Can cooperatives brand? Exploring the interplay between cooperative structure and sustained brand marketing success

Michael Beverland *

Department of Management and Marketing, University of Melbourne, 161 Barry Street, Alan Gilbert Building, Parkville, Vic. 3010, Australia

Accepted 25 October 2006

Abstract

The marketing of much New Zealand farm produce has often been left in the hands of farmer/grower co-operatives. Increasingly concerns have been raised about the effectiveness of such structures. Marketers have identified the need for cooperatives to move from a farmer centric to a market centric approach. However, questions have been raised about the viability of traditional cooperative arrangements to support a market-oriented strategy. This article examines the ability of traditional and new generation co-operatives to develop and support market-based assets including brands and long-term relationships with channel buyers in order to develop a sustainable position for their members and increase returns. The findings suggest that traditional cooperatives may be able to develop innovative marketing programs but struggle to support them over the long-term due to problems in ownership structures. The new generation co-operatives studied had more sustained long-term success, as members were able to capture the equity of intangible assets such as brand value, thus ensuring they undertook actions (such as channel support) consistent with building a sustainable long-term positioning.

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Keywords: New Generation Cooperatives; Marketing; Branding; New Zealand
Introduction

Brands are a ubiquitous feature of modern markets. Intangible assets such as brands provide firms with strong returns, awareness among consumers and trade buyers such as retailers, and provide firms with assets that are difficult to imitate (Anderson and Narus, 2004; Keller, 2003; Webster and Keller, 2004). Brands therefore, represent the opposite of a commodity – products that have little differentiation in the eyes of the marketplace and whose value is determined solely by the forces of supply and demand (commodity suppliers are typically price takers; Crocombe et al., 1991). Agribusinesses have often been slow to develop brands (Beverland, 2005a), preferring instead to seek government protections, improve efficiency, or reduce buyer power through collective supply and marketing arrangements such as co-operatives or producer boards. For many of these cooperatives there has been a belated recognition of the need to invest in marketing and break the commodity cycle (Beverland, 2005a; Edwards and Shultz, 2005). External forces, such as changes in consumer demand, retail, and the competitive landscape have also driven firms to take a more market-oriented approach, which includes the use of brands (Edwards and Shultz, 2005). Yet, research on repositioning commodities as brands remains scarce, and to date, research has been silent on the effectiveness of agricultural cooperatives in developing market-oriented brand programs.

Such research is important in light of debates about the effectiveness of traditional cooperative arrangements to deliver sustainable returns (Cook and Iliopoulos, 1999; Van Bekkum, 2001). Traditional cooperative structures are limited in effectiveness because of “vaguely defined property rights [that] create losses in efficiency because the decision maker no longer bears the full impact of his or her choices” (Cook and Iliopoulos, 1999, p. 528). Given that brand leadership requires a supportive firm structure or orientation (Aaker and Joachimsthaler, 2000; Jaffee and Masakure, 2005; Keller, 2003; Urde, 1999; Yakimova and Beverland, 2005), an examination of the ability of traditional and new generation cooperatives to develop and support brand position is timely. This article examines this question using five New Zealand case studies.

In New Zealand, as in many countries, the export marketing of agricultural products is often left up to cooperatives. These cooperatives have been empowered by the legislature to conduct collective marketing on behalf of all agricultural producers within their industry and often have single desk selling provisions that give them the sole right to market and sell agricultural produce. Wilkinson et al. (1998) stated that export-grouping schemes set up by governments try to obtain benefits from coordinated action between members. Benefits included the sharing of information for mutual advantage, and pooling resources to gain economies of scale and scope. These groups focus on the creation of collaborative advantage in order to achieve a competitive advantage with relationships playing a vital role in ensuring the long-term success of these schemes.

For example, Hobbs et al. (1998) argued that the Danish Pork industry’s success was achieved through a coordinated approach to production, processing and marketing, built on an understanding of the requirements of different markets, dedication to quality to provide reliable and consistent supply, tailored to the needs of individual markets. The umbrella organization Danske Slagterier was partly responsible for this strategy and encouraged close cooperation among all stages of pork production and the value chain. Wilkinson et al. (1998) stated that a clear export goal was needed in order to gain export success for these groups, but the interests of members must be
balanced with that of the group, with gains likely to be unequal amongst group members.

Despite some successes, these representational structures have come under increasing criticism (Crocombe et al., 1991; Van Bekkum, 2001). New Zealand agricultural producers (indeed the majority of agricultural producers) have been slow to adopt a market orientation that involves the development of strong brands for their products to differentiate their offer in the marketplace. Traditionally many producers of fresh produce have seen their responsibility for the product end when their produce leaves the farm/orchard gate (Beverland, 2005a; Crocombe et al., 1991; Edwards and Shultz, 2005). Despite qualitative differences between the produce of one country and another, competition is generally on the basis of price, with consumers being provided with few cues as to why the produce from one country may be better than that of the next:

“Emphasis has been placed on large volume, throughput to a large number of independent buyers who purchased unbranded, undifferentiated produce on an ad hoc, transactional basis from the supplier who offered the best price and quality at the time” (White, 2000, pp. 7–8).

Recent efforts have focused on increasing product quality as a means of market differentiation. However, Lichtenthal and Long (1998) stated that it was no longer sufficient for firms to produce a technically superior product. Miles et al. (1997) stated that future success would require the adoption of strategic planning models by agribusiness. This will involve the development of augmented products that includes strong brands, close relationships throughout the supply chain, a market orientation, and a unique selling proposition (Anderson and Narus, 2004; Jaffee and Masakure, 2005; Webster, 2000).

Because of these criticisms, a number of these cooperatives have sought to develop new strategies. Despite some successes, a number of problems remain. Researchers interested in cooperatives have begun to question whether traditional cooperative structures are effective in building sustainable returns, achieving a market orientation, and building and sustaining brands (Beverland, 2005a; Cook and Iliopoulos, 1999; Crocombe et al., 1991; Edwards and Shultz, 2005; Van Bekkum, 2001). Others have argued that their compulsory nature ties all members of an industry into one set of strategies, which will not provide an environment for innovation (Crocombe et al., 1991). Economic schools such transaction cost economics hold that ownership structure will impact on the ability of firms to position themselves in the market, and capture value from their activities (Hunt, 2000). Agricultural cooperatives are in theory “owned” by the industry or farmers they represent. However, in practice these boards lack the commercial structure to capture the value of their marketing activities (Cook and Iliopoulos, 1999). The political nature of each board often leads to a short-term focus as farmers demand increased prices or returns, which can often come at the expense of long-term value and strong supply chain relationships (Gifford et al., 1998). This has potential negative implications for brands. Brands represent a promise to consumers and other relevant stakeholders, and thus must be at once relevant and consistent (Keller, 2003). Yet, many cooperatives engage in brand marketing to increase prices at auction, an activity that often undermines the brand promise of stability (particularly so for business buyers who require reputable suppliers that ensure stability of price and supply; Beverland, 2005b).
This paper examines five case studies of New Zealand agricultural cooperatives that have attempted to create sustainable competitive advantages through branding. The article has the following structure. First, we present details of our cases and case methodology. Second, we present our findings. Finally, we identify the contributions of this paper to theory, practice and policy.

Method

As this article sought to explore the ability of different cooperative structures to implement brand marketing programs (i.e., the interaction between process and structure) we choose a qualitative research design. This enabled us to gain a holistic perspective on each case’s approach and capture all of the potentially rich and meaningful characteristics of each brand-marketing program (Lewin and Johnston, 1997; Yin, 1994). The sampling technique was purposive – that is, cases were selected based on the likelihood they would provide useful findings (Yin, 1994). Given the focus of the article we sampled both traditional and new generation cooperatives that have engaged in brand building exercises. Traditional cooperatives are characterized by poorly defined property rights (Cook and Iliopoulos, 1999). We sampled the case of the New Zealand Game Industry board. Also, we were able to analyze the attempts at branding by Fonterra (or the New Zealand Dairy Board [NZDB] as it was known) and Merino NZ (or the NZ Wool Board) prior to their change to new generation cooperatives. In contrast, new generation cooperatives possess some of the following characteristics: transferable equity shares, appreciable equity shares, defined membership, legally binding contract delivery or a uniform grower agreements, and minimum up-front equity investments (Cook and Iliopoulos, 1999, p. 529). We sampled the cases of Zespri, Merino NZ, Sealord, and Fonterra. In total, five cases were examined. Five cases are believed to be sufficient for reliability (Yin, 1994).

The research design followed the multiple case study approach recommended by Eisenhardt (1989). Each organization was contacted and interviews were set up with key people. In all, 16 interviews were conducted (six at the Game Industry Board, five at Zespri, two at Merino NZ and Fonterra, and one at Sealord). Weitz and Jap (1995) have recommended the use of multiple informants. The number of interviews depended on the complexity of each case, the number of people involved with each strategy, the availability of secondary information, and the size of each organization. Details are provided in Tables 1 and 2.

Following the interviews, secondary data were sought from each organization. This consisted of a range of company reports, performance information, marketing material, and market research studies. For the Merino NZ and NZDB/Fonterra cases, McKinsey and Company (2000a,b) had provided a review of their activities and future structure. As part of the Zespri case, a student of the author conducted an initial brand awareness and consumer behavior study to assist with the introduction of new kiwifruit brands into the New Zealand market. Each industry had also formed part of a project conducted by Crocombe et al. (1991). An independent search was also conducted through the popular business and general press, and television for further information on each case. All cases have a high profile in New Zealand, and this search resulted in significant new information that confirmed, and in some cases challenged the views of the participants. This information was reviewed and integrated into a full industry case summary.
In order to enhance validity and reliability, a standard set of questions were used for each interview (Johnston et al., 1999; Yin, 1994). The topics for discussion centered around seven key categories: history and development of the strategy, market environment, market entry, performance, brand management, future aims and challenges, and the content of the strategy. This interview protocol only formed a guide for each interview, as new issues emerged in each case that required further investigation. A draft of the case was sent back to each interviewee for comment. In each case, the interviewees gave extensive feedback, although much of it consisted of correcting dates, answering questions posed by the author, or commenting on interpretations. In each case, the informants would answer some of the challenges posed by the secondary information. Following this, each case was analyzed using the dual process of within-case analysis and across-case analysis recommended by Eisenhardt (1989). To do this, the author firstly coded each case, and then discussed the codes with two experienced qualitative researchers.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Number of interviews</th>
<th>Interviewees</th>
<th>Secondary information</th>
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<tbody>
<tr>
<td>NZGIB (Venison)</td>
<td>6</td>
<td>Concept Designer, Venison Company Owner and Cervena Franchisee, Current Chairman, Marketing Manager, 2 former Chairmen</td>
<td>Company documents, Historical Case Studies of deer industry, Web site information, Newspaper and business periodical reports</td>
</tr>
<tr>
<td>Zespri (Kiwi fruit)</td>
<td>5</td>
<td>Manager, Turners and Growers (wholesaler of fresh produce), Marketing Manager Australasia, Market Analyst, Brand Manager, Business Development Manager</td>
<td>Business periodicals, Company reports and marketing material, The author also conducted a consumer survey on brand awareness among consumers (see Beverland, 2001), Focus group of consumers of fruit, Historical Case Studies of the kiwi fruit industry</td>
</tr>
<tr>
<td>Merino NZ (Wool fibre)</td>
<td>2</td>
<td>Chairman Marketing Manager</td>
<td>Newspaper and business periodicals, Company documents, McKinsey and Company (2000a), Historical case studies of wool industry</td>
</tr>
<tr>
<td>Sealord (Seafood)</td>
<td>1</td>
<td>International Marketing Manager</td>
<td>Television documentary on Sealord, Company information, Newspapers articles, Business press articles</td>
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</table>
ies of themes were identified and explored across all cases. These formed the basis of the findings and discussion.

Findings

Our findings are presented around our two key themes. First, we identify the brand strategies of each case and explore the reasons for success or lack thereof. Second, building on this first section, we explore the interaction between cooperative structure and brand program outcomes. As a means of categorizing the brand programs, we drew on Aaker and Joachimsthaler’s (2000) framework of global brand leadership. This framework proposes that ongoing brand leadership involves four interactive components: brand identity (firm reputation) and position (the components of brand identity and value proposition communicated to the market); brand architecture (the formal structure of the firms brands); brand building programs (supportive marketing programs); and, organizational structure and processes (Aaker and Joachimsthaler, 2000; see also Keller, 2003). This information is contained in Tables 3 and 4.

Brand strategies and outcomes

All the sampled cases had moved from commodity selling to brand marketing as a means of increasing returns to their members and building a sustainable form of competitive advantage. Each case developed brand identities and supportive programs targeted at either business customers (e.g., other manufacturers or resellers) and/or end-consumers. For example, Merino NZ developed an ingredient brand program targeted at lead business customers and
<table>
<thead>
<tr>
<th>Global brand leadership component</th>
<th>Merino NZ</th>
<th>NZGIB</th>
<th>Fonterra</th>
<th>Sealord</th>
<th>Zespri</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand identity/position</strong></td>
<td>Identity: Pure, innovative, highest quality fiber from one animal and country of origin</td>
<td>Identity: Grade-A meat subject to strict quality controls and sourced from one country-of-origin</td>
<td>Identity: Largest and cheapest supplier of a complete range of dairy products globally</td>
<td>Identity: Supplier of high quality seafood ingredients sourced from one location and sustainable management practices of fish-stocks</td>
<td>Identity: The preeminent supplier of specialty dairy produce for corporate customers</td>
</tr>
<tr>
<td></td>
<td>Position: strictly up-market positioning, high price, scarcity, supported with certainty of supply and customized programs for major buyers</td>
<td>Position: targeted as year round, healthy, versatile product at a high price. Positioning also includes adaptability and preparedness to work with channel members and users</td>
<td>Position: Aims to be the global leader in the supply of milk components products and solutions. Desire to work with leading pharmaceutical companies in close partnership</td>
<td>Position: Aims to be global leader of high quality, environmentally friendly seafood. Positioning also includes working directly with key customers to build strong co-brands</td>
<td>Position: develops specialist dairy products, sources others globally, and targets the top-end of any market. Positioning includes working directly with key customers to build strong co-brands, and with other like-minded suppliers to provide a full offering for customers</td>
</tr>
<tr>
<td><strong>Brand architecture</strong></td>
<td>One umbrella brand used to endorse a number of co-brands</td>
<td>Two brands, each targeted at different channels. Both brands supported by the same quality programs. Each brand endorses co-brands</td>
<td>One umbrella brand endorses multiple functional area brands</td>
<td>One corporate ingredient brand</td>
<td>One corporate brand</td>
</tr>
</tbody>
</table>
Table 4
Global brand leadership programs and supportive structures and processes for all cases

<table>
<thead>
<tr>
<th>Global brand leadership component</th>
<th>Merino NZ</th>
<th>NZGIB</th>
<th>Fonterra</th>
<th>Sealord</th>
<th>Zespri</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brand building programs</strong></td>
<td>Accessing multiple media; leveraging network relationships to build awareness; co-branding; public relations; leveraging intangible brand assets</td>
<td>Accessing multiple media; leveraging network relationships to build awareness; co-branding; public relations</td>
<td>Accessing multiple media; leveraging network relationships; co-branded alliances; public relations; targeted marketing programs for lead customers; integrated marketing communications (IMC) program globally</td>
<td>Accessing multiple media: leveraging network relationships; co-branded alliances; public relations; targeted marketing programs for lead users; IMC</td>
<td>Accessing multiple media: leveraging network relationships; co-branded alliances with customers and suppliers; public relations; targeted marketing support</td>
</tr>
<tr>
<td><strong>Achieving brilliance through accessing low cost high impact promotional activities and constant increases in product quality and leveraging network resources in new ways</strong></td>
<td>Achieving brilliance through accessing low cost high impact promotional activities and constant increases in product quality</td>
<td>Achieving brilliance through co-branded activities, and IMC activities globally. Message adapted to local context.</td>
<td>Achieving brilliance through co-branded promotions and IMC activities. Message adapted to local context. Works with stakeholders to gain further promotional opportunities</td>
<td>Achieving brilliance through mass-market campaigns, co-branded promotions, and sponsorship. Message adapted to local context</td>
<td></td>
</tr>
<tr>
<td><strong>Measuring results and brand performance by developing causal feedback on separate brand activities and customers. Information filtered back to suppliers</strong></td>
<td>Disconnect due to reliance on a single, global measure of brand impact. Information filtered back to suppliers although information provided is of limited use to enhance customer-value</td>
<td>Measuring results and brand performance with standard financial and marketing metrics. Information filtered back to suppliers to guide improvements</td>
<td>Measuring results and brand performance with standard financial and marketing metrics</td>
<td>Measuring results and brand performance with standard financial and marketing metrics</td>
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(continued on next page)
then supported this with a pull-based (consumers will pull the product through the channel) public relations program with consumers. The other cases also sought to build a reputation with key business customers, but focused most of their efforts at the end-consumer. Fonterra developed a range of fast moving consumers goods brands for the global market, while the NZGIB targeted restaurant customers, and Sealord and Zespri targeted supermarket customers with one brand (and several line extensions). With the exception of Fonterra, all of the brands were developed from scratch as part of a major repositioning effort. Fonterra already had several strong brand lines before changing to a new generation cooperative structure, while the other brands were developed either by traditional cooperatives (NZGIB) or as part of a move to new generation structures (the other four cases).

**Tables 3 and 4** identify the position of each brand and their supportive marketing programs. In relation to each case we examined initial customer feedback on the programs, and gained an assessment from the relevant marketing managers on their effectiveness. Trade customers uniformly identified that these brand strategies were setting the standard for cooperative marketing in their respective categories and were enthusiastic about the programs and their supportive materials. For example, Merino NZ very quickly gained the support of lead user Loro Piana (a critical top maker for wool cloth) in Italy, developing a jointly branded product with them (Zealander), and other secondary reports identified that this brand was setting the standard for operations in the fine wool market. In one case, a lead German buyer indicated he would not source wool from other buyers unless they copied important quality and performance standards developed by Merino NZ (key components of brand equity; Keller, 2003).
For Fonterra, branding excellence and leadership resulted in them being appointed category captain by many large retailers for the “yellow fats” category. Category captains are responsible for managing an entire category of products in store on behalf of retailers and gain strategic advantage over competitors because they effectively manage the position of competing brands as well as their own. Even the case that had the least long-term success managed to increase brand awareness among targeted buyers to 69% within two years of launch and usage rates to 36%. At the time, this placed the brand second behind the mass-market brand Angus Beef in the US (Beverland, 2005b). The other cases, Sealord and Zespri also experience strong support in retail (gaining top shelf space and in-store promotion opportunities) and increased margins.

Several factors can explain this initial success. First, many of the brands were first-movers, and thus set the standard for the category. Second, research by each of the brand teams sampled identified that there was a latent desire among consumers and business customers for more marketing investment, including the development of brands. In the case of business buyers, increased investment in innovation, marketing communications, brands, and push programs (channel promotional support) would provide them with an important point of difference to their competitors, and help solve problems regarding certainty of supply and price. For consumers, changes in lifestyles, health concerns, positive country-of-origin images, and environmental concerns presented each brand manager with the chance to build a brand identity around these attributes. Third, in the case of Zespri, NZGIB, Sealord, and Fonterra, product leadership and brand awareness had already been established with business buyers to some degree, and in some cases, end-consumers. Thus, the brand programs built on existing equity in the marketplace.

The final explanation relates to integrated nature of the brand programs. Aaker and Joachimsthaler (2000) propose that brand leadership can only be achieved through a comprehensive and consistent brand-marketing program. Consistency can be achieved through integrated marketing communications that ensures all deliberate brand messages, regardless of the source or medium effectively ensure a “one voice, one look” approach (Keller, 2003). As part of this strategy, brand value can be built through effective push and pull programs (as opposed to one or the other), because supportive brand programs at the channel level ensure ongoing uptake and support, while pull programs with end-consumers help generate awareness and demand, thus reinforcing the commitment of channel buyers to the brand (cf. Webster, 2000; see also Beverland, 2005a). As Tables 3 and 4 identify this was the approach adopted by all of the brands studied.

For example, even though Merino NZ only developed an ingredient brand, and thus invested the majority of their marketing resources in push programs, they also saw the value of making end-consumers aware of the brand story, investing in public relations (giving free gifts of high quality cloth to high profile world leaders at Apec meetings) to build consumer awareness of the fiber’s positive attributes, and developing joint promotional material with key brands (such as Smedley, Just Jeans and Icebreaker) to drive demand, thus ensuring steady orders from channels. The NZGIB adopted a similar strategy, building demand with channels through innovation and customized products and product support, while also building brand awareness through sponsorship, public relations and a high profile chef competition (the Cervena Plates competition).

The other cases invested more heavily in pull strategies because their products were lower involvement fast moving consumables delivered to the consumer in finished form. Nevertheless, the significant investment in packaging, promotions, in-store trials and
promotions, and jointly branded material (including exclusive branded lines for retailers) represented significant investments in push strategies, and again established these brands as leaders in their categories. As such, the initial success of these brands can also be explained by their successful execution of a comprehensive marketing strategy. Therefore, the cases studied followed recommended best practice (cf. Aaker and Joachimsthaler, 2000; Keller, 2003). Although each brand was successfully launched, not all managed to sustain this success.

Despite successful launch, and several years of success, the NZGIB’s Cervena brand did not sustain this success. Although the other brands faced key challenges such as the appreciation of the New Zealand dollar, increased competition, increased retailer power, challenging seasons, and various levels of imitation, their performance in terms of market share, margin and sustained returns to growers continued, and in all cases, outperformed other commodity producers. In some cases, these natural, market and macroeconomic variables seemingly had no effect on brand value (particularly for Zespri). Although the NZGIB faced these same forces, their difficulties cannot be attributed to these forces (given that they were effectively managed by the other cases), nor can they be attributed to poor management or changes in product demand and preferences among consumers. Central to ongoing brand reinforcement in these markets was a strong reputation for consistency of delivery, supply, and price (see for other markets, Keller, 2003).

Through an analysis of secondary sources such as trade articles and newspapers, and direct discussions with buyers, it became clear that success across all the cases related to careful relationship management between the cooperatives and their customers. Such activities posed several challenges for industries such as wool and venison that sell using auction pricing. Under these arrangements members judge the success of brand programs (and any marketing activity) by increased auction prices received. However, this form of pricing and feedback undermines brand position and cooperative reputation because customers require certainty of supply and price (and these brand’s often positioned themselves as “solution providers” to business customers). The business customers studied often faced significant price pressure themselves (e.g., retailers and restaurateurs), or had little ability to pass on extra costs up the channel (e.g., buyers of raw wool). Merino NZ solved this problem by removing sales from auctions and assisting sellers to form five-year, fixed price and supply contracts with their buyers (a key characteristic of new generation cooperatives; Cook and Iliopoulos, 1999). Such activities often represented the first time channel members and sellers had interacted with one another. The other cases dealt with these concerns by offering fixed prices to retailers and passing on the benefits of growth and efficiencies to their members in terms of increased share prices and asset values.

Concerns about supply and price variation particularly affected the NZGIB because their strategy targeted up market restaurants. Although these restaurants have high menu prices they also have high costs, and margins are usually made on liquor not food. As well, because the NZGIB wanted to dominate the game listings on menus and position venison as a healthy red meat alternative, any uncertainty of supply would undermine this strategy because restaurants do not change their standard menus regularly. Despite initial successes in the late 1990s, by 2004 (and today) prices per kilo of venison had fallen from a high of NZ$10 in 2001 to NZ$3.75, and reports in 2005 saw the price fall further to levels many in the industry believed was unsustainable (the economic farm surplus for deer in 2001 was NZ$1000 per hectare whereas by 2004 it was NZ$26). The buyers studied identified that
price and supply uncertainty were key problems still to be solved by the cooperative. The positive views of product performance held by these buyers indicated latent equity for the brand, demonstrating that potential demand remained high (industry insiders believed that NZ$4 per kilo was a sustainable price for buyers and sellers).

Such declines had also seen some cooperative members criticize the activities of the marketing team and the Cervena brand program (accounting for 10% of all venison sales), resulting in decreased funding for the program, and the program was relaunched under a user pays principle (entitled “Who Benefits, Who Pays”) with the US office shut down in favor of web based support. The marketing team argued that the brand strategy had lifted prices of New Zealand venison across the board (the marketing strategy involved a strong country-of-origin brand program – details of which can be found in Beverland and Lindgreen (2002)) regardless of quality, although they could not substantiate this because they did not have a separate price schedule for branded and non-branded product. As a result, in 2006 the outlook for the industry and brand remain uncertain. The next section explores why this cooperative struggled to reinforce its brand position over time and saw declining returns and performance.

The interaction between structure and brand related-outcomes

Traditional cooperative arrangements are believed to be problematic because of vaguely defined property rights, and other related problems (including free riders; Cook and Iliopoulos, 1999). In examining whether such structures undermine brand position and the process of branding per se, it is instructive to examine the responses of the NZGIB to the fall in price, and compare this with the activities of the other new generation cooperatives. Since the price per kilo started to fall for New Zealand venison in 2001, the NZGIB has responded with increased marketing efforts, and more importantly calls for farmers to increase herd size to smooth out problems in demand. At the height of the commodity price cycle, deer farmers started to sell hinds (female deer) as well as stags (males) for meat processing. The short-term impact of this was to flood the market for product, while the medium term impact was to restrict supply due to declines in on-farm breeding. As well, deer farmers have responded to low prices for venison by diversifying into velvet production (deer antler powder for traditional Asian medicines). Harvesting velvet does not involve the death of the animal, and thus supply of venison is restricted. In response, the NZGIB has urged farmers to solve the supply and demand problem by growing herd numbers by a fixed ratio of 10% year-on-year. This call is also motivated by a desire to stabilize prices at mutually sustainable levels (for buyers and sellers alike). To date, such calls have gone unheeded. The next section considers why.

In contrast to other cooperative members, venison farmers can only capture the value of marketing activity through increased prices at auction (which also have a flow on effect to farm value). In contrast to the other new generation cooperatives, the lack of tradable shares among NZGIB members means that brand equity cannot be captured by appreciating assets, and therefore members act in an economically rational manner and attempt to increase auction prices using strategies that undermine the position of the Cervena brand and the espoused statements of the NZGIB who attempt to build a strong reputation as a “solutions provider”. This strategy is a common brand position for business-to-business firms (Ford and Associates, 2002; Webster and Keller, 2004). Central to this brand position is adapting the offer (defined as the product, service, logistics, and advice;
Ford and Associates, 2002) to each customer in order to solve important strategic problems faced by these buyers. As identified earlier, the NZGIB’s key buyers require certainty of supply, quality, and price (certainty is a core part of reputation, a key component of a business marketing offer; Weitz and Jap, 1995). For the NZGIB to maintain their brand equity (and build reputational capital) they must reinforce this position with a supportive marketing program and capabilities (Aaker and Joachimsthaler, 2000; Keller, 1999). Any disconnect between espoused promises and actual delivery will result in customer dissatisfaction, complaint behavior, and relationship exit (Oliver, 1996). In the case of this traditional cooperative, the lack of defined property rights, fixed terms contracts and obligations, and tradable shares undermines the brand promise because members have no sustainable way of capturing the value of increasing brand equity and instead demand higher prices at auction – they very thing that customers do not want.

In contrast, the other cooperatives do not suffer this fate. For example, prior to the emergence of Fonterra (new generation cooperative) the New Zealand Dairy Board faced the same problems associated with poorly defined property rights. A common complaint was that the Dairy Board was required to take all milk available to them, regardless of quality, logistical costs, and market demand. This was because farmers could not exit the marketplace at a price that reflected the value of their farm (Oram, 2000). In response, the new generation cooperative structure developed as part of the move from the Dairy Board to Fonterra provided farmers with tradable shares that enabled them to exit the industry and/or sell to more efficient members. This strategy had enabled Fonterra to invest more strategically into products with high margins and growth, and enabled members to benefit directly from branding activity through share price increases. The other new generation cooperatives had similar successes, providing incentives to move away from reliance on short-term auction price increases (that undermined brand position in the long term) and move to more sustainable structures such as fixed term contracts and closer relationships with key buyers. In several cases, these closer arrangements led to increased mutual investments in these relationships, thus building in switching costs (protecting either party against short-term changes in competitors prices or input costs; Heide and John, 1990) and allowing for collaboration. In all the new generation cooperatives studied, this collaboration resulted in new product development (e.g., jointly developed Merino cloth or blends such as denim wool) and provided access to new markets or segments.

Finally, such arrangements also allowed local farmers to benefit from licensing arrangements. For example, Zespri, in a bid to ensure market leadership by developing a year round supply base, licensed the use of its new varieties (gold and now red) to European and South American growers. In the past this would have been seen as commercially suicidal, but under current arrangements, licensed foreign growers can support the promise of the brand, expand market coverage, and be required to sell at prices that do not undermine the Zespri brand position. Such licensing fees are then reflected in returns to growers (Fonterra had similar success in acquiring foreign milk cooperatives and licensing their brands to gain access to greater supplies of fresh products, thus ensuring market coverage).

Discussion and conclusion

Recognizing that these findings are exploratory, this article contributes in a number of ways. First, it explores the ability of different cooperative structures to support an
important intangible market asset, namely brands. Given calls for cooperatives to move from a production to a marketing orientation this contribution is particularly timely (Edwards and Shultz, 2005). We identify that cooperatives can develop innovative branding programs that sustain long-term customer relationships, deliver increased returns to members, and provide a strong point of difference in the market. Thus, cooperatives can break out of the commodity price cycle. This supports those who advocate greater strategic diversity among agricultural cooperatives including moving up the value chain (Crocombe et al., 1991; Gifford et al., 1998; McKinsey and Company, 2000a,b), although the long-term viability of such a strategy is dependent on cooperative structure. In particular, we find that long-term brand positioning requires a supportive governance structure that includes some of the characteristics of new generation cooperatives identified by Cook and Iliopoulos (1999). For example, although not using tradable shares, Merino NZ did require fixed term contracts and exclusive arrangements; thus each member with such customer relationships was able to directly capture brand value through ongoing returns, increases in farm prices, and new market opportunities. Such arrangements were effective in the case of Merino NZ because of its small size. In contrast, larger cooperatives (Sea-lord, Fonterra, and Zespri) used more characteristics of new generation cooperatives (fixed term contracts, tradable shares, appreciable equity shares, defined membership, and minimum up-front investments) to support their brand and general business strategy. The relationship between cooperative size, degree of new generation cooperative structures, and ongoing brand and market success requires further empirical validation.

Given the findings we also address two debates in relation to developing a market orientation, and supporting brands over time. Edwards and Shultz (2005) propose that new competitive conditions in agricultural value chains necessitate a move towards a market orientation. Our findings suggest that traditional cooperatives are able to develop a market orientation but not support it in the long-term because of the inability to maintain ongoing member commitments to key marketing metrics such as investments in marketing programs, brands, and customer relationships. Our findings also suggest that new generational cooperatives are more effective at sustaining a market orientation. These findings also require further longitudinal, empirical support. In relation to supporting brands, we find a similar relationship, supporting Aaker and Joachimsthaler’s (2000) proposed framework for brand leadership. The relationship between different cooperative structures and ongoing brand equity also requires longitudinal empirical support.

Finally, we also support calls from researchers for changes in cooperative arrangements. Importantly, we suggest that their remains a role for cooperative structures within global markets (cf. Van Bekkum, 2001). The sustained success of four of the cases, and the latent equity attached to the NZGIB’s brand, provide evidence that cooperative structures with well defined property rights can not only break commodity price cycles, they can become market leaders in terms of both market share and rate of return. As well, these structures can provide the basis for reconfiguring agricultural markets away from antagonistic buyer–seller relationships towards more cooperative and mutually beneficial relationships. All the cooperatives studied were instrumental in reconfiguring traditional networks characterized by arms length relationships into competitive networks consisting of mutually binding obligations and switching costs. The result (even in the case of NZGIB in the short term) was to increase the survivability of the entire network. The relationship between cooperative structures and the ability to maintain downstream relationships characterized by high trust and commitment (Anderson and Narus, 2004;
Beverland, 2005a) is another area deserving further empirical research. In particular, research could identify whether different cooperative structures have more sustained success over the life cycle of the relationship (see Anderson and Narus, 2004 for a discussion on relationship stages).

The findings also have practical and policy implications. In regards to practice, cooperative leaders and members should push for new generational structures in order enhance their long-term chances of survival, and market success (whether they are niche players like Merino NZ or global giants like Fonterra). In particular, members should consider seriously the ability of traditional cooperatives to support brands and a more market-oriented approach. Given the inability of traditional cooperatives to sustain a brand’s promise, members not desiring more clearly defined property rights may be best to focus on greater efficiencies and price competitiveness rather than risk a buyer backlash arising from failure to sustain the expectations raised by branding programs. In regards to policy, policy makers should encourage as many government empowered cooperatives to move towards new generational structures, while industry bodies should also review existing arrangements if they wish to capture greater value from their activities.

References