

Time for Organic Producer Co-Ops?

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Organic markets in New Zealand and overseas are undergoing a major sea change. A couple of years ago over supply of organic product was unheard of. When it came to selling their goods producers generally had it pretty easy. If the quality was right then there was almost always a ready buyer knocking on the door. Today in Europe there are a number of organic markets where supply now easily exceeds up-front demand. Milk is a good example. In 2001 up to half of the organic milk produced in the UK was sold as conventional. Unsurprisingly there was a sharp drop in organic milk prices of over 10 cents a litre as a result. The same is now happening with organic meat in the UK prompting influential media presenter, columnist and environmental campaigner John Humphreys to examine what he sees as a reversal of the growth of the organic industry in the UK where “organic prices are quietly falling reducing the organic premium and therefore margins for organic producers”. While it is fashionable to blame the supermarkets Humphreys lays most of the blame on organic producers themselves for not finding ways to either by-pass sales to the supermarkets or sticking together in co-ops to gain bargaining strength through numbers and unity.

Fortunately things are not so bad for kiwi producers selling on the organic domestic market. The number of producers is still limited by comparison to overseas and production has not been artificially propelled by the kind of grants and subsidies that have distorted the European market. However, times are changing. Three years ago only a very limited number of supermarkets sold any organic produce, and those that did were often driven by a senior staff member or an owner with a personal interest in organics. Today many supermarkets and other chain store outlets stock a quite reasonable range of organic goods both fresh and dry. Wholesalers like Turners & Growers and Fresh Direct are also in on the game. Many of these companies are selling organic produce not because they are concerned for the environment or believe in the principles of organics but because they see there is a dollar to be made. This is both good and bad. It is good because it means that more, and a wider range of, organic produce will be sold enabling more people to buy organic, i.e. it good for consumers. The downside is that these profit driven companies are likely to use the same purchasing and retailing strategies for their organic produce as for their conventional produce. Ask a conventional farmer who sets the price for their produce and they will tell you it is the supermarkets.

Having moved into organic somewhat late the supermarkets and wholesalers are playing catch up. This is a standard tactic by such large companies. They don't get on a new trend on the ground floor, either because they missed it, or they decided to wait and see what happens before jumping in. When they do jump they pull out all the stops. They are happy to spend a huge amount of money, often millions of dollars, to buy market share, i.e. they purchase product and sell it at cost or for less than they bought it to gain customers, market share and credibility. Having grabbed their slice of the pie they then put up their retail prices and start pushing the price they pay the producer down.

The way to avoid this is to have control of product supply. Individual farmers and growers can't do this on their own. It is only by banding together and co-operating that they can succeed. This is not new, nor is it rocket science, quite the opposite in fact. New Zealand's agriculture has achieved much of its success through farmer co-operation on both the selling and purchasing sides of production.

Classic examples are Ravensdown and Farmlands as purchasing co-ops and the dairy industry as supply side co-operation. It is worth comparing the structure of the dairy industry, where nearly all supply and processing is under the control of a single farmer owned co-op with massive vertical integration and control over virtually all stages of production, distribution and sale so that the value added along the path to final sale is returned to the farmer, to the sheep industry where the farmer loses control of his product the moment it leaves the gate and the value added to the product as it progresses through the manufacturing and retail chain go to the middle men, the farmer gets not a drop.

Having just returned from two years in the UK, where I was working in the organic vegetable industry, it is very

apparent to me that it is critical that New Zealand organic producers must join together and create a single selling desk immediately before the large wholesalers and retailers gain control of the market and force organic producers to become price takers rather than price givers. Saying this is a hell of a lot easier than doing it. Lets make no mistake here. Setting up a co-operative is going to be very hard work, and the payback to the initial drivers for their time and energy getting it going is likely to be small. However, to do nothing is not an option as having outsiders determine the price of your product just equals long term hardship. The payback for the founders will be the same as the joiners on – control over their product and prices. To achieve this requires buy-in from the majority of the industry. A small co-op with only a minority share of the market is in little better a position than an individual producer.

Being a member of a co-op will also restrict what members can do. One of the cardinal rules of co-operation is that members must be dedicated to the venture and not cherry pick the best bits and then sell the rest elsewhere. This often means that the producer will have to sell the majority of their produce to the co-op, that they can't sell products that the co-op sells to other buyers and may well be constrained by the co-op in what they can grow. For example in some of the most successful fresh produce co-ops in the UK the only other outlet to the co-op that growers can sell though is a farm shop on their farm. In addition the co-op and the farmers negotiate which crops they will grow and the planting / harvesting schedules to ensure that the co-op as a whole can give its customers the breadth and continuity of supply they require. This has often meant that the farmers grow larger quantities of a smaller range of crops. This loss of freedom is made up for by increased profit and support.

A problem with the idea of a generic organic co-op is which types of produce, e.g., vegies, meat, fibre, fruit, it will sell. This is one example of a long standing problem with organics. Agriculture has always been divided up according to what is produced, so you have the dairy, top fruit, process veg etc. sectors. Organics is a method of production not a type of product so it fails to mesh with existing agricultural frameworks such as research and development and farming support groups. While there may be some merit in having an organic co-op that covers all sectors, for example a mixed livestock and cropping farmer would belong to only one co-op rather than one for each of his crop / livestock types, it may also be that the needs of the different products groups and their producers are so different that it creates impossible internal strains within a co-op structure.

Getting into the details somewhat, a co-op is not the exclusive legal framework that farmers wanting to band together can use. A number of co-operatives venture are legally incorporated as limited liability companies, or as mutual societies. There is even a national umbrella organisation for co-ops and similar entities in the form of the NZ Co-operatives Association Inc. www.nzco-ops.org.nz which help and support its members and will help set up a new co-op.

Another issue that co-operation between organic producers would address is the increasing reluctance to share information, technology, skills and markets. Increasing numbers of producers that have been in organics for many, if not tens of, years and who once were most free in telling others what, how when, and where they were doing, are now much more reluctant to share that information in case other people use it to compete against them. This is a natural reaction to an increasingly competitive marketplace, however it is not in the long term interests of organics, the environment, or consumers. In a co-operative structure, market information would be shared with all members and because the returns to the farmer are linked to the returns of the co-op as a whole there would be a more conducive environment for sharing production information.

In comparison to the UK, the supply of fresh organic vegetables and some other perishable products to small independent retailers is still pretty dire, though it is improving. Supply can often be erratic and retailers have to deal with many tens of suppliers to get all their produce. At the same time there are increasing numbers of people wanting to grow fresh organic crops, often on a small scale, that find both growing and selling is more than they can cope with. Some of the larger growers producing hundreds of tonnes of a handful of crops, e.g., carrots and potatoes, would like to have an outlet that would take a whole lorry load of produce at once rather than them having to load up the ute and spend a whole day in town delivering to half a dozen shops. An organic fresh produce co-op with a diversity of members could play a key role in matching producers and consumers needs by giving retailers a one stop shop for a wide range of produce and taking the burden of selling and marketing off growers shoulders while allowing them to retain the profit that direct selling allows.

In summary I believe that the fresh organic produce sector desperately needs a national producers co-op, to ensure organic growers maintain control of their products. Such an entity could well be extended to a wide range of other agricultural products that have not traditionally been processed and sold through co-operative structures such as wool and meat. Perhaps a range of other sector focused organic co-ops are needed. Such ventures must be driven by the key stakeholders i.e. farmers and growers to use the management jargon. It is fine for academics and consultants to say what they think needs to happen but as outsiders they do not own the problem so cannot drive the solution. They can provide valuable suggestions and help, however. The alternative scenario is that the conventional processing and retail system comes to dominate organics with the ensuing subjugations of producers. Organics is alternative agriculture. It needs an alternative processing and marketing system to do it justice.

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