

# ECONOMICS/MARKETING<sup>1</sup>

Project *Termination* Report for the Period  
September 1, 2003 to August 31, 2004

**NCRAC FUNDING LEVEL:** \$50,000 (September 1, 2003 to August 31, 2004)

**PARTICIPANT:**

Susan T. Kohler	Southern Illinois University-Carbondale	Illinois
<b>Industry Advisory Council Liaison:</b>		
Russ Allen	Seafood Systems, Inc., Okemos	Michigan
<b>Extension Liaison:</b>		
Laura G. Tiu	Ohio State University	Ohio

**REASON FOR TERMINATION**

The project objectives were completed.

**PROJECT OBJECTIVES**

1. Investigate the pros/cons of alternative forms and scopes of a marketing organization, i.e., species; market information, marketing, or market development.
2. Survey aquaculture growers and existing co-ops in the North Central Region (NCR) to assess interest and willingness to commit and invest in a grower-owned marketing organization.

<sup>1</sup>NCRAC has funded five Extension/Marketing projects. Termination reports for the first two projects are contained in the 1989-1996 Compendium Report; a termination report for the third project is contained in the 1996- 97 Annual Progress Report; and a termination report for the fourth project is contained in the 2002-03 Annual Progress Report. The first project was chaired by Donald W. Floyd; the second was chaired by Leroy J. Hushak; the third was chaired by Patrick D. O'Rourke; and the fourth was chaired by Edward M. Mahoney. This termination report is for the fifth Economics/Marketing project which is chaired by Susan T. Kohler. It is a 1-year project that began September 1, 2003.

## **PRINCIPAL ACCOMPLISHMENTS**

Case histories of ten agricultural cooperatives were reviewed to acquire knowledge concerning cooperative structures, strengths and weaknesses, industry opportunity and threats, and lessons learned. A SWOT (strengths, weaknesses, opportunities, and threats) analysis was employed to assess the pros/cons of the various options a marketing cooperative could provide, i.e., market information, marketing, or market development; species-specific assistance; processing; and bulk purchasing of supplies and other inputs.

A “marketing” cooperative has strengths such as concentration on sales and market identification. The Coop Marketing Specialist (CMS) could enhance relationship building between producers and buyers, research markets to establish a profitable pricing strategy for multiple species, and ensure members comply with all interstate, intrastate, and international commerce regulations. An immense weakness is the geographical size of the NCR. Markets for rainbow trout are much different in Madison, Wisconsin, than in Carbondale, Illinois. If a farmer wants to take advantage of markets in Madison, that’s a long distance from Carbondale. Another weakness revealed in a couple of case histories is the ability to find a CMS with sufficient knowledge, experience, and networking skills to accomplish the objectives of the coop. A candidate may have superior knowledge concerning fish production and handling, but inferior experience in financial matters and account management. It’s rare to find such a variety of professional attributes in one individual. An opportunity associated with a market development cooperative would be the ability to network and forecast changes in consumer preferences. A CMS would have the time and resources to research current trends, as well as cultural, political, and environmental changes, whereas an individual farmer may not. A threat to market development cooperatives, as indicated by a couple of the case histories, is the tendency for some members to bypass the coop and make deals with buyers on their own. Some farmers desire a “free ride” on the back of the coop and then penetrate the market when they think the time is right. What those farmers often learn is that the buyers would rather deal with a unified coop than a maverick whose product may not be consistent from order to order. The mavericks often are not successful, but the attempt disrupts the flow of product from the coop and may divert the buyer’s attention from this region entirely.

The “species-specific” option includes the strengths of being overall less complicated, easier to build a grower’s knowledge base for research and development, and quicker to become a force in the marketplace, compared to handling multiple species.

Weaknesses may include a limited number of growers committed to just one species; such growers may be widely spread throughout the NCR; and the loss of flexibility in the market when one species drops in price compared to another. Opportunities may include a brand name or image (i.e., Midwestern Trout), processing efficiency, and bulk purchasing of raw inputs needed by one species. Threats could be changes in interstate and international commerce regulations, market changes (away from the one species), and proximity of producers to the market. A species-specific marketing cooperative may be the best option available among the four with respect to simplicity issues.

A “processing” option offers strengths in self-sufficiency to get to market, the flexibility to change product form to meet consumer demands, and the ability to explore and develop niche markets. But, as emphatically stated in one case history, a processing coop is “extremely expensive to build and enormously complicated and expensive to operate.” The Illinois Fish Farmers Coop was able to use state grants to build their facility, which totaled about \$4.5

million, but they underestimated costly equipment maintenance, routine sanitation problems, workers' compensation claims, union-scale wages, unforeseen distribution costs, sewage lagoon construction problems, and so on. They stated that they could buy the fish from regional farmers and process them in a satisfactory manner, but they could not operate the plant profitably. The overhead costs were beyond their expectations. The processing plant manager had ten years of experience operating a similar plant in Arkansas, but was surprised by the complexity and cost of plant operation in Illinois (various external business threats). A processing cooperative would be the most intense, expensive, risk-laden form of a cooperative among the four options. Additionally, as a farmer-owned enterprise, any losses, which could be sizeable, would be shared by the farmers.

A "bulk purchasing" option has the strengths of lowering production costs for its members by enhancing their "buying power" and acquiring customized products for its members. However, if the products purchased are not directly delivered to the individual fish farms, costly centralized warehousing would be needed where excess inventory may become problematic. These costs may cancel any money saved through bulk purchasing. Direct delivery would have to occur to ensure success. Opportunities associated with the bulk purchasing option may be the development of product lines to supply the entire industry, bulk purchasing during the off-season or when another enterprise is liquidating, and the increase in "inter-farmer" communications and exchange of critical production information. Farmer "knowledge base" can become a valuable asset by itself. A few threats may be the absence of consensus about a specific item of equipment or supplier of goods (fragmentation disrupts bulk purchasing) and collection of payment in a timely manner to assure the bulk order.

A mail survey was administered as an initial assessment of the willingness of producers in the NCR to commit to and invest in a grower-owned marketing cooperative. Supporting data were also gathered. The survey was designed and pilot tested with the assistance of the North Central Regional Aquaculture Center (NCRAC) extension contacts in each state. A mailing list was created by contacting the NCRAC extension contact in each state for the names and addresses of producers. Questionnaires were mailed to 857 producers. The response rate was 33.1%.

A summary of survey results includes:

- < Catfish and trout are the predominant species cultured in the region, based on poundage reported.
- < Food fish enterprises were the most common type of operation, fingerling/stockers were second, and hatcheries were third.
- < Wholesale and retail methods of marketing were fairly even in number, with a slight edge towards wholesale marketing.
- < Approximately 40% of the responding producers plan to expand in the coming year.
- < Nearly half (49%) of the respondents to the survey planned to expand by approximately 10,000 pounds in the next year.
- < Forty-two percent of NCR aquaculturists stated they would be willing to commit all or part of their product to a regional cooperative. Twenty-three percent indicated they would be willing to spend time serving on committees or the board of the cooperative.
- < Twenty producers (24.4%) indicated a willingness to contribute \$1,000 toward a cooperative, twelve producers (14.6%) indicated a willingness to contribute \$5,000, and twelve producers (14.6%) indicated a willingness to contribute only \$50.

- < Positive comments included: “A marketing organization is critical to the region’s aquaculture industry development, especially development of niche markets” and “It sounds like a very good idea because aquaculture will definitely grow here in the future.” Questions or neutral comments included: “Where would the headquarters be located?” and “We would have to know a lot more before committing any money.” Negative responses included: “Many coops have tried and failed. Please let me know how this one is going to succeed” and “I think the geographic area is too large, diversity too great, and average size of farms too small to support a coop.”

## **IMPACTS**

- < The results of this project will provide information on the pros and cons on the various options a marketing cooperative may provide.
- < It will provide an assessment of the willingness of producers in the NCR to commit to and invest in a marketing cooperative.
- < The results will provide the information necessary for producers and other stakeholders to make educated decisions concerning the potential feasibility of a marketing cooperative as well as the services and options that may be made available through a cooperative entity.
- < Producers and other stakeholders will be able to evaluate the perceived benefits against the risks and required resources.

## **RECOMMENDED FOLLOW-UP ACTIVITIES**

Based on the results of the regional survey, it appears that a marketing cooperative, with one or more of the four options, would not be feasible at this point in time. However, NCRAC needs to consider avenues to address the most requested services and determine a method to provide them. According to the survey, technical assistance, particularly in the area of disease diagnostics, marketing and brokering, and bulk supplies are the most sought after services. Providing all of these services would be difficult for a single cooperative. It would require the services of several individuals with diverse backgrounds.

The following recommendations are made in an attempt to address the requested services in the absence of a regional cooperative. In the area of bulk supplies, a central person/business could be contracted with to determine the needs of producers, place orders, and arrange for direct delivery of the supplies and equipment. A small commission on sales might be sufficient to cover costs for this service. This option would alleviate the expense of bulk warehousing and still provide a quantity discount.

To provide marketing services to producers, NCRAC could contract with an individual/business to develop and maintain a Web site of potential buyers. NCR producers, through a password, could access the site. This would be one method of linking producers with buyers without the expense of a broker. Similar to the previous scenarios, a small commission on sales might be sufficient to cover the cost of the service. It may also be possible to combine the bulk purchasing and the sales clearinghouse services.

Technical assistance for the NCR is provided through the University of Wisconsin-Milwaukee. Their assertion is that if they can’t answer a question over the phone, they will contact an individual who can. Technical services providers throughout the NCR should be added to their contact list. As a result, producers with questions could be linked with a local provider if a site visit is necessary.

*Economics/Marketing*

Even though a regional marketing cooperative does not seem warranted at this point in time, as the industry grows and producers work together to achieve certain goals, the opportunity of a cooperative may be presented again.

**PUBLICATIONS, MANUSCRIPTS, OR PAPERS PRESENTED**

See the Appendix for a cumulative output for all NCRAC-funded Economics/Marketing activities.

**SUPPORT**

YEAR	NCRAC- USDA FUNDING	OTHER SUPPORT					TOTAL SUPPORT
		UNIVER- SITY	INDUSTRY	OTHER FEDERAL	OTHER	TOTAL	
2003-04	\$50,000						\$50,000
<b>TOTAL</b>	\$50,000						\$50,000