

Heterogeneity in Agricultural Cooperatives

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Most U.S. agricultural cooperatives started with a homogeneous group of producers and were organized around a simple common need. Over time, the membership in agricultural cooperatives has become much more heterogeneous. CEOs and boards face that issue as they consider equity management, pricing, services, infrastructure needs and other issues. There are actually multiple dimensions to membership heterogeneity and considering the dimensions helps to bring the issues into focus.

The first dimension is farm level heterogeneity. That includes farm type, size and geographic locations. Livestock producers seek a different value package from a cooperative relative to crop producers. Even within crop production, tillage practices and crop mix impact the expertise and services desired. Large farm operations have greater scale economies at the farm level and have more agribusinesses competing for their business. Larger farms are also often more geographically diverse. When a producer's operation is partially outside the cooperative's trade territory, they may place less value on the existence of the cooperative.

The second level of heterogeneity is differences in member characteristics. Members of different ages have different time horizons and different preferences relative to infrastructure investment and equity retirement. Members differ in their interest in contractual relationships with a cooperative. Some are interesting in marketing pools, contract production and risk management services, while others focus on spot market transactions. Members also vary in their interest and commitment to participate in the cooperative's governance.

Finally, there is product and service related heterogeneity. Farmers differ in kind and quality of products that they seek from the cooperative. No-till farmers have different needs relative to those using conventional tillage. Producers also differ in their need for and interest in expertise and information, particular toward information provided on a fee for service basis.

Member heterogeneity is not necessarily bad. It does result in differences in member preferences regarding the cooperative's organizational structure, aims and strategies, income distribution and governance. Responding to member heterogeneity is part of the "tinkering" process that occurs during the lifecycle of a cooperative. I will discuss some strategies for addressing member heterogeneity in my next newsletter.

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