take courses of action that are in their self-interest. Effective incentives and motivation require that managerial self-interest be aligned with member interests. When interests are not aligned, either performance or governance declines.

The primacy of the principal-agent relationship for cooperatives highlights several important distinctions with IOFs. It is often pointed out that IOFs tend to serve investors' interests better when their control is restricted to general financial structure issues.<sup>6</sup> In other words, an IOF can more effectively maximize returns to investors by not being directed into specific lines of business, but instead being able to pursue its own distinct capabilities in any direction that its management determines.

The meaning of control and the concerns over failure to exercise it in cooperatives and business organizations has occupied much attention in academic work and in the media regarding executive compensation. Much earlier attention followed in the wake of Berle and Means work from the 1930s on the historical transition from owner-manager businesses to the stockholders-manager organized corporation. While the sepa-

---

<sup>6</sup> Robert C. Clark, *Agency Costs Versus Fiduciary Duties*, see, *Principals and Agents: The Structure of Business*, ed. J.W. Pratt and R.J. Zeckhauser, 1985, p. 56.

ration of ownership from management enabled new sources of efficiency and growth -- a critical relationship in cooperatives -- they identified a concomitant trend of stockholding owners having lost control.

**Berle** and Means' adopted phrase "separation of ownership and control" is unfortunate because it has resulted in the notion of a principal's responsibility to control as an activity that management can appropriate. A more accurate expression is that control is lacking. Harold Demsetz noted this distinction when he used the term "control vacuum" to discuss the separation of ownership and **control**.<sup>7</sup>

Although managers have certain fiduciary control tasks, the predominant responsibility for control over the direction of a cooperative lies with the board, not the manager. Control involves monitoring managerial performance and directing a firm's course of action. It is applicable to management only if one wanted to introduce the idea of managers having self-control.

The responsibility of cooperative membership for control can be divided between governance and performance. Governance is widely recognized as a key element of control and is emphasized by ACS, reflecting concerns about the integrity of a cooperative when professional management pursues business opportunities that provide high returns but do not enhance the value of member products. In such cooperatives; governance control is lacking.

The notion of "performance control" may seem unrealistic because performance is subjected to many uncontrollable environmental factors. However, in exercising performance control, directors must evaluate how well management carries out the objectives of their cooperative. Changes in the general economy that have affected earnings should not influence their evaluations.

---

<sup>7</sup> H. Demsetz, The Structure of Ownership and the Theory of the Firm, *Journal of Law & Economics*, V. 26, June 1983, p. 387.



Evidence of effective governance and performance control are long-run market development programs that successfully enhance the value of member products. Members capture part of this gain in increased value of their production resources. This is preferable to benefits that arise only from increases in a cooperative's earnings.

The above discussion of control applies to all types of cooperatives, but the multiple principal structure of a MAC involves some different points of emphasis. A MAC requires little governance due to its low accumulation of assets. In contrast, performance control of MACs is critical and often difficult. When a MAC's performance is well below its potential, it is often due to each principal's preoccupation with its own organization's performance or to a lack of incentive for effective direction. Weak performance of MACs can also arise from difficulty in achieving consensus on objectives in a multiple principal structure.

A multiple principal structure also affects the role of management. While a cooperative manager is in the role of agent for farmers, its managerial function requires much initiative and leadership, perhaps more than what is usually associated with the term "agent." The notion that what agents do is to strictly carry out the directions of their principals inadequately reflects the true dynamic of most principal-agent relationships. However, the specialized functions and multiple principal structure of MACs place their management in the restrictive type of agent role.

Several MACs have effectively overcome the special challenges that result from a multiple principal structure. Some of them are reviewed below.

## **EXAMPLES OF MARKETING AGENCIES-IN-COMMON**

Most MACs discussed here were included in the data analysis of table 1. All were below the 0.1 assets/sales ratio threshold. A couple MACs that went out of business are also

discussed in terms of how they demonstrate consequences either of too large a membership or of involvement with operations more effectively carried out by consolidated organizational structures. Typically, these examples show that MACs are ineffective for building assets and intellectual property resources.

Most relatively large cooperatives that have substantial marketing expertise, innovative processing techniques, and established brand name awareness have slight incentive to consolidate or even federate with other cooperatives. When constraints or suboptimal economies of size are encountered in isolated facets of their operations, these cooperatives often seek some type of strategic alliance-- a MAC or other arrangement.

For example, a group of cooperatives may each be involved with marketing byproducts that could be more efficiently handled by combining this function into a single organization. In addition, they may not want to focus their resources on byproducts because management is evaluated predominantly on how it enhances prices and develops marketing programs for the primary product of its members.

Midwest Agri-Commodities, Inc., is an example of a MAC for marketing intercooperative byproducts. It merchandises beet pulp and molasses for three sugar beet processing cooperatives. Assuming the relevant range of per-unit cost for marketing beet sugar byproducts declines with increased volume, a MAC reduces total costs in comparison with the aggregate cost of each cooperative for the same volume of byproducts sold.

The marketing of beet sugar may have a similar cost structure, but byproducts are an easier first step for intercooperative coordination. A couple members of Midwest Agri-Commodities have established a MAC for their sugar, North Central Sugar Marketing Co-op. Currently, the other member in the byproducts MAC is considering membership in North Central for coordinating its sugar marketing. Louisiana Sugar

Cane Products, Inc., a highly effective MAC for cane sugar, has six members.

The relative ease of gaining acceptance of MACs for byproducts is also demonstrated by contrasting soybean and cottonseed processing. In 1963, several cooperative soybean and cottonseed processors established a MAC called Soy-Cot Sales, Inc.

The soybean side never effectively coordinated its marketing in this organization, but by the early 1980s, competitive pressures forced participants to either achieve an economies of size threshold or exit the industry. Merging soybean processing cooperatives or divisions into a non-MAC federation, Ag Processing, Inc., was the outcome. Soy-Cot continues to operate as a successful MAC, specializing in marketing vegetable oil for its cottonseed processing members.

Another segmented market situation that lends itself to the establishment of MACs by cooperatives is the handling of non-member sales as a separate operation. This condition is present in the cattle artificial insemination (AI) industry. In addition to a product, AI cooperatives also offer substantial technical service to their members for optimizing its application. Production above member needs is available for non-member sales without providing the same amount of technical services. Non-member sales, including exports, is a separable operation. In terms of separability, it is akin to the handling of by-products.

Three different groups of AI cooperatives have established MACs to handle non-member sales and exports. AI cooperatives also have a marketing agreement with World Wide Sires to export to Europe, Africa, and Asia. By specializing in non-member sales, most of these MACs are organized as partnerships, without incorporating as cooperatives.

The key point is that value-added components are controlled in a more localized or regional structure by individual cooperatives, while activities where control is less of a concern are the components organized into MACs.

A highly effective MAC, **Amcot, Inc.**, provides coordinated marketing for the primary product handled by four large grower-member cooperatives. **Amcot's** success points out that a potential advantage for organizing **MACs** for by-products or segmented marketing is just that, an advantage and not a necessary condition for a successful MAC.

**Amcot** illustrates that **MACs** having cooperatives with a substantial amount of non-competing products reduces the extent of members' concern about sharing a marketing agency. It is misleading to regard **Amcot** members' cotton as perfect substitutes, such as with grain cooperatives. In fact, one of the reasons **Amcot** works well is that, although each of its four members handle some similar cotton types and qualities, they are generally offering significantly different growths. **Amcot** is to some extent a multicommodity cooperative. An agent needs to represent a wide variety of cotton to provide effective representation in world cotton markets. This situation is perfect for cotton cooperatives. Limited to the particular kinds of cotton in their member region, they can compete internationally with a more comprehensive offering to textile mills with **Amcot**.

There are examples of participation in **MACs** by cooperatives with highly developed marketing programs and established brands. Sun-Diamond is the best known. Much of its coordination responsibilities involve public policy and relations. Sun-Diamond's marketing responsibilities focus on activities and functions that are subject to economies of size. It provides order entry, coordinates distribution, handles accounts payable and receivable, manages a network of foreign sales representatives, and handles export documentation.

Member cooperatives provide market development, advertising, product improvements and developments, selection of product lines for export, sales objectives, and pricing. These activities influence the core assets of each member. While such activities may also benefit from economies of size,

---

they are too critical and involve special expertise, so that shared management and control are unacceptable.

Sun-Diamond's acquisition of **Sunland**, a proprietary dried fruit and nut company, has brought to the fore the issue of coordination and compromise in the use of brands.

Sunland's brands were vacated. Its product lines have been marketed under various trademarks of the members, primarily the Sun-Maid brand. Sun-Diamond manages the **Sunland** division and selects the member brands to be used. This area of MAC operations has been one of the most contentious for members. While different from a situation of a MAC managing a members' brands and the development of its markets, it involves decisions about the use of brands that are not under the complete control of each member organization.

Cooperating Brands, Inc., is a MAC organized to handle brands of member cooperatives for specialized packaging. It was established by six fruit processing cooperatives to manage a special institutional juice pack.

A small frozen juice cup is a required type of packaging for a certain segment of the institutional market. None of the cooperatives wanted to invest in this type of packaging, and preferred co-packing arrangements. However, there are significant economic advantages to having both large volume copacking arrangements and a comprehensive line of juice varieties when selling to institutional buyers. Opportunities for special packs of different kinds of fruit snacks have also developed.

Cooperating Brands has a trademark licensing agreement with each member cooperative. In a copacking arrangement, the packing plant does not take title, and has no rights to use the brands on their own products. A confidentiality agreement restricts the packer or bottler from making any use or release of the proprietary juice formulations. Recently, member cooperatives have avoided this problem for most of their products by shipping pre-formulated concentrates to the bottlers.

These contractual arrangements indicate the extent of proprietary information, and hence, specific capabilities that value-added processing cooperatives possess. Juice marketing cooperatives are highly successful and competitive with one another.

Cooperating Brands gains access to a specialized and segmented market, while protecting members' distinctive competence from duplication by competitors. Those cooperatives that have developed intellectual property and special technical expertise in food processing and marketing will use MACs to achieve economies of size for better access to particular market segments. Such cooperatives will typically establish individually designed contracts with the MAC, making the multiple principal structure of the organization very explicit.

Although examples of forming a MAC to pool member resources for market development are few in number, **Norbest** stands out as a potential model. However, it is important to understand that its accomplishments are not a recent development. **Norbest** was formed in 1929 to handle turkey sales for 20 cooperative packing associations. It was an innovator in using the branded concept for marketing fresh meat, and until recently, was the largest marketer of turkeys in the world.

A similar case, with historical roots, is the early years of **Land O'Lakes, Inc. (LOL)**. It was originally established as a federated cooperative to coordinate the promotion of a single brand of butter among several cooperative creameries. It subsequently evolved into a diverse food and farm supply production and distribution association, with a mixed membership structure.

In recent years, dairy cooperatives outside the Midwest have joined LOL to pack butter using its famous trademark and coordinate the distribution of those particular product lines. Even though these arrangements parallel both its early period and the **Norbest** system, LOL's evolution as a coopera-

tive extends far beyond the range of the coordinating activities of a MAC.

Like most **MACs**, Midwest Agri-Commodities, **AMCOT**, and Soy-Cot are examples that do not involve major **brand-name** products and operate in price-competitive commodity markets. The milk marketing **MACs**, Central Milk Processing Cooperative and the Regional Cooperative Marketing Association, have operated pools for members in their marketing order areas. These pools have helped stabilize prices and earned over-order premiums.

In apple marketing in the Northwest, federated marketing for cooperative packing houses dates back to 1922, and persists today with Wenoka Sales. It sells directly to the grocery chains for six members. Wenoka is an alternative to contracting with a distributor.

The key advantage of this MAC is that members can improve their earnings by participating in larger volume sales and by having more control over their negotiating positions, than if each were independently contracting with outside distributors.

The challenge of maintaining product commitment from members of a MAC, particularly when operating in actively traded commodity markets, often raises the issue of marketing agreements. Although marketing agreements are not addressed in this report, their application by **MACs** in some form is usually necessary.\*

Poorly designed marketing agreements have contributed to the failure of some **MACs**, by allowing some members to gradually reduce their product commitment. This has occurred in grains with Producers Export Company and Farmers Export Company, as well as in dried beans, with Valley Marketing, Inc.

---

<sup>8</sup> As an example of terms in a marketing agreement for a MAC, see, Carolyn **Liebrand** and Karen Spatz, *Exporting: A Marketing Agency-In-Common for Dairy Cooperatives*, ACS Research Report 126.

Without exploring all the reasons for the demise of these MACs, it is worth observing that these examples exhibit the segmentation pattern discussed earlier. In each case, a group of cooperatives identify a particular marketing function or market segment that they are willing to delegate to a MAC.

Valley Marketing consisted of local grain cooperatives that handled a relatively small volume of beans from some of their members and a couple of predominantly specialized dried bean cooperatives. It was inefficient for the grain cooperatives to each market a small volume, so a MAC worked well for them.

However, their interests eventually conflicted when the two local dried bean cooperatives wanted to build their own processing facilities for frozen beans. This pressured Valley Marketing to buy non-member beans to maintain customer accounts. The two largest members opposed the idea of non-member business and dropped out of the organization, leaving it with an unsustainable level of volume.

The case of the grain marketing interregionals reflected the segmentation pattern around exporting. Regional grain cooperatives reasoned that grain exporting, particularly in operating port elevators, was subject to more economies of size than they could individually attain. Hence, the regional cooperative members handled domestic marketing, while the interregional specialized in exporting. But grain markets cannot be segmented in this way for effective trading. A successful MAC for marketing large volumes of grain would require responsibility for both export and domestic marketing decisions.

Delegating special activities to a MAC can work in many contexts, but this approach is destined for failure when cooperatives have tried to separate responsibility for grain exporting from control over domestic marketing. However, the disadvantages of divided responsibility do not apply to more localized grain marketing systems. Given the recent reduction in the number of regional grain cooperatives, many relatively



small groupings of local cooperatives have established MACs for coordinating shipments to export locations or to more distant milling destinations. Members use a part of their grain volume to supply their feed mills and local buyers, allocating the balance for marketing by their MAC. This type of decentralized system of decisionmaking and of divided responsibility does not encounter the magnitude of risk and inefficiency that such a segmented system has in the context of regional and interregional grain marketing.

## **MACS VERSUS ALTERNATIVE FORMS**

When a group of cooperatives consider forming a MAC, they must compare expected benefits with their current system and evaluate other alternatives for increasing their scope and coordination of operations. This section compares MACs with general alternatives.

In some cases, however, cooperatives may regard a MAC as a potential transitional structure, rather than a mutually exclusive alternative. By establishing a MAC, members buy time to obtain more information for evaluating future steps toward either complete consolidation or partial combinations within a federated cooperative.

There is a potential weakness in trying to use MACs as a middle ground or transitional step. A decision to form a MAC can often be a delaying tactic in that cooperatives postpone having to make difficult restructuring decisions. Rather than lay groundwork for making difficult but economically necessary adjustments, MACs can become entrenched. In sum, the coordination that a MAC provides, without requiring consolidation or transferring of assets, can work in either positive or negative ways. It is preferable to choose an alternative “as if” it were a final and irreversible decision. The evaluation presented below considers MACs strictly as a competing rather than a transitional alternative.

While there are numerous types of benefits and different considerations in ranking the alternatives, this discussion selects a few key points and some general assumptions in making an evaluation. It is a simple example of what, in actual practice, is a complicated process. The following four organizational structure alternatives are contrasted and compared:

1. MAC,
2. Non-MAC federated cooperative (NMFC),
3. Consolidation or merger of cooperatives (COM),
4. No intercooperative coordination (NIC).

**MACs** are primarily responsible for marketing coordination. If the members of a MAC instead formed a COM structure, it would accomplish marketing coordination and handle the full range of activities and member services otherwise conducted on a smaller scale by several cooperatives in an NIC structure. **NMFCs** take on more functions than **MACs**, but are also an incomplete cooperative structure without the linkage to the services and functions of their member organizations.

To compare these four organizational alternatives, the operations of member organizations must be evaluated as a single system with their federations, MAC or NMFC, to form a complete structure.

Six objectives used to evaluate each alternative are:

1. governance control,
2. performance control,
3. economies of size,
4. use of capacity and assets,
5. development of assets and distinctive capabilities, and
6. member involvement and loyalty

Governance Control concerns directors' responsibility to oversee the activities of a cooperative in compliance with the objectives and bylaws of the association and civil and commercial laws and regulations.

---

Table 2-Ranking of organizational alternatives by effectiveness in accomplishing objectives.

---

Governance Control

1. NIC No Intercooperative Coordination
  2. MAC Marketing Agency-in-Common
  3. NMFC Non-MAC Federated Cooperative
  4. COM Consolidation Or Merger
- 

Performance Control

1. NIC
  2. COM
  3. NMFC
  4. MAC
- 

Economies of Size

- 1.COM
  2. NMFC
  3. MAC
  4. NIC
- 

Use of Capacity and Assets

1. COM
  2. MAC
  3. NMFC
  4. NIC
- 

Development of Assets and Distinctive Capabilities

1. COM
  2. NIC
  3. NMFC
  4. MAC
- 

Member Involvement and Loyalty

1. NIC
2. MAC
3. NMFC
4. **COM**

The alternative of no intercooperative coordination (NIC) is the highest rank in table 2 regarding ease or simplicity of governance. The fact that a consolidation or merger (COM) is placed fourth should not imply that smaller cooperatives have superior governance. Rather, governance is more complex in large cooperatives and federated systems. Even so, with systems for voting and board representation that reflect membership diversity, governance can be effectively carried out in large organizations.

Governance responsibilities of most MACs, due to low assets, are usually less demanding than in other cooperative organizational forms. In contrast, governance is the major control challenge when cooperatives confront a consolidation or merger (COM) decision. In fact, when merger discussions break, it is often due to uncertainties about governance control. Questions about a proposed merger creating poor performance are rare.

*Performance Control* -- motivating and monitoring cooperative staff to meet a cooperative's objectives at the highest levels of achievement.

MACs are ranked last in performance control because of the challenges involved with coordination. Cooperatives with a MAC would be expected to outperform those operating with no intercooperative coordination (NIC), but members' exercise of control over performance is often weaker. In fact, when a MAC has improved results over each members' previous NIC experience, such success may mask the potential for better performance, if directors were to exercise more control.

While coordination is a MAC's key performance advantage over a NIC, it is difficult to control in a multiple principal structure. Each participating cooperative remains in existence, retaining their respective assets, so that their primary performance concern is with their own cooperative. In fact, the principals that serve on a MAC's board are usually managers of

the member cooperatives, and their concerns can weaken performance control.

For example, some members may become concerned if others appear to benefit more. They may become preoccupied with establishing rules for how benefits and costs will be equitably shared or veto proposed operations which they anticipate would not benefit them as much as other members. In the multiple principal structure of MACs, these governance concerns are apt to move to the forefront, while performance control becomes less important.

Economies of Size -- when larger capacity results in lower per unit costs.

Economies of size is the classic advantage for many large businesses. Its effects are usually significant in agricultural production, processing, and marketing. In regard to physical handling and processing of agricultural products, transportation costs often limit the extent of economies of size. By contrast, those aspects of marketing that involve communications and movement of documents are likely to have lower per unit costs with increased capacity.

For example, transactions costs for a large sale are often proportionally smaller than costs on a smaller volume sale. If a MAC accomplishes fewer but larger sales transactions than separate transactions by several different agents for the same volume, then it has an economies-of-size advantage over the fragmented structure of NICs. COM and NMFC alternatives accomplish the same economizing of transactions, while also achieving more economies of size in physical facilities for value-added services than the members of MACs or cooperatives in an NIC structure.

Use of Capacity and Assets -- involves the concept of turnover, with increases in sales volume on a fixed capacity or in relation to a firm's assets resulting in a lowering of per-unit costs and a higher return on assets.

The case for a COM alternative (table 2) is usually based on the advantages of higher use of member facilities, as well as economies of size. When use of capacity or assets is the key objective, a single organization structure has advantages in avoiding duplication or excess.

**MACs** are often more effective than other types of federated cooperatives in improving members' access to more market outlets, and in this way, helping them increase their volume of throughput. However, this type of comparison is only meaningful in terms of each member's sales volume. It does not consider the value added from the operations of a non-MAC federated cooperative (NMFC), which increases margins per unit of sales.

NMFCs, with significant assets to use, do not function as well as **MACs** in the agent mode of helping members find buyers. In some cases, **MACs** operate on a type of brokerage-fee basis. If members independently make sales, their **MAC** is credited. This operating policy creates a large network of market contacts. In contrast, many NMFCs have processing schedules that require supply commitments from members.

*Development of Assets and Distinctive Capabilities* -- over time, a business will accumulate a wide range of assets that extend beyond those with reported book values to include intellectual property, such as trademarks and patents, as well as human capital development of management and other personnel.

Developing unique assets and human resources are the tools for creating a value-added system for member products. It is often believed that adequate financing is sufficient to provide an effective value-added system, and that common agency can coordinate the needed financing. However, this view neglects a critical ingredient, an organizational environment for innovation. While the potential exists for success in using **MACs** for value-added marketing strategies, **MACs'** multiple

principal structure is a disadvantage, as pointed out by some of the examples.

Value-added strategies involve internal development of staff capabilities, as well as substantial accumulation of “book value” types of assets. Historically, most cooperatives have carried out this type of development within a single organization structure. If they lack adequate resources, cooperatives have often joined together in a COM structure. When a group of cooperatives want to coordinate such long-term programs for value-added activities, their established organization will usually be a NMFC rather than a MAC.

MACs do not provide the kind of managerial leadership and initiative needed for conducting most value-added programs. Similar to the problems of performance control, a multiple principal structure often involves a “management by committee” approach. While such an approach has advantages for certain tasks, examined in the last section of this report, it can inhibit the necessary risk-taking and the long-term nature of developing products, techniques, and specific expertise.

Confusion and conflict over property rights are more prevalent in the multiple principal structure of common agency, which would tend to undermine the development of a value-added program.

Member Involvement and Loyalty -- involves active patronage and keeping informed about a cooperative’s policies and programs.

Cooperatives of all sizes and structures should never assume member involvement and loyalty, and must make explicit efforts to maintain strong member relationships. In general, a cooperative with a relatively small number of producer-members and limited geographic scope has more opportunities for keeping members involved and loyal. When a group of cooperatives contemplate forming a federated

organization or consolidating, the latter alternative often raises concerns about potential erosion of member relations.

More than other types of federated organizations, a MAC has an advantage in requiring less commitment of resources and allowing member cooperatives more independence with their operations. In addition, MACs do not require complicated systems of voting and layered structures of boards and management, usually concomitant with the formation of large centralized or federated cooperatives. These systems and layered structures facilitate the process of control and the maintenance of member relations. But they also involve additional costs that a MAC alternative largely avoids.

Table 2 demonstrates how organizational alternatives might be ranked by a typical group of cooperatives. In an actual study of alternatives the goals or objectives will usually be more specific than the very general ones provided in this discussion. Market access conditions vary by commodity, and MACs can be used to conduct diverse business strategies. Their most common service is to provide coordinating mechanisms for cooperatives to have adequate volume to build trading relationships with major buyers.

## **COORDINATING STRATEGIC PLANS**

Cooperatives confront many distinct economic challenges that underline their need for coordinated planning and opportunities to form MACs. A cooperative system is a dual business of cooperative operations and of members' farm enterprises. The major challenge for cooperatives, that IOFs need not confront, is to simultaneously facilitate and augment the economic performance of their members' businesses, while maintaining their own financial solvency.

A cooperative provides many services that otherwise either would not be supplied or offered with less quality or fewer options. While cooperatives only offer services that maintain their earnings, they cannot carry out their agent



responsibility by strict reliance on the same kinds of profit measures and market signals that IOFs use to guide their decisions on supplying services. Cooperatives use both traditional and special financial measures, but by serving the interests of other business entities, i.e., farms, the monitoring of their performance is more complex than that of a for-profit IOF.

Another distinct economic challenge for cooperatives are benefits they provide that cannot be exclusively captured by those who have paid for them through membership. These external effects occur from marketwide actions of cooperatives in negotiating higher prices with processors, managing an even flow of product deliveries, or in conducting promotional activities that enhance prices.

Intercooperative coordination of planning can help cooperatives manage their distinct challenges. MACs are one vehicle for that purpose. MACs increase cooperatives' knowledge of one another so their plans and actions are more likely to reinforce rather than adversely affect each other. The latter situation is more apt to happen from extremely independent and isolated planning.

Members of federated cooperatives customarily share aspects of their business plans that relate to the effective functioning of their federation. With the relatively large memberships of most non-MAC federations, such sharing of information is often too limited in scope to be regarded as coordinated planning. By contrast, the smaller memberships in most MACs afford more opportunities for member contacts. Although members of MACs maintain confidentiality of their respective organizations' strategic plans, close working relationships foster more sharing of information and marketing ideas than would occur without a MAC.

Coordinated planning is often required for MAC operations, particularly with few but large member cooperatives, where each provides a large share of the collective sales vol-

ume. In addition, cooperative MACs often become a mechanism for coordinated strategic planning.

The group dimension that a MAC brings to the process of strategic planning is one of its key advantages, and one that is lacking in the organizational alternatives discussed earlier. In commenting on this dimension of MACs, a cooperative manager once made the point:

In a marketing agency-in-common you have more groups helping you make a decision. Centralized decision-making is for an opportunist, and cooperatives are not in that business.<sup>9</sup>

The central point of this observation is emphasized in much recent business literature on decisionmaking. One example points out the advantages of collective versus individual decisions:

Groups are likely to outperform individuals only to the extent that productive conflict arises among their members and such conflicts get resolved through balanced debate and careful intelligence-gathering. When that happens, a group is likely to understand the issues better than an individual, and is more likely to choose wisely.<sup>10</sup>

These attributes are effective for all types of organizations or teamwork situations. The difference for MACs is that lacking a chain of command and leadership role for manage-

---

<sup>9</sup> Edward Breihan, interview on May 14, 1980. Former manager of SWIG, Inc., and Plains Cooperative Oil Mill, who was also a director for Amcot, Soy-Cot, and the Farm Credit System.

<sup>10</sup> J. Edward Russo and Paul J.H. Schoemaker, *Decision Traps*, 1989, p. 145.

ment, they are especially dependent upon effective group decisionmaking. MACs provide a system where individual experience and expertise from several organizations is brought together to address common problems.

But cooperative MACs do not yield easy advantages. This is evident by the relatively small number that have been established in recent history. The highly decentralized nature of a MAC's leadership, or multiple principal structure, places greater demands on group working than exists with single principal structures. When there is a willingness to meet such demands, MACs can provide significant benefits from coordinated marketing and strategic planning. Marketing agencies-in-common are also more conducive to a wider application of cooperative methods than if cooperatives are more organizationally independent or isolated.

---

**Table A-1— Nineteen Federated Cooperatives with Assets/Sales Below 0.1, FY 1991.**

---

Midwest Agri-Commodities Company  
Allied Federated Cooperative  
Atlantic Processing, Inc.  
Waterloo Service Company  
**Norbest**, Inc.  
National Wool Marketing Corporation  
Seald-Sweet Growers, Inc.  
Equity Co-op Livestock Sales Assn., Inc.  
Wenoka Sales  
Marketing Association of America Cooperative  
Horticultural Producers Federated Assn.  
Cooperating Brands, Inc.  
Interstate Producers Livestock Assn.  
Sun-Diamond Growers of California  
Soy-Cot Sales, Inc.  
Louisiana Sugar Cane Products, Inc.  
Texas Cooperative Marketing Exchange  
Chicagoland Dairy Sales, Inc.  
**Arcot**, Inc.

---

---

Table **A-2-Forty-four Federated Cooperatives with Assets/Sales Above 0.1, FY 1991.**

---

Central Ferry Terminal Association  
**AGRI**, Inc.  
Lewis-Clark Terminal Association  
Select Sires, Inc.  
**Ne-Tex** Cooperative Oil Mill  
Valley Cooperative Oil Mill  
Federated Co-ops, Inc., of East Central MN  
Texas Citrus Exchange  
Pacific Coast Producers  
Producers Cooperative Oil Mill  
Plains Cooperative Oil Mill  
Tri-Ag Cooperative  
Federation of Southern Cooperatives  
**Medora** FS, Inc.  
Citrus World  
Co-op Service, Inc.  
Alabama Farmers Cooperative, Inc.  
Helena Cotton Oil  
Planters Cotton Oil Mill, Inc.  
Yazoo Valley Oil Mill, Inc.  
SF Services, Inc.  
CENEX  
GROWMARK, Inc.  
Ranchers Cotton Oil  
FFR Cooperative  
Osceola Products Company  
**DIVACO** Cooperative  
Universal Cooperatives, Inc.  
Tennessee **Farmers** Cooperative  
North Central Sugar Marketing **Co-op**  
Ag Processing, Inc.  
Cherry Central Cooperative, Inc.  
West Virginia Wool Marketing Association  
Union Equity Cooperative Exchange  
First District Association  
O-AT-KA Milk Products Cooperative, Inc.  
Countrymark Cooperative, Inc.  
Northland Foods Cooperative  
Big Six Cooperative Terminal  
Northwest Wholesale, Inc.  
Delta Purchasing Federation A.A.L.  
Colorado Potato Growers Exchange  
Highland Exchange Service Cooperative  
United Purchasers Association, Inc.

---

**U.S. Department of Agriculture  
Agricultural Cooperative Service  
P.O. Box 96676  
Washington, D.C. 20090-6576**

Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen **the economic** position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1 ) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues ***Farmer Cooperatives*** magazine. The United States Department of Agriculture (USDA) prohibits discrimination in its programs on the basis of race, color, national origin, sex, religion, age, disability, political beliefs and marital or familial status. (Not all prohibited bases apply to all programs). Persons with disabilities who require alternative means for communication of program information (braille, large print, audiotape, etc.) should contact the USDA Office of Communications at (202) 720-7808 (TDD).

To file a complaint, write the Secretary of Agriculture, U.S. Department of Agriculture, Washington, D.C. 20250, or call (202) 720-7327 (voice) or (202) 720-1 127 (TDD). USDA is an equal employment opportunity employer.