

**Strategic Planning  
and Performance**  
Helping Directors  
and Managers Communicate

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## **Executive Summary**

**T**he results from a survey of California agricultural marketing cooperatives illustrate the importance of boards of directors and management evaluating their strategic planning and performance. This evaluation process improves communication between the two groups, and determines where they agree or disagree on the importance of specific planning factors, competitive forces, strengths, weaknesses, distinctive competency, and performance of their cooperative.

The survey is composed of two interrelated questionnaires. The first questionnaire, Cooperative Strategic Planning, is intended for use by the cooperative boards of directors and senior management. It is designed to (1) encourage communication among the boards of directors and their senior management concerning the strategic issues and competitive forces that influence their cooperative's performance; (2) assist in evaluating the long-term direction and business-level strategy of the cooperative; (3) provide the boards of directors with information that can aid them in communicating with grower-members concerning the long-term direction of the cooperative and competitive forces that influence cooperative performance; and (4) provide a review of the competitive situation by which cooperative performance can be evaluated.

The second questionnaire, Cooperative Performance Evaluation, is used to evaluate five areas of cooperative performance including (1) grower payments; (2) market performance; (3) financial performance; (4) member relations performance; and (5) overall performance. The questionnaire also allows for the evaluation areas to be ranked according to their importance as determinants of overall cooperative performance.

Results from the study indicate that there were a number of planning factors, and other strategic and competitive issues on which the board of directors and management disagreed. It appears that there needs to be improved communication between the boards of directors and their respective management since the long-term viability of a cooperative depends on many of the strategic issues where there was disagreement.

The study cooperatives had good to very good overall performance in all areas. The boards of directors and senior management of the study cooperatives were in almost total agreement that overall cooperative performance was most strongly measured by member-patron payment followed by marketing performance, then financial performance, and lastly member-relations performance.

## Introduction

**T**his report presents the findings of a two-questionnaire survey used in a strategic planning and performance study of ten California agricultural marketing cooperatives.<sup>1</sup> The first section of this report, Cooperative Strategic Planning Questionnaire and Results, explores the grand and business-level strategies, and the competitive and external forces affecting a cooperative's performance, strengths, weaknesses, and distinctive competency. The second section, Cooperative Performance Evaluation Questionnaire and Results, covers member-patron payments, market performance, financial performance, member relations, and overall performance. The purpose of the study was to identify the areas where boards of directors and management agree and disagree in the evaluation of their cooperatives' strategic planning and performance.

The objectives of this report are three-fold. The first objective is to promote discussion among cooperative boards of directors and management concerning the direction and implementation of a strategic plan. This objective is motivated by the idea that long-term strategic planning can substantially impact the performance of the cooperatives.

The second objective is to provide quantitative and qualitative information which boards of directors and management can use in evaluating overall and specific areas of cooperative strategic planning and performance. This approach is based on the belief that boards of directors and management tend to evaluate cooperative performance in both a quantitative and a qualitative manner.

The third objective is to provide a formal method of evaluation rather than an informal evaluation which often leads to miscommunication.

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<sup>1</sup> This study was done by Dr. Jay Noel and Dr. David Schaffner on ten California agricultural marketing cooperatives. All but one of the cooperatives had over 300 members and sales revenues of more than \$100 million. A total of 155 cooperative board members and 70 cooperative senior management participated in the study. References in the paper to cooperative management or management team refer to the cooperative's senior management.



## Background

**A** good strategic plan can guide a firm down the road to success; a poor strategic plan (or no strategic plan) can create confusion among the firm's stakeholders. An important responsibility of a cooperative board of directors is to provide strategic direction. The cooperative's management has the responsibility of evaluating strategic alternatives and implementing the strategic plan chosen by the board.

Most strategic plans have a three- to five-year time frame and are the basis for the firm's investment, marketing, personnel, and financial actions. Effective long-term competitiveness of the cooperative requires that the board of directors and management effectively interact regarding performance criteria and evaluation. The performance criteria combine to produce an overall performance evaluation of the cooperative.

Performance criteria for evaluating agricultural cooperatives is seldom as straight-forward as that of an investor-owned firm (IOF). An IOF has the primary objective of maximizing owner return on investment, while an agricultural cooperative has a number of possible objectives relative to its grower-owners. These include providing a competitive grower return, effectively marketing their members' production, improving the financial health of the cooperative, and providing effective member-patron services.

It is often hard to measure the success of a cooperative in achieving these objectives since each is dependent on a number of differing parameters, some more quantifiable than others. The relative importance of each can differ according to members of a cooperative as well as between cooperatives. However, as shown in the cooperative performance evaluation section of this report, grower payments are typically the number one cooperative evaluation criteria. It is important, therefore, to understand the parameters that can influence it.

Member-patron payment performance are dependent on a number of important parameters, including five competitive forces, external forces, cooperative management, and governance. The five competitive forces are: bargaining power of suppliers; bargaining power of buyers; threat of new entrants; threat of product substitutes; and rivalry of industry competitors.<sup>2</sup> The bargaining power of buyers and the threat of substitutes influence the prices a firm can charge. The power of buyers can also influence cost and investment since

<sup>2</sup> The development of this section is based on Michael Porter's Five Force Model presented in his book *Competitive Advantage* (1985). The strength of each of the five parameters is a function of the underlying economic and technical characteristics of an industry. The glossary in this report discusses some of the underlying economic and technical characteristics, and provides definitions and discussion about other strategic planning terms used in this report.

powerful buyers can demand costly services. The power of suppliers determines the costs of raw products and other inputs. Intense rivalry influences prices as well as the cost of competing in areas such as plant modernization, product development, advertising and sales force. The threat of new entrants limits prices, and shapes the investment required to deter entrants.

The strength of each of the five forces is a function of industry structure or the underlying economic and technical characteristics of the industry. Industry structure is somewhat stable but changes over time as an industry evolves. As industry structure changes, the overall and relative strength of the competitive forces also change causing a positive or negative effect in industry profitability. Knowledge of how inherently profitable an industry is sets the boundary on how profitable an individual firm can be in that industry. For most agricultural marketing cooperatives this translates into its ability to provide a member-patron payment that is equal to or greater than some standard (e.g., the commodity loan rate or negotiated field price). Thus, member-patron payments should not be gauged in the absolute sense but in a relative sense.

## Cooperative Strategic Planning Questionnaire and Results

### Long-Term Planning

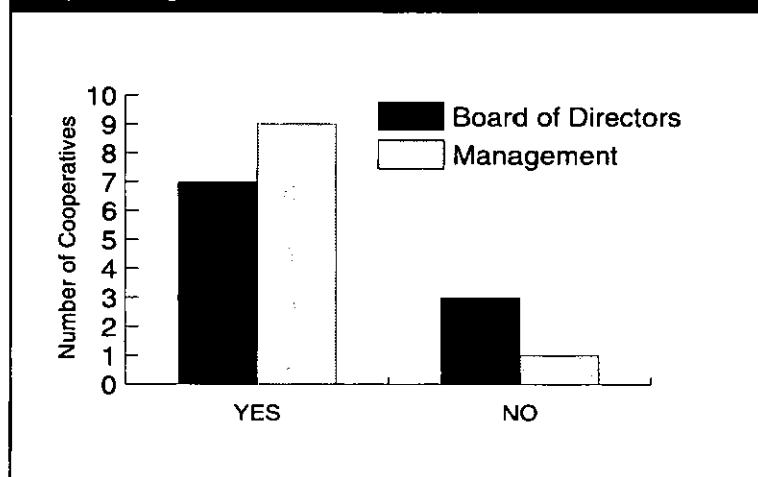
Questions 1-3 are concerned with the cooperative's strategic planning effort. The first question assesses whether or not there is agreement about whether a long-range plan exists. Questions 2 and 3 look at the combinations of grand and business-level strategies that the board of directors and management believe are in place. Questions 4-7 are concerned with the external forces that can affect a cooperative's performance in either a positive or negative manner. These external forces can be viewed as opportunities or threats to cooperative performance.

#### Q1. Does the cooperative have a three to five year long-term plan?

☐ Yes                      ☐ Uncertain                      ☐ No

Three of the ten boards indicated that there was not a three- to five-year plan for the cooperative although management indicated that a three- to five-year plan existed. One cooperative's management indicated that there was not a three- to five-year plan while the board of directors indicated there was one. Thus, four of the cooperatives surveyed indicated some degree of confusion about the presence or absence of a three- to five-year plan. This indicates that communication problems exist between boards of directors and management. Typically, this manifests itself in the board members tending to focus on the short-term issues such as personnel, product marketing, or operations which undermine management's ability to run the day-to-day operations and switches the responsibility for those decisions from the management to the board of directors.

Graph 1: Long-Term Plan



**Q2. Indicate which of the following best represents the cooperative's grand strategy?**

☐ Growth

☐ Stability

☐ Turnaround

**Q3. Which of the following best describes the cooperative's business-level strategy?**

☐ Differentiation

☐ Cost Leader

☐ Mixed

☐ Focus

Graph 2 illustrates the consensus view of the board of directors and management of the ten study cooperatives. Six cooperatives picked a grand strategy. For business-level strategies, three each chose differentiation and mixed strategies.

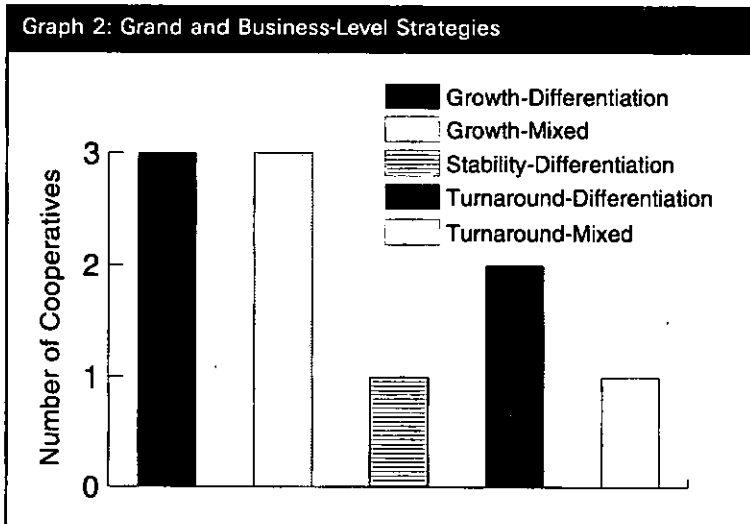
Of the remaining four cooperatives, one cooperative picked a stability with differentiation strategy. Three picked turnaround with two choosing a differentiation business-level strategy, and one choosing a mixed business-level strategy.<sup>3</sup>

The results were interesting in that no cooperative picked a cost leadership or focus strategy even though several of them are in undifferentiated single commodity type industries where a cost leader or focus strategy firm would be expected to exist. Four cooperatives indicated that they had a mixed business-level strategy. A mixed strategy that provides a competitive advantage requires one of three special conditions. First, its competitors are "stuck in the middle." That is, none of its competitors are well positioned to force a firm to the point where cost and differentiation are inconsistent. Second, it has achieved a low cost position due primarily to large market share driving down processing costs. Third, it has pioneered a major innovation that simultaneously achieves differentiation and lower cost.

The restrictive nature of these conditions makes it difficult for a firm to adopt a mixed

business-level strategy. However, four of the cooperatives in the study did indicate that they had mixed business-level strategies. A review of two cooperatives and their industries suggests the possibility that one of the three conditions necessary for this strategy to be successful does exist. However, for the other two it is highly unlikely. Further, one of these cooperatives also had a turnaround grand strategy. It is difficult, if not impossible, to simultaneously have a turnaround grand strategy and a mixed business-level strategy.

There were great differences in the kinds of grand and business-level strategies chosen by individual members of the board



<sup>3</sup> The relationship between grand strategy and business-level strategy is straightforward. Any business-level strategy can be chosen to accomplish a grand strategy whether it be growth, stability or turnaround. All three business-level strategies can be profitable strategies. The selection of which one for a firm to adopt is a function of the profitability of the industry, the firm's profitability relative to the industry, the firm's strengths and weaknesses, the external forces that affect the firm's performance, and the firm's distinctive competency. All of these factors should be addressed in the firm's strategic plan.

of directors and management within the same cooperative. This indicates an uncertainty among the cooperative leadership and is cause for concern. For example, if the one set of individuals comprising the governance and/or management of the cooperative believe that the grand and business-level strategy is growth and differentiation and others believe it is stability and focus, they can be expected to choose different short-term tactics, focus on different marketing and investment strategies, and have quite different performance criteria.

**Q4. How intense is the rivalry in your industry?**

- ☐ Very Intense    ☐ Intense    ☐ Somewhat Intense    ☐ Not Very Intense

**Q5. How easy or difficult is it for a new firm to enter your industry?**

- ☐ Very Easy    ☐ Easy    ☐ Somewhat Difficult    ☐ Difficult    ☐ Very Difficult

**Q6. Check the one external force which you perceived to have the most positive influence on the cooperative's overall performance.**

- |  |                                    |                                       |
|--|------------------------------------|---------------------------------------|
| <input type="checkbox"/> Technological | <input type="checkbox"/> Political | <input type="checkbox"/> Regulatory   |
| <input type="checkbox"/> Economic      | <input type="checkbox"/> Cultural  | <input type="checkbox"/> Demographics |

**Q7. Check the one external force which you perceived to have the most adverse affect on the cooperative's overall performance.**

- |  |                                    |                                       |
|--|------------------------------------|---------------------------------------|
| <input type="checkbox"/> Technological | <input type="checkbox"/> Political | <input type="checkbox"/> Regulatory   |
| <input type="checkbox"/> Economic      | <input type="checkbox"/> Cultural  | <input type="checkbox"/> Demographics |

Questions 4 and 5 did not appear on the original study questionnaire. These questions were added because they help determine the competitive environment in which the cooperative operates. These questions, in addition to those in the marketing and investment section, can be used to assess the competitiveness of the cooperative's industry.

Questions 6 and 7 were included on the original study questionnaire. The answer set has been modified so that it is more representative of the external environment factors which can affect cooperative strategic planning and performance. The original set of possible answers included two market competitiveness choices. These have been dropped from the possible answer set because they are now covered in the section on market competitiveness and investment. Eight of the ten cooperative boards of directors and management selected market competitiveness in the final product market as the major external factor affecting performance while two of the ten selected competitiveness in the raw product market as the major factor affecting cooperative performance. The results presented in the next section on marketing and investment are in conformance with this result. Therefore, both the boards of directors and management of the study cooperatives realize that market competitiveness is a major factor affecting their cooperative's performance.

### **Marketing and Investment**

Questions 8-10 are concerned with the ability of the cooperative to influence the price it pays for raw product and the price it receives for its final products in both the domestic and export markets. In general, the more competitive a market, the greater the industry rivalry,

and the easier it is to enter the industry, the less influence a cooperative will have on setting market prices. It is important that both the board of directors and management understand and agree on these market conditions. For example, if a cooperative enters into a very competitive product market with intense rivals, and there is an ease of entry into the industry, then it does little good for the board of directors to demand that management increase its product prices above those of its competitors since it is likely to lose market share to those same competitors. A cooperative that faces this type of market structure for its products probably should concentrate on lowering cost per unit sold and its investment priority should emphasize acquiring cost saving technology.

**Q8. How competitive do you consider the cooperative's industry with respect to local raw product procurement?**

☐ Highly Competitive      ☐ Competitive      ☐ Slightly Competitive

**Q9. How competitive is the cooperative's industry with respect to the domestic final product market?**

☐ Highly Competitive      ☐ Competitive      ☐ Slightly Competitive

**Q10. If the cooperative sells in the export market, how competitive is that market?**

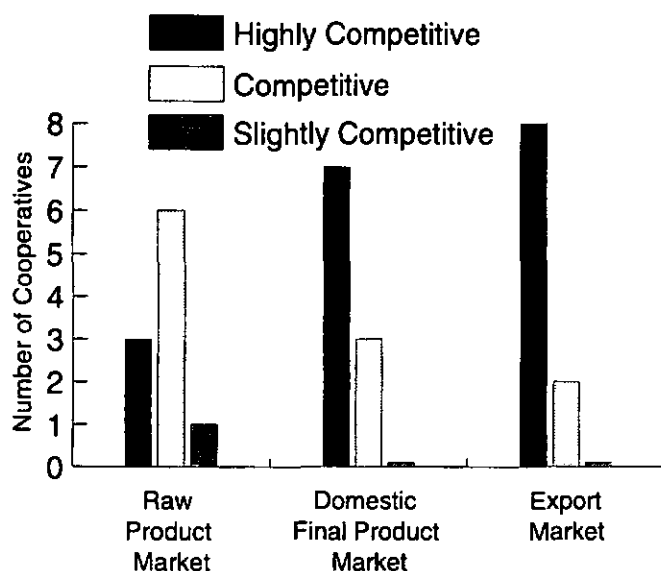
☐ Highly Competitive      ☐ Competitive      ☐ Slightly Competitive

The majority of the cooperatives felt that the raw product market, domestic final product market and export market were competitive to highly competitive as shown in Graph 3. Individual cooperative responses to these questions indicated that, on average, management

felt the various markets were more competitive than did individual board members. This is an important strategic issue and management should probably take more time to discuss with board members the competitive nature of the cooperative's industry.

Note that the final product domestic market and export market are considered to be highly competitive while the raw procurement market is considered to be competitive. This should be expected since cooperatives typically source the majority of their raw product from their members and only turn to the raw product market to augment their raw product supply if final product market conditions warrant it. The competitiveness of export markets reflects the type of products marketed by the various cooperatives. Those that primarily export

Graph 3: Market Competition



undifferentiated commodities indicated that the export market was highly competitive. The three that indicated a competitive market situation export value-added differentiated products.

Questions 11 and 12 measure the importance of market segments by market volume and by importance to overall marketing performance.

**Q11. Where does the cooperative sell the largest volume of its products?**

- ☐ U.S. Retail: Cooperative brand name    ☐ U.S. Food/Beverage Processors  
☐ U.S. Retail: Private label brands    ☐ Export  
☐ U.S. Wholesale    ☐ Other \_\_\_\_\_

**Q12. What is the most important market segment with respect to the cooperative's marketing performance?**

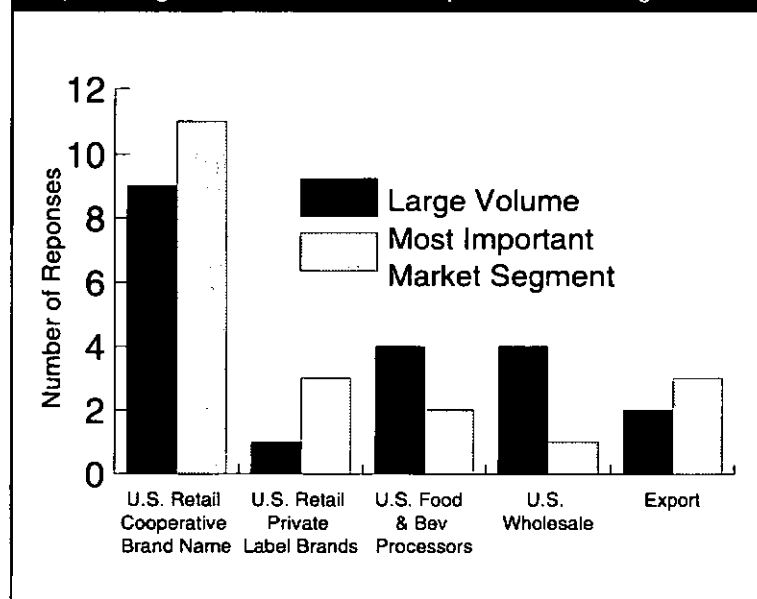
- ☐ U.S. Retail: Cooperative brand name    ☐ U.S. Food/Beverage Processors  
☐ U.S. Retail: Private label brands    ☐ Export  
☐ U.S. Wholesale    ☐ Other \_\_\_\_\_

Graph 4 shows the number of responses that each of the above categories received from individual cooperative boards of directors and management regardless of whether a cooperative's board of directors and management agreed or not. For example, if a cooperative's board selected retail and their management selected the food and beverage processing market, then one response was recorded for retail and one response was recorded for food and beverage marketing.

The U.S. retail market was selected by a combination of nine cooperative boards and cooperative management teams as being their largest volume markets. Eleven cooperative boards of directors and management teams said that this market was the most important with respect to the cooperative's marketing performance. Thus, at least for the ten cooperatives studied, the retail market is thought to be the major significant factor in their marketing performance. The other four markets were approximately equal in significance.

Five of ten individual cooperative boards of directors and their management disagreed on what their largest volume market is and four of ten disagreed on what their most important market segment is. This incongruity between boards of directors and their management could be a communication problem or it may be a definition problem. There is probably some confusion as to the meaning of differentiation as compared to leadership, mixed or focus business-level strategies.

**Graph 4: Largest Market Volume and Important Market Segment**

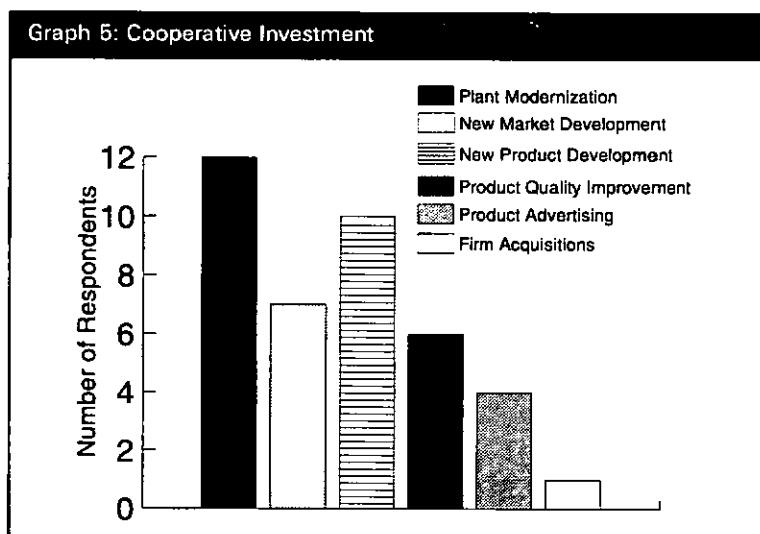


Whatever the source of the confusion, it can cause cooperative boards to emphasize the wrong types of strengths and distinctive competencies they want for the cooperative and it can cause confusion with regards to the cooperative's performance. An understanding of what the large volume market segments are and which is the most important market is necessary for planning and evaluation.

Investment choices should be contingent upon the impact they will have on a cooperative's markets, and performance evaluations should be done relative to the markets in which a cooperative operates. This type of confusion can be mostly or partially eliminated by utilizing an evaluation framework to foster better communication between board members and cooperative management.

**Q13. Which of the following investments have had the most positive influence on the cooperative's performance?**

- ☐ Plant Modernization      ☐ Product Quality Improvement  
☐ New Market Development      ☐ Product Advertising  
☐ New Product Development      ☐ Firm Acquisitions



Graph 5 shows the types of cooperative investments that were considered to be the most important in terms of improving cooperative performance. The original study questionnaire allowed both board of directors and management to select two investments. The consensus investments from both boards of directors and management is shown on the graph. The most frequently mentioned investment was plant modernization followed by new product development, new market development and product quality improvement.

Product advertising, which would be considered a product differentiation

investment, received four responses while firm acquisition received one response. The high number of responses for plant modernization could be considered to be at odds with the differentiation strategies selected by a majority of the respondents. However, plant modernization can be complimentary to other investments such as product quality improvement and new product development. Additionally, it should be noted that while a differentiation strategy attempts to capture premium prices, the profitability associated with the premium price can be lost if a firm allows its processing costs to move above the industry's average cost of processing.

The individual cooperative results provide some additional insight into planning process. It was noted earlier that investment should follow business-level strategy. Six of the ten cooperatives' boards of directors and management differed on their choice of what type of



investment had the most positive influence on their cooperative's performance. In four of the six instances, either the boards of directors or management chose plant modernization while others chose new market development or new product development. Again, this indicates that some communication problems exist between the boards of directors and their respective management. The high priority investments should be those that move the cooperative toward the goals established in their grand and business-level strategies.

### Cooperative Distinctive Competence

Questions 14-16 ask the board members and the cooperative management to evaluate their greatest strength, greatest weakness and cooperative distinctive competence. The strengths of a cooperative should be assessed accurately by the board and management since a knowledge of a cooperative's strengths will assist them in choosing an appropriate business-level strategy. For example, if the cooperative chooses to compete as the cost leader, staff technical skills should be a strength. Distinctive competence refers to those things a firm does better than its competitors. A cooperative's particular strength will not provide a distinctive competence if its competitors also have the same strength.

**Q14. Indicate the factor which you consider to be the cooperative's greatest strength.**

- ☐ Staff Technical Skills      ☐ Board Governance Ability      ☐ Member Relations  
☐ Staff Management Ability      ☐ Board Communication Ability  
☐ Staff Communication Ability      ☐ Other \_\_\_\_\_

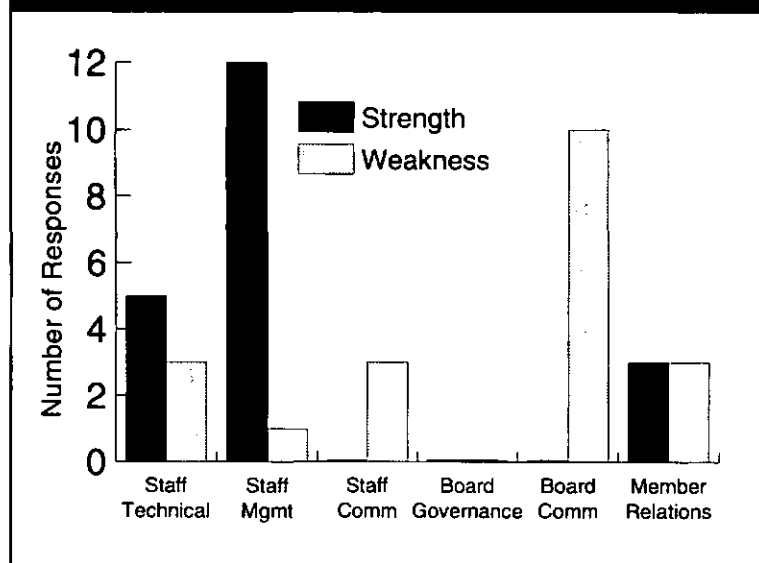
**Q15. Check the factor which you consider to be the cooperative's greatest weakness.**

- ☐ Staff Technical Skills      ☐ Board Governance Ability      ☐ Member Relations  
☐ Staff Management Ability      ☐ Board Communication Ability  
☐ Staff Communication Ability  
☐ Other \_\_\_\_\_

Graph 6 illustrates the 10 cooperative study responses to questions 14 and 15.

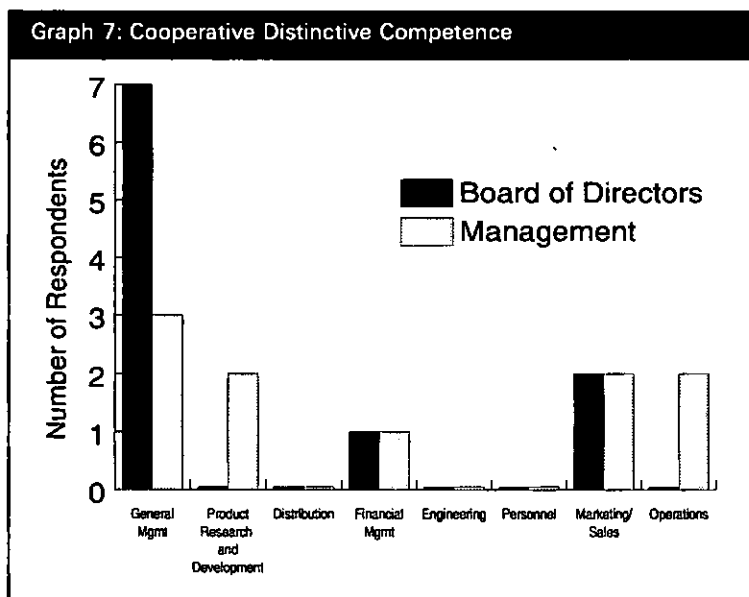
The "greatest strength" most often selected by the ten cooperative boards of directors and their management was staff management skills which include planning, organizing, controlling and leadership. The next most chosen "greatest strength" was staff technical skills. Staff management skills and staff technical skills differ in that managerial skills require strong interpersonal abilities while technical skills require strong analytical abilities. The responses from the individual cooperative

Graph 6: Cooperative Strengths and Weaknesses



board of directors favored staff managerial skills while cooperative management responses were mixed between management skills and technical skills.

The “greatest weakness” most often indicated by the ten study cooperatives was board of directors communication ability. Other “greatest weaknesses” selected included member relations, staff communication ability, and staff management and technical skills. There was general concurrence between the majority of the boards of directors and management that board communication ability was a weakness. This is an interesting response since one would believe that cooperatives, in general, would emphasize communications and member-relations. However, as will be discussed in the section on performance evaluation, when these cooperatives ranked individual performance areas of the cooperative business, marketing and financial performance ranked higher than member relations which conforms to having strengths in management and technical skills and weaknesses in communications and grower relations.



**Q16. Select one distinctive competence which is perceived to be the strongest for the cooperative relative to all others.**

- ☐ General Management
- ☐ Product Research and Development
- ☐ Distribution
- ☐ Financial Management
- ☐ Engineering
- ☐ Personnel
- ☐ Marketing/Sales
- ☐ Operations
- ☐ Member Relations

Seven of the ten cooperative boards of directors indicated that general management was their cooperative's distinctive competence while only three of ten cooperative management teams

considered general management to be their cooperative's distinctive competency. The other seven cooperative management teams responded that their cooperative's distinctive competencies were in the areas of product development, finance, marketing/sales, and operations.

The conflicting views of the board of directors and cooperative management could be attributed to the possibility that the board of directors have made an implicit assumption that if an organization has very good to excellent marketing/sales, product research and development, operations, and/or financial management, it must have very good to excellent general management when compared to other organizations. However, care should be taken when making this causal link since it is possible that a strength in technical skills not managerial skills has led to the very good to excellent functional area results. The above disparity of responses between board of directors and management is not unexpected given some of the previous results which indicate some confusion on the part of the board of directors with respect to specific knowledge of their cooperative's strategic issues.

## Cooperative Performance Questionnaire and Results

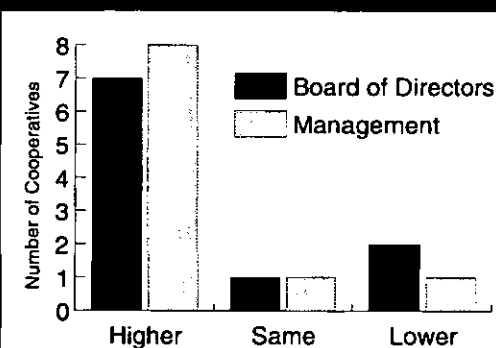
The Cooperative Performance Questionnaire is divided into five sections — member-patron payments, market performance, financial performance, member relations, and overall performance. These sections address the quantitative and qualitative comparisons of cooperative performance. The original ten study cooperatives had boards of directors and management evaluate performance. Additionally, the questionnaire provides a relatively simple device for obtaining member input into cooperative performance evaluation.

### Grower Payments

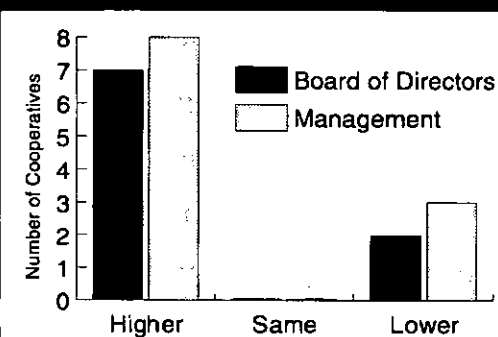
- Q1. The cooperative's five year average member-patron payments have been \_\_\_\_\_ than those received by non-member-patrons.**  
☐ Higher    ☐ Approximately the Same    ☐ Lower
- Q2. The cooperative's previous year member-patron payments were \_\_\_\_\_ than those received by non-member-patrons.**  
☐ Higher    ☐ Approximately the Same    ☐ Lower
- Q3. The cooperative is a competitive yardstick against which all other firms in the local industry are compared.**  
☐ Strongly Agree    ☐ Agree    ☐ Uncertain  
☐ Disagree    ☐ Strongly Disagree

Graphs 8, 9 and 10 indicate that the majority of the board of directors and management teams for the ten study cooperatives thought that their cooperative's five year average

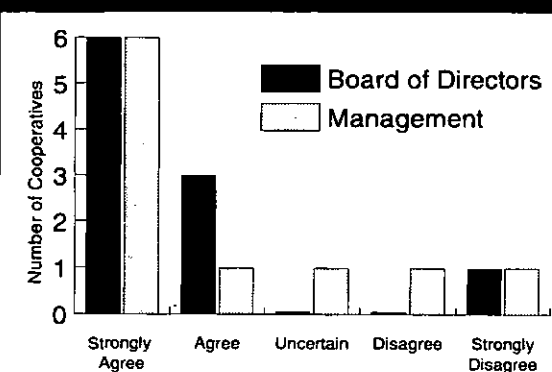
Graph 8: Cooperative Five Year Average Return



Graph 9: Previous Year Return



Graph 10: Cooperative Yardstick



and most recent member-patron payment performance was higher than payments received by non-member patrons. The majority of the board of directors and management teams indicated that their cooperative was the yardstick against which all other firms in the industry were compared. The board of directors and management teams that expressed dissatisfaction with member-patron payments were those which have turnaround strategies.

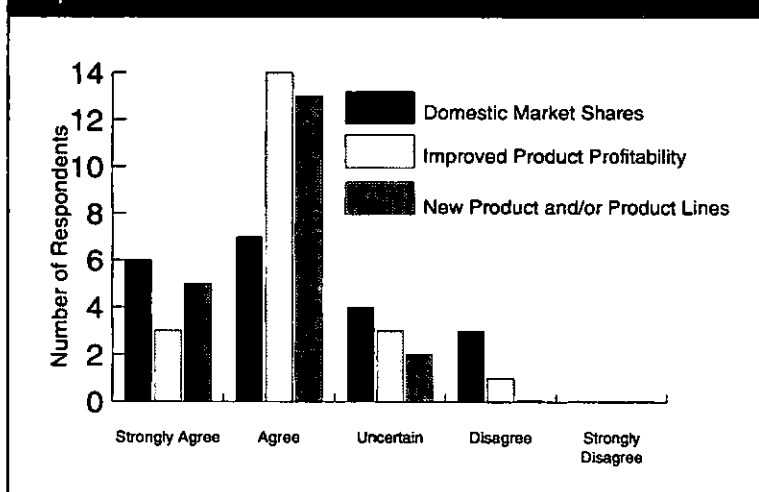
### Market Performance

This section covers the performance of the cooperative as a marketing organization. The three important components of this performance activity are: market share, new product and/or product lines and product profitability (see Graph 11).

#### Q4. The cooperative increased its market share in the domestic market for its products.

☐ Strongly Agree   ☐ Agree   ☐ Uncertain   ☐ Disagree   ☐ Strongly Disagree

Graph 11: Market Performance



#### Q5. The cooperative increased its market share of the export market.

☐ Strongly Agree   ☐ Agree  
☐ Uncertain   ☐ Disagree  
☐ Strongly Disagree

#### Q6. The cooperative developed new products and or product/lines for its markets.

☐ Strongly Agree   ☐ Agree  
☐ Uncertain   ☐ Disagree  
☐ Strongly Disagree

#### Q7. The cooperative improved product profitability on some or most of its products.

☐ Strongly Agree   ☐ Agree  
☐ Uncertain   ☐ Disagree  
☐ Strongly Disagree

The majority of the ten cooperative boards of directors and their management teams agreed that their respective cooperatives had increased their domestic market shares, developed new products and/or product lines and had improved product profitability. Although information was gathered on export market performance, it was not analyzed and is therefore not presented here.

Again, those cooperatives that were in a turnaround mode indicated either neutrality or disagreement with regard to these questions.

### Financial Performance

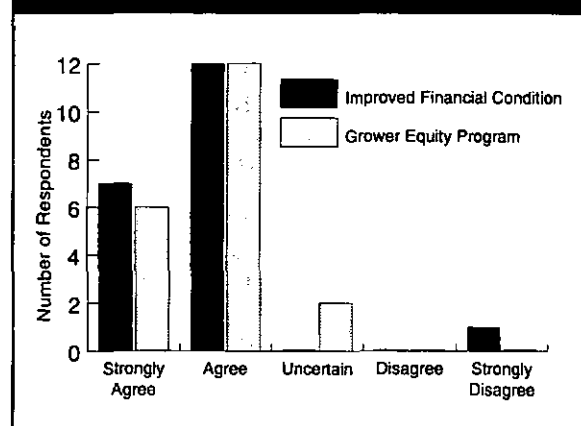
**Q8. The cooperative's financial condition as measured by its working capital ratios, costs of short- and long-term debt, and debt/equity ratio has improved.**

- ☐ Strongly Agree    ☐ Agree    ☐ Uncertain  
☐ Disagree    ☐ Strongly Disagree

**Q9. The current cooperative grower equity program supports the activities of the cooperative and is fair to its member-patrons.**

- ☐ Strongly Agree    ☐ Agree    ☐ Uncertain  
☐ Disagree    ☐ Strongly Disagree

Graph 12: Financial Performance



The results indicate that the majority of the boards of directors and their management teams agreed that their cooperative had an improved financial condition (measured by working capital growth, improved debt equity ratio, etc.), and that their grower equity program supported the cooperative's activities and was fair to the member-patrons. Only in one case did the board of directors and management significantly disagree. The board of directors strongly disagreed that financial performance has improved while the management strongly agreed that it had improved.

Further, the financial evaluation of an individual cooperative includes benchmarking their financial performance against the industry average and against the financial performance of other cooperatives. The latter was done for the study cooperatives as a group. Average solvency and efficiency ratios of other agricultural cooperatives were used to benchmark the study cooperatives' average financial ratios.<sup>4</sup> The results are presented in Table 1.

As a group, the study cooperatives' solvency financial performance was quite good from 1985 to 1990.<sup>5</sup> Their average current ratio (current assets/current liabilities), which is a measure of a firm's ability to pay its financial obligations, was quite close to that of the benchmark cooperatives. This would indicate that, on average, these cooperatives are liquid and stable.

The average long-term debt/equity ratio (total debt/total equity), which measures the percentage of the total funds provided by creditors, came down significantly from 1985 to 1990 for the study cooperatives. It started the period much higher and ended much lower than that of the benchmark cooperatives.

The average assets to equity (total assets/total equity) which provides a measure of the equity value of the firm was relatively constant across the four-year period ending slightly greater than the benchmark cooperatives.

<sup>4</sup> Deloitte and Touche produce a study every year (Deloitte and Touche, *Benchmarking for Success*) which provides average financial ratios for a set of benchmarking agricultural cooperatives.

<sup>5</sup> The benchmarking presented above must be viewed with caution since the ratios presented are averages and mask the considerable variation that exists among the study cooperative (S.C.) and the benchmarking cooperatives (B.C.). For example, in 1985 one of the study cooperatives has a L. T. Debt/Equity ratio of 33.5 % while another has a ratio of 3.22%.

**Table 1**

Comparison of Financial Ratios of Study Cooperatives (S.C.)  
to Benchmarking Cooperatives (B.C.)

|                          | FY 1985 |      | FY 1986 |      | FY1 987 |       | FY 1988 |      | FY 1989 |       | FY 1990 |       |
|--------------------------|---------|------|---------|------|---------|-------|---------|------|---------|-------|---------|-------|
|                          | S.C.    | B.C. | S.C.    | B.C. | S.C.    | B.C.  | S.C.    | B.C. | S.C.    | B.C.  | S.C.    | B.C.  |
| <b>Solvency Ratios</b>   |         |      |         |      |         |       |         |      |         |       |         |       |
| Current Ratio            | 1.2     | 1.3  | 1.2     | 1.3  | 1.2     | 1.4   | 1.2     | 1.4  | 1.2     | 1.4   | 1.2     | 1.4   |
| L.T. Debt/Equity         | 82%     | N/A  | 63%     | N/A  | 48%     | 61%   | 46%     | 62%  | 44%     | 58%   | 44%     | 58%   |
| Assets to Equity         | 3.8     | 3.4  | 3.8     | 3.3  | 3.8     | 3.0   | 3.6     | 3.1  | 3.6     | 3.0   | 3.5     | 3.1   |
| <b>Efficiency Ratios</b> |         |      |         |      |         |       |         |      |         |       |         |       |
| Sales to Assets          | 3.5     | 1.6  | 3.0     | 1.7  | 2.9     | 1.9   | 3.0     | 1.9  | 3.1     | 1.9   | 3.4     | 1.9   |
| SG&A to Sales            | 7.0%    | N/A  | 7.5%    | N/A  | 7.5%    | 10.3% | 7.7%    | 13%  | 8.0%    | 11.6% | 7.8%    | 12.2% |

The study cooperatives, as a group, performed quite well as compared to the benchmark cooperatives in their financial efficiency performance. Financial efficiency is concerned with how well a company uses its assets. Sales to assets (total sales/total assets) for the study cooperatives averaged about 3.1 for the 1985-1990 period while the benchmark cooperatives were about 1.9. The higher the ratio, the more a firm is returning to its assets. The selling, general and administrative expense (SG&A) to sales ratio for the study cooperatives averaged approximately 4% lower than the benchmark cooperatives. The lower the ratio the greater the return is on selling, general and administrative expenses.

Although both of the efficiency ratios indicate that as a group the study cooperatives are more efficient than the benchmark cooperatives, caution should be used in evaluating these results. Two factors which can contribute to the result include the amount of investment in processing and the marketing expenses of study cooperatives as compared to the benchmark cooperatives. These average ratios, therefore, should be viewed as general indicators of financial performance and should not be generalized to individual cooperative performance.

#### **Member Relations Performance**

**Q10. Management's communication with the member-patrons was**

☐ Excellent   ☐ Very Good   ☐ Good   ☐ Fair   ☐ Poor   ☐ Unacceptable

**Q11. The board of director's communication with the member-patrons was**

☐ Excellent   ☐ Very Good   ☐ Good   ☐ Fair   ☐ Poor   ☐ Unacceptable

**Q12. The cooperative's lobbying and legal activities on behalf of the member-patrons were**

☐ Excellent   ☐ Very Good   ☐ Good   ☐ Fair   ☐ Poor   ☐ Unacceptable

**Q13. The cooperative's non-marketing member-patron services were**

☐ Excellent   ☐ Very Good   ☐ Good   ☐ Fair   ☐ Poor   ☐ Unacceptable

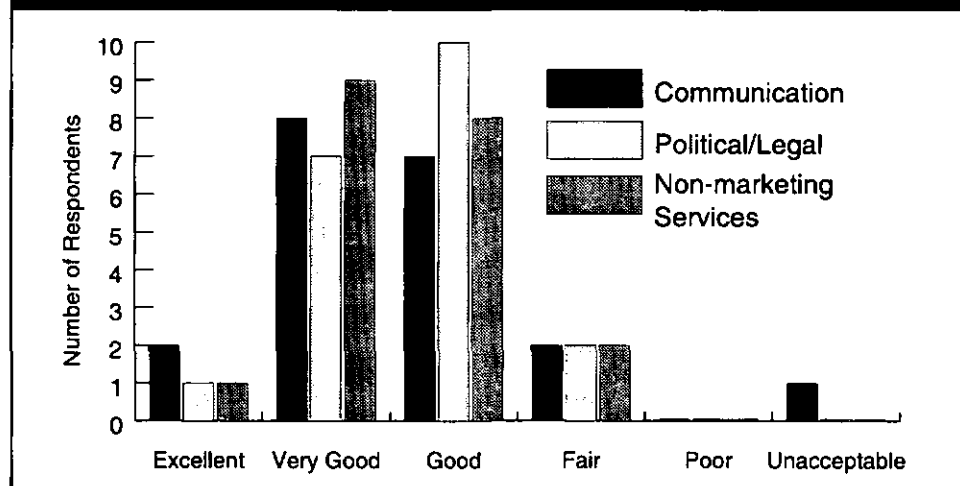
Seven of the 10 cooperative boards of directors and their management considered their lobbying and legal activities and their non-marketing member-patron services to be very good to good. One cooperative felt it had excellent performance in these activities and two felt their performance was fair.

The original questionnaire has a single question on cooperative grower communication

which is now divided into two questions. One asks about board of directors communication with member-patrons and one asks about management communication with member-patrons. The above results show the responses to the original cooperative communication question.

The results indicate that the grower communications are for the most part considered to be very good to good. One cooperative indicated excellent communication with its member-patron, two indicated fair communication and one indicated poor communication. This somewhat contradicts the responses given to question fifteen in the long-range planning questionnaire which indicated weakness in board of director communications. However, it is possible that the cooperative boards of directors and management interpreted cooperative communication as being communication between the management and the cooperative's member-patrons. Responses to question fifteen in the long range planning questionnaire would then be in conformance with the above responses since the majority of the boards of directors and management did not indicate that staff communication was a cooperative weakness. Splitting the original question into two specific communications questions should clear up any confusion.

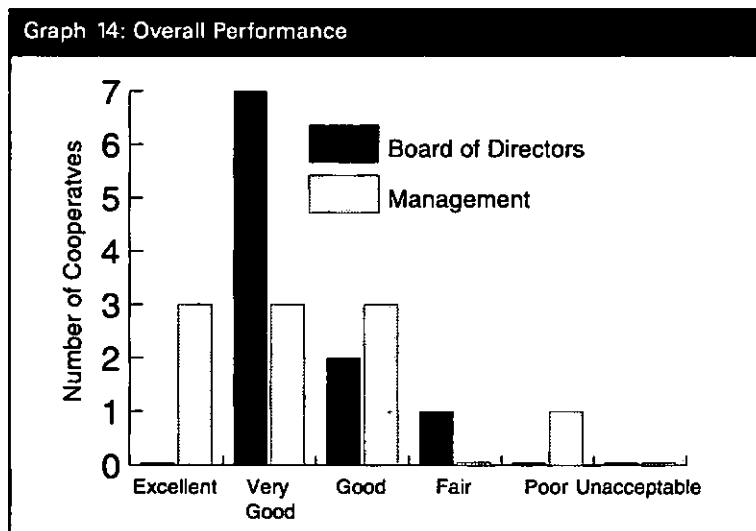
**Graph 13: Member Relations Performance**



### Overall Performance

#### Q14. The overall performance of the cooperative was

☐ Excellent  
 ☐ Very Good  
 ☐ Good  
 ☐ Fair  
 ☐ Poor  
 ☐ Unacceptable

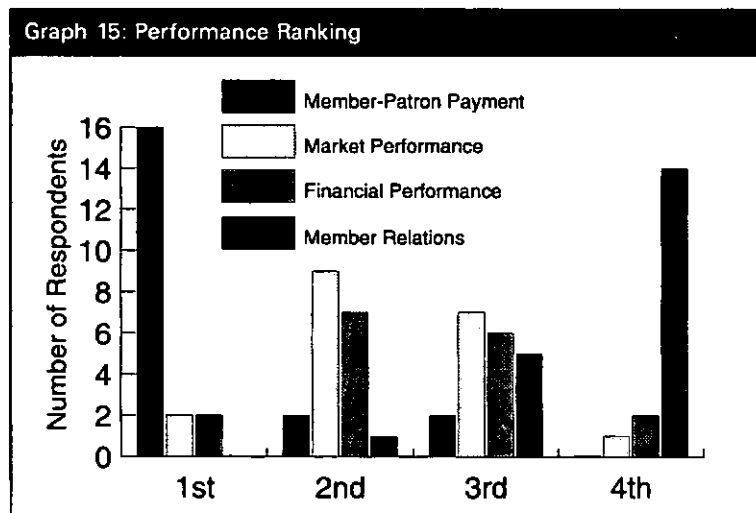


Seven study cooperative boards of directors felt that their cooperative's overall performance was very good, two indicated good performance and one indicated fair performance. Three cooperative management teams felt cooperative performance had been excellent, six considered their cooperatives' performance to be very good to good and one management team considered its cooperative's overall performance to be poor. These results would indicate that relative to their competitors the majority of the cooperatives are performing quite well.

#### Q15. Rank the following set of performance criteria in order of their importance in determining the overall performance of the cooperative with 1 being the most important, 2 being the second most important, 3 being the third most important and 4 being the fourth most important.

- \_\_\_\_\_ Member-Patron Payment
- \_\_\_\_\_ Market Performance
- \_\_\_\_\_ Financial Performance
- \_\_\_\_\_ Member Relations

This question was asked to determine the relative weight used to determine overall cooperative performance. Not surprising, the number one ranked determinant was



member-patron payment followed by market performance and then financial performance. The lowest ranked determinant was member relations. It is obvious from these results that the cooperative boards of directors and their management feel strongly that their organizations should be primarily concerned with member-patron payments and that these payments are dependent on their marketing and financial performances.

This does not mean that member relations performance is not important but that it is relatively less important than the other performance areas. It should also be noted that these relative rankings may differ among member-patrons, board members and management of the same cooperative, and can differ substantially between cooperatives. Agreement between management and board members on the performance ranking criteria is important to what managers choose to emphasize, and effect how the member-patrons and board of directors evaluate cooperative performance.



## **Conclusion**

**T**he two preceding sections have provided a model that can be used by agricultural cooperative boards of directors and management to determine where they agree or disagree on the importance of specific strategic planning issues, competitive forces, strengths, weaknesses, distinctive competency and performance of their cooperative. The framework allows evaluation of both overall and specific areas of cooperative performance. Results of a previous study on California cooperative strategic planning and performance evaluation were presented utilizing the model to demonstrate its usefulness as a discussion, planning and evaluation tool.

There were several areas of disagreement between boards of directors and their respective management concerning a number of strategic issues. This indicates that communication between the boards of directors and their respective management needs to be improved.

## Glossary of Strategic Planning Terms

### A. Grand Strategy

The **grand strategy** defines a firm's basic direction. It is the strategy from which the cooperative's marketing, finance, investment, personnel, membership and other associated strategies flow.

Three strategies are presented: **Growth, stability and turnaround**

A **growth** strategy is one which emphasizes growth in one or more of the following areas: sales revenue, market share(s), asset value, grower equity, profitability, membership or other long-term goals.

A **stability** strategy is one of status quo. This means maintaining and defending, if necessary, sales revenues, market shares, grower equity, profitability, membership or other long-term goals.

A **turnaround** strategy is one where past performance has been sub-par. This is a strategy of possible asset disinvestment and/or redeployment. Typically, a downsizing of the cooperative occurs as the cooperative tries to right itself.

### B. Business-Level Strategy

The **business-level strategy** defines a firm's competitive position in its markets. This is the strategy that gives a firm a competitive advantage over its competitors. Michael

Porter, a professor in the Harvard School of Business and well-known management expert, argues that a firm can adopt only one of four business-level strategies: **cost leadership, differentiation, mixed or focus**. If a firm pursues more than one strategy simultaneously, it will be "stuck in the middle." This is usually a roadmap to below-average performance if their competitors are better positioned to compete.

A **cost leadership** strategy involves a firm utilizing its strengths to capture customers through price. The firm's objective is to be the low-cost producer in its industry. Cost leadership requires efficient facilities and usually involves producing high volumes to exploit cost-reduction opportunities.

A **differentiation** strategy requires that a firm develop a market image that is different from those of its competitors. Firms can differentiate themselves on the basis of product characteristics, product range and marketing/sales service among others. To be successful a firm must differentiate itself on attributes which are unique and valued by its customers. For example, if all market participants can make on-time deliveries at a specified quality then the firm cannot differentiate itself on those attributes. The reward for differentiation is a premium

price. Differentiation does not imply that a firm can ignore its costs of production. The profitability associated with premium prices can be lost if a firm does not produce at or below the industry average cost of production.

A **mixed** strategy implies that a firm is simultaneously a cost leader and a differentiator. The rewards from this strategy are great since differentiation implies premium prices and cost leadership implies low-costs thus producing high profits. This strategy can be very profitable, but it can result in a firm being “stuck in the middle.” A firm stuck in the middle is attempting to simultaneously be a cost leader and a differentiator. If the firm's competitors are positioned in either of the two segments, then their competitive advantage in either of those areas will eliminate the possibility of the firm achieving profitability due to its mixed strategy. A mixed strategy can only be chosen if one of the following conditions is met. 1) The firm's competitors are stuck in the middle; 2) Cost is strongly affected by market share; 3) The firm pioneers a major innovation.

A **focus** strategy occurs when a firm finds a niche in a specific market and exploits that niche through cost leadership or differentiation. The firm can achieve strength in its target market(s) without having the strength to compete successfully in the overall market.

### **C. Marketing and Investment**

The cooperative should address during the strategic planning process the degree of competitiveness which it faces in the raw product procurement market, and its domestic and/or export markets. The

relative competitiveness in each market will affect a firm's strategy and tactics. The degree of competitiveness in an industry is a function of the following factors: bargaining power of supplier; bargaining power of buyers; intensity of rivalry among firms in the industry; existence of close product substitutes; and threat of new entrants into the industry.

The **bargaining power of suppliers** determines the input costs of the firm. Cooperatives usually acquire their major raw products from their members which can make this factor less of a concern to them than to investor-owned firms. However, the degree of competitive intensity in the raw product market can force a cooperative to keep its member-patron payments in line with its competitors and increase raw product costs if the cooperative has to buy raw commodity from non-members.

The **bargaining power of buyers** determines the selling price of the final products. This is determined by number and size of buyers/consumers, number and size of competitors and the ability of a firm to differentiate its products. Typically, the ability of the firm to set a price for its products is quite limited when there is a large number of competing firms, and/or a small number of buyers, and/or the firm's products are undifferentiable from those of its competitors. The opposite gives a firm the opportunity to do more product price setting.

The **intensity of rivalry among firms in the industry** influences prices as well as the cost of competing in such areas as plant modernization, product development, advertising and sales force. The greater the rivalry the more likely prices will be driven

down and the more likely that above-operating costs will be driven up thus driving down product profitability.

The **existence of close product substitutes** reduces the ability of the firm to set its product's price.

The **threat of new entrants** places a limit on prices (long-term high prices can draw additional firms into the industry) and shapes the investments required to deter entrants such as product advertising.

#### **D. External Forces**

There are numerous outside forces which can affect a firm's strategic planning and performance. These forces can be viewed as opportunities to enhance cooperative performance or threats which could hurt cooperative performance. These forces include technological change, regulatory action, cultural changes, political actions, economic factors and changes in demographics.

**Technological changes** are changes in the input and output relationships and can result in new technologies being developed (bioengineering), and/or relative changes in current technology (labor productivity).

**Regulatory actions** are actions taken by regulatory agencies such as EPA which can result in new restrictions or increased standards covering such issues as the workplace (discrimination laws) and food processing (food safety policies etc.).

**Cultural changes** are changes in the work, dress, language, and other societal patterns

which can influence personnel policies and practices (working mothers) and eating habits (concerns about food nutrition, food preparation time, etc.).

**Political actions** are actions taken by legislative bodies which can assist or hinder marketing efforts (trade barriers) and create, modify or end farm programs (price and income supports).

**Economic factors** are macro-economic factors which can influence the cost of capital (interest rates), and the rate at which the cost of inputs increase (inflation).

**Demographic factors** are ethnic mix, age distribution and population growth factors which can change the demand for a product (aging of the population) or create new product opportunities (increasing diversity of population).

#### **E. Strengths and Weaknesses**

A **strength** is an internal skill or ability that the firm can rely upon to help make it successful.

A **weakness** is an internal skill or ability that will hurt or limit a firm's success.

#### **F. Distinctive Competence**

A **distinctive competence** refers to the character of the firm and to those things that are done well in comparison to its competitors. A firm's particular strength will not provide a distinctive competence if a competitor(s) has the same strength. Distinctive competencies are the building blocks on which a firm's competitive advantage over its rivals stands.