

## **Differential Pricing and Member Reaction**

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Differential pricing, which is charging or offering different prices to different customer groups, can make good business sense. In many cases, equal pricing is not equitable because there are cost differences associated with volume, location or handling method. Most cooperative members understand and accept the rationale for pricing differences which are clearly related to cost factors. Differential pricing can become controversial when it is beneficial but not necessarily equitable. For example, because many of the costs associated with grain handling are fixed, enticing a large producer to deliver grain spreads the fixed costs over more bushels and could increase the cooperative's profits and all of the members' patronage. While the overall benefits are clear it is also clear that one member, the one who receives some sort of differential to entice delivery, receives a slightly better deal.

Cooperative principles state that benefits should be proportional to use. While not an official principle, the concept of transparency is also fundamental to the cooperative business model. Because it would be impractical for members to vote on every operational issue in their cooperative, they elect a board of directors. The board's role is to protect the overall viability of the cooperative while considering how decisions impact members and groups of members. As the cooperative membership becomes diverse it becomes difficult or impossible to make every decision that every member will agree with. The best that can be achieved is to make good business decisions that are supported by the consensus of the membership.

What does all this mean for differential pricing? Differential pricing is appropriate when it makes good business sense and when at least a consensus of the membership does not object. That may require a communication effort to explain how the program indirectly benefits all members. A differential pricing program also needs to be carefully designed to be logical and transparent.

I'll discuss those specifics in my next newsletter.