SOME ALTERNATIVE MARKETING SYSTEMS FOR TEXAS GRAIN SORGHUM

A Task Force Report for
Texas Grain Sorghum Producers Board

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THE TEXAS AGRICULTURAL MARKET RESEARCH AND DEVELOPMENT CENTER

in cooperation with
Department of Agricultural Economics
The Texas Agricultural Extension Service
The Texas Agricultural Experiment Station
Texas A&M University
College Station, Texas
The Texas Agricultural Market Research and Development Center

An Education and Research Service
of
The Texas Agricultural Experiment Station
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Robert E. Branson
Coordinator
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INTRODUCTION

Texas grain sorghum producers are concerned about the current marketing system for their sorghum. This concern has been expressed through the Texas Grain Sorghum Producers Board which is supported financially by producers and which promotes educational activities in production and marketing. The activities of the Producers Board in foreign market development and nutrition comparisons helped point out opportunities for the sorghum industry.

As a result, the Texas Agricultural Market Research and Development Center was commissioned in 1972 by the Texas Grain Sorghum Producers Board to review the current sorghum marketing operations for the purpose of suggesting possible improvements. The results of this research were presented verbally to the Board in July and August of 1973 and were summarized in the printed report, Current and Alternative Marketing Systems for Texas Grain Sorghum, MRC 73-8, published by the Texas Agricultural Market Research and Development Center in February 1974. That report presented the current marketing system for Texas sorghum and noted potential marketing systems which could be implemented. This present report further amplifies some of the alternative marketing systems that producers can evaluate for Texas grain sorghum. Also, concepts for obtaining effective marketing action and organizational aspects of potential systems are included as guidelines.

*Grain Marketing Specialist, Texas Agricultural Extension Service; Professor, Texas Agricultural Experiment Station; Economist-Marketing and Policy, Texas Agricultural Extension Service; and Economist-Marketing, Texas Agricultural Extension Service, respectively.
Current Agricultural Situation

If only one word could be chosen to describe the current agricultural marketing situation, it would be "uncertainty." Although market prices are well above 1972 levels, sorghum producers continue to be in a cost-price squeeze. Inflation and increased energy costs have caused cost of production to skyrocket. Returns to management are not realized, even with much higher product prices. Fertilizer, irrigation and tractor fuel costs have led the cost spiral; labor, machinery and family living expenses have not been far behind.

While costs are increasing, market prices are becoming more unstable. Prices change more now in a few days than they did in months prior to 1972. The reduction in grain stocks and the new farm program have resulted in prices being more sensitive to supply and demand factors. Political action within the marketing arena also has contributed to instability and uncertainty in the last three years. Figure 1 shows, in part, the "roller coaster" ride sorghum prices have taken recently. But, these monthly prices still hide the large day-to-day changes.

As a consequence of increased production costs, more dollars are on the line with each crop, and the risk of a failure--either in the field or in the market place--presents a serious problem to many producers. Therefore, producers are seeking ways to help offset this uncertainty in production and marketing. Improving the marketing efficiency of sorghum is one way to achieve this goal and increase producer returns.

Figure 2. Current Marketing Alternatives Used
Current Marketing System

Before discussing the essential elements of market strength development and alternative marketing systems for Texas grain sorghum, it is useful to review the current context of grain sorghum marketing. The current marketing system is outlined in detail in the Research Report MRC 73-8 mentioned earlier. Therefore, only a summary is included here to establish a starting point of discussion.

Overview

Typically, the ownership of the sorghum crop remains in the hands of the individual producers until he decides to sell part of it by contracting prior to harvest or selling the grain at harvest or after a storage period. The key point is that the producer individually makes the decision as to when to sell. As a result, there is no unified effort by producers to coordinate sorghum sales or other marketing decisions. The producer segment of the industry has minimal influence on market prices or market flow of sorghum to achieve optimum prices commensurate with demand and supply conditions.

As indicated, farmers may have the option of forward contracting in some years with a local elevator prior to harvest. The farmer acts as a price taker; that is, he either accepts or rejects the price offered by the buyer. The elevator manager usually offers producers forward contracts based on what price he himself can contract with a major grain firm, less of course, an elevator operating margin and any additional transportation
charges involved. If the elevator manager cannot lock in a price, contracts are not offered.

The diagram in Figure 2 summarizes the current sorghum marketing system and the marketing alternatives presently being used by sorghum producers.

The degree of competition among elevators in a given market area dictates the magnitudes of the "margin" (selling price minus purchasing price) used by the managers. This operating margin, which also is approximately equal to the "in-out" charge of the elevator, is large enough usually to make it unprofitable for a producer to move grain from one elevator to sell to another. Therefore the producer essentially makes the decision "who" to sell to when he delivers his grain to a particular elevator. After delivery of the sorghum, the producer can retain title by paying storage fees. When he does sell, he again plays the role of a price taker. He either accepts or rejects the going market price at that elevator for that particular point in time.

Elevator Role

Grain elevators tend to avoid speculating in the market. They only want to handle the grain (perform the gathering and warehousing function) for a fee. To accomplish this when the farmer decides to sell, the elevator resells the grain within a very short time. His offer price to the farmer is based on his selling opportunities that day. Since selling ahead by the elevator without offsetting purchases from farmer would be speculating

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in the market, elevators can do little forward planning under the current marketing system. They do not know when or how much grain they will have to sell for any period of time. Essentially, all elevators in the present system compete against each other for all markets. This type of competition makes it difficult for elevators to market as effectively as they could if they sold as a group in larger, more efficient lots. This lack of effectiveness at the elevator level simply implies that marketing at the producer level is also ineffective in the current system with lack of a coordinated, unified effort.

Ownership Comparisons

**Cooperatives vs Non-cooperatives.** It is interesting to note that there is very little difference in how marketing decisions are made by producers regardless of whether they deliver to cooperative or non-cooperative elevators. Managers of private and cooperative elevators tend to perform the same type of marketing functions with producers still making the initial selling decision. Cooperative elevators did not begin forward contracting with their members as quickly as private firms, but this was about the only difference. The difference to the producer in marketing through a cooperative as opposed to a private local grain elevator is the patronage refunds he may receive from the co-op. Even the market share between co-op and private firms were similar. The previous study\(^2\) found that on a volume basis, 53 percent of the sorghum was delivered to cooperative elevators and 47 percent to independent elevators.

\(^2\)Ibid.
The cooperative elevators are loosely tied to the federated grain marketing regional servicing the High Plains producing area. However, most local elevators sell some grain for export to the larger private grain firms. The regional grain cooperative does have an export elevator and exports directly—bypassing the large grain firms in some sales.

The grain flow pattern for Texas grain sorghum found in the original study⁴ can be visualized schematically in Figure 3. Essentially the same markets and channels are used by cooperatives and non-cooperatives except that some local cooperatives do sell to the regional, whereas the independent elevators usually do not.

**Changing Control.** The organizational patterns that exist in the current marketing structure at the local level, therefore, include three distinct types based on degree of integration. These are: (1) Independent Affiliated; (2) Independent Unaffiliated and (3) Cooperative.

With the change in types of ownership in the grain elevator segment that are occurring, it appears that control of the current sorghum marketing system could be slipping away from producers. The study⁵ revealed that the influence of outside interests was being felt in the industry, especially in the private sector. Approximately 40 percent of the elevators in the sample were linked with other businesses. In nearly all cases, these elevators were not cooperatively owned, and they were linked closely with feedlots; some of the elevators were owned outright by feedlots. Based on information obtained in the previous study, the extent of elevator linkage

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³ & ⁴ Ibid.
with feedlots was increasing. This linkage was in the form of joint ownership or in written or verbal contractual agreements. This tie-in by elevators with users of sorghum, if it continues, could possibly change the market channels for Texas grain sorghum. Serious implications on the competitive structure of the industry exist as a result.

Figure 3. Grain Sorghum Flow Patterns-Texas High Plains, 1972
There are three dimensions involved in viewing alternative producer-coordinated marketing systems. These dimensions interact to determine the potential effectiveness of a selected marketing system. These dimensions are:

1) Market Organization
2) Market Commitment
3) Marketing Activities

Each dimension is explained in detail in the following sections. Not only is each important in its own right, but the relevant interactions among them are discussed to assist in defining the possible marketing systems available to Texas grain sorghum producers. The degree of interaction among the three dimensions tends to determine the potential success of each marketing alternative. The first of the three dimensions that will be discussed is Market Organization.

Market Organization

Market organization can be viewed in terms of the functions it performs and the geographic area to be served. The seven significant alternatives (Table 1) can be presented as follows:

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1/ The conceptual framework and ideas of this chapter are the result of a research effort into alternative marketing systems for cotton by the Texas Agricultural Market Research and Development Center at Texas A&M University as developed by a task force comprised of: William E. Black, Robert E. Branson, John P. Nichols and Thomas L. Sporleder.
Table 1. Organization Alternatives

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Area Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Individual Producer</td>
</tr>
<tr>
<td></td>
<td>Acts Alone</td>
</tr>
<tr>
<td>Bargaining</td>
<td>Local</td>
</tr>
<tr>
<td></td>
<td>Regional</td>
</tr>
<tr>
<td></td>
<td>National</td>
</tr>
<tr>
<td>Marketing</td>
<td>Local</td>
</tr>
<tr>
<td></td>
<td>Regional</td>
</tr>
<tr>
<td></td>
<td>National</td>
</tr>
</tbody>
</table>

Since these alternatives may mean different things to different people, it is advisable to explain them.

**Bargaining Organization**: A legal business entity which does not take title to a commodity, but which acts solely as an agent for a group of producers to negotiate terms of sale on an annual or term basis with potential buyers. It charges a fee to cover costs incurred in acting as a negotiating agent.

**Local bargaining organization**: A bargaining organization for a group of producers from a small geographic area (usually several counties).

**Regional bargaining organization**: A bargaining organization of producers from a major geographic production area (one to several states).

**National bargaining organization**: A bargaining organization that serves all producers in major production areas of the nation.

**Marketing Organization**: A legal business entity which takes title to the agricultural commodity from a group of producers and performs the
service of marketing that output in such a way as to benefit the producer members.

**Local marketing organization**: A marketing organization for producers from a small geographic area (a few counties) that is locally owned and controlled, and marketing decisions are made within the organization.

**Regional marketing organization**: A marketing organization of producers from a broad geographic area (one or more states). It is controlled at the regional level and markets commodities assigned to it by its members.

**National marketing organization**: A marketing organization that is available to all producers in the major production areas for the product. Decisions are co-determined with regional and/or local marketing organizations, if federated. If not, decisions are made at the centralized level. A national marketing organization can be formed without merging the assets of local or regional organizations (this would be an example of a federated framework).

These systems may function with government-imposed acreage allotments as a restraint on production and/or with government income or price support activity. Furthermore, these systems may operate independent of or with some form of governmental authorization.

**Unorganized Marketing**

Decisions are made individually on whether or not to grow sorghum, the kind and amount, and to whom and when sales are made before or after harvest. Under this system, producers normally base their production planning on the previous season's price or the future support price (if the
An unorganized system is the one used today by most grain sorghum producers in the Texas High Plains.

Producers, acting independently and without market precommitment, provide an unpredictable industry supply of grain. Also, unorganized producers offer far too little marketing assistance to their product. Lack of a marketing thrust for sorghum is understood in the unorganized framework when it is noted that grain ownership changes many times through the marketing channel adding to marketing costs. Little marketing effort for grain sorghum can develop or function under this system.

Local or Regional Bargaining Organizations

Bargaining organizations recently gained interest among some of the nation's producers. Interest stems from the realization that without federal government price support programs, widely fluctuating farm product prices, such as have been witnessed recently for grains, cotton and livestock, can result. Meanwhile, production costs, in an economy fraught with inflation, will continue to rise. Severe price-cost squeezes will result.

Food and fiber processors also may become concerned and endeavor to introduce price and supply stability through forward contracts. However, individual producers and processors do not possess equal bargaining strength. One means of equalizing bargaining strength is for producers to develop bargaining associations. Producers assign crop pricing to the association. The greater the proportion of the total crop represented by the association, the more its bargaining position is enhanced. The concept has merit. The difficulty lies in its implementation.

For several reasons few bargaining organizations have achieved
continued success. Constant effort is necessary to keep adequate membership to provide the organization with command of a sufficient proportion of the total supply to be effective in price bargaining. Competition to the organization can be created by private trade first handlers by providing contracting conditions that attract members away from the bargaining organization. Also, a reasonably sophisticated market and economic information department is necessary for a regional bargaining organization. Expenses of such a staff, as well as other administrative cost, have to be covered by some form of producer assessment.

**National Bargaining Organization**

National bargaining organizations can be more successful than regionals. Two major advantages are achieved. Nationwide representation simply gives an organization more bargaining strength because it represents a larger proportion of total supply. Secondly, possible price competition among separate regionals is eliminated, and the national organization can achieve the same terms from a greater number of buyers.

Except for the two advantages noted, problems are comparable to those faced by regional bargaining associations. However, new ones arise. Concern with the balancing of more divergent interests across various production regions cannot be avoided. Control is more difficult to maintain over the expanded area.

A national bargaining organization still has to be concerned about membership. A relatively large percentage of the production must be controlled—70-80 percent—to avoid outside competition from non-members. The incentive would always be there for the non-member to obtain the benefits without paying the price.
Except for price bargaining by the organization, all other marketing activities would proceed as usual. Buying, physical handling, trading, financing and other matters would be changed only as competitive action among firms induced them. The organization would never take title to the commodity.

**Local or Regional Marketing Organization**

Local or regional marketing organizations would gain their strength from ownership and marketing management of large stocks of sorghum. A better competitive position for producers in the total feedgrain market is thereby achieved. Regional marketing organizations already have emerged for some major commodities. These will be discussed in a later portion of this report. Such organizations have contractual membership held by demonstrating superior income performance through price and/or marketing strength.

The strength of a marketing organization lies in several inherent advantages. These advantages come from the fact that the organization takes ownership of the product. Sales may be arranged through existing brokers, elevators or directly with a mill or foreign buyer, whichever is most effective and/or efficient. Large supplies can be provided on a fixed delivery schedule to processors. The organization in turn can make advance contracts with its members and thereby coordinate production and marketing for the supply it represents.

Two basic methods of operation are employed by existing commodity marketing organizations. One is to purchase the commodity from the producer on a cash basis upon delivery. The association assumes all risks thereafter, usually minimizing price risk through hedging. If it can
earn an additional amount from its marketing operation, it shares this among its membership. Its expenses are covered from its earnings.

The second method of operation is to place the producer's commodity into one or more pools. Producers are given an initial partial payment for their product, typically upon delivery. The initial payment represents some 70 to 90 percent of the market price at delivery time. Subsequent payments reflect: (1) quality premiums and discounts and (2) final profits from the pool.

The latter system has more advantages than the former. Greater flexibility is available to management in pricing to various market segments and in market development strategies. The success of any market organization lies primarily in the capabilities of its top management. But management must have reasonable operational latitude for marketing negotiations.

A possible weakness of regional marketing organizations is the development of excessive competition among competing regional organizations for markets, both domestic and foreign. However, this can be avoided by regionals establishing joint selling efforts in particular markets.

National Marketing Organization

A further step in sophistication is a marketing organization that is nationwide in scope. Such an organization can be a federation among regionals or a centralized national structure in which all producers of a commodity would have direct participation. The opportunity of monopoly control over market supply would exist; consequently, some legislation can arise to place reasonable limits on the organization's operations.
A national marketing organization would allow producers to pool their resources toward a unified marketing effort. With management of a large portion of total commodity supply for marketing purposes, the organization would be in a position to establish marketing policies for the year's crop and relate it to any changes desired in reserve stocks. A uniform marketing policy for the commodity could be established which could materially contribute to production-marketing coordination. A national organization would have an advantage relative to locals or regionals through its ability to amass large volumes to fill large orders. Also, it could enter into more sophisticated market commitments which could improve the operational efficiency of the entire marketing channel of the product. By having the ability to formulate and implement marketing policies, the organization directly assists income and market share goals of producers by managing the flow of grain to market during the season.

A possible problem facing a national marketing organization is equitable treatment of producers in all regions. Proper coordination also is required between the marketing program, which would represent the demand side and the production or supply side. Whereas the marketing organization can assist in obtaining optimum producer-member incomes, it cannot achieve unrealistic prices relative to supply and demand conditions for feedgrains.

The foregoing organizational alternatives represent the significant array for consideration by sorghum producers. Since sorghum production is somewhat regionalized, one might question the value of the national bargaining or marketing organization for this commodity. And, due to
sorghum interdependence with corn, a national organization concept would have to include all major feedgrains. Of course, coordinating marketing for different grains would expand the problem of equity among producers. Furthermore, it should be noted that a national marketing organization for feedgrains would not go unnoticed by the established elements of the grain trade nor governmental groups such as Congress and trade control agencies.

Market Commitment

In order for a marketing organization to function effectively, it must have contractual commitment of supplies from its members. These are known as marketing commitments or agreements. Market commitment, for purposes of this report, is defined as an arrangement between a producer and a market or marketing organization made prior to harvest (and even better prior to planting) regarding the delivery of production. The actual arrangement which is executed between the producer(s) market organization may or may not include specificity with regard to price, quantity to be delivered or other terms of sale.

Market commitment has two facets. One is the duration of commitment—the length of time for which the type of commitment is made to the particular marketing organization. The other facet is the general type of commitment. The type of commitment ranges from contracts through integration. The following table summarizes the duration and likely types of commitment by a producer and the organization.
Table 2. Levels of Marketing Commitment

<table>
<thead>
<tr>
<th>Duration</th>
<th>Type</th>
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<tbody>
<tr>
<td>Short Term</td>
<td>Marketing Agreement</td>
</tr>
<tr>
<td>(usually 1 year)</td>
<td>(renewable each year)</td>
</tr>
<tr>
<td>Intermediate</td>
<td>Multi-year supply contract</td>
</tr>
<tr>
<td>(usually 1 to 4 years)</td>
<td>Joint Venture into Processing</td>
</tr>
<tr>
<td>Long Term</td>
<td>Joint Venture into Processing</td>
</tr>
<tr>
<td>(usually 5 or more years)</td>
<td>Integration into Processing</td>
</tr>
</tbody>
</table>

Again, it is helpful to briefly define the terms used in the table and other relevant nomenclature.

**Marketing agreement:** A legally binding contractual arrangement concerning terms of sale for a commodity made between an individual producer, acting alone, and his marketing organization. It means that the producer who is a party to the contract is having his grain marketed for the time period specified by his marketing organization.

**Multi-year supply contract:** A legally binding contract concerning terms of sale for a commodity made between a producer-owned marketing organization and a domestic or export buyer. The contract usually covers a substantial part of the buyers needs and defines the quantity, quality, time and place of delivery and form of the product.

**Joint venture:** A business arrangement wherein an individual or group or producers participate financially with another business organization to perform one or more mutually beneficial marketing activities. Certain facilities may be jointly owned and selected
market decisions made jointly. Joint venturing is one means for continuing some producer control over the marketing of a commodity after it leaves the farm gate. The joint venture agreement may be either a temporary or long term commitment, depending on the conditions of the agreement.

**Vertical integration**: From the producers viewpoint, vertical integration means financially participating in facilities and operations of two or more marketing steps and/or processing activities for the commodity he produces.

**Summary**

It was noted that as farmers move from open market to integration, higher levels of marketing ability and opportunity occur. An effective sorghum marketing system cannot evolve without market commitment. Furthermore, a bargaining or marketing organization simply cannot do a very effective job without having supply commitments from producers. Neither the private nor cooperative segment of the grain sorghum industry has that supply assurance currently. It can be obtained in the short term with traditional sales contracts, but this is a relatively weak effort.

Any group that desires to move producers toward a more coordinated marketing effort must come to grips with the important question of producers' willingness to assign marketing rights on the crop to a sophisticated marketing organization that is working for the producer's interests.

**Marketing Activities**

An understanding of the difference between "selling" and "marketing" is necessary to a realization of the importance of a planned marketing program. Selling involves ownership transfer and delivery without
coordination between production and markets. Marketing involves providing the kind and quantity of product and marketing services that satisfy customers needs best. Therefore, marketing requires additional activities besides just selling.

A comprehensive marketing program requires three major management sub-areas: supply, marketing and finance. Supply and financial management are both integral parts of a comprehensive management program since effective marketing can only be conducted in conjunction with supply coordination and financial support. Listed below are activities under each sub-area that are of particular concern to a coordinated marketing program:

<table>
<thead>
<tr>
<th>Class</th>
<th>Activities</th>
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<tr>
<td>Supply Management</td>
<td>Production Management</td>
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<td></td>
<td>Quality Management</td>
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<tr>
<td></td>
<td>Inventory Management</td>
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<tr>
<td>Market Management</td>
<td>Market Information</td>
</tr>
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<td>Market Research</td>
</tr>
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<td></td>
<td>Market Planning</td>
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<td></td>
<td>Selective Pricing:</td>
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<tr>
<td></td>
<td>Single Price</td>
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<tr>
<td></td>
<td>Multiple Prices</td>
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<tr>
<td></td>
<td>Market Allocation</td>
</tr>
<tr>
<td></td>
<td>Advertising and Merchandising</td>
</tr>
<tr>
<td></td>
<td>Selling (management)</td>
</tr>
<tr>
<td></td>
<td>Technical Service</td>
</tr>
<tr>
<td></td>
<td>New Product Development</td>
</tr>
<tr>
<td>Financial Management</td>
<td>Facilities</td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
</tr>
<tr>
<td></td>
<td>Operations</td>
</tr>
<tr>
<td></td>
<td>Production</td>
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Marketing success is measured both in terms of the number of marketing tools used and how well they are performed. The activities are not necessarily independent of each other. That is, some activities are logically performed in conjunction with others, or only after others are performed. The definition of each follows:

**Supply Management:**

*Production management:* Ability to influence the quantity and quality of a commodity to be produced for predetermined aggregate market needs.

*Quality management:* Ability to manage the quality of the commodity to be marketed to selected segments of the total market.

*Inventory management:* Ability to increase or decrease stocks (quantity and quality) to execute a planned marketing program which serves markets on a continuing basis.

**Market Management:**

*Market information:* The process of generating, gathering and analyzing data relevant to demand and supply outlook for the product and the product's sales performance in individual market(s). Includes analyzing effects of competing products.

*Market research:* Knowledge of the markets and/or customers for the product, obtained through systematic inquiry.

*Market planning:* Deciding in the present what is to be done in the future through evaluation of probable outcomes of alternative courses of action.

*Single price:* Producer receives one price for the same quality, at any one time, regardless of the number of end uses or markets
for that quality.

**Multiple price:** Price producer receives represents a blend of two or more prices for the same quality based on different end uses or markets.

**Market allocation:** Ability to influence the total quantity and quality of a commodity made available to any segment of the total market.

**Advertising and Merchandising:** Promotion methods employed to develop new markets for a product or increase market share for the product in existing markets.

**Selling:** Managing domestic and foreign sales in existing markets to gain maximum returns or achieve designated marketing goals.

**Technical services:** Aiding customers of a product to better use it by providing information or technical expertise.

**New product development:** Designing, planning and marketing new forms for your product.

**Financial Management:**

**Facilities:** Financing the purchase or lease of buildings, equipment, tools, etc. used in the marketing program operations.

**Inventory:** Financing stocks of a product necessary for support of sales flow and any reserve stock.

**Operations:** Generating cash flow sufficient to manage ongoing firm business expenses.

**Production:** Making money available to producer-participants of the organization, if needed, to defray expenses incurred in the production of the commodity.
Coordination of Marketing Activities Determines Market Strength

The ability and efficiency of a marketing system increases with the number and effectiveness of the marketing activities performed. The "ultimate" mix of market activity elements would be a producer-coordinated marketing system that was national in scope, was vertically integrated relative to commitment and performed all marketing activities very effectively. However, significant barriers may exist to the establishment of this total concept; therefore, evaluations of other combinations are useful as immediate goals of producers. The performance criterion that should be applied is not whether a marketing activity can be undertaken, but rather what is the probability of the system in accomplishing the activity with sufficient effectiveness. The potential usually varies by the kind of producer-commitment and the organizational alternative selected. This is presented diagramatically in Figure 4.

Effectiveness of Performing Various Activities

Production management: Any system that deals only with bargaining has little if any influence on production levels. The organization would simply have to bargain for the best price obtainable for whatever supply producers decide to offer.

The regional and national marketing organization, on the other hand, can be in a position to have some effect on supplies produced under grower contract market commitments. Effectiveness would be in direct proportion to the proportion of all producers in the organization. Greater effectiveness also can be achieved when there is a joint venture or integrated market commitment by the marketing organization.

Quality control: Bargaining associations generally have had little
Figure 4. Interaction of Three Dimensions in Determining Market Strength
influence on the quality of the product grown for the commercial market. They have simply had the responsibility to sell what producers made available. It can only reflect discounts for low grade product and premiums for higher grades.

Marketing associations however can, if desired, have some influence on quality control through central handling and blending and contractual arrangements with their member farmers that call for only certain qualities. The joint venture or integrated market commitment allows more influence over quality because the organization could contract for and supply those types of grain required by their processing facilities.

**Inventory management:** Management of grain inventory or carryover would be more effective if a regional marketing organization is achieved. Ability to manage inventory is dependent upon financing required to hold the inventory. An integrated marketing system usually gains more favorable access to finances. The regional must take into account supplies of grain from competing areas.

**Advertising and merchandising:** The potential for regional bargaining systems to gain from grain advertising is highly limited.

Effective returns from advertising or merchandising would not likely occur unless a regional marketing organization existed. Advertising would be even more effective under an integrated marketing system. The latter makes possible advertising a branded feed product rather than only grain.

**Selective pricing:** Corporate businesses administratively set product pricing. Pricing can be used as a marketing strategy tool. This advantage could be used by producer-coordinated groups through regional bargaining or marketing organizations.
Use of multiple prices adds the potential of increasing producers' returns when separate prices are applied to different markets. It is most effective when used in conjunction with market quantity allocations. A bargaining organization has limited potential for performing these functions because it never takes title to the product. A regional or national marketing organization can perform some market allocation, and multiple pricing effectiveness is even greater under joint venture or integration into processing.

**Market planning:** Market planning concerns the ability to plan the various business stages of production, processing and marketing. Any advantages to be gained by better synchronization would be more easily retained by a national marketing organization. Regionals can be effective but may offset each other with opposing policies.

**Sales management:** This activity could be accomplished under a regional or national marketing organization. It is even more effective under joint venture or integration into processing, all of which require farmers' contract commitments.

**Technical service:** Regional marketing associations as a feature of their marketing program can provide technical assistance to processors and foreign buyers. However, placement at a national level can be even more satisfactory.

**Market information:** Regionals can provide this information to guide grain marketing. Clearly, this activity is more efficient on a national organization level because of the cost duplication at the regional level would be avoided.

**Market research and product development:** It is impossible to
achieve market research and product development without some coordinated organization available to guide its financing, its directions and above all, its implementation. Success potential increases either as the results are kept secret from competitors or as the total industry group supports and acts on it through a coordinated overall marketing program.

Effectiveness would be greatest in a joint venture or integrated national marketing organization which involved processing.

**Facilities and operations financing:** Regional and national bargaining associations have need for operations financing for the staff's bargaining activities for its membership. All marketing organizations local, regional and national would need to finance both physical facilities and operations. Needs increase in joint venture and integrated systems.

**Production financing:** This activity is optional. Most likely, production financing would take the form of an advance to the producer to finance production of his crop. A joint venture or integrated market system usually provides a more favorable capital structure which would allow more effective performance of this activity.

**Inventory financing:** The most limiting factor in the effective performance of this activity is again capital structure. Rather substantial sums of capital would be required before this activity is possible on an effective scale. Performance would be best in an integrated national marketing organization. However, marketing organizations can avail themselves of Commodity Credit Corporation commodity loans if proper requirements are met. This makes it possible to achieve results at the regional market organization level.
Summary

This section presented the various concepts relative to market development. It provides a framework for further discussion and evaluation concerning marketing of Texas grain sorghum. All are very important to understanding requirements and benefits of alternative types of grain marketing systems.
Introduction

The preceding section presented the range of alternative business organizations and degrees of producer commitment required. To many farmers, it may be difficult to visualize how such marketing systems could be constructed. Therefore, attention now turns to describing on-going marketing systems in other commodities that represent some of the aforementioned types of marketing organizations. Perhaps this will help sorghum producers understand how marketing organizations develop.

Less Coordinated Systems

Although the less sophisticated marketing systems do not provide much potential for strengthening producer marketing in the sorghum industry, a brief discussion will nevertheless provide a base to compare advantages of more expanded systems. The alternatives presented here were discussed in the previous chapter, but additional advantages and disadvantages are included here along with commodity examples.

Open Market

In the open market, the producer sells when he wants and takes what the buyer is offering. There is no time table, however, and many producers sell at harvest or within a short time span causing market gluts and lower prices. Producer freedom is maximized in this framework, but the risk of receiving a price sufficient to cover costs plus earn a profit is borne by the primary producer. Obviously, in this system the producer has little market
There are many commodity examples of open market systems. The current system for grain sorghum on the Texas High Plains is in essence an "open market" system.

Another example of an open market system is the cow-calf segment of the beef cattle industry. Under the cattle auction market system, producers take their calves to market without knowing what price they will receive. The weakness of this system is being recognized by livestock producers as well as many sorghum producers who are also involved in the livestock enterprise.

The cattle industry overexpanded in terms of volume of beef to meet market demand. Lack of supply control resulted in sharply lower prices in 1974 and 1975.

Many other examples could be given, but the result is the same--no commitment and weak marketing ability. In fact, many of the farm products marketed in Texas move through essentially an "open market" system.

The advantages and disadvantages of the system are briefly itemized below:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Relatively free to choose a market.</td>
<td>1. Assumes all market risk.</td>
</tr>
<tr>
<td>2. Own management system.</td>
<td>2. Large buyers unavailable.</td>
</tr>
<tr>
<td></td>
<td>3. Limited market development activities possible.</td>
</tr>
<tr>
<td></td>
<td>5. Financing--based on reputation.</td>
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<tr>
<td></td>
<td>6. Specialized market talent not usually available.</td>
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</tbody>
</table>
Group Action with No Contract

The options of group action with no contract do not vary much from the open market arrangement. However, the quantity of the commodity offered to the buyer usually is larger than would be possible coming from a single producer. Often the group action is very informal and only represents an attempt to get buyers and sellers together.

Absence of legal commitments (contracts) between the producers and the group organization minimizes the effectiveness of the system. Quantity of the commodity to be handled by the group is unknown. Efficiencies in product assembly and handling may occur. Yet, if the group cannot bargain or market effectively for the individual, the system is weak.

Examples of this alternative would be a feeder pig sale or attempts by farm or trade organizations to put other commodity marketing efforts together. These efforts usually involve only a small number of producers with a relatively small amount of product. Also, the producer usually retains the right to sell based on the group's recommendation. Some advantages and disadvantages are spelled out more fully below.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Better market information and market management might be available.</td>
<td>1. Producers may drop out of group.</td>
</tr>
<tr>
<td>2. Increases market alternatives.</td>
<td>2. Management (agent) not given authority with responsibility.</td>
</tr>
<tr>
<td>3. Improves quality control.</td>
<td>3. Independence and discretionary powers somewhat reduced.</td>
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<tr>
<td></td>
<td>4. Group required to produce more according to market specifications.</td>
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<tr>
<td></td>
<td>5. No prior commitment.</td>
</tr>
<tr>
<td></td>
<td>6. Usually, relatively small number of producers involved.</td>
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</tbody>
</table>
Individual Action with Contract

Most sorghum producers are familiar with the alternative of individual action with contract. Besides the open market, this is the way another significant portion of grain sorghum is marketed in Texas.

For most commodities, these "one-to-one" contracts are on a short-term basis. Typically, the duration is one production year, but they may be longer. The legally binding contractual arrangement concerns terms of sale for the commodity (or some market service) made between a producer acting alone and a buyer. Contrasted with the open market example, the producer that contracts is operating for that time period in a selected market.

After the contract is signed, the producer can plan his production activities more efficiently to maximize income. However, a major shortcoming of this system is that contracting usually occurs in a buyers market. It is difficult for the producer to know how to analyze the price making forces that affect the commodity's price and to compete on an equal basis with the buyer. When there are forces moving price upward, buyers are trying to get farmers to sign contracts. When prices are falling, the contractor is not as active.

Little market advantage is gained through this type of effort. It does lock in a price to the farmer and can help in obtaining crop financing.

Portions of some commodities are marketed in this manner. For example, a large percentage of the grain sorghum produced in South Texas in 1975 was contracted on a "one-to-one" basis. In 1973, a considerable volume of cotton in Texas was contracted in the same way. Initially, private firms were more interested in contracting with farmers than were cooperatives. Soon
cooperatives, in order to compete for volume, began offering contracts to producer-members on a fixed price basis. Feeder cattle production contracts are another example of "one-to-one" contracting.

Perhaps the more classical illustrations in contracting are the broiler and vegetable industries. Poultry processing and feed manufacturing firms have production contracts with poultry producers. For the firm, this is vertical integration. But, unless some of the savings in efficiency are passed on to the producer in increased profits, the net result to him is the same as other individual-type contracts.

Individual contracting is a weak marketing system from the producer's viewpoint. As long as producers compete with each other in selling, supply often exceeds demand and lower prices result. Some of the advantages and disadvantages of this alternative are outlined below:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Prompt managerial action possible.</td>
<td>1. May lack negotiating know-how.</td>
</tr>
<tr>
<td>2. Locks-in market price. No risk of price fluctuating.</td>
<td>2. Range of buyer contacts probably limited.</td>
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<tr>
<td>3. Still feels he has maintained freedom.</td>
<td>3. May not possess critical market intelligence.</td>
</tr>
<tr>
<td>4. No reliance on judgment and negotiating power of others.</td>
<td>4. Time used in negotiation process limited.</td>
</tr>
<tr>
<td>5. Forward production planning.</td>
<td>5. Limited knowledge about financial and legalities of contracts.</td>
</tr>
<tr>
<td>6. Leverage to obtain credit.</td>
<td>6. Contracted supply may not be harvested due to natural/manmade occurrences.</td>
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<tr>
<td>7. No capital investment in marketing necessary.</td>
<td>7. Contractor solvency.</td>
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<tr>
<td></td>
<td>8. Not flexible, once signed.</td>
</tr>
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<td></td>
<td>9. Limits gain from price rise.</td>
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<tr>
<td></td>
<td>10. Contract prices not public knowle-</td>
</tr>
</tbody>
</table>
Summary

The foregoing three operational alternatives for producers represent the less coordinated or weaker systems in returning producers a higher profit. The main reasons for this are lack of commitment of supplies to a better qualified marketing staff and the failure to participate with ownership in more activities in the marketing channel. The next three alternatives will encompass, in varying degrees, these two predominant criteria of system success. These are discussed in turn.

Group Action with Contracts

Group action with contracts is the first level in the hierarchy of commitment to an organization where producers actually have to assign the marketing function for their crop to someone else. It is at this point that most strong producer organizations initially begin. Groups that are involved in joint venture and integration have even more marketing potential through group action with contracts.

Farmers consolidated with mutual interests and goals become an organizational framework to be reckoned with. However, to be a factor in the marketplace, a relatively large percentage of the production in a geographical area or region must be marketed by the organization. The larger the size of the area and percentage of production controlled, the more market effectiveness the group possesses.

Commitment to the group is accomplished by having producers legally bound via the contract to provide their crop, or a portion of it, to the organization for marketing. Ideally, this delivery would not be at a fixed price. The important point is that the group's organization knows the quantity it will be marketing. This gives the marketing management greater
ability to plan marketing strategy and allows them flexibility in seeking
the best price for the producer-participants. The ability to meet large
sales, both foreign and domestic, is a definite asset. It is through
this effort, that producers begin to develop some countervailing power
to the large firms in the market.

The marketing organization can make supply or forward selling contracts
to meet the entire needs of some buyers. Typically, such supply contracts
are in effect one year or less, but some contracts in the foreign market
are longer.

Following is a discussion of examples of current successful organizations
operating in the group action with contracts framework.

American Rice, Inc.

Although American Rice, Inc. (ARI) has recently acquired a milling
facility to more fully operate on an integrated system, it operated until
the summer of 1975 only as a central marketing agency for rice produced in
Texas and Louisiana. It is a producer-owned cooperative that pools the
members' rice and markets the rice to domestic and foreign markets.
Members share in the market price obtained by the central sales office.
The price returned to growers in recent years has been above the season
average price for the year--indicating part of the marketing success of
the agency. Approximately 50 percent of the rice produced in Texas and
25 percent of that in Louisiana is now contracted by farmers to American Rice for
marketing. Storage facilities for the rice are owned or leased by ARI.
Of the leased facilities, some are independently owned and some are
cooperatively owned.

The contractual arrangement with farmers as initiated by American Rice
is based on a two year duration. The rice obtained forms the seasonal pool from which management markets throughout the year. It can sell rough or milled rice in the domestic market and milled rice in international markets. Producers are paid in advance at the beginning of the marketing year when the rice is delivered to the cooperative. This first payment amounts to 90 percent of the support price. A second payment is made about November, and final settlement occurs at the close of the marketing year. This final settlement payment to the farmer represents the average profit earned beyond costs of operation. All producers receive the same price for the same quality of rice.

Of the rice sold by ARI, a very small percent is sold on a forward basis. They generally operate with no sales commitment since rice has no futures market on which to form a basis for forward pricing.

Since the quantity of rice available to American Rice is known, this assures them of a continuing and competitive stance within the industry as a whole. Quality plays a major role since U. S. rice is desired in many markets throughout the world because of its high quality even though this country produces less than 5 percent of the total world production.

Part of the success story of ARI is the sophisticated grading system that it put into operation. USDA grades did not sufficiently reflect the inherent value of much of the rice when used in new processing methods. Producer financial support and backing developed the new grading system that fits the needs of the rice mills.

Initially, producers were allowed, if they wished, to commit only a portion of their crop to ARI. A number of growers assigned only 50 percent of their rice to ARI. However, producers soon began to commit their total
production because the marketing agency was doing a better job than they were. Recently, ARI has required 100 percent commitment of production of members.

To become a member, a producer must sign a marketing agreement with ARI and make an investment in it as follows:

(1) Purchase of Class A preferred stock at a cost of $2.50 an acre on a one-time basis. (This can be redeemed immediately if the farmer resigns from ARI or stops farming.)

(2) An annual 10 cents per hundredweight to be retained from each grower's marketing proceeds. This is issued as Class B preferred stock. Beginning with the third season, the first year's investment will be redeemed at face value, and the rotation is continued on an annual basis. The average member has about $12.50 an acre invested on a continuing basis.

Initial membership is for two years, but it is renewed annually after that. The sign-up deadline varies each year but always precedes harvest.

ARI demonstrates that good management talent can be put together in Texas to handle commodity marketing. The expansion of the organization has been aided greatly by the management capability of the firm. ARI still does not market all of the rice in Texas, but it controls enough to make a significant difference in marketing.

Calcot, Inc.

Calcot, Incorporated, located in Bakersfield, California, represents a cooperative comprised of 3,500 cotton producers. This firm handles about 40 percent of the western grown cotton. The overall structure of the firm is different than most commodity marketing organizations in Texas.

Calcot has a stringent bale contract that requires each producer to deliver what he says he will produce for that current year. There is both
a membership agreement in the cooperative and a marketing contract. The
latter stipulates the quantity of cotton forthcoming from each member. No
advance payment is made on cotton until it is delivered to Calcot. Upon de-
delivery an advance is made on the loan price. Cotton is placed in either of
two types of pools. One is a seasonal pool, and the other a "call" pool.
The cotton in the seasonal pool is sold by Calcot under a strategy of sales
which marketing management calculates will obtain the best overall price.

In the call pool arrangement, the producer selects the price at which
he is willing to sell. When the price of cotton reaches that point, it
is sold.

The membership can choose between the season pool and/or the call
pool. Overall, about half of the members place half their cotton in the
seasonal pool and the remainder in the call pool. The advantages of the
call pool to the membership is that they maintain some individual freedom
in deciding on the sale price. The cooperative requires that 90 percent
of its inventory be sold before final settlement is made.

Calcot, Inc. markets the cotton to mills, merchants and export
buyers. Advanced sales contracts for some lots represent 22 to 24
months in the future, with a few forward contracts up to 4 years in
the future.

Calcot also participates in the joint effort of the four major
cotton co-op regionals in the United States to coordinate sales to
foreign markets. Forward contract sales are made to many Far East
countries.

Summary

American Rice, Inc. and Calcot, Inc. are organizations that have
been quite successful in taking ownership of producer's commodities and marketing them profitably for the growers. Because marketing is a full-time job when done right, producers find it advantageous to leave the marketing to a competent organization and concentrate their efforts on the intricate process of production. Some advantages and disadvantages of this system are summarized below:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reduce risks in years of wide market price fluctuations.</td>
<td>1. Individuals partly forego independence--now producing for a market.</td>
</tr>
<tr>
<td>2. Increased market power.</td>
<td>2. Marketing expertise essential.</td>
</tr>
<tr>
<td>3. Size opens additional market alternatives.</td>
<td>3. Management of corporation may be hampered by poor business policies dictated by group members.</td>
</tr>
<tr>
<td>4. Gain economies in transportation and handling.</td>
<td>4. Certain percent of market volume necessary to be effective.</td>
</tr>
<tr>
<td>5. Improves quality control measures.</td>
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</tr>
<tr>
<td>6. Concentrates market information available.</td>
<td></td>
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<tr>
<td>7. Opportunity to spread marketing across and between production periods.</td>
<td></td>
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<tr>
<td>8. Enhances financing opportunities.</td>
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</tr>
</tbody>
</table>

**Joint Venture Arrangements**

Joint venture arrangements are those where the producer organization participates financially with another business to perform one or more mutually beneficial marketing functions. With joint venturing, some producer control over marketing of the commodity is maintained. However, control is not complete. The joint venture contract may be either intermediate or long-term. Additional market power is obtained in this arrangement since producers are involved in additional stages of the
marketing channel for the product. Effectiveness may depend, to a
certain extent, on the relative bargaining strength of the producer-
group versus the joint venture partner.

There are not many examples of joint venturing between agricultural
producer-groups and other business organizations. Some have been
quite successful.

One example is an arrangement between Coca-Cola and the Florida
Orange Marketeers. The producer organization contracts to supply the
orange juice; Coca-Cola then processes and markets it under the Minute
Maid label. With a brand name product, advertising is directed to that
product. The joint advertising efforts of Minute Maid and the Florida
orange industry are complementary.

In most joint venture arrangements, the two groups involved participate
in the selling price plan. But the Coca-Cola/Florida Orange Marketeers
cooperate differently. Prior to the season, they negotiate the cost of
processing and marketing by Coca-Cola (this includes profit margin for
Coca-Cola). As the season progresses, the processing and marketing costs
set in the contract are subtracted from the finished product price, and
the remainder is paid to the citrus grower.

Another example of joint venture is the effort by Allied Grape
Growers and Hubelin wine manufacturer. In this instance, the raw product
is supplied under contract by Allied Grape Growers, and the two businesses
then both participate in setting the selling price.

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3/ For more examples than given here, please refer to the recent market
research report 1040 by Farmer Cooperative Service, U. S. Department
of Agriculture, entitled "Joint Ventures Involving Cooperatives in
Food Marketing."
One other example of joint venture is occurring in grain sorghum in Texas. Producers Grain Corporation has joint ventured with Japanese cooperatives to market grain in Japan. The grain is shipped to Japan without a fixed price and the two cooperatives then share in the profits of the transaction. PGC does this, however, without the benefit of producers committing grain sorghum to PGC at an open price. PGC usually sets the price to Texas farmers in advance on a one-to-one contract, then attempts to improve its margin by cooperating with the Japanese firm. This could, no doubt, be expanded if more grain were committed to the regional cooperative.

Additional joint venture possibilities for sorghum in Texas could be with feedlots and feed processors. Producers would supply grain to a feedlot and then share in the feeding profits (and losses). Feed manufacturing and marketing would be another joint venture opportunity, but it should be subjected to a thorough economic analysis before initiating this kind of venture.

The advantages and disadvantages of this alternative are somewhat comparable to those for group action with contracts. However, an additional advantage would be participating in more steps in the marketing channel and the potential for controlling supply. Additional disadvantages would be increased capitalization requirements and grower returns would depend on relative bargaining strength of the two organizations involved.

Integrated Operations

This is the most sophisticated type of market commitment and has the most potential of returning additional profits to producers of raw products through the marketing advantages obtained.
Producer-coordinated marketing groups bypass joint venture in favor of performing additional marketing functions themselves. American Rice, which was discussed earlier, recently vertically integrated into the rice milling function. Discussed below is a new integration move on the Texas High Plains as well as two other producer-controlled integrated marketing systems.

Plains Cotton Cooperative Association

Since the recent textile milling venture of the Plains Cotton Cooperative Association (PCCA) has received a lot of publicity, the discussion of this group will not be extensive. However, the marketing association decided to build their own textile mill to take the product one step closer to the consumer. With the use of the new "open-end spinning" technology, short staple cotton can be milled to better specifications and uses. The producer-owned textile mill should result in additional returns to the producer.

The seasonal pool concept is used by PCCA to supply cotton to the textile mill. Since the mill will not require all of the PCCA cotton, a considerable amount will still be marketed by PCCA to other buyers. Twenty-six High Plains and Rolling Plains Cooperative gins have joined this marketing program. Producers sign marketing agreements to commit their production to the marketing effort. Farmers believe this program will increase and stabilize the cotton producer's income.

A new marketing concept is also being put into operation by the marketing management group at Plains Cotton. This is an electronic system for offering cotton for sale and taking bids. It is similar to tele-auction procedures currently in effect for swine in some areas. Major merchants and
mills will have the equipment in their offices to receive cotton offers by PCCA via the electronic system. The merchants and mills can then bid on the tenders, and within a short amount of time, the cotton can be sold to the highest bidder, or the bid rejected if PCCA thinks it is too low. Producers will have the opportunity to set a minimum price on their cotton that they have outside the seasonal pool, and PCCA can have a better chance to get the producer's asking price.

Riceland Foods, Inc.

This organization in Stuttgart, Arkansas, provides group marketing combined with vertical integration. Riceland Foods markets rice and soybeans from Arkansas and several adjacent states. Producer-members of this cooperative participate in 22 local elevator and drying associations. The local associations are the line of communication from the marketing division to the producer. Riceland Foods pools the farmers' grain and advances him, upon delivery to the local association elevator, 70 percent of the estimated market price of the grain. The cooperative does not now employ marketing contracts by producers. Instead the producer buys rights to deliver to the Riceland system and gains its benefits. Riceland has been so successful it has locked up much of the first handler delivery points. About one half of the rice and soybeans are sold internationally.

There are two marketing pools for soybeans. One is the seasonal pool; the other is a "call" pool.

Under the "call" pool option, the producer can take the price posted any day until mid-July of the next year. Riceland Foods posts its daily price based on futures prices or contract prices they can execute. The producer has the option to accept or reject that daily price. He receives payment
when he makes the decision to accept a price. A final payment will be made based on operating profit later. When the producer accepts a price, the quantity is then "covered" by an off-setting futures transaction or a "back-to-back" contract. Profits are distributed equitably to producers regardless of which pool they use. This is in addition to the settlement of each pool, however.

Recently, Riceland Foods initiated forward production contracts with producers. Advantages accrue to the milling stage because the mills can operate more efficiently during the harvest season.

On the sales side, Riceland Foods contracts a small quantity of the seasonal pool to rice buyers. All of the rest goes through their own milling operation. Riceland has its own retail brands for rice which it markets in selected cities where consumer demand has been built for its brand. Since there is no rice futures market, the spot market around the world is followed closely as a base for management decisions to sell or not sell.

The organization follows an orderly soybean marketing approach; it does not speculate. It will hedge or contract its products purchased through the purchase pool. If the price is good for the seasonal pool grain, some is sold orderly into the market.

Soybean processing has been added as an integration move to market soybean oil and soybean meal instead of whole beans. This provides the opportunity to export to countries that do not have adequate processing facilities. Marketing efficiencies of size have been achieved. Riceland Foods can book their own ships and barges and can ship in 40 car lots. The savings of this efficiency is passed along to producers.
The association is financed by producers purchasing grain delivery
privileges to the local associations. The producer is limited in the amount
of delivery rights he can purchase to his average production in the
last three years. These delivery rights are non-transferable until given
up by the producer. The delivery right debentures revolve on a 15-year
basis. The funds so obtained serve as leverage to borrow from the Bank
of Cooperatives and other lending institutions.

Gold Kist

Gold Kist of Atlanta, Georgia, is another example of an organization
involved in many commodities and in many marketing stages for those
commodities. It contracts for a large share of the broilers it processes.
It also handles soybeans, peanuts, pecans and livestock. It operates a farm
supply service, a marketing department and commodity trading department.
Some of the livestock obtained by the cooperative is contracted with
producers ahead of delivery. They also help producers find breeding stock
that will produce the type of butcher hogs desired by the firm.

Gold Kist operates broiler, peanut and soybean processing facilities
and obtains its supplies from many states in the Southeast. Estimated
direct producer membership is between 200,000 and 225,000. The product
marketing functions are handled directly by Gold Kist, whereas the farm
supply sales are through a federated cooperative.

Gold Kist contracts with the broiler-growers on a per pound of gain
basis. Producers are given the feeding plan as to how much and what kind
of feed to use to obtain the desired gain on the broilers.
Relative to commitment to the organization, every producer has to sign a membership agreement. The agreement can be renewed each year. If a new local cooperative is set up, the new members put in capital and buy certificates and membership agreements. There is no additional membership charge in subsequent years.

Peanuts provide another example of how Gold Kist operates with producers. Under the current peanut CCC support program, Gold Kist advances the grower the support price on delivery. The peanuts are processed and marketed as processed products. Because the peanut program has had a good support level, market prices are seldom above the support price level. However, profits generated from processing (integration) are refunded to the producer. Gold Kist usually makes the profit refund in 50 percent cash and 50 percent redeemable certificates. A member can redeem the certificates, or Gold Kist will pay the current market interest rate to the producer if he holds them.

In soybeans, Gold Kist operates both a seasonal pool and a call pool for producers, much like Riceland Foods.

Gold Kist is probably more involved in market development, product development and research than other producer-based organizations. They employ highly qualified technical people to work in these areas.

Summary

The advantages and disadvantages for vertical integration are similar to those for joint ventures. However, more financial backing by producers is necessary. Ownership of processing facilities usually makes for stronger marketing because facilities are under direct organization management. On the other hand, potential losses are greater
if good management talent is not employed.

Summary

On-going marketing firms for various commodities have been overviewed to give the Texas sorghum industry an idea of what has been and is being done in other areas. Additional material is available if producer-groups wish to study their "blueprint" in more detail.

However, it should be made clear that each situation and product are different, and each alternative presented here will have to be evaluated in light of the sorghum situation in the Texas High Plains. Hopefully, however, this discussion has shown that producer-coordinated marketing systems can and have been successfully developed for many commodities in many states. The examples described here can be used to evaluate opportunities in the sorghum area and rate the three specific alternative systems for Texas grain sorghum, which are presented in the next section.
SELECTED ALTERNATIVE MARKETING SYSTEMS
FOR TEXAS GRAIN SORGHUM

Three alternative marketing systems for Texas grain sorghum will be presented as indications of other systems that could be developed. Of course, one alternative not included is for producers to continue the status quo—rather than change the current sorghum marketing system.

Alternative A: Strengthen Current Grain Marketing Efforts

Introduction

A large percentage of farmers in the Texas High Plains area are members of some type of grain elevator association, which may be a private corporation or a cooperative. Yet, not all patronize their elevators.

Even for those who do, the casual observer hardly could tell the difference. The member makes no commitment to deliver his crop at harvest. Until the farmer is ready to sell to his elevator, it can undertake no marketing activity for that producer's crop. Under these circumstances, the elevator manager can only offer the farmer a price based on what the market offers that day. This is no different than what can be done by an independent buyer. Thus as matters now stand, both the co-op and private elevators simply act as "open market" buyer-sellers. Furthermore, farmer-owned small quantities are involved. Therefore, marketing effectiveness has no alternative but to be relatively weak.

Aside from the open market cash sales, some producers prefer to contract their grain in advance. Regardless of when the farmer contracts, he usually contracts with whichever elevator or buyer offers the best price at the time.
The present regional grain sorghum marketing cooperative has contracted on a fixed price basis for some grain from local cooperatives, especially among those in South Texas. The regional has export facilities on the lower Gulf Coast, which helps explain the contract activity in this area. However, whatever the arrangement, the outcome of individual contracting often results in less money than the market would pay using professional marketing strategy.

The major weakness in the current cooperative side of the grain marketing system stems from lack of precommitment on the part of farmers to their locals and the locals to regionals. Although the regional eventually handled 58 percent of grain sorghum sold by local cooperatives in the Texas High Plains in 1973, there still was no prior commitment. As long as individual producers try to match wits with the total grain market, their marketing success with sorghum will usually be limited.

Use of Marketing Agreements

Precommitment arises through marketing agreements between producers and their local marketing organization, be it private or cooperative elevator. A marketing agreement is a signed contract which obligates the producer to have his grain marketed through a specific organization. At the same time, it obligates the organization to accept his production. Written agreements normally result in better performance.

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5/ Ibid., p. 35.
Marketing agreements should allow the pooling of grain so it can be used for effective sales by the local or regional organization. Some misconceptions about pools must be recognized and corrected. A common misconception is that the producer whose grain is in a pool will receive the average market price for the year. Instead pre-knowledge by a marketing organization of the quantity it must market should allow it to do better than the annual average price. An individual producer must be an exceptionally good marketer consistently year after year if his price is to exceed that of pooled grain under a marketing agreement.

**Commitment Should Exist From Local to Regional**

Although precommitment from producers to a local elevator adds to the managers ability to market sorghum more effectively, apprehension exists among some producers that local managers may not have the marketing information back-up and expertise to do a successful job. This apprehension is justified in many cases, not necessarily because the local manager is not capable but simply because he does not have the necessary marketing staff to do a sophisticated job. Therefore, be assured that local elevators should commit their supplies to their regional organization so that the regional can utilize its special marketing staff to obtain higher returns for all producers concerned.

Without the regional organization involvement, the manager with the least knowledge and the weakest financial structure tends to underbid and to set the price for all others. The purpose of the regional is to move the critical marketing decisions to a higher and more knowledgeable level.
Initiating the System

The ultimate goal should be for each producer to precommit a large portion of his grain to the system. However, initially a smaller percentage can be accepted from those desiring to participate in the improved system. For example, a member could commit half of his grain to the marketing pool and market the other half any other way he thinks might bring a better price. But, as indicated elsewhere, seldom can the farmer succeed in out-performing the pool.

Another possible alternative is to allow producers to commit their production to a "call" pool in which the farmer can set a minimum acceptable price for his grain. The organization markets the grain when that price can be attained. Financing this modified system probably would not be as costly as establishing a new organization. Additional investment would be required for more extensive and intensive marketing efforts. Capital can be built using a per bushel retain for the purchase of short-term debentures assigned to the member. Another approach is for members to increase their stock subscriptions. If retains are used, the marketing agreement will generally specify how such retains or net margins are to be handled.

The three marketing systems open to Texas grain sorghum under their improved system are outlined in Figure 5: The organizational chart of the improved federated centralized marketing organization is depicted in Figure 6. Movement to this level of grain marketing organization can be rather easily achieved since a minimum of new staff and office facilities is required compared with those of the next two alternatives. Also, the local elevator organization remains intact and operates on a agent-type basis for the grain assigned to the unified marketing program.
Figure 5. THREE GRAIN MARKETING SYSTEMS ON TEXAS HIGH PLAINS ASSUMING AN IMPROVED GRAIN MARKETING SYSTEM

PRODUCERS

Individual Participation In Open Market
  Individual Small Lots to Dealers & Feedlots
    Fixed Price
      Acreage  Pounds

Individual Participation In Contracting
  Store at Harvest
    Individual Small Lots to Dealers & Feedlots
    Feed to Livestock

Individual Participation In Marketing Agreement With Regional Organization
  Annual Grain Pools
  "Call" Grain Pools
  Marketing Staff
    Market Information
    Futures Market Operations
    Large Volume Managed Sales to Major Domestic and Export Buyers
Figure 6. POSSIBLE ORGANIZATIONAL FRAMEWORK FOR A COORDINATED GRAIN MARKETING ORGANIZATION

- Milo Producers
  - Supply
- Local Policy
  - Board of Directors
  - Marketing Agreement--Producer with Elevator
    - Legal bond
- Regional Policy
  - Board of Directors
  - Marketing Agreement--Local Elevator w/Regional
    - Legal bond

Operating Structure of Regional Office

Central Management

- Centralized Marketing
  - Management Staff

Marketing
  - Price Negotiations
  - Pooling
  - Sales
  - Domestic Market
  - Foreign Market
  - Inventory Management
  - Market Information
  - Market Research
  - Advertising & Promotion

Financing
  - Title Taking
  - Costing
  - Payments
  - Retains
  - Collection on Sales

Membership Relations
  - Marketing Agreements
  - Membership Education

Procurement & Transportation
  - Grain Supply & Location
  - Records
  - Storage
  - Scheduling of Grain Movement
  - Transportation Services
  - Grades & Grading
Figure 7. NEW MARKETING ORGANIZATION

Actual Grain Flow

Producers grain is delivered to authorized elevator

Marketing Decision Flow

Producers Commit Prod'n

Warehouse Contract

Sorghum Mktg Corp

Feedlots

Feed Mills & Proc.

Export

Grain Movement Directed by SMC to fill orders
Alternative B: A New Producer-Based Centralized Marketing Organization

If sufficient agreement is not forthcoming to develop the centralized type of marketing program outlined in the preceding section, it may be possible to establish a completely new marketing organization. Although many elevators are affiliated with feedlots or other corporations, until the producer sells or contracts his sorghum, he has marketing control of his production. In very simple terms, producers would commit the marketing of their grain to a new marketing management organization. This organization would hire a capable staff experienced in the grain marketing field to make the marketing decisions on all the grain committed to it by producers.

Title to the grain would no longer move directly from producer to the local elevator. Local elevators essentially perform the warehouse function anyway. Therefore, the new marketing organization could contract for a fee with the existing elevators, whether private or co-op, to receive, store and maintain grain. Therefore, a producer would have the choice of committing grain to this new system regardless of his current marketing channels and methods. If the system is to be successful, producer commitment to the new marketing system should be two years or more. However, producers could commit only a part of their production. A diagram of the system included in Figure 7, and for illustrative purposes, it is named Sorghum Marketing Corporation (SMC).

The new system can not evolve without a lot of effort and coordination by producers. Change and progress always have that requirement. But the concept has the potential through better marketing management to enhance producer income over that available from the current situation.

Initially, it is anticipated that producers will not want to relinquish control of their total production without seeing a performance record of
the marketing agency, SMC. Therefore, a producer should be allowed, if he prefers, to commit only a portion, say half, of his production to the new marketing effort. Another alternative within the new system would be to allow a producer to "set" the price at which he wishes to sell. SMC could then market the grain when the price reaches the producer's "call" point. For this reason, this option is generally known as a "call pool". The producer can change his asking price as the marketing year moves along or leave it at the initial price. This gives producers, who desire it, an opportunity to maintain some sales control over grain and also utilize the SMC advantages. However, a cut-off date is established at which the sale price comes under control of SMC. It is also highly desirable that a significant quantity of grain be in the annual pool so that the full skills of SMC can be demonstrated.

The marketing strength of an organization grows with its size. Although there is no set percentage necessary for attainment of marketing impact, it would appear that at least 20-30 percent of the High Plains area sorghum be committed to SMC.

Financing of SMC would require producers to commit dollars to the marketing agency along with their product. Adequate capitalization through producer-stock and/or debenture equity in the organization would be required.

The initial financing could be in two phases. An investment based on either acreage or a flat amount could be required initially. The second phase of financing could be a retain based on volume of grain delivered. The latter would simply be retained from the marketing receipts due the producer.
The funds obtained from these two phases would be used by the agency to obtain leverage to borrow capital to finance inventory until it is sold. A rotating mechanism of returning the phase II investment every two or three years could be established. This per volume investment might fall in the range of 5-10 cents per hundredweight of sorghum committed to the system.

There are certainly limitations that must be realized at the outset. The first of these is the relative position of sorghum in the feedgrain market. Corn tends to dominate the feedgrain prices due to its large volume of production (6 to 1 over sorghum) and its feeding advantage somewhat over sorghum, actual or perceived. Therefore, the availability of corn to move into the sorghum producing area tends to limit the price gains available to producers for grain sorghum.

Another possible problem is the warehouse contract with each participating elevator. Conceivably, some elevators may not want to handle grain to be marketed by the Sorghum Marketing Corporation. Therefore, this would place some hardship on producers who normally deliver grain to such an elevator, yet want to participate in the marketing program.

There is no reason why elevators would be excluded from handling sorghum separate from that controlled by the producer agency. The "fee" paid to participating elevators will have to be standardized, and this may deter a few elevators from entering into contracts. It is not conceived that the marketing agency will attempt to own storage facilities except as some new requirements arise that are not otherwise met.

A third possible problem arises from meshing the current cooperative elevator system into the new organization. Cooperative elevator members
could receive patronage refunds from their local co-op based on volume of grain handled by the co-op and would receive additional returns from the marketing organization in which they participated (SMC).

If a local cooperative has been marketing through the existing grain regional, the new organization may at times purchase grain from the regional agency. This may create some marketing inefficiencies, but not necessarily. Since the regional has export facilities and other contacts, the new marketing agency could combine efforts with the co-op regional for some activities.

Finally, careful consideration must be given to personnel selection for Sorghum Marketing Corporation. The level of marketing expertise that can be put together to manage the marketing organization is of critical importance. Producers cannot fail to pay the price to obtain the best people available nationally.

Marketing Functions

The discussion to this point has concentrated on decision and product flow patterns and problems of this marketing system. Different product pools and selling alternatives have been discussed, but specific marketing functions of the marketing agency have not been presented, although they have been iterated in a previous section. In order for the system to be successful, these functions must be performed well. Rather than list them separately here, they are simply included in the organizational diagram in Figure 8 which further describes this alternative marketing organization.
Figure 8. POSSIBLE ORGANIZATIONAL FRAMEWORK FOR A NEW GRAIN MARKETING ORGANIZATION

Sorghum Producers

Marketing Agreement with S.M.C.

Sorghum Marketing Corp

Management

Marketing

Finance

Membership Relations

Procurement and Transportation

Price Negotiations
Pooling
Sales
Domestic Market
Foreign Market
Inventory Management
Market Information
Market Research
Advertising and Promotion

Title Taking
Costing
Payments
Collection on Sales
Retains/Dividends

Membership Agreements
Membership Education
Membership Promotion

Grain Supply and Location Records
Storage
Scheduling of Grain Movement
Transportation Services
Grades & Grading
Alternative C: Evolve a Multi-Commodity Organization That Would Include Grain Sorghum

Several agricultural commodity marketing organizations in the country have expanded their operations into additional farm commodities. In fact, those that have are among the leading ones in the Nation. Gold Kist, based in Atlanta, Georgia, serves much of the Southeastern region and markets for producers soybeans, peanuts, poultry and eggs and is experimenting with other activities. Riceland Foods, at Stuttgart, Arkansas, markets rice and soybeans. American Rice, Inc., based at Houston, Texas, markets rice and soybeans for its members. Staple Cooperative, based at Greenwood, Mississippi, is one of the big four farmer-based organizations in cotton marketing and also has entered into soybeans and is experimenting with a livestock program.

Located in the Texas High Plains is one of the four major successful producer-based cotton marketing organizations. This firm is innovative and is vertically integrating in the cotton marketing channel. The question is: Are there some common interests between the cotton and grain producers that would support working toward a combined cotton and grain marketing program for the High Plains?

A joint effort program might be beneficial to both segments. When cotton acreage is reduced, like this year, it is often replaced with sorghum. Also, the cotton firm already has experienced personnel in the foreign export market and transportation field.

The intent here is to suggest the idea as another alternative for grain sorghum producers to consider. The same type of commitment and marketing functions would have to be realized in the "Grain Division"
as would have to occur in the other alternatives. Therefore, a full discussion of the organizational and operational aspects will not be presented for a combined cotton and sorghum marketing organization. Additional material can be developed, if desired.

Summary

This report has presented an overview of the current sorghum marketing system, possible elements for improving that system from the producers' standpoint and three suggested alternative marketing systems that might be established. The purpose is to respond to a request from producers to the Market Research and Development Center that new ways be explored for improving the marketing effectiveness for sorghum to increase monetary returns to the farmers. Hopefully, by considering various alternatives, better decisions could be reached.

The three alternatives presented here have similarities but are mutually exclusive. In other words, it is best to use one of these alternatives at a time rather than attempt to move in two or more directions simultaneously. A unified effort by producers in marketing their grain is one of the objectives, but attempting to create more than one of the alternative plans could reduce the unified front and marketing effectiveness.

It should be emphasized, in conclusion, that these three alternatives are not exhaustive of all the possible marketing systems. However, they do appear to be key examples for the sorghum industry to consider. Also, the discussions here are not intended to cover all aspects of establishing and carrying out a new marketing approach for sorghum. More in-depth analyses and discussions should occur. Hopefully, this publication will contribute toward reaching knowledgeable and useful choices at the appropriate time.