

NORTH DAKOTA
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THE MARKETING POOL: A Marketing Alternative

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Interest in marketing pools is a reflection of producers' concern and frustration with the present marketing system. Producers are particularly concerned about the apparent inability of the marketing system to maintain product quality and reasonably stable prices at levels that will give them a reasonable return on their investment. Farmers know that as individuals they are price takers in the marketplace rather than price makers. As individuals, their bargaining power is limited by the fact that each farmer controls such a small portion of the supply that whatever he does will have no great impact on price. With all out production and the threat of a return to surplus, low commodity prices are a real concern. As a result, the idea of marketing pools as a method that might improve the producer's bargaining power in the marketing system is being re-examined.

controlling a reasonably large proportion of the supply can undertake more sophisticated efforts to exert influence on buyers or price or both. The greater the percentage of supply the pool controls, of course, the greater its influence can be. Also the more influence or power the pool exerts, the more responsible it must be if it wants to avoid having its power legislated away by the consumer and government.

What Kind of a Marketing Strategy Will a Marketing Pool Employ?

The marketing strategy a pool employs will vary from one marketing year to the next depending upon market conditions, pool supply, the objectives of the pool and the philosophy of the pool membership. Whatever strategy is employed has advantages and disadvantages.

What Is a Marketing Pool?

A marketing pool is simply a method whereby producers pool (co-mingle) their production for purposes of selling in a way they hope will be most advantageous.

A strategy often used by marketing pools is to adjust the commodity flow to the market by orderly marketing or feeding the market in such a way that the commodity will go to the best market at the most favorable time and at the best price. To the extent that this can be done, gluts and shortages, seasonal or otherwise, will tend to be eliminated and prices will be stabilized. This is a reasonable and sound marketing strategy, but it also has its limitations. The result will be an average pool price that may be little higher than the average market price for the year. Pool management may be criticized for not being able to do much better than the average.

How Does a Marketing Pool Operate?

The producer delivers the commodity to the pool. In many instances the producer is required to commit a specific quantity to the pool. Shipping and marketing authority is delegated to pool management or to a sales agent that is designated by the marketing pool. Most pools make an initial payment that is somewhat less than the estimated market price to the producer upon delivery to the pool. At the end of the pool marketing period, sales are totaled, expenses deducted and the balance prorated back to the producers on the basis of participation in the pool. In other words, each producer receives the average price received by the pool for the marketing year with adjustments for grade, transportation, etc.

For the marketing pool that controls a significant proportion of the supply, a marketing strategy may be to withhold supplies from the market and bargain for a higher price. This strategy may be successful in raising price but it can also create problems. If the pool holds too long, it soon interferes with the next year's production. Holding tends to disrupt an orderly and efficient commodity movement which raises costs and causes inefficiencies such as going from shortages to surplus of transportation equipment.

From an operational viewpoint, the way a pool operates depends to a large degree on the amount of commodity it controls. Pools controlling limited amounts and proportions of the supply can only attempt to sell at the best time and in the best markets. Very little opportunity exists to exert any bargaining influence on the buyer or price. Pools

In the long run, unless the marketing pool has control over production, the higher price one year will encourage an even greater output and supply to be marketed the next year. It will become more and more difficult for the marketing pool to sell more and more at a higher price unless demand grows faster than supply.

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When holding a commodity off the market for a certain price, pool management must also be concerned about what their action will do to the supply that is not controlled by the pool. Holding for an unrealistically high price provides an umbrella for the competition. Using North Dakota Hard Red Spring wheat as an example of what might happen, assume all wheat was controlled by a pool and the pool decided not to sell until price reached \$6 per bushel or some other pre-determined price that was sharply above prevailing levels. This action would be a boon to North Dakota's competitors who also have Hard Red Spring wheat and other classes of wheat that can serve as a substitute for Hard Red Spring wheat as long as they were willing to sell at any price less than \$6 per bushel. In this case, the pool becomes a residual supplier only after all other sources have been exhausted.

The problem with holding grain off the market in this example is that although Hard Red Spring wheat is North Dakota's major crop, in the bigger picture its production becomes much less significant. In 1975, for example, North Dakota produced about 156 million bushels of Hard Red Spring wheat. This is about 48 percent of the U. S. Hard Red Spring wheat crop, which is about 7.5 percent of the total U. S. wheat crop but only about 1 percent of the world's wheat crop. From a world viewpoint, North Dakota's production becomes so insignificant that it won't matter much one way or another whether North Dakota holds or sells its Hard Red Spring wheat. This example illustrates a limitation of marketing pools — the inability to control a sufficient amount of the supply to exert any degree of bargaining power.

Another strategy that pools may take is to attempt to develop a premium market for their commodity. Here the purpose is not only to obtain a higher price for their commodity than others receive for a similar commodity but also to develop a steady preferred demand for their commodity. If the pool can convince buyers that its commodity is better than those from other sources, then the pool can exert some bargaining power. Let's again use North Dakota Hard Red Spring wheat as an example. If a marketing pool has control of a major portion of North Dakota's Hard Red Spring wheat, and if the marketing pool can convince buyers that North Dakota Hard Red Spring wheat is distinctly better than any other Hard Red Spring wheat based on buyers' standards, then the pool is in a

position to exert some bargaining power on the buyer and extract a higher price for North Dakota's Hard Red Spring wheat than for Hard Red Spring wheat from anyplace else in the world. The problem with this approach is to know just how much higher price can be charged before the substitution of lower priced Hard Red Spring wheat from other areas causes a serious reduction in demand.

One method that can be used to achieve this strategy, even when the pool does not control a major portion of the supply, is the use of Product Identity Preserved arrangements. Under these arrangements, the seller guarantees that the wheat delivered to the buyer is the same physical lot of wheat that was shipped from the origin and that it has not been co-mingled with wheat of other origins or qualities as it was transported through the marketing system.

What Does the Producer Gain by Participating in a Marketing Pool?

By participating in a marketing pool, the producer gains a professional marketer to do his marketing for him. An effective pool manager would be expected to have more marketing information, access to more markets and more competence in developing more profitable marketing strategies than the individual producer. By virtue of the larger quantities the pool controls, it will hopefully have increased bargaining power which may enable the pool to sell at a higher average price than the farmer would have received if he did his own selling. He also knows he will share in any profits gained from handling and marketing.

What Does the Producer Give Up to Participate in a Pool?

The producer gives up all decision making related to marketing. This includes the opportunity to sell grain at the season's peak market price and the right to make forward sale or deferred sale contracts. For producers who do not keep up to date on market developments and prices, turning over the marketing decisions to the pool expert may be an advantage rather than a disadvantage.

Will a Marketing Pool Reduce Marketing Costs?

A marketing pool will not reduce marketing costs unless the volume is large enough to benefit from economies of size or unless excess margins exist. In the export market, for instance, most wheat sales are made in terms of thousands of tons so it is doubtful a pool could find any cost savings from large sales. In fact, marketing costs for a pool may be greater than under the traditional marketing system if small volumes are handled because the per unit selling costs of small volumes are naturally higher than large volumes. This is one of the disadvantages of developing small specialty markets. In our present marketing system, it is difficult to know if or when excess margins and profits occur. It is reasonable to assume, however, that in the normal course of doing business large profits will be made on some occasions, and on some occasions low margins and losses are made. In the longer run, the competitive nature of our free enterprise system would be expected to eliminate excess margins and profits.

Summary

There are three general levels of activity in which a marketing pool can engage. They are:

1. Price Averaging - The objective is to achieve price stability by using a marketing strategy that averages out seasonal price variations. This is the simplest kind of activity in which a marketing pool can engage.

2. Supply Control - The objective is to obtain a higher price by (a) restricting supply or by (b) developing a premium market. On a small scale, the success of some form of supply control will be limited because of the substitution effect which encourages buyers to purchase other products whenever supply is restricted or prices are increased.
3. Foreign Sales - The objective is to sell directly to foreign buyers. This is the most sophisticated and demanding kind of activity in which a pool can engage. Identity Preserved Arrangements may be used to stimulate sales.

Marketing pools are viewed by some as a possible defense against volatile markets and a way to become more actively involved in the marketing of agricultural products.

The most successful marketing pools will be those that have the most control over supply and fulfill a need that isn't being met by the marketing methods presently employed or be able to perform the marketing functions better and more economically than is presently being done.

In considering change in methods of marketing, producers must recognize that there are advantages and disadvantages to every method. In order to gain something, something must generally be given up, so when evaluating marketing alternatives, it might be well to remember the old phrase: "You can't have your cake and eat it too."