

Developing Your Cooperative Strategy

How does a cooperative board satisfy its member-owners while sustaining a competitive advantage in the market? A proper strategic mindset is the key to success.

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Among the more confusing mandates for a newly elected director is that the board is responsible for determining the strategy of the cooperative.

The typical questions come to mind: What is meant by strategy? How do we know if our strategy is a good one? Isn't the goal to just give everything we can to the members? Didn't we hire a manager to do this?

A new director sometimes struggles to shift their mindset from producer to that of the supplier, processor, or marketer (or in short, the co-op) as they approach making decisions in the board room.

This can result in a lack of focus on profitability, which can compromise the longevity of the firm. Perhaps even worse, these competing desires to aid the member and protect the firm might lead a board into taking no action at all, resulting in their competitors calling all the shots.

What is Strategy?

Strategy is "a set of choices that defines how your cooperative will achieve superior performance relative to your competition".

Further, if you are able to define these activities in ways that other firms are not able to easily imitate, then over time your cooperative will gain a sustained competitive advantage.

Strategy is like a football game:

- We have a goal.
- It's clearly defined.
- We have a plan on how to achieve that goal and what actions to take.

To be successful, we must account for our competition and respond to their actions. If we are able to take advantage of our strengths, overcome our weaknesses, and watch for new threats, then we will find opportunities to score.

Instead of talking about keeping score and having more points than our rival (later we will discuss how this goes against a strategic mindset), we will simplify the discussion by focusing on the value that your cooperative provides its customers.

To restate, we want to determine a unique set of choices that will lead to superior performance, **and create value** for our member-owners.

The Value of the Cooperative

A simple way to develop a strategic mindset is to consider the benefits that the cooperative provides its members through the products and services it offers.

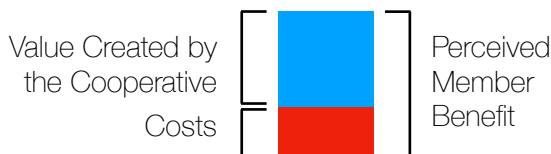
For example, a grain elevator might provide storage, a cotton gin processes cotton and presses it into bales, or a farm supply store provides the many goods and services needed to operate a farm at fair prices.

But there are other, more subtle, aspects of your cooperative that might benefit a customer:

- Excellent customer service.
- Expertise in handling grain.
- Confidence in long run success.

There are many price, and non-price characteristics of your cooperative that affect your decision to be a customer. We will simply refer to all of this as the perceived member benefit (see figure 1).

FIGURE 1. VALUE CREATION



If the cooperative is able to provide this benefit in excess of their costs, then we can say that the cooperative has created value for its members.

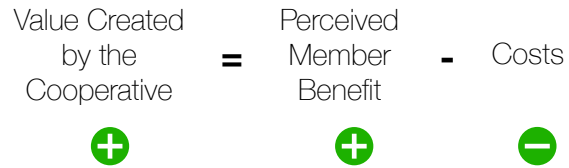
Another way to say this is that the value of the firm is simply the perceived member benefit minus its costs of providing that benefit. This is useful to us, because it suggests that your strategy can focus on one simple thing — expanding the value created by the cooperative!

How to Expand Value

The first way we can increase the value created by the cooperative is to increase the perceived member benefit (see figure 2). This

occurs as we improve the quality of existing products and services, or add new ones.

FIGURE 2. INCREASING VALUE CREATION



Consider a cooperative elevator that invests in its ability to weigh, sample, and unload trucks. If this results in shorter wait times during harvest, then the cooperative has provided value to members.

Or consider a farm supply cooperative that engages in field delivery of agronomy supplies. And let's not forget the value of friendly, knowledgeable service. Customers may be willing to pay more for such value, or would certainly choose this over similarly priced offers that lack such services.

Our second way to expand the value created by the firm is to decrease costs. This is done as we strive to improve efficiencies in handling, speed, or other relevant measures that reduce waste and increase turnover. Also, we can decrease costs by expanding activities to allow the cooperative to capture greater economies of scale.

Benefits of the Value-Focused Strategy

Whether we are striving to increase perceived member benefit, or to decrease costs, expanding the value created by the cooperative gives greater operational flexibility to management.

Expanded value means the cooperative will have a greater ability to generate profits that can be shared with members. Greater profitability might be used to improve the offering of products and services and customer service (which can further expand perceived member benefit).

It allows the firm to expand into new activities that might capture new customers, or make it

less likely that existing customers will switch to a competitor.

Expanded value provides greater financial stability through improved working capital, making the cooperative more resistant to adverse market conditions.

It is important to note that if the cooperative is able to create value by making unique choices that are difficult for competitors to imitate, the created value will also lead to strengthened customer loyalty and an improved sense of the value of ownership.

Dangers of the Price-Focused Strategy

Notice that price has not been explicitly mentioned. Think of the upper limit of the perceived member benefit in figure 1 as the customer's willingness to pay for goods and services offered by the cooperative.

If we adopt a customer mentality that better prices equal greater benefits, and choose to price our goods and services below the customer's willingness to pay for them, we have given some of those benefits away for free. We are leaving money on the table!

We have underpriced our customer. Therefore, costs will comprise a greater percentage of the perceived benefit.

Perhaps more importantly (in a strategic sense) we are making it easier for our competition to keep up. Price is the one option that your competitors can easily imitate.

Taken to an extreme, a price war will lead to very low profit margins, and eliminate strategic choice.

Instead, focus on value in your strategy discussions, and allow management to figure out competitive pricing. As a result, you will discover new and innovative directions for your cooperative.

As you develop a unique strategy for your cooperative, it is important to "take off your farmer hat, and put on the co-op hat" as you

go into the boardroom. Sometimes, unintentionally, directors start thinking in ways that actually decrease the value created by the cooperative. Do any of these sound familiar to you? These are some of the half-truths that can frustrate strategic thinking:

- "The co-op is supposed to operate at cost"
- "We are a non-profit organization"
- "Doesn't the cooperative exist for the benefit of members?"
- "We shouldn't make a profit off our members"

The greatest problem with statements such as

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these is that they redirect strategic discussions to discussions on price. All customers love better prices, but as we discussed, this is not a path to greater profitability and sustained competitive advantage.

If you compete on price, you will lose on price.

Price is primarily a tool of management and strategic discussions of price should be limited.

Parting Thoughts

We started our discussion by saying strategy is kind of like a football game. But we should say **good** strategy **isn't** like football. A football game is confined to a field with set measurements and boundaries. There are rules

for determining points and limits to play. The only way to move forward is through your opponent.

Strategy, especially good strategy, can be executed on an empty playing field and used to avoid competition altogether.

Good strategy defines itself by its own measurements and objectives.

As you adopt a strategic mindset in the boardroom, remember to focus on creating value. This can be done by increasing perceived member benefits and decreasing costs.

Choose unique activities, methods, and resources that are not easily imitated by your rivals and you will generate sustained competitive advantages that will strengthen your cooperative for future generations.

Questions for Discussion

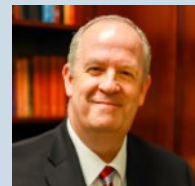
1. Why are you a member of your cooperative?
2. What products, services, or other features of your cooperative are valuable to you as a customer?
3. Are any of these unique to your cooperative (your competitors don't or can't provide these things)?
4. What do your competitors do better than your cooperative?
5. What does your cooperative do better than your competitors?
6. Can you think of any customer needs that are changing or are not being adequately met?
7. What are the major costs affecting your cooperative? Are these costs increasing?
8. Is your cooperative facing greater competition today than in the past? In what areas?

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ABOUT

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


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of farm experience culminate in a passion for helping cooperative directors achieve greater success in the boardroom.

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