Strategically Important Members

Phil Kenkel
Bill Fitzwater Cooperative Chair

All Businesses have key customers. In many cooperative a small portion of the membership, sometimes as low as 5%, accounts for a majority of the revenue stream. I call those members "strategically important". Cooperative boards consider the future needs of strategically important members during planning sessions. Still, I wonder if some aspects of our standard operating procedures makes it difficult for cooperatives to attract and keep strategically important members.

Cooperatives are member-focused organizations and try hard to treat all members fairly. That is a noble culture but it also creates challenges in customer segmentation. If a cooperative fails to attract or fails to maintain larger patrons, they lose economies of scale and increase the costs for all of the remaining patrons. That creates the need to consider decisions through both the lenses of both the average patron and the strategically important patron. Section 199A is the latest example of a decision that may affect membership segments differently. Producers may face a tax penalty from marketing through a cooperative unless the cooperative passes through a portion of their Section 199A deduction to keep them equivalent. When developing a strategy toward Section 199A the cooperative board needs to consider the pass through needed by the average producer as well as the strategically important patron. Those answers could be different since larger producers tend to have higher W-2 wage levels.

If a cooperative board wanted to go farther to align with strategically important members they could consider differential pricing and proportional voting. Most cooperatives have implemented some degree of differential pricing based on the cost differences associated with higher volume. There is likely uncharted territory relating to bundled thresholds of both inputs and commodity delivery. Member reaction to innovative pricing strategies is also uncharted.

Proportional voting (voting in proportion to business volume) has so far been the third rail of governance change. Proportional voting is more common in international cooperatives relative to the U.S. At one time, proportionality was promoted as a cooperative ideal. Proponents of that concept advocated for patronage proportional to use, equity held in proportion to patronage and voting in proportion to business volume. In my mind, proportional voting is consistent with cooperative principles since it reflects the underlying concept of a user focused organization. The key questions is whether strategically important members would put any value on proportional voting and whether other members would object to it.

Cooperative boards have lots to think about as they strategize about their key customers. Section 199A, differential pricing and proportional voting could all be part of that discussion. The key question is aligning with key customers without alienating the remainder of the membership. I wish I knew how to unlock that key!