

TESTING THE WATERS OF A HIGH-VALUE MARKETING POOL**J. Mark Welch and Conrad P. Lyford****Texas Tech University****Lubbock, TX****Abstract**

The competitive landscape facing agricultural producers today requires flexible, pro-active marketing in a global context. As barriers to trade continue to fall and free trade initiatives and agreements become more prevalent, market forces become increasingly important as drivers of economic activity. One means by which producers may align their marketing strategy to this evolving economic environment is through the establishment of a high-value marketing pool (HVMP). Marketing pools structured around product traits that more closely meet differentiated customer demands for quality may offer opportunities for producers to earn increased returns. The purpose of this research is to design a model for use in evaluating the possibility of transitioning from a single product marketing pool to a high-value marketing pool. Drawing from economic and cooperative theory as well as empirical evidence, the model presented will identify the core elements necessary for implementation of a HVMP and consider some of the constraints, resources, processes, and analysis that will lead to a successful and sustainable high-value marketing pool.

Introduction

The competitive landscape facing agricultural producers today requires flexible, pro-active marketing in a global context. Traditional production and marketing strategies may not be appropriate in a rapidly changing economic climate.

...the new competitive landscape suggests that firms exist in highly turbulent and often chaotic environments... In such an environment, managers must develop new tools, new concepts, new organizations, and new mindsets (Bettis and Hitt, 1995, p. 16-17).

As barriers to trade continue to fall and free trade initiatives and agreements become more prevalent, market forces become increasingly important as drivers of economic activity, replacing protectionist policies of the past.

In this competitive environment, the long term viability and profitability of U.S. cotton growers will be less dependent on farm supports and subsidies and rely more on their ability to be seen as the supplier of choice for the cotton textile industry. To attain and sustain this position, U.S. cotton must provide the greatest value to textile manufacturers. Value may be seen as a function of both price and product attributes with superior value and competitive advantage stemming "...from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter, 1985, p. 3). In this dynamic economic climate, producers seeking competitive success should shift from a production orientation, where they sell commodities, to a market orientation where they offer products in deference to customer wants and needs (Fearne and Bates, 2000).

One important mechanism that U.S. agricultural producers have used to increase net returns is cooperative marketing utilizing marketing pools. Pooling is an arrangement where the production from many producers is commingled and sold by a specialized marketing staff. Producers receive payment based on the average price the cooperative obtains from joint marketing less operating costs (Jermolowicz, 1999).

This is a relatively straightforward procedure for homogeneous commodities, but becomes more complex when product heterogeneity is considered and demand for quality characteristics is changing. Value may be lost in single product pools as producers are unable to exploit or develop demand for specific product attributes. If higher returns are possible from the production of a product with specific identifiable traits, broad-based, homogenous product pools may not be the appropriate marketing tool. It may be advantageous to organize marketing pools around the product traits that more closely meet differentiated customer demands for quality. For commodities previously marketed homogeneously, one approach to meet this demand is the establishment of a high-value marketing pool (HVMP). Other researchers in cooperative marketing refer to this process as pool narrowing or by calling for the establishment of multiple pools. In this paper, the concepts of high-value marketing pool, pool narrowing, or multiple pools will be used synonymously.

A HVMP marketing strategy based on product differentiation may allow producers to earn additional returns. Pool narrowing will allow for the accumulation of a significant quantity of a quality differentiated product that is designed to meet the demands of specific customers. This pool can be marketed to provide the consistent quality, marketing skills, customer knowledge, and high volume that are required to meet market demand in today's competitive environment. The establishment of a HVMP will signal to the industry the intent of producers to do all they can to provide excellent customer service and elevate the stature of a producer's products in the eyes of their customers. A successful HVMP will further serve to strengthen producer reputations as reliable suppliers of quality products.

In spite of the advantages of a HVMP cited above, this marketing approach may not be applicable to all crops in all areas. Producers of below average crop quality may be better off with current broad based pools that do not

discriminate against products of lesser quality. In many cases, they may earn greater returns by blending their production with higher quality products. These producers do not receive price discounts they otherwise might incur. Additionally, product quality may vary widely from crop year to crop year with many of the quality determining factors (i.e. weather, insects, etc.) beyond the control of producers. In these situations, producers may not want to participate in such a pool because it will not improve their financial returns.

Research Plan

The purpose of this research is to design a model for use in evaluating the possibility of transitioning from a single product marketing pool to a high-value marketing pool. The achievement of this outcome will require the accomplishment of the following four objectives:

1. A conceptual review of cooperative theory that supports the use of high-value marketing pools in order to understand two fundamental aspects of HVMPs:
 - a. how they are consistent with the goals of the cooperative form of business organization and
 - b. how they are supportive of the marketing paradigm necessary to compete successfully in highly competitive environments;
2. Study existing HVMPs according to their structure and outcomes in order to identify core elements or factors that are vital to successful and sustainable high-value marketing pool performance;
3. Develop a model for evaluating the transition process from a single product pool common in cooperative organizations to a high-value marketing pool. This will outline some of the constraints, resources, processes, and analysis that will likely lead to a successful and sustainable high-value marketing pool; and
4. Evaluate the model in the context of a specific situation where agricultural producers are seeking to gain increased returns by responding to market signals and depend less on government price supports: the case of West Texas cotton producers.

This research will provide assistance to those traversing “the new competitive landscape” from homogenous commodity to differentiated product.

Objective 1. A Review of Cooperative Theory and Marketing Pools

The conceptual framework for research into high-value marketing pools is founded in the theory of agricultural cooperatives. Farmers have for decades organized marketing cooperatives to counter balance the negative impacts of market power and improve financial returns (Cook and Chaddad, 2004).

Historically, U.S. agricultural cooperatives emerged in response to market conditions that called for coordinated efforts by growers to defend market interests, provide member services, and reduce transaction costs. Agricultural cooperatives have represented a special form of agricultural organization, one that holds the promise of both providing small farmers access to market opportunities yet at the same time providing income stability (Stanford and Hogeland, 2004).

Cook and Chaddad assert that, in this context, the motivation to establish a marketing pool can be described as defensive. High-value marketing, on the other hand, is an offensive strategy to add value to assets and extend the organizations influence.

This discussion of cooperative theory is composed of three main components: 1) the justification or motivation for the adoption of the cooperative model of business organization, 2) the contribution pool marketing makes to the goals of the cooperative, and 3) a discussion of issues related to sustainable pool participation, specifically the operation of multiple pools. This section is not intended to represent a complete discussion of relevant cooperative and marketing theory for this paper. Presented here are concepts identified a priori that relate to the success development and operation of a high-value marketing pool. The second part of this section deals with how a successful HVMP supports a new paradigm in the marketing of agricultural commodities, the offering of differentiable products in the marketplace in deference to heterogeneous customer demand.

Justification of the cooperative model of business organization

Two of the most frequent economic justifications for the organization of cooperatives center on issues related to market power and market failure (Cook, 1993). Producers sought an institutional mechanism to counter balance the market power of their trading partners in the hope of achieving more equitable and efficient market outcomes (Staatz, 1987b). Market failures were thought to exist when many of the input and output markets were less than optimally competitive (Cook). In response to these conditions, agricultural producers organized marketing

cooperatives. Cook's classification of cooperatives according to function labels these marketing cooperatives as Sapiro II.

Sapiro II cooperatives are a form of producer vertical integration that circumvent and compete with private buyers and traders. Whether marketing single or multiple commodities, the objectives are similar: "...to by-pass the investor-owned firm, enhance prices, and in general pursue the Sapiro goals of increasing margin and avoiding market power" (Cook, 1995, p. 1156). According to Cook, the Sapiro school of cooperative thought advocates that market power can be gained by producers through organization and cooperation and the terms of trade improved for their members.

Contribution of marketing pools to the goals of the cooperative

If the primary motives for establishing the cooperative form of business organization are to offset market power and correct market failure, pooling offers several advantages over private, individual marketing to accomplish these purposes (see Jermolowicz):

1. **Risk sharing**—since producers receive an average price for the marketing period for their production, cyclical fluctuations in prices or changes in consumer demand are spread (minimized) among all participants in the pool;
2. **Improved marketing**—the pool employs a staff of marketing professionals whose primary objective is to maximize returns to the producer. Among the advantages of having a professional sales staff is their ability to devote the time and resources to constantly monitor the market with more resources than available to an individual producer. Critical to the duties of these marketing specialists is the development of relationships with buyers and an understanding of their needs;
3. **Increased market power**—by pooling production, cotton growers enhance their bargaining position in the hope of improving prices. Collective action to counterbalance the market power of trading partners is designed to lead to more equitable and efficient market outcomes (Staatz, 1987b).
4. **Quality control**—being able to consistently provide the product demanded by buyers will greatly enhance the ability of sellers to market their crop. A marketing pool that can establish a reputation for quality and consistency will enhance its ability to compete successfully in the marketplace.
5. **Economies of scale**—marketing through a cooperative pool can lower the per unit cost of marketing as these costs are distributed over a greater volume of product. Large scale operations are more likely to receive more favorable rates for storage and transportation in addition to the ability to negotiate for more favorable product prices.

Issues of marketing pool sustainability: member loyalty and pool narrowing

In a marketing pool, the cooperative adds the net revenue from the sale of all pool commitments and, after deducting shared marketing costs, distributes this revenue back to the members in proportion to each one's contribution. As mentioned above, marketing pools may be offered for single or multiple commodities. If the pool combines products of widely different qualities, the potential exists for what Sosnick (1963) calls "aggregate inequity", which he defines as the "...disparity among members in the relation between the valuation assigned to them by the association and the potential net resale value of deliveries" (ibid., p. 61). Such disparity may be seen as the sum of a year's underpayments for members whose product valuations are smaller with a single pool.

If the pools combine deliveries with markedly different values, they may violate member's standards of fair treatment, impair the ability of the association to compete for high valued lots, and weaken members' incentives to improve quality. (ibid., p. 49)

While it is expected that the opportunity to earn higher net returns under a high-value marketing pool will provide incentives for producers to improve quality, the viability of the pool will depend in large measure on producer commitment to such an effort. "Cooperative loyalty" refers to the willingness of producers to stick with the pool "...even though there exist short-run incentives to defect" (Staatz, 1987a, p. 40). According to Staatz, such loyalty reflects the participant's belief that 1) short-run performance of the marketing pool may be improved if members stay with the organization and help remedy problems and 2) even though their may be short-run benefits of marketing elsewhere, the long-run benefits of pool participation are greater than those available from alternative marketing methods.

Buccola and Subaei (1985) provide a mathematical comparison of pool structures which may serve to inform this discussion. Let I represents grower-members of a cooperative which markets J farm products that are distinguished by quality characteristics such as species, variety, or grade. Each member produces at least one and possibly some

or all of these products. Q_{ij} refers to the i^{th} grower's output of the j^{th} product which he delivers to the cooperative. C_{ij} represents the grower's per unit cost of production, P_j is the per unit valuation of the product by the cooperative, and R_j is the per unit revenue from the sale of j less per unit marketing and or processing costs. Net revenue to the cooperative from all deliveries and sales of product j is represented by:

$$\text{Cooperative Net Revenue} = R_j \sum_i Q_{ij}.$$

Single product pool.

If the cooperative operates a single pool for all J products, the payment to the i^{th} farmer (F) for his share of the j^{th} product will be

$$(1) \quad F_{ij}^s = [Q_{ij} P_j / \sum_i P_j (\sum_i Q_{ij})] [R_j (\sum_i Q_{ij})].$$

With a single product marketing pool, each member receives a proportional share of cooperative net revenues based on the valuation of the member's production ($Q_{ij} P_j$) relative to total cooperative receipts of all products at all initial valuations ($\sum_i P_j (\sum_i Q_{ij})$).

Profit of the individual member may be expressed as the sum of all payments for product j less farm production costs:

$$(2) \quad \begin{aligned} \pi_i^s &= \sum_j (F_{ij}^s - Q_{ij} C_{ij}) \\ &= \sum_j Q_{ij} [P_j \sum_i R_j (\sum_i Q_{ij}) / \sum_i P_j (\sum_i Q_{ij}) - C_{ij}]. \end{aligned}$$

Multiple pools.

If the cooperative operates separate pools for different classifications of J raw products, payment to the producer is based on his contribution as a percentage of the total quantity of cooperative receipts. In this case it is not necessary for the cooperative to base this initial payment on the percentage of value (P_j) since all products in this pool are assumed to be of equivalent quality and thus would receive the same per unit valuation:

$$(3) \quad \begin{aligned} F_{ij}^m &= Q_{ij} / \sum_i Q_{ij} [R_j (\sum_i Q_{ij})] \\ &= Q_{ij} R_j. \end{aligned}$$

With multiple pools, each member receives a fractional share of cooperative net revenues based on the physical volume of production contributed to the pool. If the producer participates in more than one pool, farm profit is the sum of all J :

$$(4) \quad \begin{aligned} \pi_i^m &= \sum_j (F_{ij}^m - Q_{ij} C_{ij}) \\ &= \sum_j Q_{ij} (R_j - C_{ij}). \end{aligned}$$

Comparison of single and multiple pools: the issue of equity.

The above formulations highlight two important characteristics of pool marketing and the equity inherent in single versus multiple product pools. First, with a single pool arrangement, the potential exists for a disparity to exist between the net resale value of a member's product and what he receives for it. Unless the percentage of deliveries for any one category is the same for all members, the averaging process of cooperative net returns will create gains for those whose averages are less than the association average and losses for those whose averages are greater. This is Sosnick's "aggregate inequity".

A second consideration of equity may be manifest in the expected returns ($E[R_j]$) from each pooling arrangement. Inequity in this case may be defined as the average difference between what the member would receive under multiple pools compared to what he would receive with a single pool (Buccola and Subaei, 1985). If a producer expects higher returns from pool narrowing ($E[R_j^m] > E[R_j^s]$), then participation in a single pool will likely result in some inequity for some members.

The equity issues of pool structure may have important economic consequences. According to Sosnick, inequity threatens the sustainability of the marketing pool and the viability of the cooperative itself, "...both by fostering discontent and by impairing ability to compete for all kinds of growers" (p. 61). By directly tying financial incentives to production so that the benefits accrue to those who produce a higher quality product, multiple pools will be more effective in attracting and retaining producers of high-valued specialty products (Sykuta and Cook, 2001). Conversely, commingling products of diverse quality in a single pool may discourage the better farmers from participating and attract those who are relatively less efficient and/or produce products of relatively less quality (Karantininis and Zago, 2001). Therefore, if single product marketing pools are less effective in offering compensation and incentives for product attributes that are demanded in the marketplace, alternative marketing pool structures may need to be considered. Multiple product pools may be a source of higher returns and competitive

advantage for producers and cooperatives. This will require “...greater specialization and segregation of agricultural products...” in a more highly coordinated system that delivers “...high-valued quality products” (Sykuta and Cook, p.1277). Cooperatives, with their widely held reputation of being reliable, high-quality suppliers and ethical and reputable business partners, may be uniquely positioned to respond to current trends of competition and globalization in the agricultural sector (Seipel and Heffernan).

A new marketing paradigm

The development of a high-value marketing pool is consistent with a new marketing paradigm advocated in this paper—a shift from a commodity orientation to a product orientation. Bowertox (2005) describes this process as shifting from a push or Anticipatory Business Model to a pull or Response Business Model.

Push--Anticipatory Business Model.

This marketing paradigm is the traditional model for selling agricultural commodities. In this approach, demand forecasts form the basis of production decisions and products are sold or pushed onto the market at the end of the production process.

Pull--Response Business Model.

This marketing model represents a new paradigm in many agricultural markets. As government programs that have offered price support for agricultural commodities are scaled back or eliminated altogether, this pull model of demand is more responsive to competitive markets. Rather than offering products in the marketplace based on demand forecasts or government price guarantees, this model is end-cast driven: products are produced and sold in deference to the product traits and characteristics consumers or buyers require. Hence the product is pulled into the market by the customer rather than pushed into the market by the producer. These two marketing perspectives are illustrated in Figure 1.

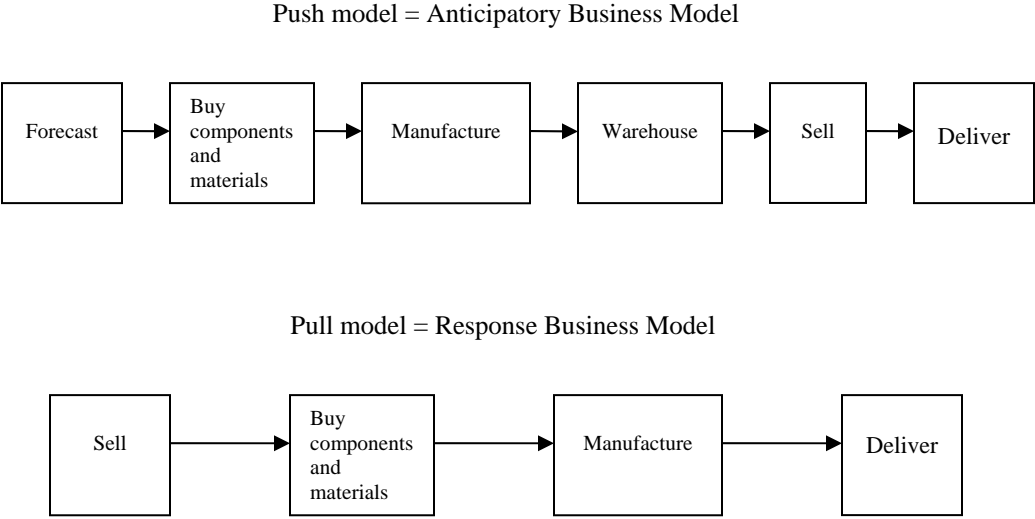


Figure 1. A comparison of push and pull models of consumer demand.
Source: Bowertox, 2005.

Objective 2. Examples of High-value Marketing Pools: From Theory to Practical Experience

The conceptual framework developed to this point, may be empirically verified in the practice of marketing agricultural products. We now turn to an investigation of examples where the concept of HVMPs has been analyzed and implemented. High-value marketing pools have been instituted for many agricultural products. These will be examined to ascertain those that appear to be most successful and/or instructive for the purposes of replication. This effort will focus on the identification of issues that are critical to the success of this particular marketing strategy.

Aaron Sapiro brought about the organization and successful operation of many cooperatives under what has been called the "California Plan". His efforts brought cooperative marketing to such products as oranges, lemons, grapefruit, strawberries, peaches, grapes, cherries, dried fruits, currants, raisins, pears, apples, prunes, apricots, olives, canned fruit, small vegetables, beans, lima beans, celery, walnuts, alfalfa, barley, poultry, eggs, cheese, butter, milk, honey, and figs. Though not referred to as high-value marketing pools, the cooperative marketing pools Sapiro helped organize are based on the principle of product differentiation derived from quality attributes advocated in this paper.

Sapiro (1922) lists three fundamental principles for cooperative marketing that are consistent with high-value marketing pools. First, is to properly inspect and grade your product.

Grade it upwards, and make sure the thing you are selling can have a brand name put on it, and it is always the highest quality of that product that is brought on any market. We spend hundreds of thousands of dollars in inspecting everything that is delivered to co-operative associations. We go behind that, we go to the farmer and try to get him to begin to produce high class things. (p. 28)

Products that are amenable to inspection, grading, and branding may be marketed not as commodities, but as engendering quality and valued characteristics.

Sapiro's second principle is "...that your package has to be perfect" (p. 28). The package has to be convenient to the person who is going to use the product. This principle implies knowledge of shipping and handling requirements to preserve quality as well as the needs and desires of the customer. High-value marketing pools must be responsive to the units customers like to buy and assure that the product reaches them in the right condition.

The third principle is market extension. This principle refers to both the time and place of marketing. Market extension by time means providing the product at the most convenient time of consumption as opposed to dumping the product on the market all at once. This entails some centralized control over supply. Extending the market place refers to searching out new markets and new buyers in order to create demand for the product.

If we find someone else selling a better product at a cheaper price we throw our hands up, but if we find they did not take them because they didn't know about them, or if we find someone else is putting a poorer thing in there or something we can match we go in and compete. We search out as far as our product can go. We find the markets and if we can't find the markets we create them (p. 28).

Whether the product is perishable, semi-perishable, or non-perishable, Sapiro contends that successful merchandizing of agricultural products depends on the actions of the producer to "...boast of the quality" of his product: "You would then start to take a pride in it, and will keep up the quality of everything you produce when you put your brand on it and send it into the markets of the world" (p. 10).

Lyford (1998) discusses quality and attribute-based marketing initiatives in what is essentially a commodity market: the Michigan apple industry. Based on consumer market research it is found that consumers prefer a specific type of packaging and show an increasing demand for new varieties that have good tastes and condition. "Quality requirements are growing increasingly to demand consistent quality apples with high condition and good taste along with defect-free and adequate size, color, and uniformity" (pp.129, 131). Rising quality requirements of consumer demand and the desire of growers to supply the qualities, varieties, and types of pack demanded by the market lead to the development of a marketing strategy for premium grade apples.

A premium grade could be another signal to buyers that the Michigan apple industry is serious about being progressive and getting the job done on quality as demanded by the market. This would be best considered as part of an overall effort to improve the quality performance of the industry (p. 178).

A key component of this marketing strategy is compliance monitoring, enforced by inspection, to assure that quality standards are not compromised. This study reaffirms the importance of market research (knowing what the customer wants), producer commitment to quality, and the importance of inspection and grading in offering premium products in the marketplace.

Cotton is marketed as a branded product by the San Joaquin Valley Quality Cotton Growers Association under the registered trademark "SJV[®] Quality Cotton". Founded on the principle that textile manufacturers need a recognizable and consistent supply of the world's finest cotton, the Association represents a collection of growers committed to a quality product (San Joaquin Quality Cotton). Grower-members are selected for membership based on demonstrated histories of delivering the best cotton and an agreement to abide by the following quality assurance program:

- Planting only approved cotton varieties;
- Following strict management and cultural practices; and
- Submission of production records to the Association for documentation.

All production from the Association is marketed through the Beltwide Cotton Cooperative and its authorized marketing representative, Weil Brothers-Cotton, Inc.

Additionally, a survey related to the operation of HVMPs was completed by representatives of two cotton merchandising companies. These representatives confirmed many of the insights identified above as critical components necessary for a successful HVMP. Both interviewees, when asked for additional comments, stressed one common element: the success of the HVMP is critically linked to producer support of the goals and marketing strategies of the pool. As one representative stated, growers must understand what we are trying to do and “be on board with the [marketing] program”. Copies of the survey are available on request.

Objective 3. Developing a General Model for High-value Marketing Pools

The above theoretical concepts and empirical analyses served as a guide in forming a model for HVMPs. The design presented here is based on the critical constructs which have been identified to this point, both from theory and from practice. Additional core elements of HVMP operation may be added as additional surveys are conducted. The implementation of this model will provide a systematic evaluation of marketing alternatives: the movement from a single product marketing pool to a high-value pool that is a quality-based, attribute specific marketing initiative based on knowledge and satisfaction of customer needs.

Figure 2 illustrates the basic framework of the model. This preliminary rendition is based on what is known about HVMPs from the literature and on insight gained from actual high-value marketing operations identified in Objective 2. The beginning point of the model is from the standpoint of a single product marketing pool operating in the context of the overall economic environment. The end point of the model is establishment of a HVMP. In between these two points are the mediating factors that will determine whether it is possible or feasible to transition from a single product marketing pool to a HVMP. The preliminary model presented here contains the basic elements of demand and supply as well as other factors which have been identified as critical elements of success.

Demand

In neoclassical economic models, product demand is characterized by homogeneous preferences within generic product classes (Hunt and Morgan, 1995). Demand in this model relaxes this assumption and views demand as “...significantly heterogeneous and dynamic” (ibid, p. 5). Demand in this real world construct follows the Response Business Model of Bowertox founded on satisfying idiosyncratic customer requirements for specific product characteristics. Production decisions are based first on ascertaining what the customer desires followed by designing the production process to satisfy this demand. ‘Know your customer’ is the mantra of the pull approach to marketing and the foundation of the demand portion of this model.

Supply

If knowledge of the needs of customers is the foundation of demand in this model, then supply may be characterized as offering products as solutions to a customer’s problem (Mosier, 2005). Vital to the success of any cooperative marketing pool based on quality characteristics is the ability to provide a steady and reliable supply of quality product (Yeboah, 2005). For product supply to be marketed as in a HVMP, it must be differentiable or otherwise identifiable by characteristics or branding. Successful implementation of a high-value marketing pool will depend on a consistent supply of a marketable product. An assessment of the quantities and qualities a growing region can reliably produce will form the basis of the development of a high-value marketing pool in terms of both size and structure.

Producer commitment

The viability and sustainability of a HVMP will likely depend on the level of grower commitment to ensure a quality product as well as loyalty to the organization. Producer loyalty (Staatz) is expected to strengthen as issues of aggregate inequity (Sosnick) are ameliorated. This commitment will be reflected by the earnest desire of growers to meet the quality demands of their customers (Lyford). Producers must realize how their actions and decisions enable or hinder the ability of the marketing pool to meet its objectives and commitments. Production practices that

preserve or enhance quality as well as timely delivery of contracted product contribute to meeting customer needs as much as market research. Producer commitment must rise to the same levels of customer service and concern for

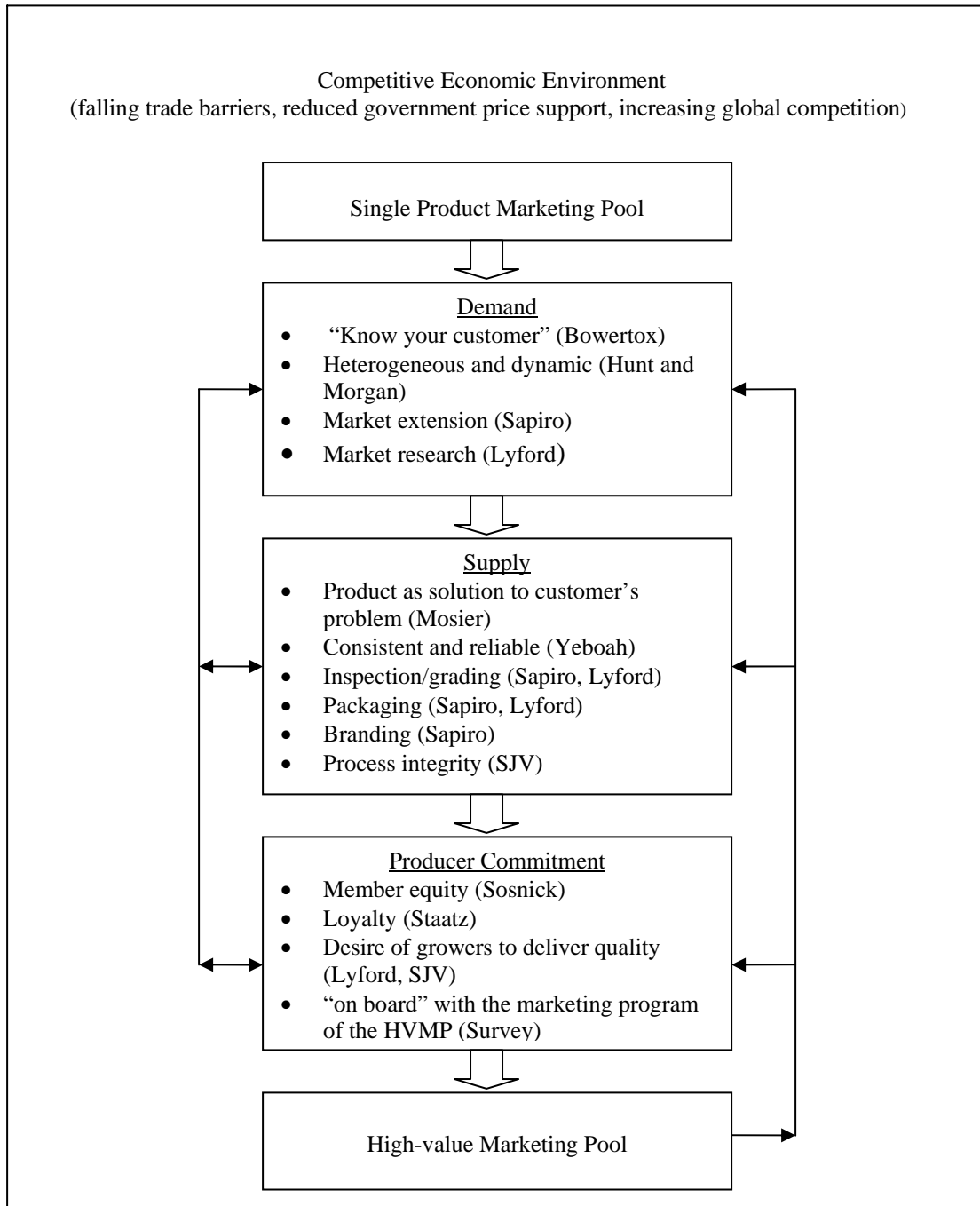


Figure 2. A model to evaluate the transition process from a single product pool to a high-value marketing pool.

a customer’s needs as that of the marketing team or organization that has face to face interaction with customers of the HVMP.

Feedback

An additional important component of the model is the inclusion of a feedback loop from the newly established high-value marketing pool to the original core elements of the system. As producers successfully and consistently satisfy their customers’ demands, the high-value marketing pool may become the market of choice for specific

customers seeking specific product traits. As producers are rewarded in the marketplace for producing a product of higher quality, it is expected that this will offer encouragement for producers to increase efforts and investments to further quality initiatives. As additional limitations and constraints are overcome, this will likely strengthen producer loyalty and commitment to the marketing organization.

The core elements themselves may be interconnected as well. Producer commitment to quality and to the customer will reinforce efforts of process integrity and customer satisfaction. As a branded, quality assured product is recognized by the marketplace, it will by reputation increase the demand for the product. Concern over issues of income equity and product quality may influence the way organizations organize their memberships and enforce compliance of quality standards. Therefore, feedback loops are illustrated between the core elements to reflect this factor integration.

Objective 4. Implications of the Model for West Texas Cotton Producers

The greatest challenge of this research is to implement the model in the context of a specific marketing situation. It is appropriate to investigate a case in which agricultural producers seek to gain additional returns by moving from marketing a commodity to marketing a differentiated product. Efforts have been made in the past to recruit high quality cotton producers in West Texas to participate in privately operated high-value marketing pools. The dominant cotton marketing agent in this region is a member owned cooperative that operates a single product pool. It is expected that many of the growers targeted for participation in these privately-owned pools are currently marketing their cotton with the cooperative. If the cooperative is interested in retaining its best growers, it may be useful and/or necessary to match the incentives and advantages private merchants are offering through HVMPs. To do so, in combination with the other benefits of cooperative marketing outlined in Section 1, may serve to further strengthen and sustain both the cooperative and the financial condition of West Texas cotton farmers.

Past decades have established the reputation of West Texas cotton as being a coarse count raw material, suitable for bottom-weight textiles that are not subjected to sophisticated dyeing and finishing (West Texas cotton is sometimes referred to as 'denim cotton'). However, the reality today is quite different from the past. New varieties with competitive yields and significantly improved fiber properties have been planted on ever larger shares of the cotton acreage in West Texas. A threshold level of high-quality cotton is now grown in West Texas that may make it feasible to target this area for such a HVMP marketing program. The successful operation of a HVMP would be expected to create the virtuous cycle of behavior discussed above. Demonstrably higher prices for high-quality cotton will cause more producers to grow high-quality varieties. This in turn gives momentum to altering the global reputation of cotton grown in West Texas which then commands quality premiums.

The model presented will guide those interested in establishing a HVMP in transitioning from a single product marketing pool to a more narrowly defined, high-value pool. It identifies several critical components of a successful HVMP: market research, customer service, product quality, producer commitment. There may be a variety of ways in which these elements are incorporated into a marketing program, but all have been identified as necessary for the successful operation of a HVMP. To incorporate the model and transition from a single product pool to a HVMP, several fundamental questions must be addressed:

- How well does the marketing organization know the customer base for the product?
- How extensive and well developed are the marketing organization's relationships with customers?
- Can a price premium for excellent customer service and/or outstanding product quality be earned?
- How consistently and reliably can the quality product customers require be produced?
- How can products be produced in accordance with best management practices to assure quality?
- How can the marketing organization attract and maintain the best growers?

As these and other questions raised by the model are addressed, an assessment can begin of the likelihood of establishing a successful and sustainable HVMP.

Conclusions

The purpose of this paper is to develop a model for an evaluation of the concept of high-value marketing pools. Such a marketing initiative is reflective of the needed paradigm shift in marketing focus from commodity to product which may lead to a competitive advantage for producers in the global marketplace. While it is easy to find calls for

a transition in marketing agricultural commodities from homogeneous commodity to differentiated product, such as would be the case with HVMPs, no unified model exists to systematically evaluate this marketing alternative. The model presented here is evaluated in the context of West Texas upland cotton producers seeking increased returns for their product, but may find use in a wide variety of industries. The possibility exists that this model may be applied in other contexts for other commodities and other marketing systems. If so, it may assist other agricultural producers escape “commodity hell” (Immelt, 2003) and apply concepts of innovation and differentiation in the marketing of their products.

The economic climate in which this transition is considered is characterized by free trade initiatives, globalization, and declining price and policy support for agricultural commodities. Theory from the discipline of strategic management informs us that successful firm performance results from an adequate fit between strategic choice and the economic environment. The implementation of a high-value marketing pool represents one means by which producers may align their marketing strategy to an evolving economic environment.

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