IV. How Farm Bargaining Works

Opportunities and Limitations

Farm bargaining can best be described as a rational means of determining price and nonprice terms of sale of a farm commodity. Farm bargaining is an orderly process and procedure for determining terms of trade; it is not a game. It is a means whereby farmers can achieve equity. Farm bargaining works. It has a proven record of performance, particularly in processing crops and for fluid milk.

Farm bargaining is a viable alternative to the so-called free market. There is an inequity in today's market brought on by the existence of very few buyers, who frequently do not compete for supplies in certain production areas, and many sellers, some of whom are locked into production of certain commodities because of capital investment, poor alternative uses for the land, or inability to enter into the production of other crops or commodities.

Farm bargaining has not been successful as a device to achieve prices for commodities that are greater than may be justified by economic and supply conditions. Many failures in bargaining efforts can be traced to heightened expectations by farmers for unreasonable prices or terms of sale. Bargaining cannot overcome the law of supply and demand, nor can it maintain profitable production for a commodity that has lost favor with consumers, is produced in oversupply, or is no longer able to compete on economic terms with other areas or other commodities. Bargaining can and does achieve the highest prices that can be justified by economic and market conditions.

Farm bargaining seems to work best when dealing with a single commodity. Even when such an integrated organization as the Michigan Agricultural Cooperative Marketing Association Inc. carries on the bargaining process, it is along commodity lines. Each of the commodity committees and each division negotiates and bargains independently of the other divisions in MACMA. NFO also breaks down its pricing activities by commodity.

Farm bargaining has definite limitations. The constraints on price include the need to negotiate prices and terms that will continue to maintain the interest and profit of the handler or processor. Large integrated companies often operate with big-volume, low-cost plants. If bargaining results in lost profit opportunities that cannot be recaptured from the marketplace, such companies will close a plant or terminate an operation, causing growers in the area to lose a market. The handler/processor's economic situation must be understood for bargaining to be successful.

Prices must be maintained at a level that will continue to move production to the trade and to the consumer. Low prices can often be overcome in a gradual manner, increasing the price year after year; sudden price changes often meet resistance with the trade, and valuable time can be lost. This kind of price strategy, however, is not easy to put into effect. Excessive supplies in any one year can frustrate such plans as can a shortage of supplies, when handlers and processors bid prices up in order to maintain market shares or brand position. Experience and knowledge of the market must be relied upon to make good judgments concerning the maintenance of prices that will keep the product moving to the market.

The relationships between competing commodities are important. At the Peach Association we learned that if canned peaches were consistently more costly than canned pineapple, for example, buyers would switch to pineapple.

When pricing a commodity it is well to keep in mind that all that anyone concerned with the commodity wants, is a fair advantage. This is true of the retailer, the distributor, the processor, and the grower. A fair advantage can be a larger share of the market, better quality, lower costs, or lower or better prices, as the case may be. Everyone concerned will press to obtain that fair advantage. That is why it is so important for the bargaining association to have superior knowledge of the market and the needs of those who are involved with the commodity.

There are also legal constraints that a bargaining association faces. The principal one is the obligation on the part of the Secretary of Agriculture to prevent undue price enhancement under the terms of the Capper-Volstead act. Buyers and others will seek to have this restraint applied if they believe that a bargaining association has unduly enhanced the price.

Common Characteristics

Farm bargaining associations have a number of common characteristics.

1. Their primary purpose is to achieve fair and reasonable prices and terms of sale for their members' production.
2. They have a few highly skilled employees whose entire attention is focused on developing market intelligence, communicating with members and other growers, maintaining ongoing relations with the buyers and the trade, and taking whatever actions are necessary to improve the market for the commodity.
3. Capital investment in buildings, equipment, or storage facilities, except in the case of milk bargaining, is at a minimum. The need for providing transport and diversion facilities has caused some of the milk bargaining associations to make capital investments in transport and manufacturing facilities.

Philosophy

The philosophy of a typical farm bargaining association is rather simply stated: To achieve the highest prices and terms of sale that can be justified by the economics of supply, demand, and market conditions. Such a philosophy requires a certain degree of sophistication. However, if the goal of a new association is to "get even for past actions," or to impose unreasonable and unfair sanctions on an industry, the effort is bound to fail. Successful farm bargaining is based on an association's realistic appraisal of its power, its opportunities, and its limitations.

Bargaining Power

The term "bargaining power" is a relative term. Buyers of farm commodities are in a position to maximize power when they buy from many different sources. The buyer can play one seller off against another. The buyer who is large and dominant can control market intelligence and knowledge to gain an advantage over a competitor. Buyers can cover up inefficiencies in manufacturing and marketing by the manner in which they buy raw material. A farm bargaining association can severely restrict such buying and bargaining power on the part of the buyer; the principal gain that has been made as a result of farm bargaining has been to deny such bargaining power to the buyer and bring some equity to the transaction. A farm bargaining association tends to equalize bargaining power by denying to buyers the natural advantages that have been theirs by default. This can best be done when the association is able to get a firm grasp on market intelligence and information. "Bargaining power" can often be equated with superior knowledge of the market.

The Individual Farmer's Weaknesses

An individual farmer's principal weakness in bargaining falls into five categories:

Relative Size and Assets. Few farmers who market their production to a commercial processor or handler can match the buyer's economic power and size. Despite the growth in the size of individual farms, few can match the power of the buyer except when joining with others to achieve a measure of equity. The capital investment per unit of production is often greater for farmers than for buyers. The risks of loss from weather and pests are much greater for the farmers than for the buyers. Today's farmers do not have the flexibility to shift from crop to crop. They often have sizable investments in machinery and equipment designed to handle the crops they grow. Farmers who produce perennial crops have no flexibility. They are price takers, not price makers. They are often in a position of having but one or two buyers for their production; rarely do several buyers compete for what they produce.

On the other hand, buyers of farm commodities are larger and fewer in number than a few years ago. Large national and international food companies tend to dominate prices and terms of sale for the commodities they buy. Today, company representatives work "by the book." The close working relationship that used to exist between the owner of a food company and the grower-supplier has almost disappeared. Company buyers don't want to "make waves" and internal operations are often defensive in character. It is a system with which an individual grower is not prepared to deal except through membership in a bargaining association or an operating cooperative.

Control of Timing. When to name or offer a price is always of great importance. On annual crops, for example, a grower eager to make plans is easy prey for a buyer who makes an offer at the last moment. A grower who speculates on a sale after planting is often at the buyer's mercy at harvesttime. A skillful buyer has good knowledge as to alternative crop values and the total supply of uncontracted tonnage. Occasionally, weather damage can change the supply situation, giving the grower an advantage. When that happens, it is the competition between buyers that jacks up the price, not the bargaining power of the individual farmer.

A bargaining association can influence the timing for price negotiations. When buyers negotiate prices with an association, the need to play games with timing in order to gain an advantage or reduce costs by exploiting their buying power is no longer as important. The association cannot only influence the timing of price negotiations for the mutual advantage of both buyer and seller, but can also negotiate terms that will take into account the added value of the commodity if supplies are short. Several west coast associations have negotiated sliding scale prices that provide for various prices adjusted to final volume of a commodity produced.

Market Intelligence. Few individual farmers have the time to analyze the market for their production. Generally, they rely on the buyer for their market intelligence. Those farmers who do have the time to study their market find that the basic information they need to make rational marketing decisions is either not available, incomplete, or inaccurate. A major function of a bargaining association is to furnish its members with timely, accurate market intelligence. Skillful buyers base their buying decisions on superior market information. Most large companies operate with profit centers and budget their purchases to accommodate their profit objectives. These profit projections are often arrived at months before a crop is planted or even before the preceding harvest is over. Working against a profit plan often puts a grower in an impossible position. A bargaining association can undertake the negotiations at a time that coincides with the time that purchase plans are made in the corporation.

Having a Home. Farmers' need for a home for their production puts them at a disadvantage in bargaining. As the competition among buyers decreases because of fewer and fewer buyers, the farmers' disadvantage increases. The volume that farmers produce, the terms of sale, the quality of the seed, the method of delivery, the means for determining quality, delivery quotas, time of delivery, and method of harvest are all significant factors, in addition to price, that influence the farmers' net return. If farmers must have a market for their production, particularly if there are but one or two buyers, they are forced to compromise either on terms of sale, or price, or both. Ideally, farmers would like to operate like buyers, and make a marketing plan that would maximize the use of their land, their skills, and their investments.

A farm bargaining association can help farmers to collectively make a market plan to move the right volume to the market, thus improving efficiency and preventing waste.

Finalizing a Sale. Buyers often buy in such a manner as to make maximum use of the grower's resources in financing the crop. Stories abound about delays in settling prices with growers. California growers of wine grapes, for example, once had to wait 6 months for a final settlement. Citrus producers often find themselves receiving final payments after the crop has been sold in the retail stores. A bargaining association can conserve and protect the farmers' resources.

Growth in Spite of Fears

Farm bargaining has grown in spite of the fears and inherent disadvantages of farmers. It was farmers' fear of discrimination that caused the Congress to pass the Agricultural Fair Practices Act of 1967 against the powerful opposition of processors and handlers. It is significant that there was a major growth of farm bargaining associations before the act was passed. Processors and handlers, fearful of losing a fair advantage, employed a number of tactics to discourage further growth. A major tactic was to discriminate against those producers who joined an association. Discrimination took place in the form of terminating contracts, offering less favorable terms to association members, blacklisting association members, refusing to deal with association members, and offering financial incentives to nonmembers.

The fears and apprehensions of farmers contemplating joining a farm bargaining association are very real. Buyers, even with the Agricultural Fair Practices Act in effect, continue to exploit these fears. The farmers' principal fear is that of losing a market for their production, particularly when the market is limited to a few large buyers. Buyers can impose disciplines in very subtle ways without refusing to deal with a farmer who is thinking of joining a bargaining association. Such tactics as reducing acreage, imposing more restrictive grade standards, bypassing acreage, delaying decisions, holding up payments, bringing in products from other areas, and starting rumors are all calculated to send signals to farmers that they should refrain from joining a bargaining association.

For those who have had the courage to make the break, the rewards have been worthwhile. Farmers have learned that the threats and intimidation tactics of the buyer were part of a game and when the bargaining association was formed, the buyer continued to do business. The most difficult decision is the one faced by a farmer who has enjoyed special treatment in the form of bonuses or special handling concessions. Such advantages are hard to give up unless there is a strong conviction that the bargaining association can bring about better terms and prices. The fears and apprehensions of farmers who are thinking of joining an association can only be overcome when they believe in and understand the goals and the philosophy of the association.

Association Goals

Most associations are concerned with five basic goals.

Price ***Enhancement.*** The prices that farmers receive generally fit into three categories: (1) A good price is usually made when supplies are short, demand is good, and there is competition among the buyers for the farmers' production. Good prices are what farmers remember and like to talk about, but seldom receive. (2) An acceptable price is one above the cost of production and is sufficiently high to keep the complaints of farmers at an acceptable level. (3) A poor price is generally one that occurs when there are poor alternative crops or markets, when supplies are greater than demand or when the buyer is losing money. A poor price is often the forerunner of a bargaining association. For most farmers, price enhancement means achieving a reasonable price, which is the highest price that the economic conditions of supply, demand, and market factors can justify.

Price Stability. Farmers want a price mechanism that will give enough price stability to allow them to make systematic financial plans.

Coordination. Farmers are looking for a more systematic way of relating farm production to society's needs. Both the adjustment of total supply to demand at a stable price and the efficient organization of farmers' production and marketing methods to meet demands are involved. A farm bargaining association provides a group mechanism for coordinating farm production through planning that is vastly superior to the alternative of government planning and controls over production decisions. Farm bargaining associations have effectively worked with marketing orders and agreements as a self-help vehicle to achieve coordination and orderly marketing conditions. This is particularly true in California where both State and Federal marketing orders have been used. Advertising and promotion programs, research, third party grading, set-asides, surplus programs, all have been used as a means of obtaining better distribution, better information, and better quality. The California experience, however, has found that the State and Federal administrators have been insistent upon operating the programs with major consideration for the public interest.

Nonprice Terms of Sale. Farmers want a say about nonprice terms of sale. They are faced with an increase in the practice of specification buying and delivery terms to accommodate the buyer's needs. Too often, nonprice terms that proved to be irritating, costly, and unfair were mandated by buyers. A farm bargaining association can regularize and improve nonprice terms of sale and obtain a value for the added costs that may be involved.

A Sense of Participation in Shaping Destiny. Many farmers are frustrated because they believe they have little or no influence over the market for their production. They find it difficult to make intelligent plans for the future. They are concerned over the increased investment required to operate a modern farm. They often feel manipulated and used. Farmers traditionally have been surrounded by uncertainty from the day of planting to the time of sale of their crops. A farm bargaining association provides a means for farmers to participate more directly in shaping their future.