

The Value Proposition

Your cooperative's ability to become a growing, profitable business depends on determining what customer to serve, which needs to fill, and at what relative price.

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In my experience, there is one principle of business above all others that will lead to greater profitability, customer loyalty, and sustainable growth, and that is value. Your initial thought regarding value may be that it means to get more for less, and that is partially correct. You also might be tempted to define value as receiving a good or service at an unusually low price. That would be called “discounting”, and that is a long way from the concept of value that I would like to discuss here.

What is “Value”?

Value can be defined as a measure of benefit received from a particular good or service. In a business sense, it is generally measured in units of currency. However, your cooperative provides value to its members in three distinct ways that may or may not be easily tied to dollars and cents.

First, the cooperative provides a **value of business** to its customers. The actual goods and services offered to customers are a benefit that are often required for them to continue their own operations. A cotton gin for example, provides a necessary service if you are in the business of growing cotton. Second, the cooperative provides a **value of association**. Cooperative members benefit from being united in a business that is focused on their needs, and acts as a voice for them in the market and political landscape. And third, the cooperative provides a **value of existence** in its competitive space. In other words, the cooperative operates in a fashion that is beneficial to the customer. This might be represented as a reduction of market power, a greater sharing of profits back to the customer, or greater control over product and service offerings. In any case, competitors are driven to match the efforts of the cooperative

meaning all customers in the market benefit, not just the members of your cooperative.

Your cooperative clearly provides benefits that are not easily measured in dollars, but that still need to be communicated to members if you expect them to make rational, informed choices about where to do business. They have needs that must be filled to keep themselves in business. Their loyalty will be earned as you come to understand those needs and provide solutions that drive their operations to greater profitability. Both your cooperative and your members can profit. It is not an “either/or” situation.

The Value Proposition

The benefits that you offer to specific customers, to meet specific needs, at a specified price, is called your value proposition. This represents the reasons a customer will continue doing business with you. This might include your offerings of products and services, timely delivery, friendly service, or consistent quality. It might be defined by the expertise of your staff, your systems for managing inventory, your bookkeeping, or your processing capacity. This mix of benefits is different for each business, and is driven by conditions in the market and available resources.

If your strategic plan identifies what customers you serve, which needs you fill, and at what relative price, then you have already established your value proposition. Strategically, you should focus on that above all else to guide your board decisions.

In most instances, your members will see the value you provide in the course of your business operations. However, they sometimes need a little help seeing those parts of your value proposition that are not directly measured by dollars and cents. They may need to be informed about the

investments the cooperative makes to improve its ability to provide the high quality goods and services that they need. Otherwise, they may default to the one comparison they can easily measure, namely, price. And that's a problem.

The Problem of Price Competition

First, let's be clear that price focused competition is a bad idea. Price is the easiest element for your competition to copy. Constant undercutting of price by competitors drives margins and profitability to zero. It destroys your ability to reinvest in your operation. It prevents you from adjusting to changing market conditions.

It is true that cooperatives can provide a force for competitive prices in their market, which is a benefit to producers. However, price benefits are shared with everyone, while value benefits are shared with customers. More importantly, the profits derived from value are shared with members.

The problem is that price is a constant force in the market. If we fail to share with members the message of value, they default to shopping by using the easiest comparison of benefits, which is price. It's a bit like an old soapbox racer. A soapbox racer is a four-wheeled cart with no engine or means of propulsion. It relies on gravity to get down a hill. You can grease the axles, give it a sleek design, and steer it just perfectly, but in the end, the hill

levels out. Furthermore, there is only one possible destination.

Price is like gravity. It is a constant force that can drive business. If you focus only on providing price as a benefit to your customer, you might have some success, but ultimately, you limit your ability to take the business in the direction you want to go. And once price has dropped all that it can, business stops.

The combination of price, customers, and needs (your value proposition) is the solution to continued success and greater profitability. Some cooperatives feel they shouldn't profit at the expense of members, but the profit itself is not the problem. It's what you do with the profits that counts. Creating value for your members is the key to their loyalty.

Questions for Discussion

1. Is there a specific type of customer that your cooperative serves best?
2. What do your customers need? How well does that match with what your cooperative offers?
3. How can you avoid the trap of focusing on price as a benefit?
4. How does focusing on your value proposition affect your strategic plan?
5. What is the best way to use greater profitability to benefit your members?



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Dr. John Park is a professional educator whose experience in agribusiness marketing and management supports the needs of the modern agricultural

cooperative. As a professor and extension specialist at Texas A&M University, Dr. Park is committed to helping businesses make better decisions and achieve competitive advantages.

Dr. Park's thoughtful and creative application of his expertise has provided fresh, stimulating educational programming that is greatly appreciated by his clientele and students alike. Whether in the classroom or the boardroom, he is a dedicated teacher who is committed to the success of those he serves.

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