

Producer Investment in Value Added Business

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Strong and Growing Interest

- Producer Investment Strong and Growing
 - NGC's and Other legal forms
 - 252 listed in directory
 - Merrett, Holmes, Eggert and Garrett (2003)
- USDA's Agricultural Innovation Centers
- USDA's support via Value Added Grants
- State Departments of Agriculture have focus on Value Added

[Forms of Alliances/Networks]

- Common Themes
 - Joint Business Goals
 - Desire to “capture” additional value
- New Generation Cooperatives
- LLCs
- Partnerships
- Corporations
- Buying or Marketing Groups

[Will Alliances/Networks Work?]

- THREE KEY QUESTIONS:
- Is it a good Business Investment?
- Will the Organizational Structure work?
- Are there Other Goals?
 - Complementary with Business Investment Goals
 - Conflicting with Business Investment Goals
 - *e.g. Local Economic Development*

[A Good Business Investment?]

- Returns
- Risks
- Market Power and Control
- Long Term Strategic Positioning

[Return and Risk]

- Research involving simulation modeling
- Producers will benefit from Diversifying
- Producers will benefit from a Balanced Portfolio (financial portfolio)
- Producers will benefit from Leveraging into more profitable areas of business
- Government Subsidies/Incentives do influence behavior

Long Term Strategic Business Decision

- Porter's Framework (Five Forces)
 - 1) Barriers to Entry
 - 2) Rivalry Among Competitors
 - 3) Substitute Products
 - 4) Bargaining Power of Buyers
 - 5) Bargaining Power of Suppliers
- How Many Producer groups do this?

Example: Rivalry among Competitors and Wet Corn Milling

- Industry Concentration
 - Corn Sweeteners
 - ADM – 33%, A.E. Staley – 25%, Cargill – 20%
 - Lysine
 - ADM – 48-54%, Ajinomoto – 22-23%, Kyowa – 16-21%
- Incumbent Reactions to Entry
- Is this an industry you would recommend any firm to enter?

[Organizational Structure]

- Multi-faceted Issue
- Organizational Form needs to be compatible with Objectives
 - Appropriate incentives are important
- The Legal Structure is important and should not drive the selection of organizational form of the business

[Organizational Structure]

- How do we get producers to work towards a common goal?
 - Common Property Problem
 - Want to avoid the “Tragedy of the Commons”
- Game Theory
 - Prisoner’s Dilemma and Assurance Problem

[Necessary Conditions for Success]

- Trust
- Commitment for the Long Run
- Communication
- Financially Stable
- Positive Benefits from working together
- Smaller Number of Homogenous Players
- Penalty for those who Defect
- Mechanism to share Profits/Losses and Risks

[Alliances/Networks Will Work When]

- THREE CONDITIONS HOLD
- A Good Business Investment
and
- Organizational Structure works
and
- Other Goals are Satisfied

[Implications for Cooperatives?]

- Is the Cooperative business form no longer relevant?
 - Inability to access adequate capital?
 - Open membership organization no longer relevant?
- Are scale economies so significant that producer owned businesses are not viable?

[Implications for Research & Extension Programming?]

- Should publicly funded institutions be:
 - Undertaking basic research on new products/processes?
 - Providing education in business analysis/assessment?
 - Conducting feasibility analysis?
 - Promoting value added business investment?

[Questions to Consider?]

- What is the
 - Public Good Component?
 - Private Good Component?
- What is the “optimal” amount of assistance to provide for a group?