



Mid America Cooperative Council

2003-2013

"A Decade of Cooperative Education"

August Features the Food Processing Sector of our Membership

The History of Food Processing and Food Marketing

Food Processing and Food Marketing Cooperatives are focused on providing value to their membership. That value is collectively marketing and/or processing the food grown by their current owners. These producers can still remain independent while marketing collectively through their cooperative, which they control, thus building strength together as member-owners. **MACC is proud to feature our food processing and food marketing cooperative members.**

Modern food processing technology developed in the 19th and 20th centuries was developed in a large part to serve military needs. In 1809 Nicolas Appert invented a hermetic bottling technique that would preserve food for French troops which ultimately contributed to the development of tinning, and subsequently canning by Peter Durand in 1810. Although initially expensive and somewhat hazardous due to the lead used in cans, canned goods would later become a staple around the world. Pasteurization, discovered by Louis Pasteur in 1864, improved the quality of preserved foods and introduced the wine, beer, and milk preservation.

The benefits of food processing include toxin removal, preservation, easing marketing and distribution tasks, and increasing food consistency. In addition, it increases yearly availability of many foods, enables transportation of delicate perishable foods across long distances and makes many kinds of foods safe to eat by de-activating spoilage and pathogenic micro-organisms. Modern supermarkets would not exist without modern food processing techniques, and long voyages would not be possible. Processed foods are usually less susceptible to early spoilage than fresh foods and are better suited for long distance transportation from the source to the consumer. When they were first introduced, some processed foods helped to alleviate food shortages and improved the overall nutrition of populations as it made many new foods available to the masses. When designing processes for the food industry the following performance parameters may be taken into account:

- Hygiene
- Energy efficiency
- Minimization of waste
- Labour used
- Minimization of cleaning stops

(*excerpts from http://en.wikipedia.org/wiki/Food_processing#History)*

Mid America Cooperative Council

6302 Rucker Road, Suite H Indianapolis, IN 46220

Phone: (317) 726-6910 Fax: (317) 726-2630

Email: knowledge@macc.coop Web: <http://www.macc.coop>

Rod Kelsay, Executive Director

Alice Pickler, Administrative Assistant

MACC INDUSTRY SECTOR UPDATE

August, 2013

Environmental Regulation

A growing challenge to producers and their cooperatives in the 21st century is dealing with the production and business restraints brought about by environmental concerns. Producers are caught up in a myriad of regulations that seek to constrain actions that may harm the environment. Areas of likely conflict include nutrient runoff, access to scarce water supplies, and protecting open space. Cooperatives, like farmers, must deal with increasingly complex environmental regulations. Runoff from food processing facilities, disposition of chemicals, access to water, and noise and odor complaints from neighbors are some of the issues confronting cooperatives.

Industrialization: Farm to Retail Via the Supply Chain

As part of their response to the growth of consumer power, food processors and retailers are extending their influence over associated market channel activities. Firms that control key elements of the distribution and marketing system are attempting to control each level of the process, up to and including delivery to the consumer. These firms strive to assure: a) product quality that satisfies their customer's specific preferences; b) minimum costs subject to meeting the quality specifications; and c) that the associated risks are managed within acceptable levels. Food processing and distribution firms that want these large accounts must develop internal supply management systems that satisfy the retailers and convince their suppliers to adjust to these systems. Cooperatives are forced to evaluate where they stand in various supply chains from both the production and marketing standpoint. In the past, cooperatives provided a public price, making them vulnerable to undercutting and blame for perceived low product prices. Today, while many cooperatives still find themselves in that role, some of the larger ones emulate the integrated-firm practices in livestock production for which they were once suppose to be the antidote.

Structural Change in Food Processing and Marketing

Producers and their cooperatives are selling into markets increasingly dominated by fewer, larger buyers. A variety of ownership and contractual arrangements intensifies concentration and creates a dramatic disparity in market power. Even the largest agricultural cooperatives have much smaller sales and asset bases than many of their competitors and customers. Cooperatives must conform to buyers' procurement systems by adopting specific information technology that both requires and facilitates better up-front planning by suppliers in inventory, transactions and billing. Although suppliers bear more risk and cost, these types of demands are considered positive by many, because they impose a discipline that can be applied not only to other buyers but also back to raw material suppliers, as well. (*excerpts from Agricultural Cooperatives in the 21st Century - USDA Cooperative Information Report 60*)

Rod's Comments

Fruit, Nut and Sugar Marketing

Marketing cooperatives are a natural alignment of producer needs with an efficient market needs. It is common for markets to work better with more consumers having a greater choice. Marketing cooperatives align individual producers with others to build economies of scale and greater market power, than producers can have individually.

Marketing cooperatives, also, have a unique way to build equity, capital assets and inventory to assist producers market their food products. They identify the equity needed and then spread the needed capital based on the pounds of product individual producers plan to grow. Those producers who plan to grow more have a proportionally higher equity base than smaller producers.

As with most food products, price varies considerably through out the year. The final "average market price" is not established until the end of the year. So the final payout is not made until all bills are paid and proposed investments are allowed for the following year. So in a marketing cooperative, an estimated price is established with an allowance retained for operating the cooperative. For example, if you expect the average price to be \$1.00 per unit and you need 20 cents to run the operations & allow for future growth, a coop may allow an additional 5 cents to be retained to account for market fluctuation. So soon after delivery the producer would receive 75 cents at harvest for their product and have 25 cents as retained. If the coop is able to sell the product at a higher than expected price, the end of the year adjustment will be greater than the calculated 5 cents return. If it is a poor year, then the final payout could be less.

The need for marketing cooperatives grows dramatically when several individual farmers grow perishable products such as blueberries, cherries or apples, which ripen at about the same time.

The individual producer sees value in their cooperative in several ways. First, they market as a common group and have more market power to a wider market than they do as individuals. Thus, it is more difficult for individual buyers to pit one grower against another to drive the market price down. However, the challenge is that not all growers have the same quality and care must be taken to reward growers for premium products. Second, the cooperative can better coordinate sales to a larger market than on an individual basis, thus allowing the harvest to flow more smoothly to meet the demands of the market. Third, the co-op has more capacity and financial strength to build facilities that can process and store the fruit. As an example, many cooperatives have cold storage to hold the fruit in optimum condition until ready for market. These are large facilities that would be difficult for individual growers to own and operate. Another side benefit, is that cooperative members may be more likely to share best practices and improve overall product quality to meet the demands of the marketplace.

MACC has five member cooperatives that have helped their growers achieve top prices and greater quality. They are: *Cherry Growers Inc. in Grawn, MI; Chestnut Growers Inc. in Milford, MI, MBG Marketing (blueberries) in Grand Junction, MI; Michigan Sugar Cooperative in Bay City, MI; and North Bay Produce (apples, blueberries, cherries, etc.) in Traverse City, MI.* Employees and directors from these cooperatives have realized value from MACC's cooperative education programs.

The logo for Cherry Growers, inc. features the company name in a red, cursive script font.The logo for Chestnut Growers, Inc. features the company name in a yellow, bold, sans-serif font with a small tree icon to the left of the word "Growers".The logo for THE BLUEBERRY PEOPLE features the text "THE BLUEBERRY PEOPLE" in a blue, sans-serif font, with "MBG Marketing" below it. To the right is an illustration of three blueberries.The logo for PIONEER • BIG CHIEF MICHIGAN SUGAR features a blue silhouette of a cow, a wagon, and a sugar cane stalk. Below the illustration, the text "PIONEER • BIG CHIEF" is in red and "MICHIGAN SUGAR" is in blue.