

## ELECTRONIC CO-OPERATION : a marketing strategy for the new millennium

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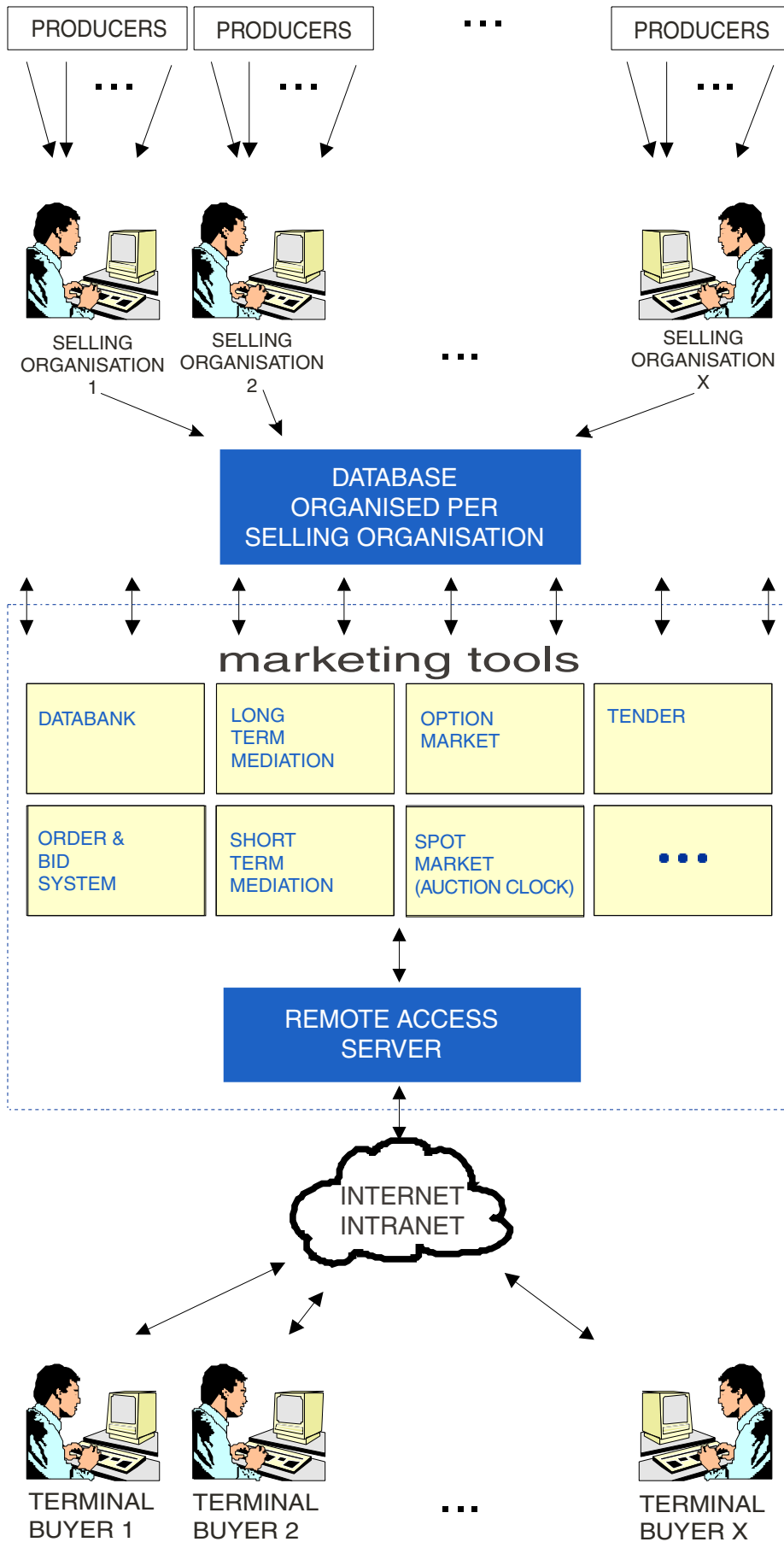
**A**dversity makes siblings of us all - to update an old saw. Individual farmers (and growers) as buyers or sellers are generally in an adverse position in bargaining with ever more powerful buyers or suppliers. Hence the birth of co-operatives over a century ago. If co-operation was valid then, how much more is it the strategy for today?

How then can producer co-operatives match the commercial musclebuilding of the public and private companies with which they have to deal? Historically, many societies chose the route of vertical integration. Members, often small-scale farmers, were persuaded by ambitious managers to invest in processing factories. That is to compete with their customers, and although many fine organisations have been built up, it may no longer be a valid or necessary strategy. Heavy borrowing through public flotation created hybrid public company /co-ops and brought in directors nominated by financial institutions, law and accounting firms, with interests not identical with farming. Hardly producer controlled anymore. Protagonists of this strategy point to the appreciation in the share values, but members might instead have invested in their farms or in shares of Shell, for example, to greater benefit. They may also point to the vertically integrated co-operatives of Northern Europe and the Republic of Ireland, but these were formed in earlier times for millions of small-scale farmers (who have remained comparatively small-scale, many sought employment in industry and became part-time farmers), and have become technocratic monopolies. The declining fortunes of Glanbia, the merged Avonmore and Waterford dairy co-operatives which developed into a hybrid PLC, could indicate that it is an outdated strategy. Leinster Milk Producers sold their processing dairies some years ago. The farm co-operatives of the USA have largely avoided this course, and their members have retained control. Their market share has doubled to more than one third in the last half century. The largest US dairy co-op DFA has been selling more of its milk to other "fluid milk handlers" and less through its own processing plants.

Retaining control of farm and co-operative trading and leave capital intensive processing to the customers could be the message. In other words 'stick to your last', and go for

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horizontal integration to gain market power. The phenomenon of modern supermarket companies provides a lesson. They have specialised in retailing, and spurned direct involvement in production and processing, that is, avoided vertical integration and are gaining unprecedented market strength. The 'pyramid' of the vertically integrated co-operative has the potential to be a flat rectangle.

Primary producers, individualists by nature and circumstances, are being daily urged to procure their supplies and market their commodities collectively through co-operatives and "farmer controlled businesses", as the answer to supermarket and processor bargaining power. In the UK Express Dairies has just bought part of the Glanbia empire. ASDA will shortly be taken over by the US giant Wal-Mart. Just two examples of the trend which is daily weakening the position of farmers as sellers. The writing is on the wall. How can it be wiped off?

Farmer or grower controlled business groups (or co-ops - roses by any other name.....) must muster enough product volume, of the quality and at the time demanded, to generate competition between buyers from supermarket or processor companies. Supermarket retailers faced with fewer, stronger suppliers may still have an edge through better management discipline and communications. They are also skilled at "divide and rule", offering premium prices to selected individuals who understandably take the short term view of money now being worth more than money later. Even if farmer groups have amassed sufficient product volume they still need to overcome this shortcoming. Group loyalty has to be cemented with cash benefits. But something more is needed to "talk turkey" in the market. Greater group cohesion is needed and it can be achieved by the use of computerised electronic systems. That is, networks of computers with modems linking members through their group management, or market operator, to their customers and suppliers on a realtime basis, can enable a more equitable balance. The market is taken through the telephone system to the buyers, who can bid from their offices, saving them both time and costs.

Electronic selling systems can be clock auctions, with each market user having details on their computer screen of upcoming lots, average prices for the day and a clock dial indicating the price, rising or falling until bidding secures the sale. A new concept - integrated electronic trading offers a range of marketing tools to achieve the optimum price. The tools include essentially a data bank, long and short term electronic mediation, order and bid systems, invitation to tender, option sales, futures and spot markets etc.(See configuration diagram). Whatever the commodity involved, a specifically designed system is necessary. Special tailor-made hardware features are developed for each system. Administrative overheads are minimised, through speed of transaction, better financial control and economies of scale. Selling rates of 3600 lots per hour are common in European flower auctions. Logistics are improved by goods or livestock being transported directly from producer to processor or retailer. A simple example of the dematerialisation which can help environmental sustainability.

Who should operate an electronic market? There has to be someone who organises the market, sets the rules, guarantees delivery and payment, etc. The farmer is the producer, the supplier. It is difficult to be judge and party at the same time. In other words the farmer cannot be seller and market operator. There should be an independent third party or co-operative which can be certified and which enjoys the industry's trust.

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The need to act co-operatively has been perceived as unnecessary by many farmers who have been conditioned by years of guaranteed markets and intervention systems. The new forces in World markets being addressed by the WTO will make it imperative that perceptions change.

An estimated 50 percent of UK farmers have use of computers in their business, mainly for accounting. They are therefore more than half ready for electronic co-operation. 9.5 percent of the UK population as a whole are online, compared with US 16 percent, Switzerland 10.6 and a Euro-average of 6%\*. These figures are increasing at exponential pace, so the foundations for electronic co-operation, not only for producers, are developing fast. There are implications for all computer literate co-operators which should be realised.

\* Source: Forbes Magazine June '99.

