Joint ventures between a cooperative and a food marketing corporation have some unique features for coordination of a long-term balance between supply and demand. The food marketing corporation usually has substantial demand-influencing abilities, strong consumer access through its brands, and a substantial market information base regarding consumer behavior and long-term demand. Many cooperatives through their close linkage with their grower members can have substantial influence on supplies of that commodity (at least for the partner food corporation's markets). Because the food marketing corporation has an especially advantageous position in regard to long-run demand and the cooperative has an especially advantageous position in regard to long-run supplies, linking these two types of firms together in a long-term joint venture can provide a favorable base for affecting a desirable balance between long-run supply and demand. (This approach can also offer other advantages for both parties).

Joint venture contracts usually specify the basis on which the corporation and the cooperative will participate and share returns as markets change both from year to year and over a longer period of years. Thus joint ventures commonly include both (a) a substantial flexibility to meet changing economic conditions and (b) a long-term commitment by both parties. The long-term commitment recognizes the long-run investment situation for orchards, facilities, and demand-expansion programs. Particularly in comparison to long-term contracts in which prices and quantities are specified, the joint venture approach involves more flexibility.

The flexibility feature of joint ventures can provide substantial advantages, especially in view of rapid changes which often occur in our economy. This flexibility can also pose substantial challenges in order to provide equitable treatment for both parties under different economic situations. Most successful joint venture contracts include a number of carefully designed provisions to provide equitable treatment for both parties under various economic circumstances. Successful joint ventures also need strong commitment by both parties to development and continuous implementation of an equitable arrangement.
In a long-term joint venture, the food marketing corporation commonly agrees that it will use its abilities to expand demand for the commodities produced by the cooperative. This can be very advantageous to the cooperative and to the grower members who are by necessity commodity producers and investors. Whether the expanded demand will be reflected to growers through a market for greater quantities, or through higher prices, or some of both depends upon the specifics of the particular joint venture. Because of the demand-expansion aspects, corporation-cooperative joint ventures are an approach with particularly large potential on the demand side of long-term balancing activities.

The cooperative in a joint venture usually agrees that it will supply certain quantities, or perhaps the production from certain acreages, to the marketing corporation. This can be very advantageous to the corporation in assuring them a certain portion of their supplies each year to meet the demand for their finished food products. This can be especially important to maintain customers, market position, shelf space, and to take advantage of long-run expenditures on advertising and market expansion despite fluctuating industry supplies. Thus, the joint venture can reduce risks to the corporation from inadequate supplies in certain years. With a long-run joint venture, the cooperative and its grower members will have an added incentive to balance supplies with the corporation's market needs (a reflection of demand).

A key question with joint ventures is: Which party, the corporation or the cooperative, will bear most of the responsibility for coordinating the annual fluctuations in crop production? Growers would prefer that the corporation agree to take the production from a specified acreage. This places a greater short-run coordinating burden on the food marketing corporation. The corporation would usually prefer that a joint venture be tied to certain tonnage. This approach would place a greater short-run coordinating burden on the cooperative and its grower members.

Some joint ventures include a compromise approach on quantities marketed. The corporation agrees to take up to a maximum specified tonnage in large-crop years from contracted acreage, and growers must deliver the produced tonnage from that acreage in a short-crop year, but do not have the additional requirement to deliver specified minimum tonnages in a short-crop year. This results in both parties carrying some risk from supply fluctuations. The corporation carries some risk of short supplies in certain years while growers, or the cooperative, carry some risk from over-production in large-crop years.

If a joint venture specifies a maximum quantity which will be taken each year by the corporation, the cooperative and/or its member growers will be unlikely to include their entire production in the joint venture. The cooperative or individual grower-members would need additional market outlets to sell their production in large-crop years.

If the corporation in a joint venture agrees to take all of the production from a given acreage, the cooperative or member growers would be more inclined to contract all of their production through the joint venture. This would not, however, be absolutely necessary as long as the joint venture covered a certain designated acreage. If the corporation agreed to take the production from a given acreage, it would be likely that the corporation would engage in the joint
venture for only a portion of the commodity tonnage used in its business. The corporation would then attempt to balance the short-run fluctuations in production from the joint venture's contracted acreage by purchasing supplemental raw product supplies from other sources.

Whether the joint venture contract involves quantities based upon acreage, tonnage, or some combination of these two, joint ventures commonly include provisions to adjust quantities up or down over a longer-run period of years with changes in market demand and other economic conditions. Both parties will likely desire that the market, and hence the quantities needed, would expand over time—especially as the corporation's demand-expansion abilities were successfully implemented. This desire can be especially important for the commodity growers and their cooperative.

If the demand for the commodities in a joint venture changes over a period of years, the cooperative and its members could adjust their bearing acreage accordingly. Thus, the joint venture can facilitate gradual adjustments of orchard productive capacity to changing economic conditions and demand.

Prices paid to the cooperative in a joint venture may be based upon processor sales prices, retail prices, or competitive market prices for raw products of comparable quality during a specified period. There may be adjustments in prices paid to the cooperative for changing conditions in regard to processor margins, brand position, qualities, etc. A requirement for success in the joint ventures is that the basis for determining price is adequately and carefully designed so that both parties are treated equitably over a long period of years with changing market conditions.

By specifying the basis for price determination, but not specifying prices themselves far in advance of production, substantial flexibility is included in the joint venture approach. This can greatly facilitate a willingness by both parties to enter a long-term contractual relationship. With this joint venture relationship, the two parties can use their special abilities to influence demand by the corporation and supply by the cooperative and its grower members over a long period of years.

Advantages

• A joint venture can provide a long-term basis for balancing both supply and demand with considerable flexibility to respond to changing economic conditions.

• The food marketing corporation uses its special capabilities for demand expansion and consumer access for the grower cooperative's commodities.

• The cooperative and its grower-members use their special position to influence supplies and productive capacity for the corporation's market segments.

• The corporation can supply substantial market information, especially on long-run demand, for the cooperative's commodities.

• A joint venture can reduce investment risks for both parties.
Disadvantages

- The flexibility to meet changing economic conditions may provide less assurance to one or both parties than is provided by some other supply-demand coordinating mechanisms.

- A key challenge is to provide equitable returns to both parties for their contributions. If this challenge is not met, it can provide a disadvantage to one party.

- A highly diversified food marketing corporation may not be inclined to allocate as much demand-expansion resources to the joint venture commodity as are expected, or as would be desirable for the cooperative growers. (A long-term joint venture would, however, tend to increase the commodity allocations of a diversified food firm's demand-expansion activities.)

- Some joint ventures allow for the corporation to discontinue a commodity on relatively short notice which substantially reduces the long-run coordinating value to commodity growers.

- A joint venture may require greater grower investments than certain other supply-demand coordinating mechanisms.

- The cooperative usually gives up some control compared to operating on its own.

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This publication is one of a series on "Coordination of Long-run Supply and Demand for Perennial Crops." Leaflets in this series include:

#1 AN OVERVIEW
#2 GROWER ACREAGES INFLUENCED BY PRICES RECEIVED
#3 GROWER COOPERATIVES
#4 COOPERATIVE-CORPORATION JOINT VENTURES
#5 COMMODITY DEMAND EXPANSION
#6 MARKETING ORDERS
#7 LONG-TERM CONTRACTS AND FORWARD DELIVERABLE CONTRACT MARKET
#8 GOVERNMENT PAYMENTS FOR ACREAGE REMOVALS