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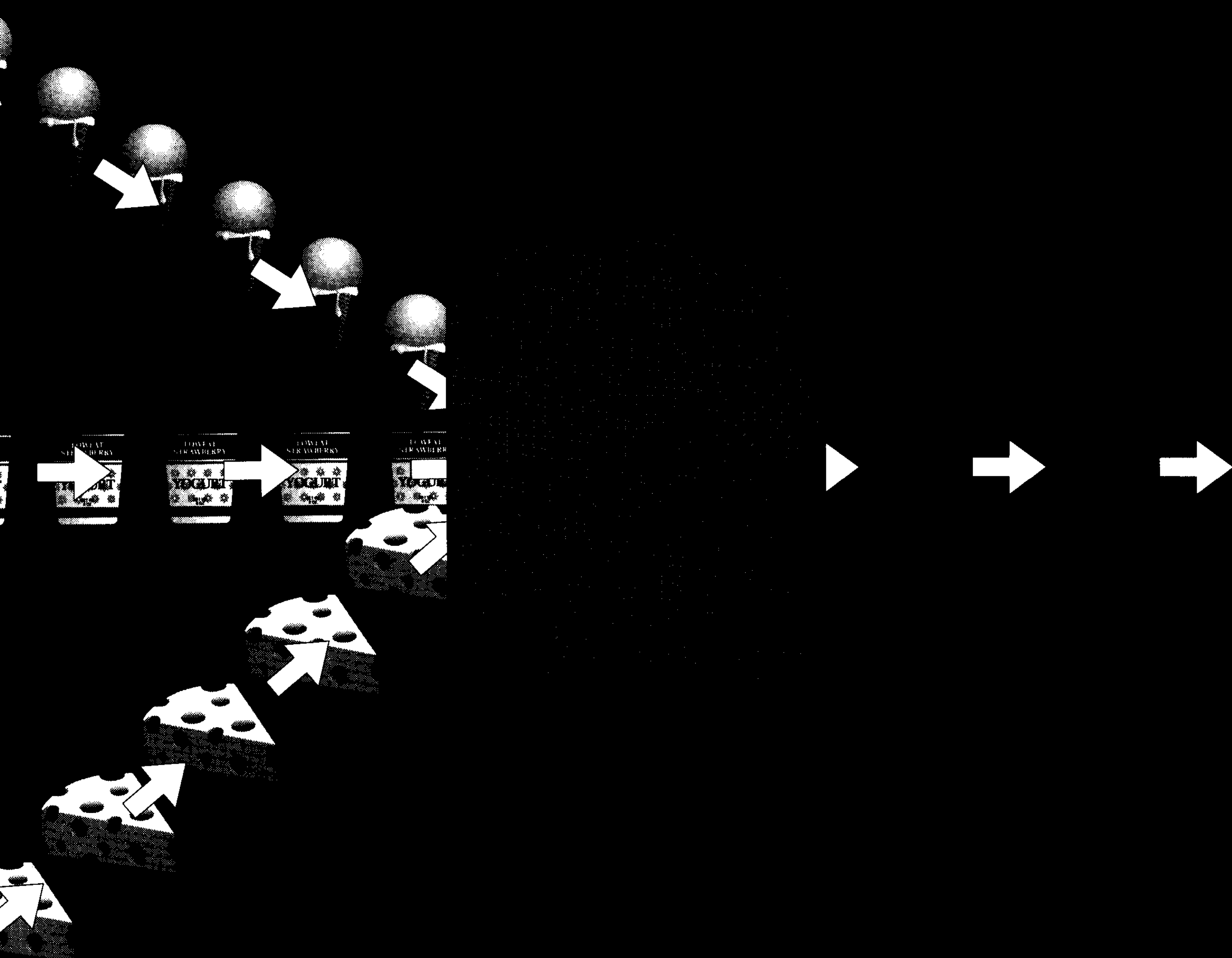
DARIMAC:

An Export Marketing Agency-in-Common for Dairy Cooperatives



Abstract

DARIMAC: An Export Marketing Agency-In-Common for Dairy Cooperatives

Carolyn Betts Liebrand
Karen J. Spatz

The report conceptualizes a marketing agency-in-common (MAC) of dairy cooperatives to facilitate the export of manufactured dairy products. A specific plan for the organization and operation of a MAC to export product(s) is described. Avenues for exporting both bulk and differentiated (value added) product lines are discussed.

Key Words: Marketing agency-in-common, dairy cooperatives, agricultural exports

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Preface

Dairy cooperatives in the United States are facing greater challenges with lower Government support prices and increased foreign competition. Liberalization of trade will present further challenges for dairy cooperatives. Previous research has demonstrated that export opportunities exist for U.S. dairy products. To take advantage of these new market opportunities and retain control, dairy cooperatives can organize a marketing agency-in-common (MAC). This report develops a model for interested dairy cooperatives to employ in designing a MAC.

In-depth personal interviews were conducted with selected MACs that are currently exporting agricultural products to examine their structures and operations. Further analysis revealed the elements necessary for a successful MAC. These elements were incorporated into a model MAC, DariMac, designed for exporting bulk and differentiated dairy products. This report is for illustrative purposes only and does not take the place of an in-depth feasibility study.

The mention of an organization's name, products or brand name is for discussion purposes only, and does not constitute endorsement or recommendation by USDA or ACS.

Acknowledgments

The authors thank the cooperatives that contributed insight into their operations, and our reviewers. We also recognize K. Charles Ling, ACS dairy program leader, for conceptualizing the project.

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Highlights

Cooperatives dominate the manufacture of many dairy products. The recent lowering of the minimum Government support price and anticipated change in international trade barriers have fostered an increased interest in exporting among dairy cooperatives.

The cost of U.S. milk production is competitive among major dairy exporting countries, the third lowest after New Zealand and Ireland. However, European Community dairy subsidies hinder the ability of U.S. dairy industry to compete on price alone. Nonetheless, there are opportunities for exporting U.S. dairy products and future growth in exporting is predicted. Numerous reports have outlined the potential for exporting U.S. dairy products.

Options for dairy cooperatives range from exporting through a domestic broker to exporting direct. A strategic alliance such as a marketing agency-in-common (MAC) is one potential avenue for cooperatives entering or expanding export markets. A MAC is a group of marketing cooperatives that market under a common agreement. A MAC would enable dairy cooperatives to capitalize on economies of size while allowing member cooperatives to maintain operational independence.

Seven MACs were studied in detail to demonstrate how groups of cooperatives have successfully used a common agency to market member products. Six of these MACs are organized as cooperatives and the seventh is the exclusive marketing agent for its seven cooperative "partners." All agencies offered a complete product line in their respective commodity category. This allows buyers to "one-stop shop" rather than having to purchase separately from multiple sources.

Like other cooperatives, hired management of the agencies is governed by their boards of directors. Six of the agencies sell to both domestic and export markets. The independent company (exclusive agent) is contracted to sell only to specific foreign countries. Six of the MACs studied had membership agreements whereby members grant authority over selected functions to the agency. Most of the MACs studied required the agencies' members to sell all their product through the agency. Three agencies own subsidiaries that operate independent for-profit companies. They expand the agencies' product lines with purchases from members and nonmembers.

Three agencies source product to fulfill an order from the member in closest proximity to the customer. Two agencies allow members the first right of refusal. When a product is differentiated, the agency chooses the member cooperative that can fulfill the specifications of an order. None of the agencies physically pool their products. However, two agencies pool revenues. The other agencies keep revenues separate for each member, passing net revenues from sales of differentiated and branded products back to the source cooperative.

All agencies market their products under a brand name and/or label identifying the cooperative or agency name. Five of the six agencies organized as cooperatives also sell nonmember goods. Two market nonmember products when short on member products and three market nonmember products to expand the product line.

Highlights

Dairy cooperatives collectively have large market shares in most bulk or commodity products, a key element for successful group marketing. Several cooperatives can manufacture "customized" bulk products and differentiated value-added products, enabling a dairy MAC to offer a wide variety of products to overseas customers.

A model agency, called DARIMAC for illustration, functions as an exclusive export trading agency for designated products of member dairy cooperatives. This model agency will serve as a resource for dairy cooperatives exploring alternative organizations to export their products. DARIMAC'S mission is to enhance the economic position of member cooperatives by enabling members to participate in international markets at reduced risk and on a long-term basis through centralized marketing of dairy products.

DARIMAC is organized as a cooperative. Member cooperatives must be willing and able to commit a specified volume of their manufactured product(s) for export. DARIMAC will serve as the export department for each of the members-finding buyers, negotiating sales, preparing export documentation, handling document transmittal, collecting from buyers, and paying the supplier. DARIMAC will provide services such as market research and promotion, quality control, and assistance in labeling and packaging.

The board will consist of one director from each member cooperative. Each member cooperative will have one vote, plus additional votes based on a moving-average of their volume of business. The number of personnel required will depend upon the diversity of products and volume of business. The staff would be comprised of a general manager, international sales manager, a transportation manager, and support staff.

DARIMAC's primary purpose will be to sell member products overseas. However, the agency will also export nonmember products on a commission basis. This will broaden the product line and fill supply gaps.

Membership agreements will require members to market any and all exports through DARIMAC. The agreements specify sales terms, contract modification and termination, and contract enforcement. Quality standards will be specified and strictly enforced.

Differentiated products will be sold on a commission basis only. Member cooperatives will commit a specified volume of their bulk products for export. Earnings and expenses associated with sale of bulk products will be pooled without a physical pooling of products. Transportation costs will be pooled and charged to members according to distance and volume. When DARIMAC secures an order for bulk products, it will select a cooperative(s) to fill the order based on buyer preference, destination, availability of product, and the cooperative's share of orders previously filled.

DARIMAC will serve as the export agent for member cooperatives. Method of export will depend upon the country and the market targeted. Initially, domestic sales by DARIMAC will be prohibited except for special circumstances, as defined by the board.

Potential members must provide funds to finance a feasibility study and organization. DARIMAC could be financed using a base capital plan. DARIMAC will pay all exporting costs from the marketing fee charged for pooled products and from the commission charged on differentiated products.

DARIMAC will use the "DARIMAC Brand" for products marketed through the agency. It will also be responsible for all advertising and promotion of member products in overseas markets. Product research and development will be the responsibility of member cooperatives, but DARIMAC will advise members of needs and tastes of foreign consumers.

Once organized, the manager will conduct in-depth market studies to determine long-term market strategy. It will be implemented in stages to ensure success. Further avenues for growth will also be considered, including forming an export trading company under Title III of the Export Trading Company Act of 1982 with noncooperatives. Expansion of markets could include domestic sales. Future strategies could also include alternative business arrangements such as joint ventures, subsidiaries, and licensing.

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U.S. dairy cooperatives continue to search for new markets and structures to address the changes in the U.S. dairy industry. The U.S. dairy market is mature-growth is expected to be generated by population growth and not by increased per-capita consumption. Increases in productivity are outstripping the needs of the U.S. domestic market and is driving the U.S. dairy industry to look beyond its borders. Continued relatively low Federal support prices for milk and increased competition from foreign competitors will require dairy cooperatives to work harder in finding profitable markets for their members' milk. On the other hand, the breakup of the former Soviet Union, along with the possibility that major milk producing nations may reduce or limit subsidies to their dairy industries, may lead to new or expanded market opportunities for the U.S. dairy industry. Research by the National Dairy Board has shown that bulk U.S. commodities currently cannot compete on the basis of price with low-cost producers in New Zealand and Australia, nor with Europe's hefty export subsidies [5][1]. Those forces push world market prices 30 to 40 percent below prices for U.S. bulk commodities like nonfat dry milk and butter. However, apart from lower cost producers and as trade barriers worldwide are under increasing pressure to reform, this price gap could shrink. When they do, dairy cooperatives should be positioned to enter international markets. Furthermore, competing in export markets could help U.S. dairy cooperatives to focus improvements in product quality and packaging, and better position themselves to meet potential competition from foreign firms in the advent of more liberalized trade.

The National Dairy Board also promotes U.S. dairy products in export markets with funds from

[1] Number in brackets refer to references.

TERMS

Bulk products or commodities
A more generic product with little to distinguish it from manufacturer to manufacturer. These are standard products commanding little or no price differences between manufacturers, such as butter or nonfat dry milk powder.

Differentiated or value-added products
Products that have been further processed or distinctively packaged and/or formulated giving it unique characteristics, setting it apart from products made by other manufacturers. Often the point of difference commands a higher price for the product, for example, branded products or specialty cheeses.

Marketing agency-in-common (MAC)
A grouping of marketing cooperatives, or a combination of marketing cooperatives and individual farmers, who market products under a common agreement. It enables cooperatives to pool resources while allowing member cooperatives to maintain operational independence.

Dairy Price Support Program
The Federal government offers to purchase surplus butter, nonfat dry milk, and cheddar cheese at announced prices. These prices are set to cover processing costs, allowing processors to pay farmers an announced minimum price for manufacturing milk.

the cooperator program of USDA's Foreign Agricultural Service (FAS) and producer checkoff funds. Dairy cooperative leaders around the country acknowledge the need for cooperative efforts in identifying ways to strengthen their bargaining power in the global marketplace and to enhance returns to members.

A strategic alliance, such as a marketing agency-in-common (MAC), is a potential avenue for dairy cooperatives to enter or expand export markets. Pooling resources and marketing expertise would allow dairy cooperatives to capitalize on the economies of size and market power of a larger organization. A MAC would enable cooperatives to develop overseas markets, facilitate and/or manage the export of manufactured products, while allowing member cooperatives to maintain operational independence. Cooperatives could collectively gain control over export activities at less cost than if each were to setup individual export departments. Relatively few dairy cooperatives have delved into international markets, so there may be fewer obstacles to cooperation between cooperatives who may have viewed themselves as domestic market competitors [2]. The few dairy cooperatives already involved in exporting may welcome the opportunity to spread the risks of international marketing, while cooperatives with limited international experience may wish to enter the global arena at reduced cost, capitalizing on the expertise of sister cooperatives.

There have been numerous reports published outlining the potential for U.S. dairy products in overseas markets, so this report will briefly review the export market potential facing dairy cooperatives. A review of other successful MACs, their structures and performance, will identify critical elements dairy cooperatives must adopt to organize a successful agency for exporting. Finally, a model organization that dairy cooperatives can use to effectively compete in international markets will be described in detail.

MARKET POTENTIAL

Dairy cooperatives hold a prominent position in the U.S. dairy industry. Cooperatives provided a market for 76 percent of all milk sold to plants and dealers in 1987, the most recent year that cooperatives were surveyed by the Agricultural Service Cooperative (ACS) [4]. A fundamental role of dairy cooperatives is to guarantee members a market for their milk. As a result, the task of balancing the supply of milk to meet demand has fallen largely to the cooperatives. Many cooperatives manufacture butter, powder, cheese, and other products (less perishable than fluid milk) to provide additional market outlets as well as to facilitate balancing activities by maximizing milk's ability to be stored and transported. As a result, cooperatives dominate the manufacture of many dairy products.

Ninety-one percent (525,000 metric tons) of all dry milk products manufactured in the U.S. in 1987 were distributed by just 31 cooperatives (table 1). Cooperatives also distributed 83 percent of the butter and dry whey products manufactured in the U.S. While 82 cooperatives (28 percent of all dairy cooperatives) handled butter, only 22 cooperatives (7 percent) distributed dried whey products. In addition, close to one-third (94 cooperatives) marketed 45 percent of all cheese manufactured in the U.S.

The risk to a cooperative of ensuring a market for its members' milk is minimized by the Federal Dairy Price Support Program. Cooperative losses are limited because the Government will purchase all butter, cheese, and nonfat dry milk (NFDM) that cannot be sold commercially at or above announced prices. USDA purchased 28 percent of the butter, 5 percent of the American cheese and 26 percent of the NFDM produced in the U.S. (annual average for 1987 through 1991) (table 2).

However, since late 1983, successive reductions in the support price for milk have increased dairy manufacturers' exposure to risk. Not only are the purchase prices for surplus products lower, but milk price movements have become increasingly volatile and erratic as market forces are less restrained by the lower floor under prices (fig 1). These volatile prices for manufactured dairy products have made managing inventories more risky.

Table 1—Marketings/distribution of selected dairy products, 1987

Product	Cooperatives that distribute	Share of dairy co-ops that distribute	Volume distributed by cooperatives	Cooperative share of U.S.	Total manufactured in U.S.
	Number	Percent	*1,000 metric tons*	*Percent*	*1,000 metric tons*
Butter	82	28	416	83	501
Dry milk products	31	10	525	91	580
Cheese	94	32	1,100	45	1,100
Cottage cheese	23	8	88	13	689
Dry whey products	22	7	414	83	498
Frozen dairy product mix	n/a	n/a	33	10	329
Ice cream and ice milk	21	7	44	592	8
Bulk whole milk [1]	251	85	24,331	n/a	n/a
Packaged fluid milk [1]	34	11	3,339	14	24,638
Bulk cream	70	24	n/a	n/a	n/a
Total dairy cooperatives	296				

Sources: *Marketing Operations of Dairy Cooperatives,* ACS Research Report 88 [4].
[1] Net cooperative volume (adjusted for intercooperative transfers); volume covered by bargaining and purchased from other sources is included.

Table P-Dairy product removals by USDA, 1987 through 1991 [1]

	1987	1988	1989	1990	1991	Average
			1,000 metric tons			
Butter production	501	547	588	591	606	567
Butter removals [2]	85	142	188	182	201	159
Cheese production	2,424	2,527	2,546	2,749	2,763	2,602
(American only)	1,232	1,251	1,213	1,313	1,272	1,256
American cheese removals	128	108	17	10	35	59
NFDM production	480	444	397	399	398	424
NFDM removals	254	121	0	53	122	110
			Removals as share of U.S. production			
			Percent			
Butter	17.0	25.9	31.9	30.7	33.1	28
All cheese	5.3	4.3	0.7	0.4	1.3	2
American cheese	*10.4*	*8.6*	*1.4*	*0.7*	*2.7*	*5*
NFDM	52.9	27.3	0.0	13.4	30.6	26

Source: *Dairy Situation and Outlook Yearbook,* Economic Research Service, USDA, August 1992.
[1] Delivery basis after unrestricted domestic sales. Includes removals under DEIP and similar export programs, may include purchases under 709 and 4a.
[2] Includes butter-equivalent of anhydrous milkfat.

Figure 1— Comparison of the Minnesota-Wisconsin (M-W) price and the milk support price, 1978 through 1992

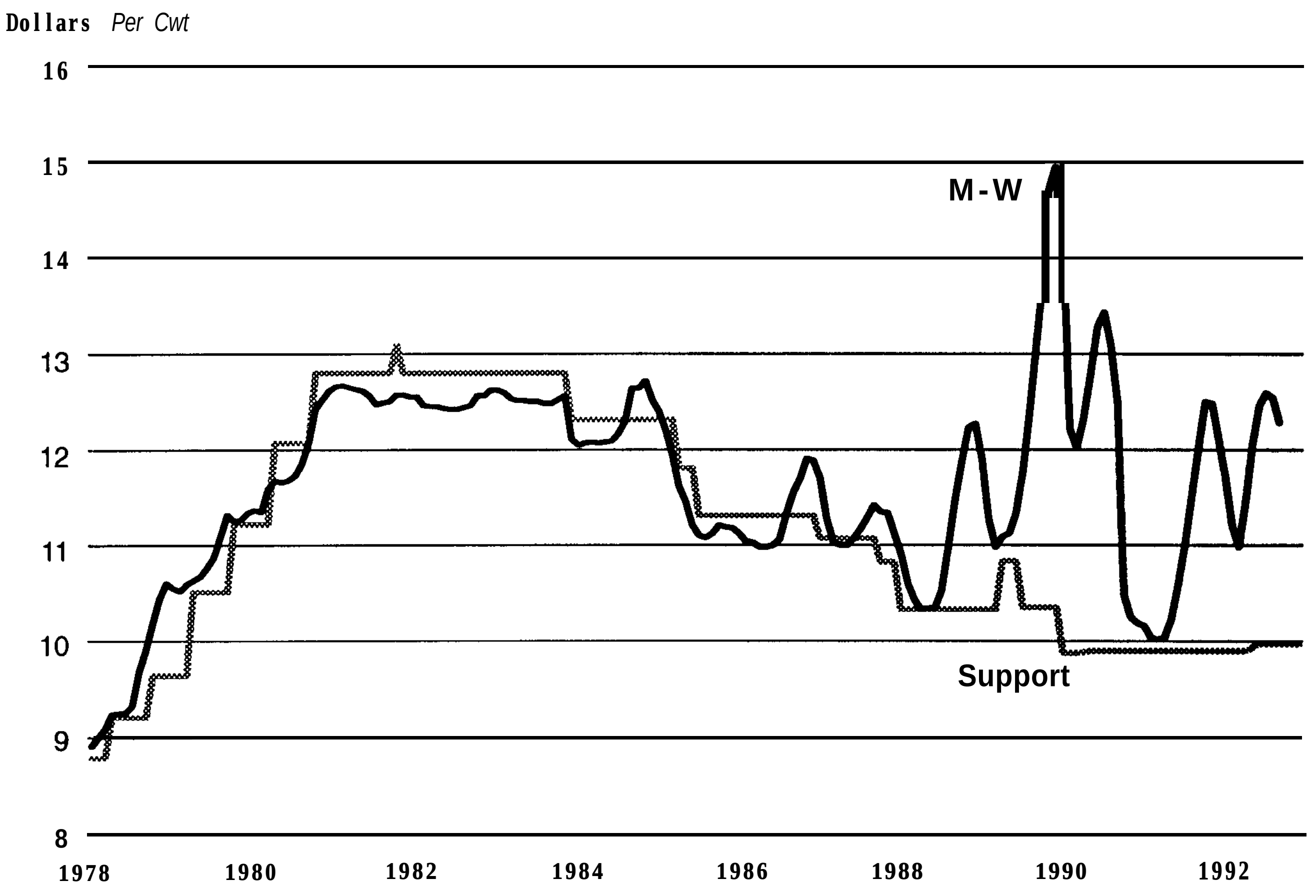


Table 3-Ranking of countries on the basis of cost of producing milk, 1988

	Cost per cwt excluding subsidies	(rank)	Cost per cwt including subsidies	(rank)
	Index U.S.=100			
New Zealand	42	(1)	26	(1)
Ireland	65	(2)	60	(2)
United States	100	(3)	100	(3)
Netherlands	101	(4)	103	(4)
Canada	140	(5)	146	(6)
France	174	(6)	140	(5)
West Germany	192	(7)	160	(7)

Source: Baker, Dereck, et al [1].

U.S. Milk Producers' Cost of Production Is Competitive

Basic to any industry's competitiveness is the cost of raw materials. Cost per unit of output measures the relative efficiency of dairy farms in different countries. A 1990 study compared milk production costs in seven major milk producing countries [1]. A ranking of countries by their costs of milk production from this study is presented in table 3.

The cost of producing milk in the U.S. was third lowest among the seven exporting nations compared. Milk production costs were lowest in New Zealand, followed by Ireland. When the value of government subsidies to producers was added in; these two nations' advantage over the U.S. increased. France and West Germany showed the highest costs per cwt of milk produced, but if subsidies are considered as part of the cost, the gap narrows somewhat between each of these countries and the U.S.

New Zealand and Ireland have significant export market shares in butter and nonfat dry milk due to their relatively low milk production costs. However, despite their efficiencies, Ireland's and New Zealand's milk production accounted for just 1 and 2 percent of the world milk supply (on average, 1987 through 1992), while the U.S. produced an average of 15 percent of the world's milk supply between 1987 and 1992 (table 4). Comparative domestic consumption also affects export potential.

Export Market Opportunities

The potential of U.S. dairy cooperatives to play a major role in exporting is largely untapped. Despite controlling a major portion of the domestic production of certain manufactured products, dairy cooperatives have not been significant exporters. In 1990, the ACS surveyed cooperative exporters [9]. Eight dairy cooperatives reported annual exports valued at $12.4 million. However, two-thirds of these sales were through domestic agents. Dairy cooperatives' share of U.S. dairy product exports was only 3.8 percent in 1990 (table 5).

U.S. exports of dairy products totalled $325 million and included a wide selection of products in 1990 (fig. 2). The leading product exported was butter, 27.3 percent of the value of all dairy product exports, followed by whey and cheese (12.1 and 11.9 percent, respectively). Ice cream exports made up 8.5 percent of all dairy exports.

Cooperatives exported a limited variety of products and accounted for minor shares of overall exports of any given product. The value of cooperative exports of each dairy product was less than 7 percent of all U.S. exports of that product. The value of cooperative exports of butter, cheese, and NFDM was a large proportion of total cooperative dairy exports (58.7 percent) (fig 3). However, the value of cooperative exports of these 3 products in 1990 amounted to just 5 percent of total U.S. exports of butter, cheese, and NFDM. The value of

Table 4—Milk production, selected countries, 1987-92

	1987	1988	1989	1990	1991[1]	1992[2]	Average
				1,000 metric tons			
U.S.	64,732	65,840	65,424	67,276	67,370	68,150	66,465
Canada	7,986	8,229	7,980	7,975	7,900	7,850	7,987
EC (total)	119,421	117,106	117,722	117,920	114,211	112,852	116,539
France	26,146	26,000	26,150	26,400	25,880	25,800	26,229
Ireland	5,751	5,573	5,575	5,595	5,527	5,467	5,581
Netherlands	11,672	11,406	11,321	11,285	11,050	10,890	11,271
West Germany	32,436	31,974	32,442	31,100	28,900	28,300	30,859
Other E.C.	42,416	42,153	42,234	43,540	42,854	42,395	42,599
New Zealand	7,245	7,936	7,406	7,746	7,973	8,334	7,773
Other countries	226,295	229,922	236,378	241,056	231,789	227,568	232,168
Total	425,679	429,033	434,910	441,973	429,243	424,754	430,932
				Percent of world total			
U.S.	15	15	15	15	16	16	15
Canada	2	2	2	2	2	2	2
EC (total)	28	27	27	27	27	27	27
France	6	6	6	6	6	6	6
Ireland	1	1	1	1	1	1	1
Netherlands	3	3	3	3	3	3	3
West Germany	8	7	7	7	7	7	7
Other EC	10	10	10	10	10	10	10
New Zealand	2	2	2	2	2	2	2
Other countries	53	54	54	55	54	54	54
Total	100	100	100	100	100	100	100

Source: *World Dairy Situation*, Foreign Agricultural Service, USDA, selected issues.

[1] Preliminary.

[2] Forecast.

Table 5—Exports of dairy products by reporting cooperatives, 1990

Product	Value of co-op exports [1]	Share of total co-op dairy exports	Value of all U.S. dairy exports [2]	Share of total U.S. dairy exports	co-op share of U.S. exports by product
	Dollars	*Percent*	$1,000	*Percent*	*Percent*
Commodities—	7,300,823	58.7	145,760	*44.8*	*5.0*
Butter & anhydrous milkfat	(3)		88,639	*27.3*	
Cheese	(3)		38,726	11.9	
Nonfat dry milk	(3)		18,395	5.7	
Whey, fluid or dried	2,618,226	21.1	39,228	12.1	*6.7*
Lactose	441,523	3.6	16,755	*5.2*	*2.6*
Other—	2,071,540	16.7	123,490	*38.0*	*1.7*
Casein			8,780	*2.7*	
Donations			13,511	*4.2*	
Evaporated and condensed milk			3,588	1.1	
Fluid milk and cream			17,385	5.3	
Ice cream			27,681	8.5	
Ices			3,176	1.0	
Miscellaneous	(3)		24,860	7.6	
Other whey products			3,931	1.2	
Puddings	(3)		2,568	0.8	
Rennet and concentrates			7,443	2.3	
Yogurt and buttermilk			10,567	3.2	
TOTAL	12,432,112	100.0	325,233	100.0	*3.8*

[1] ACS survey of cooperative exporters.
[2] *Foreign Agricultural Trade of the United States, Calendar Year 1990 Supplement.*
[3] Confidentiality requirements prohibit release of data.

Figure 2— **U.S.** dairy exports, 1990

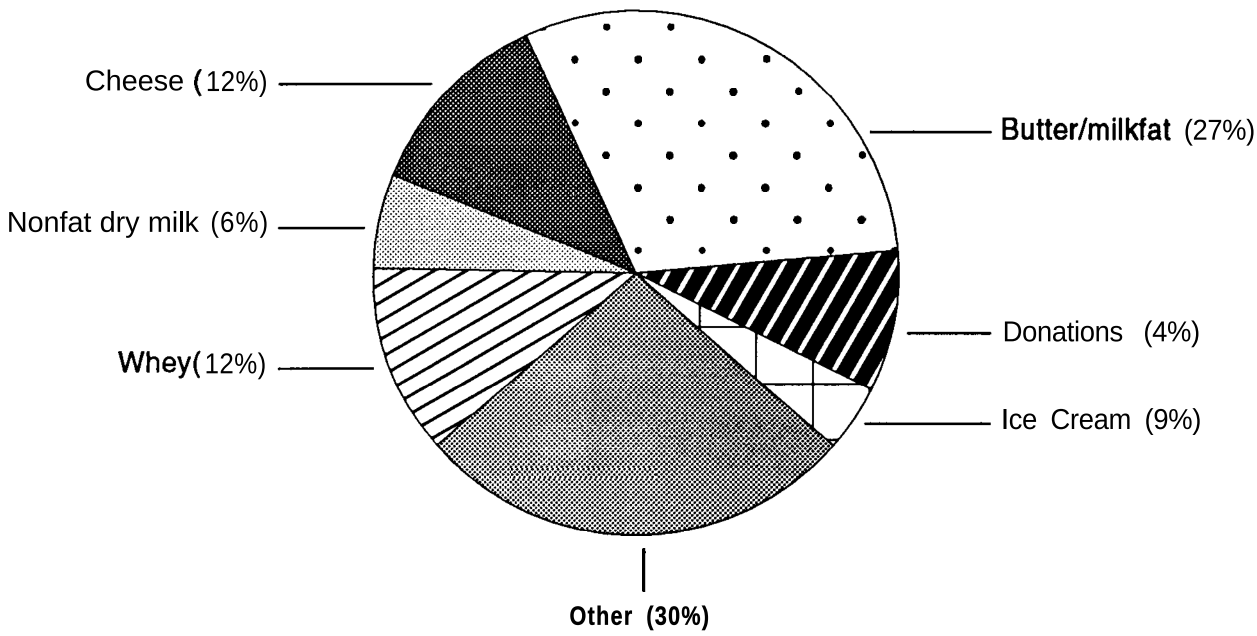
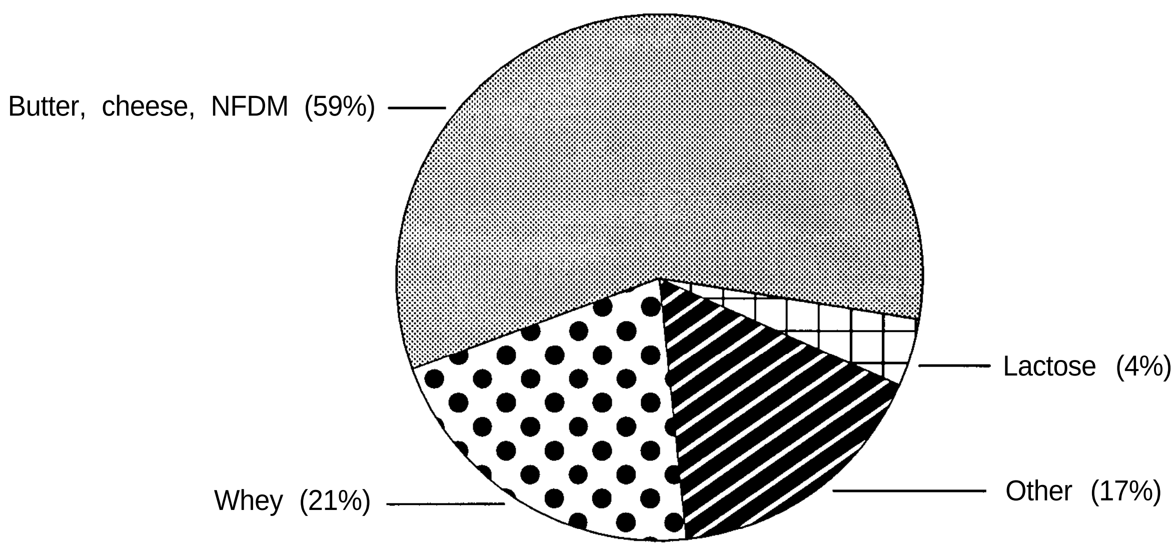


Figure 3— **U.S.** dairy cooperative exports, 1990



whey products exported made up the next largest share of cooperative exports, 21.1 percent, but accounted for only 6.7 percent of total U.S. whey exports.

Thus, there are opportunities to market U.S. dairy products internationally, but cooperatives to date have only played a relatively minor role.

A number of Government programs aid commercial exports of U.S. agricultural products including dairy (see box to the right). The USDA Dairy Export Incentive Program (DEIP) subsidizes export sales of selected U.S. dairy products to specified countries. Eligible products include nonfat dry milk, whole milk powder, butteroil, butter, and cheddar cheese. Algeria and Mexico were the major destinations in 1992. DEIP was first authorized in 1985 and is scheduled to expire in 1995. DEIP export subsidies offset the difference between the U.S. price and the world price. All sales are made by private firms which meet certain criteria in order to bid for export subsidies for a particular country. The exporter must negotiate and carry out all export transactions.

The short-term goal for DEIP is to increase U.S. dairy product exports. The long-term goal is to help U.S. dairy companies gain exporting experience. This program has not only increased export sales but helped to develop, maintain, or expand new markets. Most DEIP sales in 1992 were by European Community (EC) companies acting as brokers for U.S. produced dairy products. In the case of butteroil, all DEIP exports were by four EC firms. This is in conflict with the long-term goal of DEIP. Recently, more U.S. companies have participated in the program including some dairy cooperatives. Thus, cooperatives have become aware of foreign buyer's needs through DEIP but have not taken advantage of the opportunities to directly develop a presence in overseas markets. Furthermore, U.S. cooperatives forgo the margins that the EC firms realize from DEIP sales by not directly exporting themselves.

Although DEIP sales represent subsidized sales, they can give U.S. dairy products a presence in markets they might not otherwise have. This visibility could lead to significant long-term relationships with foreign customers when these developing countries' economies become stronger, enabling them to purchase U.S. dairy products at more competitive prices. In addition, should major dairy countries that subsidize their dairy industries reduce or eliminate their subsidization, the U.S. may be well positioned to capture significant market share, having already familiarized various importers with U.S. dairy products.

Another effort that benefits potential U.S. exporters of U.S. dairy products is the National Dairy Board (NDB) generic advertising and promotion campaigns. This export market development began in 1991 with U.S. dairy producer check-off funds and USDA Cooperator program funding. Market research is conducted to identify potential export market opportunities. Markets targeted are Mexico and Pacific Rim countries, including Japan.

GOVERNMENT EXPORT ASSISTANCE PROGRAMS FOR COMMERCIAL SALES

Export Guarantee Program (GSM-102)

Provides the exporter with a full faith and credit guarantee issued by the Commodity Credit Corporation (CCC} for 6 months to 3 years on the foreign letter of credit for 98 percent of the value of the commodity This guarantee allows "high risk" countries to arrange financing to buy U.S. agricultural commodities.

Intermediate Export Credit Program (GSM-103)

Essentially the same as GSM-102 (above) except that it provides the exporter with a full faith and credit guarantee for 3 to 10 years.

Dairy Export Incentive Program (DEIP)

The USDA awards cash subsidies to qualified low bidders to enable exporters to meet prevailing world price for targeted dairy products and destinations.

Products promoted are value-added products such as frozen dairy products and cheese. The NDB educates foreign consumers about the quality of U.S. dairy products in the markets with the best sales potential. Generic promotion of U.S. dairy products benefits U.S. exporters who take advantage of the increased demand by actively exporting to those targeted countries.

ANALYSIS OF EXISTING MACS

Agricultural cooperatives have formed marketing agencies-in-common (MAC) for a variety of reasons, including: to market by-products (viewed as peripheral to the group of cooperatives' main focus), to expand their customer base through diversified products lines and/or increased volume, and to capture savings from collective marketing efforts. Other MACs have organized to spread the costs of establishing consumer-recognizable brand names for differentiated products.

Dairy cooperatives have also formed MACs. Some dairy MACs negotiate price premiums in Federal milk marketing orders. A recent trend among dairy cooperatives has been formation of information sharing associations to exchange inventory and market data for specific products (see box below). However, there are several successful non-dairy cooperative MACs whose features could be used in the design of a model MAC for exporting manufactured dairy products.

Seven MACs were studied in detail to demonstrate how groups of cooperatives have successfully used a common agency to market member prod-

EXAMPLES OF DAIRY MARKETING AGENCIES-IN-COMMON

Central Milk Producers Cooperative
A federation of 14 dairy cooperatives that supply about 95 percent of the Class I milk in the Chicago federal milk marketing order. It sets prices on Class I and II milk, All orders for milk go through CMPC, and the federation determines the most efficient strategy to move the milk,

Mid-Atlantic Cooperative Milk Marketing Agency
A federation of 3 large cooperatives that represent 85 to 95 percent of the milk marketed in the Middle Atlantic milk marketing area. It negotiates over-order premiums for Class I milk,

Challenge Cream and Butter Association
A federation of 2 cooperatives in California for marketing bulk fluid milk and dairy products.

Dairy Marketing Cooperative Federation
A federation formed in 1992 of 9 cooperatives that share marketing, production and inventory information on nonfat dry milk products.

Dairy Marketing Information Association
An association formed in 1993 of 9 or more cooperatives reaching from coast to coast to share marketing information for whey products and lactose on a weekly basis.

Western Cooperatives Milk Marketing Association
Formed in 1992 to share marketing information weekly on butter and powder, it also takes various market actions to enhance returns to member cooperatives and their milk producer owners.

ucts. Insight into the design and operation of these various agencies was obtained through personal interviews, consultation of literature and staff familiar with the agencies, and a mail survey of one of the agencies. To assist discussion, characteristics of the agencies are presented in table 6. The features of the categories are interrelated in some cases. For example, type of product(s), their production cycle and/or market characteristics influence the terms of the membership agreement. Likewise, whether a MAC employs pooling is dependent on the type of product(s) handled, i.e., pooling is more appropriate for bulk products than for differentiated products.

Elements of Selected MACs

Six of the agencies are organized as cooperatives. The seventh is the exclusive marketing agent for its seven cooperative “partners.” This independently owned company is contracted to sell the cooperatives’ products only to specified export markets; the cooperatives retain the right to market their product independently in all other markets.

These seven agencies have been in existence for an average of 39 years, ranging from 12 to 82 years in operation. Three of the marketing agencies have been in operation for over 60 years. This indicates the longevity of this form of business.

The oldest marketing agency examined was in dairy marketing. At one time this agency marketed dairy products for 38 dairy cooperatives in the western U.S. It has changed substantially over its history in terms of number of members and products marketed. As member dairy cooperatives grew, they began marketing independently and left the agency.

Memberships in the agencies examined ranged from 2 to 8. More than half of the agencies studied had 5 or more members. Members in all but one of the agencies surveyed were cooperatives, while one agency had mixed membership of cooperatives and individual growers/packers.

The number of States where the member cooperatives are headquartered varied. Participating cooperatives often have producer-members in more than one State, enabling many of these agencies to source products from more than one region. Four of the agencies source the member products from one region, two source from multi-regions, while just one agency sources product locally

Products- All agencies offered a complete line of products in their respective commodity category. This allows buyers to “one-stop shop,” rather than having to purchase separately from multiple sources. Some agencies also offer a specified mix of member products. For example, a cotton agency offers a specified blend of different cottons to a mill.

In four agencies, products were distinct from each participating cooperative due to differing qualities or degree of processing. In one case, members of an agency handled different product types or varieties. In another agency, all participating cooperatives produced a homogeneous product, though their buyers perceived quality differences between source plants.

Market Share-Market share is the share of sales by an agency as a percent of total sales in a market area. This market area can be further defined as regional, domestic, export, or global. Furthermore, market power can also be demonstrated by share of production in a specific region. Six agencies have a major share of specific market area and/or product. Two agencies control less than 10 percent of the market.

Board of Directors-Each of the six cooperative agencies has a board of directors with a representative(s) from each member cooperative. Five agencies have one vote per director, where each member cooperative has the same number of directors-thus equal voting. For one agency, voting is proportional to volume of product sold. The exclusive agent that contracts with cooperatives does not have a board of directors per se, but a majority of current cooperative partners must approve the participation of any additional partners.

The number of directors on the agencies’ boards varies from 3 to 18. Four of the agencies’

Table 6--Elements of selected agricultural marketing agencies-in-common

AGENCY: *Element:*	A	B	C	D	E	F	G
***Type** of organization*	Co-op	Co-op	Co-op	Co-op	Independent company	co-op	co-op
Year formed	1922	1979	1980	1911	1981	1930's	1972
Number and type** of **members	***6*** packers-- (3 co-ops, ***3*** individuals)	***3*** co-ops	5 co-ops	***2*** co-ops	***8*** co-ops-- (1 of which is a federation of co-ops)	***3*** co-ops	***4*** co-ops
Location ***of members***	WA	MN, ND	CA, OR	CA	LA, NY, OH, PA, WI	Multi-state	CA, MS, TX
Product source	Local	Regional	Regional	Regional	Multi-regional	Regional	Multi-regional
Products (excluding nonmember products)	Fresh pears, apples, cherries	Dried beet pulp, sugar beet molasses	Dried fruits and nuts: walnuts, raisins, prunes, hazelnuts, figs	Butter, dried milk products	Frozen bovine semen	Turkey, processed turkey products	Raw cotton
Market share	Major share of a pear variety, substantial share of apple production in region	Major share of U.S. exports	Major shares of U.S. production; strong brand image world-wide	Substantial portion of California butter production; strong brand image in western U.S.	Major share of U.S. exports	Strong brand image	Majority of U.S. cotton production
Board of directors	6--one from each member co-op (manager, with board member as alternate). Equal voting	18--6 from each member co-op (chair, vice-chair, pres, v. pres, ***2*** directors). Equal voting	15--3 from each member co-op (pres, chair, v. chair). Voting based on volume	1 to 3 from each member co-op Equal voting	None-- independent company. Co-op partners vote on acceptance of new partners.	3--one from each member co-op. Equal voting	4--one from each member co-op (manager). Equal voting

Continued--

Table 6 (cont.)--Elements of selected agricultural marketing agencies-in-common

AGENCY: / *Element:*	A	B	C	D	E	F	G
Management	Hired. Centralized HQ near members. Board sets policy	Hired. Centralized HQ near port. Board sets policy	Hired. Centralized HQ. Board sets policy	Hired. Centralized HO. Board sets policy	Independent company. Sets own policy	Hired. Centralized HQ. Board sets policy	Hired. Centralized HQ with sales offices. Board sets policy
Domestic or export ***sales***	Both	Both	Both	Both	Exports only	Both	Both
Export sales methods	Domestic brokers and direct sales	Exclusive foreign agent and direct sales	Exclusive foreign brokers and agents	Domestic brokers	Direct sales with foreign agents--distributor network	Directs sales, domestic and foreign agents	Direct sales
Sales staff	2--international, 1 --domestic, 3--international marketers	4--combined domestic and international marketers	4 VP'S, 1 manager--international sales; plus staff (domestic and international)	1 --international marketer, plus staff (domestic and international)	1 --international marketer	1 --export manager	HQ staffed by personnel from member co-ops
Overseas offices	***No***	***No***	***No***	***No***	***No***	***No***	5 foreign offices
Membership agreements	Seasonal agreements; all of members' products sold through agency	Requires 2 years advance notice to terminate; all of members' byproducts sold through agency	Exclusive agency rights; all of members' products sold through agency	All of member co-ops' specified products sold through agency	Distributorship; company has exclusive representation rights in specified markets	All of member co-ops' products sold through agency; agency has authority to enforce quality, form and timing	None. Membership fee is sufficient incentive to market through agency

Continued--

Table 6 (cont.)--Elements of selected agricultural marketing agencies-in-common

AGENCY: / *Element:*	A	B	C	D	E	F	G
Subsidiaries or divisions	**2 divisions--** supplies, credit, (both dormant)	1 subsidiary for nonmember sales	1 subsidiary for mixing member products, and nonmember sales	3 divisions-- retail, food service and food ingredients	none	none	1 subsidiary for nonmember sales
Sourcing of products	Agency directs order according to customer's specifications, availability of product, proximity to customer, proportion of orders member co-op has already filled; co-op has first right of refusal	Agency directs order according to customer's specifications	Agency directs order according to customer's specifications	Agency directs order according to customer's specifications	Agency fills customer order by purchasing products from partner co-ops	Agency directs order according to customer's specifications, availability of product, proximity to customer, proportion of orders member **co-op** has already filled, member **co-op** has first right of refusal.	Agency directs order according to customer's specifications. Final sales decisions rest with each individual co-op
Pooling	Pools expenses; individual members may combine fruit	Pools proceeds, net of expenses; separate pools by product	No	Pools expenses and returns	No	No	Pools expenses

Continued--

Table 6 (cont.)--Elements of selected agricultural marketing agencies-in-common

AGENCY: / *Element:*	A	B	C	D	E	F	G
Operating costs	Monthly per-unit fee based on agency's projected annual budget	Each co-op pays in monthly its estimated pro-rata share of direct and indirect marketing costs for each product pool	Pro-rata share of operating costs, based on sales volume	Margins fund operating costs	Margins fund operating costs	Per-unit marketing fees, higher rate for further processed products, lower for less differentiated products	Monthly per-unit fee based on agency's estimated annual budget
Financing	Retained earnings	Per-unit marketing fee	Retained earnings	Retained earnings	Family financed	Retained earnings	Membership fee
Distribution of earnings	Patronage dividends; retained earnings revolved at Board's discretion	Through net proceeds of pools	Revolvement of prior year's retains	Patronage dividends	Earnings remain in privately held company	Revolve retains at board's discretion	All earnings returned to members via a volume-oriented formula
Branding	Agency brand and member brand/name	No brand, but sold under agency name	Each member co-op markets under individual brand	Agency brand primarily; member co-op brands also	No brands, sold under member co-op's names	Agency brand only	Each member co-op markets under individual co-op name
Non-member sales	***Yes***	***Yes***	***Yes***	***Yes***	***No***	***Yes***	***No***
Promotion and advertising	Agency responsibility	Agency responsibility	Member co-ops' responsibility	Agency responsibility	Company responsibility, some joint effort	Agency responsibility	Member co-ops' responsibility
Research and development	None	Both agency and member co-ops	Both agency and member co-ops	Agency	None	Agency	None

board of directors have one director per member cooperative, one agency has three directors per cooperative; and one has six directors per member cooperative. Where there is only one director per member, it is usually a manager, while boards having more than one director per member are composed of a mix of management and directors.

Offices, Management, and Sales Staff-Hired management operates within the policy guidelines set by the board. The independent company manages its own operations, but works with the partner cooperatives in meeting each individual cooperative's needs. Five cooperative agencies conduct all operations from one office. One agency has centralized headquarters in addition to dispersed sales offices. Furthermore, one agency also maintains a separate office to manage domestic transportation. The headquarters of the independent company and one of the cooperative marketing agencies are not located in close proximity to their member cooperatives.

Six of the agencies sell to both domestic and export markets. The independent company (exclusive agent) is contracted to sell only to specific foreign countries.

The exclusive export agency employs export sales staff only. Four agencies have separate sales staff for domestic and export sales.

Only one agency has overseas sales offices. The other six agencies sell from offices in the United States.

The agencies use a variety of methods to export member products. Four agencies use more than one method depending on market characteristics. They use domestic brokers and/or sell direct to overseas buyers and/or use exclusive and nonexclusive foreign sales agents. One agency is itself the exclusive domestic-based export agent for its partner cooperatives. A domestic broker is used by three agencies; five make direct sales; and four use foreign agents where two of these are exclusive agent agreements.

Membership Agreements-Membership agreements documenting the rights and duties of member cooperatives and their agency in the marketing of member cooperatives' products through the agency are necessary for an agency to pool the risk (and benefits) of marketing. Members grant authority over selected functions to the agency through membership agreements. In addition, they enable an agency to offer customers a reliable supply of products. In most of the agencies, members are required to sell all their product through the agency. In one case, products committed to the agency are byproducts of individual member cooperatives' processing. These cooperatives market their primary products individually, but sell 100 percent of their byproducts through the agency. In the other instance, the cooperative partners give the exclusive agent the right to market all their exports to specified countries and only to those countries. The cooperatives retain the right to market their products to all other markets, and the company is specifically prohibited from marketing outside the specified countries and from marketing nonmember products. One agency does not have an exclusive agreement, but the membership fee is an incentive for members to sell through their agency. For this agency, there are relatively few buyers for its products, compared to the other agencies, making it more difficult to market outside the agency.

Subsidiaries-Three agencies own subsidiaries that operate as independent for-profit companies. Profits are then distributed to members of the agency, usually based on their individual sales through the agency. The subsidiaries allow the agencies to expand (diversify) product lines with purchases from members and nonmembers. For example, one agency's subsidiary sells animal feed products produced by nonmembers which complement the animal feed ingredients produced by members. Two of the subsidiaries sell member and nonmember products (one sells a similar product, the other sells a different product or mix of the member and nonmember products), and one agency's subsidiary offers only nonmember products.

One agency has two divisions providing non-marketing services to member cooperatives.

However, these divisions are dormant, because there are currently other sources of the services that are more cost-efficient.

***Sourcing of Products*-How** a product is sourced from members depends on type of product (high-value, differentiated products verses bulk commodities) and the capabilities of members to deliver a specified product. When member cooperatives are equally capable of fulfilling an order, the agency directs the member cooperative in closest proximity to the customer to supply the product. This approach is used by three agencies. Two of these agencies allow their members the first right of refusal-when the agency assigns a sales order to a cooperative, the cooperative can refuse to deliver under the terms offered.

As trust in the agency grows, cooperatives are less likely to balk at the terms offered. When the products offered by members are uniquely differentiated, then the agency chooses the member that can fulfill the specifications of the particular order. This is essentially the case for all of the agencies. Customers often request a specific cooperative's product (even for the agency selling "undifferentiated" byproducts). In all cases, it is the agency that directs delivery, although for three agencies the final sales decision rest with each member cooperative.

None of the agencies physically pool (commingle) their members' products. Most member cooperatives store their own products until sale. One agency, whose products are packaged and highly differentiated, rents warehouses for future distribution. Another agency may rent storage space at port prior to shipping when necessary. In one agency, members sometimes combine their products to complete an order. However, this is done at the member cooperatives' discretion, not the agency's.

Pooling-Two agencies pool revenues from the sale of member products and pay members the average pool price. Pooling of revenues allows the agency to spread the price risk among all members. This is practical for undifferentiated bulk products. The other cooperatives keep revenues separate for each member cooperative, passing net revenues from sales of differentiated and branded products back to the source cooperative.

Operating Costs-Agencies employ two methods to pay operating costs. Five agencies charge a per-unit fee and two operate on the margin between what they pay members for their products and what they receive from the sale of members' products. Per-unit fees are collected either as a commission or from a market service fee. A commission or market service fee is a set percentage of the price, or set per-unit charge. Two of the five agencies require member cooperatives to pay the service fee on a monthly basis. The per-unit fee is based on an annual budget determined from estimated, or in some cases, known volumes, and then broken down to a monthly fee charged to all members. Another agency charges two different fees, a higher one for those members selling higher-value, differentiated products that require more marketing support, and a lower fee for those selling more generic products that incur fewer marketing expenses. Agencies that operate on a per-unit cost basis typically take the market price for their products. Agencies operating on profit margins provide full disclosure to members on all sales and costs.

Financing and Distribution of Earnings-While the independently owned company is self-financed, four of the agencies raise capital with retained earnings. One is financed by part of its per-unit marketing fee, and one uses a membership fee. The earnings of the privately held company remain within it, while six of the others return equity at the board's discretion. One of the six distributes earnings through net proceeds from sales.

Branding-All agencies market their products under a brand name and/or with a label identifying the cooperative or agency name. There are several approaches to branding-agency brand, cooperative brand, a shared label with the agency and cooperative brand, or a combination of methods. Two of the oldest agencies exclusively use the agency's brand and have developed a brand name identity over the years. In addition to bulk products, they also offer some high-value, differentiated or further processed products. One agency uses only its name rather than a brand name. This agency markets bulk products used in further food processing and in animal feed. Three agencies market member products using individual cooperative names or brands, as each has a unique product and/or the brand name was well established prior to organization of the agency. Members of the remaining agency pack their product with both the cooperative brand or name and the agency brand. This allows buyers to reorder products from a specific source.

Nonmember Sales-Five of the six cooperative agencies also sell nonmember goods. The independent company (exclusive agent) can market only the products of the partner cooperatives. Two of the agencies sell nonmember products when there is shortage of member products. The other three market nonmember products in order to expand the product line, offering "one-stop shopping" through a diversified product line to customers. Two of these cooperatives sell nonmember products through subsidiaries.

Advertising and Research-Advertising responsibilities depend upon whether the agency or the individual cooperatives own the brand(s). The one agency whose members' products are marketed under individual cooperative brand names is not responsible for advertising. Instead, individual cooperatives advertise their own brands. Another agency also provides advertising services for its members-neither agency nor cooperatives have brand names. One agency jointly advertises and promotes with its members. The name of individual members is used to identify products because neither agency nor cooperatives have a brand name. Four agencies that use the agency brand or name, or share labeling are primarily responsible for advertising and promotion.

Two agencies conduct all product research and development for its member cooperatives. Three agencies do not carry out any research and development and two agencies share research and development responsibilities with their members.

KEY ISSUES FOR CONSIDERATION

To evaluate factors critical to the success of a MAC, industry-specific issues must be differentiated from structural and organizational issues. Generally, many of the obstacles cited by the agencies studied were due to industry-specific problems, whereas factors contributing to success were assigned to the strength of organizing as a MAC. Furthermore, the members and their MAC are dependent upon each other for vigor and growth.

The reasons for success were varied and ranged from structural (farmer/members having a better understanding of the marketing process because they are board members) to management (management with strong background in marketing rather than production). The success of the agency was most often attributed to:

1. membership agreements that give the agency authority to make marketing decisions and set quality standards while allowing members to operate independently;
2. experienced marketing and sales staff;
3. the wide selection of products offered by the agency;
4. better use of resources by pooling expenses and services; and
5. the agency controlling a major share of the U.S. market.

An examination of two recently failed MACs, Farmers Export Company (FEC) and Valley Bean, highlights the importance of membership agreements that give control of marketing to the MAC. The membership agreements of these MACs that went out of business allowed the members to sell their products themselves or through others. Thus, these MACs had to compete with their own members, and ended up purchasing product from nonmembers because members' products *were* not available-they had been sold elsewhere. Furthermore, they could not refuse delivery from members, in effect prohibiting the enforcement of quality standards. Consequently, all member cooperatives shared the costs of low-quality grain and the resulting loss of market value while those who "unloaded" low quality product through the MAC individually benefited.

Problems faced by the successful agencies studied were primarily industry-specific issues. However, structural and organizational problems were also identified. Industry-specific issues included increased environmental concerns, urbanization, and increased global competition. In other cases, individual members experienced difficulties causing uncertainty for the agency. One agency's member cooperatives were loosing producer-members because an investor-owned competitor was offering better prices. This highlights the unique symbiotic relationship between the agency, its member cooperatives, and the member cooperatives' producer-members.

The majority of agencies identified "politics"-conflicting philosophies, personalities, goals, management styles, and/or egos-as a hindrance to their goals. Politics can override clear business judgements.

Differences among members are also a cause for concern. In one agency, the volume of business from its member cooperatives was lopsided, but the members had equal votes on the board. This situation created conflicts among the member cooperatives. Proportional voting was suggested as an alternative. One agency's board has proportional voting which prevents similar contention.

Conflicts in goals and understanding of business practices between the board and management creates inefficiencies. Members need to define the purpose of the agency and management activities that don't require board approval. For example, FEC lost nearly one-half of its net worth in futures market speculation. (Futures market speculation is not to be confused with hedging with futures contracts, which is a tool for managing price risk.)

If directors do not understand marketing they can inhibit or delay important marketing decisions by management. Commitment by all members is necessary for a successful long-term marketing strategy. Furthermore, if management does not understand the philosophy behind cooperatives, it may fail to achieve the agency's goals.

Implications for a Dairy Export Marketing Agency-in-Common

The key issues cited by the agencies studied will also be crucial considerations in the formation of a dairy exporting MAC. Given the highly developed markets of many dairy cooperatives, a key area will be the membership agreement. A successful agreement will give the agency power over export marketing decisions while not encroaching on members' domestic marketing plans. In the same vein, the agreement must also obtain a commitment to market a specific volume through the agency. The success of many dairy cooperatives and the differing "corporate cultures" of management and boards will also make "politics" a potential impediment to cooperation.

Dairy cooperatives collectively have large market shares in most bulk or commodity products, which is a key element for a successful group marketing effort. The ability of several cooperatives to manufacture "customized" bulk products and differentiated value-added products will allow an agency to offer a wide product line to overseas customers.

Given the expected changes in international and domestic markets for dairy products, including reduced trade barriers and Government support, U.S. dairy cooperatives can actively take advantage of market opportunities by combining resources to market products through a MAC. This form of organization should appeal to dairy cooperatives as they can retain control over operations and domestic marketing. Furthermore, since U.S. cooperatives have not yet established a strong overseas market presence, a new agency will not conflict with previous marketing arrangements. Finally, a dairy MAC can be designed to incorporate all the key elements that contributed to other successful agencies.

DARIMAC

The remainder of this paper describes a model agency, referred to as DARIMAC, which functions as the exclusive export trading agency for designated products of member cooperatives. DARIMAC is a name used only for illustrating a hypothetical organization and is not an actual or proposed organization. This model agency can serve as a resource for dairy cooperatives exploring alternative means to export their products by providing insight into the structure and operations of one method. Dairy cooperatives can pick and choose from DARIMAC's attributes to design an organization that will fulfill their specific purposes (see table 7 for a summary).

Proposed Mission and Objectives

The mission of DARIMAC is to enhance the economic position of member cooperatives by enabling the member cooperative to participate in international markets at reduced risk and on a long-term basis to the greatest mutual benefit through centralized marketing of dairy products.

The proposed objectives are:

1. to provide member cooperatives with greater marketing options;
2. to enhance dairy cooperatives' export market share;
3. to become the primary reliable dairy product marketing source for foreign customers;
4. to involve all interested U.S. dairy manufacturing cooperatives;
5. to establish brand identification of the agency;
6. to effectively conduct all export-related activities, assuming title and payment risk, for a wide variety of dairy products;
7. to set and ensure standards for product quality and proper packaging; and
8. to pool resources for market research and development of new and value-added products.

General Characteristics

DARIMAC is organized as a cooperative whose members include dairy cooperatives as well as federated cooperatives and marketing agencies-in-common owned and controlled by dairy cooperatives. The organization is engaged in the production and/or sale of manufactured milk products for which it exercises full authority in the sale of these products. Member cooperatives or associations must be willing and able to commit a specified volume of their manufactured product(s) to DARIMAC for export.

As a cooperatively owned federation, control is in the hands of its member cooperatives. As owners, member cooperatives can ensure the agency is meeting their needs and performing the functions they desire. In essence, DARIMAC will act as the export department for each of the member cooperatives-finding buyers, negotiating sales, preparing export documentation, handling document transmittal, collecting from buyers, and paying the supplier. Several of the successful agencies studied perform these functions, allowing member cooperatives to concentrate on production and/or processing. Dairy cooperatives that lack, or who have minimal exporting expertise, may find an exporting MAC worthwhile. In addition, DARIMAC will provide services such as market research and promotion, quality control, and assistance in labeling and packaging. Strict quality control by some of the agencies studied was instrumental in establishing customer loyalty in both domestic and overseas markets. DARIMAC must also be able to assure customers of consistent high quality products. In fact, lack of authority to enforce product quality standards was key to the failure of two exporting MACs.

A large resource base is required to become a steady supplier to overseas markets. U.S. dairy cooperatives have this potential-producing 83 percent of the dry whey, 83 percent of the butter, 91 percent of the dry milk products, and 45 percent of the cheese made in the U.S. in 1987 [4]. Furthermore, the 20 largest dairy cooperatives produced more than 90 percent of the cooperative volumes of butter, dry whey, and dry milk products. Thus, DARIMAC would control significant resources from just a segment of the U.S. dairy cooperative output.

Table 7--Elements of DARIMAC

Element	DARIMAC
Type of organization	Cooperative
Year formed	Model developed in 1993
Number and type of members	All U.S. manufacturing dairy co-ops eligible
Location of members	Multi-regional
Product source	Multi-regional
Products (excluding nonmember products)	Bulk and differentiated manufactured dairy products
Market share	Could control a major share of bulk dairy products
Board of directors	One from each member co-op (manager, with board member as alternate). Proportional voting
Management	Hired. Centralized HQ. Board sets policy
Domestic or export sales	Export only
Export sales methods	Directs sales, domestic agents and foreign agents
Sales staff	Experienced international marketers
Overseas offices	No
Membership agreements	Requires 2 years advance notice to terminate; members export only through agency; agency has authority to enforce quality, form and timing
Subsidiaries or divisions	None, possible in the future
Sourcing of products	Agency directs order according to customer's specifications, availability of product, proximity to customer, proportion of orders member has already filled

Continued--

Table 7 (cont.)--Elements of DariMac

Element	DariMac
Pooling	Pools expenses. Separate bulk product pools--proceeds net of expenses (including transportation)
Operating costs	Pro-rata share of operating costs based on bulk product volume; per-unit marketing fees for differentiated products
Financing	Retained earnings and per-unit retains
Distribution of earnings	Net proceeds of pools, patronage dividends; retained earnings revolved at Board's discretion
Branding	Agency brand and member brand/name
Non-member sales	Possible in future if additional volume and/or products needed
Promotion and advertising	Agency responsibility
Research and development	None, pass along customer needs to members

Potential member cooperatives are located all across the U.S. Because some of the MACs studied have been successful with memberships that stretch across regions, it is possible that dairy cooperatives could overcome any obstacles their geographical dispersion might present. Similarly, other agricultural cooperatives have been successful with widely dispersed members. However, time and effort are likely to be needed to generate confidence in DARIMAC and unity of purpose among widely distributed cooperatives.

Education of member cooperatives will be of utmost importance. Developing export programs and markets, as well as building long-term relationships with the right partners, will take time. A 10- to 20-year perspective is not unreasonable. In addition to the complexities of doing business domestically, international markets pose added difficulties such as language barriers, currency fluctuations, different laws, government instability, and cultural and taste differences. These markets traditionally take longer to develop, but as with any long-term investment, it can provide long-term payoffs. Members must trust that their investment in DARIMAC is wise, even if benefits are not immediately seen.

Structure and Organization

Directors-Each member cooperative will have a seat on the board. Representatives will be the general manager or chief executive officer (CEO) with the president of the board from each member cooperative acting as an alternate. Each member cooperative will have one vote, plus additional votes based on a moving average of their volume of business (i.e., the average of the last 3 years' exports through DARIMAC). Member cooperatives with more at stake in DARIMAC'S operations will have greater voting power. This board structure has worked successfully for other marketing agencies-in-common, complete with proportional voting (in some cases). Having just one representative from each cooperative member on DARIMAC'S board will keep it an efficient, workable size.

Management and Staff-Leadership from management and the board is key to successfully entering the international market. Short-term domestic pressures will be intense, so expansion into the foreign markets will require vision and commitment. The long-term cost of developing export markets may be less than the opportunity costs of not pursuing a long-term strategy to expand overseas sales.

DARIMAC will require fewer personnel than if each member cooperative had its own export marketing department. Careful evaluation of staffing needs is essential, for under-staffing could be as disastrous as over-staffing is inefficient. DARIMAC staff will be required to serve the needs of both customers and member cooperatives. The number of personnel required will depend on the diversity of products and the volume of business.

The staff would include a general manager or CEO with expertise in international marketing, international sales managers/marketers, a transportation manager and support staff — secretaries and bookkeepers/accountants. The board must clearly communicate DARIMAC'S mission and objectives to the general manager and then grant him or her authority to make day-to-day decisions. Management must keep the board informed of DARIMAC operations to avoid mishaps such as when Farmers Export Company managers went off course into speculation in the futures market instead of hedging.

Highly trained international marketers should be hired and rewarded for their contributions to the success of DARIMAC. Each sales manager's area of responsibility could be defined by criteria such as: marketing area, product type, or end-user. Marketers should stay current on importing countries' regulations and requirements (such as labeling). Office personnel will handle all orders, export documentation, billing, accounts payable, and general administration. A staff member (part-time or full-time) should maintain quality control and assist in formulation of products to meet customer needs. Another manager would oversee transportation logistics to coordinate movement of products to port and overseas.

Location of Headquarters-Location of the headquarters must enable DARIMAC to meet member cooperatives' needs without favoring any particular member. To avoid the appearance of partiality, the office should not be in a member cooperative's facility. Only one of the agencies studied used member facilities for its headquarters. The office should be easily accessible to major airports to facilitate convenient travel connections for DARIMAC'S sales managers, customers, and member cooperative representatives attending board meetings. It is important to remember that location of headquarters will not affect shipment of product because no product will ever make its way to headquarters.

Markets-At the outset, DARIMAC will confine its sales to foreign markets. The agreement will require members to make all exports through DARIMAC. Members would be less likely to relinquish control of their individually developed domestic markets. U.S. dairy cooperatives have only limited involvement in export markets so DARIMAC will be in a strong position to be the cooperatives' exclusive export arm. However, the possibility of DARIMAC being a full-time player in both domestic and international markets should be considered a future option because the market power of a MAC would provide greater control and coordination in the domestic market also.

Overseas Offices-Although a foreign sales office is not necessary at start-up, foreign travel by the agency staff is essential. Personal contact with customers is viewed as a statement of commitment to their market. Long-term commitment is often enough to give an exporter a competitive edge.

Export Sales Methods-In essence, DARIMAC serves as export agent or management company for its member cooperatives. So, DARIMAC can choose from a variety of exporting methods to make international sales-exporting direct, selling to a domestic-based export management company or agent, or selling through a foreign agent or distributor. Foreign agents include brokers who do not take title and provide fewer services than a distributor. Distributors usually perform more services such as outlined in an agreement which specifies the territory, advertising, quality of goods on sale, risk allocation, and distributorship procedure. Agreements can also be written for brokers that include defining market(s) served and renewal procedures.

The appropriate method of export will depend upon the country and the market targeted. For example, in some countries retail sales are handled directly by retail buyers-bypassing wholesalers. In this case, DARIMAC might sell directly to the retailer or through an agent. Foreign agents know the marketing and distribution system within their country. Choosing the right agent is critical because in some countries the arrangement is legally binding with or without an agent agreement. In-depth market studies will determine the method of export and distribution appropriate for each targeted country. More than one method could be used per country depending on the products, but in most cases, foreign agents are exclusive importers. Furthermore, DARIMAC could sell to domestic based export management companies-but foreign sales arrangements give DARIMAC more control of its products further down the marketing chain and enable it to return any margins from exporting to its members. In addition, export arrangements involving domestic agents may be inefficient because DARIMAC will perform the same functions as a domestic agent.

Subsidiaries-In time, need for a DARIMAC subsidiary may develop in order to expand or diversify product lines, and/or handle nonmember sales. However, it would be premature to initially pursue the creation of subsidiaries.

Products

DARIMAC will handle all available products demanded by foreign buyers in an effort to be the single contact point for U.S. dairy products. DARIMAC will export bulk dairy products (such as butter, cheese, lactose, dry milk, whey products, etc.) and "value-added" or differentiated products (for example, branded products, frozen dairy desserts, yogurt, specialty cheese, etc.). A wide variety and volume of products will enable DARIMAC to effectively compete in world markets. At times, one product or product type may subsidize the sale of another, allowing DARIMAC to maintain its marketing edge and customer loyalty. Money spent on developing markets is lost if a product is marketed overseas only in years of surplus or relative profitability.

Foreign companies, along with a few domestic companies, are currently capturing margins from the export of U.S. dairy products with assistance from the Federal Government's Dairy Export Incentive Program (DEIP). Thus, DARIMAC could cultivate new markets by using the DEIP.

The value of exporting bulk or undifferentiated products goes beyond the margins generated. Bulk sales under the DARIMAC name will further promote recognition in foreign markets, perhaps opening up new markets for member products. Also, exports of dairy commodities may contribute to improved or more stable domestic prices.

Customized formulations and/or packaging to meet specific needs of foreign customers can add value to traditionally generic commodity products. For example, the Foremost Ingredient Group of Wisconsin Dairies manufactures about 50 specialized whey products. Through DARIMAC, foreign customers could obtain a wider range of products and product-formulation capabilities.

The most promising opportunity for generating positive margins is in marketing high-value or differentiated products such as specialty cheeses, yogurt, and ice cream. According to National Dairy Board (NDB), foreign customers of dairy products more willingly pay a premium for the diversity, quality, safety, and consistency of U.S. value-added dairy products. For example, market research conducted by NDB in Japan revealed that, given the Japanese concern over the safety of food, highlighting the pasteurization of U.S. cheeses may give them a unique competitive position [6]. Furthermore, as the world moves toward freer trade, and subsidies are lowered on European cheeses, it is likely that there will be a bigger market for U.S.-produced specialty cheeses. Dairy cooperatives manufacture a variety of differentiated dairy products. This variety of products could be offered collectively, offering overseas customers "one-stop shopping" for high-value products.

Nonmember Sales—DARIMAC'S primary purpose will be to sell member product. However, DARIMAC may also handle nonmember sales on a commission basis, thus providing income for the agency. After subtracting the cost of the sale, which would lower the per-unit operating costs for member cooperatives, profits would be distributed to members based on their volume or value of sales through DARIMAC.

A critical element to effectively compete in foreign markets is the ability of a supplier to provide a complete line of products. Buyers prefer to buy from one source rather than shopping around due to lower transaction costs and favorable pricing practices such as pricing a group of products versus individual pricing. Nonmember sales products can be used to broaden product lines. Sellers must offer a reliable source of quality products. If member supplies of a specific product is tight, the agency risks losing customers. Nonmember products can also fill the supply gaps, allowing DARIMAC to retain its status as a reliable supplier. Furthermore, nonmember products, if available at less cost than member products, could lower prices to customers-giving the agency an additional competitive edge.

Services

To gain a marketing edge in overseas markets, DARIMAC must offer consistently high-quality products. Once foreign customers rely on an agency for high-quality products, it becomes a key factor in a MAC's success. Therefore, DARIMAC will have authority to set and ensure quality standards.

Products must be packaged appropriately in correctly sized (metric) packaging and match labeling requirements of individual countries. DARIMAC will assist its member cooperatives in meeting these needs for specific foreign destinations. In addition, there may be economies of size to be gained by having DARIMAC secure any special packaging and/or labeling supplies for member cooperatives. DARIMAC must also ensure member products meet phytosanitary and other requirements for entry into foreign countries.

Finally, DARIMAC will retain staff with expertise in the rules and regulations of the U.S. Government's export assistance programs. For example, under DEIP, it is up to U.S. dairy exporters to contact prospective buyers in the eligible countries. All sales are made by the private sector, not the Government, and only those with documented experience in buying and selling dairy products for export (within the last 3 years) will directly qualify to receive DEIP bonuses. Many cooperatives can't meet these requirements and participate; so they must use a broker who takes a share of the margin as commission. Direct participation in these programs will allow DARIMAC'S members, rather than other companies, to capture the margins from the export of bulk products.

Membership Agreement

DARIMAC will require member cooperatives to sign a membership agreement when joining. The discussion of existing MACs and failed MACs illustrated that membership agreements are essential for efficient operations. The membership agreement is a contract between the member cooperative and DARIMAC. Essentially it signifies a pact between the member cooperative and the rest of the DARIMAC membership. To be successful, member cooperatives must relinquish some individual control for the good of DARIMAC. However, member cooperatives will retain more control than individually exporting through a domestic broker. In addition, margins generated from export sales will accrue to member cooperatives, rather than a broker. Members must comply with special guidelines for processing and delivering products for export. DARIMAC, in return, will maintain knowledge of foreign markets and all aspects of export marketing. The basic elements of the marketing agreement include sales terms, contract modification and termination, and contract enforcement [7].

Sales terms describe conditions by which member cooperatives' products will be handled by DARIMAC. Specifications outline conditions (such as, quality, quantity, form) required before DARIMAC will formally accept products from a member cooperative. Sales terms also include payment methods.

Quality standards should be specified and strictly enforced, perhaps through penalties for substandard product or refusal by DARIMAC to accept delivery. Substandard product would hurt DARIMAC'S efforts to establish itself as a reliable supplier of quality dairy products. Member cooperatives would also give DARIMAC authority to set labeling and packaging standards such as use of metric units and labels that meet foreign standards. A delivery provision instructs member cooperatives about the process of transferring products to DARIMAC. Upon receipt of an order, DARIMAC will direct member cooperative(s) on time and place for product delivery. DARIMAC may source product(s) from more than one member to assemble a full shipment or to meet a large-volume customer's needs.

Member cooperatives must commit a specified minimum volume of their bulk products (butter, nonfat dry milk, bulk cheese) for export by DARIMAC during a particular marketing period. This requirement is a trademark of successful MACs. This volume will be set at the beginning of each marketing period and DARIMAC will take title to bulk products. While the actual volume exported through DARIMAC may vary from the amount committed, having a guaranteed minimum volume will enable DARIMAC to become a reliable supplier to international customers. Participating cooperatives give up the right of marketing decision for committed products, giving DARIMAC authority to make specialized marketing decisions.

However, members marketing differentiated products (added-value products such as specialty cheese, frozen dairy desserts, etc.) through DARIMAC will not commit a specific volume, nor will DARIMAC take title to differentiated products. Differentiated products will be sold on commission only. Members will provide periodic estimates of their product volumes available for export, but DARIMAC will not take responsibility for marketing a set amount of differentiated product. DARIMAC will also coordinate shipments of differentiated products, where practical, to save shipping costs.

Pricing/Payment Methods-The board has oversight of the general pricing policies of DARIMAC, and gives management authority to determine the prices, terms, and conditions for products that will be sold in international markets. DARIMAC will price goods to foreign customers to maximize returns to member cooperatives while remaining competitive in foreign markets. Offering a full range of quality dairy products will convince importers that DARIMAC is a choice supplier. Products that generate lower margins are just as important to the overall performance of DARIMAC as high-margin products, because of the value an importer may place on "one-stop shopping." For example, an item that completes the product line but provides minimal or even temporarily negative margins to DARIMAC may be essential to sustaining customer loyalty. Also, DARIMAC could introduce a "new" product to a market at a temporarily low introductory price to encourage potential users to try a product.

Through membership agreements, members agree to DARIMAC pricing and payment methods. Two common methods of paying members for products sold will be used, depending on product category-bulk or differentiated. Successful MACs studied used pooled and commission sale methods for payment. DARIMAC will handle differentiated products on a commission-sales basis and will pay members for bulk products on a pooled basis.

Members with differentiated products available for export will provide DARIMAC with their current price list and quantities available. DARIMAC will provide members international market information and recommend appropriate pricing practices for developing overseas markets. For example, one method may be to take the plant price for a domestic sale and add additional costs required to prepare the product for export and storage until shipping. Then, the cost of domestic selling and advertising should be subtracted.

Pooling-Pooling reduces price risk faced by the individual member cooperatives and promotes unity. Averaging the value of all sales made during the pool life enables all pool participants to share equally in the benefits and risks of exporting bulk dairy products. DARIMAC will follow the example of the agencies studied-pooling earnings and expenses associated with the sale of bulk products, without necessarily physically pooling (commingling) the products. The number of pools may vary depending on the number of bulk product types and degree of differences within each product type. For example, DARIMAC could operate 7 pools-butter, anhydrous milkfat, butteroil, nonfat dry milk powder, whole milk powder, whey powder, and bulk cheese. These pools could be further broken down by quality standards.

The pool marketing period could be defined as a calendar year, fiscal year, or shorter time period. The initial payment will be based on a published market price for the specific bulk product at the time of delivery. For example, members could be paid the Chicago Mercantile Exchange price for the particular grade of butter delivered, the price quoted for block cheese on the National Cheese Exchange for bulk cheese delivered, etc. Final settlements will be made after the pool closes.

The pooling arrangement calls for net earnings from bulk exports (earnings from export sales less product costs and marketing and shipping expenses) to be allocated to each of the member cooperatives on a pro-rata basis according to each member's participation on the market pool. Government export assistance, such as DEIP bonus payments, will be considered part of the pool earnings. This way, each member receives their proportionate share of earnings from bulk product exports, regardless of which market or when their products were exported, shielding individual members somewhat from price swings experienced in international markets. Additionally, each member cooperative shares proportionately in the cost of making the export sale of these products.

Increased exports of dairy products can lead to improved and/or more stable domestic prices.

For instance, the large 1992 exports of dairy products through DEIP were estimated to have raised average 1992 domestic milk prices by $0.55 to $1 or more per cwt. When this occurred, some cooperatives, which had committed product to foreign buyers, missed out on the higher domestic prices that their exports netted. Thus, by paying members published market prices for products and pooling net earnings, all will share in the costs and benefits of exporting.

DARIMAC will estimate the volume of bulk products it expects to export at the beginning of each marketing period. Should the quantities members plan to commit exceed projected sales, each member's commitment will be reduced proportionately, maintaining its original share of the pool. This should reduce the likelihood that DARIMAC would have to dispose of surplus product.

When DARIMAC secures an order for bulk products, it will select a cooperative(s) to fill the order. This decision will be based on buyer preference (if any), destination of product, nearness of cooperative to port of embarkation, availability of specified product, and the cooperative's share of orders previously filled in the marketing period. No cooperative may supply more product than its committed quantity until all members in the pool have fulfilled their commitments. DARIMAC may source product from more than one member to assemble a full shipment or to meet a large-volume customer's needs.

Transportation Costs—DARIMAC's transportation personnel will coordinate the movement of bulk product to international markets. Unlike differentiated products where the source is necessarily identifiable, bulk products might be sourced from any member cooperative that manufactures the product. As a result, bulk products will be shipped from widely dispersed member cooperatives to multiple foreign markets via several different ports of departure. If members were to pay actual shipping costs they would naturally desire their shipments to go to the closest customer (or rather, the closest port-for most likely product will be priced FOB). However, market needs may dictate a different destination. Basing marketing decisions on freight considerations alone could undermine the ability of DARIMAC to effectively meet its customers' needs, hindering the total pool from achieving maximum returns. Furthermore, charging actual freight costs runs counter to the concept of pooling.

One way to counter these difficulties is to base each member's share of pooled transportation expenses on a combination of distance and volume [3]. Each member has a share of every shipment, regardless of where product shipment actually originates. From an equity standpoint, each member would be charged for the freight costs associated with transporting a portion of the volume shipped (proportional to their share of the total pool volume) to that port. Distance from each members' plant to a specific port is applied to this portion of each shipment. Thus, actual shipments will be made from the most efficient location, but all members share total transportation costs equitably.

For example, assume 25 percent of the total volume of DARIMAC exports of NFDM came from a cooperative on the East coast and that DARIMAC exported NFDM from 3 different points-East coast, West coast, and Midwest. The pooled transportation charge to the East coast cooperative would be calculated as if 25 percent of the NFDM exports through the West coast point was shipped from the East coast cooperative, even though no product may have actually been shipped from the East coast cooperative to the West coast port. This method is sensitive to both volume shipped and relative distances between member plants and destinations. Pool managers retain maximum marketing flexibility because shipping and sales decisions affect members only through total returns to the pool.

Sales Territories-Member cooperatives will agree to make all export sales through DARIMAC. "Export sales" will include sales to domestic agents who then export the product in the same form. However, sale of an ingredient to a domestic company that further processes it before exporting would not be prohibited. To protect member cooperatives already involved in the export of dairy products, it may be necessary to specifically exclude certain products and/or markets from DARIMAC'S territory, or to compensate cooperative exporters for their investment. One MAC, as discussed earlier, segmented markets by assigning exclusive territories to the MAC in its membership agreements. Any such arrangements needed by DARIMAC will be detailed in individual membership agreements.

DARIMAC, at least initially, will be restricted from making domestic sales. However, if it can't export all of the committed bulk products, it may then seek a domestic outlet for these product(s) based upon pre-approved terms of sale set by the board. This prevents domestic sales by DARIMAC from undermining domestic marketing efforts of members. For example, NFDM producers would determine terms (such as price and quality) of DARIMAC domestic NFDM sales. Conversely, should DARIMAC have insufficient committed product to meet foreign demand, it may purchase additional product on the open market-from members and/or nonmembers, whichever is most cost-effective. In this case, member cooperatives would not be given any preference and shipping expenses will be paid by DARIMAC. Distribution of earnings from these exports would be based on volume of pooled products only.

Contract Termination-Long-term commitment is required to successfully develop export markets. Moreover, because of the logistical and organizational difficulties associated with getting DARIMAC operational, the initial agreement should cover a term of at least 3 to 5 years. Once the initial period elapses, member could provide a notice of termination. Barring that, the initial agreement should automatically be extended for another 2 years. A minimum of 2 years notice should be required for any cooperative to withdraw from DARIMAC. These terms mirror those used by effective MACs.

Contract Enforcement-A key segment of the marketing agreement will be DARIMAC'S enforcement rights, should member cooperatives violate any terms of their agreement. Situations in which conflicts are likely should be anticipated when drafting provisions on enforcement and remedies. For DARIMAC, these areas might include: improper packaging or labeling, failure to meet product specifications, non-delivery of committed volume, and exporting outside of DARIMAC. A major consideration in determining penalties for breach of the membership agreement is the impact of the noncompliance on the rest of the member cooperatives who honor their agreements.

Financing

Start-up Capita/-Initially, potential member cooperatives must provide funds to finance a feasibility study and organization. Each interested cooperative could pledge an equal share of the total cost of these activities. Once DARIMAC has been incorporated and initial capital needs are assessed, capital for beginning DARIMAC operations can be raised from members (through the sale of common stock) and from loan(s) obtained from a lending institution(s). Member cooperatives would be required to purchase one share of class A common stock that assigns voting rights, and a number of class B shares to reflect the member cooperative's anticipated volume of business and to assign additional votes based on its volume with DARIMAC. Use of stock to assign voting rights is not essential. However, different classes of stock makes recognition of voting rights easier when using proportional voting. Proportional voting was preferred by some of the MACs studied.

Financing—DARIMAC could be financed using a base capital plan. Each member's share will be proportional to their current use of DARIMAC. Equity requirements of the agency and of each member will be adjusted annually to meet the current needs of DARIMAC. Under-invested member cooperatives will be required to add to their equity on a systematic basis through retained patronage refunds or per-unit retains. Margins generated by DARIMAC will be returned to member cooperatives as patronage refunds, based on each member cooperative's proportionate volume of business with DARIMAC. However, in this type of organization, margins would likely be small and not a very reliable source of capital, particularly to operate a base capital plan. Organizational documents should provide DARIMAC with authority to make additional capital assessments. Those fully invested or over-invested will receive most or all of their current patronage refunds in cash. Capital should be sufficient to carry agency operations through periods of low returns to maintain and enhance DARIMAC's position in international markets.

Operating Expenses—DARIMAC will be responsible for all costs associated with exporting and marketing dairy products-documenting, forwarding, routing, billing, collecting, office expenses, salaries, travel, freight, promotion, and market research, etc. For differentiated products, assignable (direct) costs will be charged to member cooperatives. Nonassignable marketing and overhead expenses (not directly attributable to a specific sale) will be collected via commission or marketing fee. Based on estimates of nonassignable expenses, DARIMAC will allocate these costs between bulk and differentiated products. Presumably differentiated products will require a higher level of marketing support, and thus a larger share of the costs, than bulk products. Based on projected sales volume, DARIMAC will charge a commission for each unit, or unit of value, of differentiated product exported and a per-unit marketing fee for bulk products. Any net margins will be returned to members based on the value of their differentiated products exported and through the pool for bulk products.

Depending on the timing of sales, DARIMAC may need to seek short-term operating loans to finance operations. These would be paid back quickly when payment for goods sold is received.

Marketing and Promotion

Branding-A "DARIMAC Brand" could be used for products marketed through the agency. A strong brand identity associated with quality and reliability adds value to products and could benefit all member cooperatives of DARIMAC. A uniform brand name is often adopted by federated cooperatives, including federated dairy cooperatives.

As of 1985, 26 dairy cooperatives sold branded products. If a cooperative brand has strong recognition in a foreign market, DARIMAC could employ dual branding. Both brands would be displayed on the product, similar to Kraft's method of branding after acquiring a new brand. Another way would be for differentiated products to carry the cooperative's own brand and be labeled as "marketed by DARIMAC." On the other hand, dual branding could create some confusion among buyers and less brand loyalty as a single brand, "DARIMAC Brand." Market research is necessary to determine if a strong brand recognition already exists.

Advertising and Promotion—DARIMAC will be responsible for all advertising and promotion of member products in all overseas markets. A concerted effort by DARIMAC for its members will realize benefits to all. Advertising and promoting the entire product line under the brand of one marketer, DARIMAC, would provide cost savings to members. Development and use of a "DARIMAC Brand" could increase the value of member products. The agency will be responsible for market research in foreign countries and hiring advertising companies to carry out necessary media campaigns.

Research and Development—DARIMAC staff will work with member cooperatives and foreign customers in formulating products to meet customers' specifications. DARIMAC may also facilitate cooperation among member cooperatives to produce the type and volume of product requested. However, product research and development will be conducted by member cooperatives. DARIMAC will communicate product needs, tastes and preferences of foreign customers to its members. DARIMAC could also facilitate licensing agreements between member cooperatives when new products/formulations are developed for overseas markets.

Implementation

The incorporation and startup of a new organization takes time and will require legal counsel. The design of DARIMAC is also critically important to its success. The mission and objectives should be clearly understood and accepted by all member cooperatives at the outset. Here are the steps for incorporation and startup:

1. Hold an exploratory meeting of interested dairy cooperative leaders to discuss their desire to form an export marketing agency-in-common. Select a steering committee of cooperatives that wish to proceed.
2. The steering committee meets to set mission and goals. A feasibility study is conducted to determine potential membership, products and volumes, cost analysis, and preliminary market study.
3. Hold a meeting to discuss the results of the feasibility study. Vote whether to proceed at this time.
4. Potential members pledge money and hire an attorney to develop incorporation papers.
5. Call a meeting of charter members to adopt bylaws and elect a board of directors.
6. At the first meeting of the board, directors elect officers and assign responsibilities to design and implement the business plan.
7. Acquire capital for the first year's operating costs.
8. Hire a manager who will then hire the MAC's operating staff.
9. Initiate operations.

Once DARIMAC begins operating, the board and management will conduct in-depth market studies to determine the long-term market strategy This strategy should recognize the importance of adequate planning and preparation to develop export markets. There is potential danger in trying to "do it all at once." The cost of rushing into foreign markets with inadequate planning and preparation may permanently alienate foreign market customers. Implementing the long-term strategy should proceed in stages. DARIMAC could begin by limiting exports to a few selected products or to specific countries. Furthermore, a method of evaluating the success of each stage should be adopted. Careful planning and evaluation should minimize mistakes and ensure customers that DARIMAC is a reliable, committed supplier of quality products.

FUTURE CONSIDERATIONS

This report has focused on the need for an export marketing agency-in-common for dairy cooperatives and how it would be organized and operated. Once DARIMAC has achieved success, other options for enhancing returns and marketing opportunities for member cooperatives could be considered. They could be included in DARIMAC'S long-range plans.

DARIMAC, for instance, could expand membership to include noncooperatives. Title III of the Export Trading Company Act of 1982 established rules under which U.S. companies can join to export goods and services with limited antitrust immunity for approved export activities. By forming an export trading company (ETC), DARIMAC could expand its overseas market power and increase its product line. The ETC could only export under conditions of the Act. (With only cooperative members, DARIMAC is protected under Capper-Volstead Act to jointly market domestically as well as internationally).

On the other hand, expansion into domestic marketing offers DARIMAC an opportunity to take advantage of price differences and to expand its global market share. Furthermore, a large share of U.S. production from one source grants market power to negotiate higher prices. In some cases, new products developed for foreign markets could be successfully introduced into the U.S. under the "DARIMAC Brand." Most marketing agencies studied marketed successfully in both domestic and foreign markets.

Growth can be gained by either expanding membership, cooperative and/or noncooperative, or by expanding target markets (including domestic). Another growth option is to use alternative international business arrangements such as subsidiaries, licensing, and coventures/joint ventures. A DARIMAC-owned subsidiary could operate as a stand-alone business without the 50-percent rule limiting their source of product. A subsidiary could act as an agent for nonmember sales and thus increase supply and variety of products. Subsidiaries also offer the option of expanding operations into other areas, such as services, technical support, and complementary nondairy products.

If "DARIMAC Brand" gains recognition and consumer loyalty, it has a value which can be marketed. For example, "DariMac Brand" could be licensed to a foreign dairy manufacturer to use on a specific product. The agreement would include strict enforcement of quality and predefined markets. For example, if phytosanitary restrictions prohibit entry of a product such as yogurt into an export market, then "DARIMAC Brand" could be licensed to a yogurt manufacturer for use on their product. This enables DARIMAC to complete its product line.

Coventures, which are "collaborative business activities that do not involve equity investments," include licensing and other informal arrangements such as co-packing [8]. Creating a joint venture involves equity investment and formation of a separate company.

Subsidiaries, licensing, coventures, and joint ventures further expand the flexibility and options in foreign markets. These strategies are currently used effectively by dairy export competitors, such as the New Zealand Dairy Board.

DARIMAC could also facilitate relationships between member cooperatives. Cooperatives that have developed high-value, branded, or specially formulated products could lend (or contract) technical assistance to other member cooperatives and/or to DARIMAC. Alternatively, other DARIMAC member cooperatives could be licensed to produce specialized products to meet the specific needs of international customers. The organizing members of DARIMAC will have to design these arrangements according to the needs of participating cooperatives.

DARIMAC could also be a way to expedite group efforts of dairy cooperatives in international humanitarian projects. For example, once operational, DARIMAC could coordinate a response to humanitarian assistance requests like the dairy industry effort in early 1993 to provide 100 metric tons of dairy products to Russia.

In conclusion, future export opportunities exist for U.S. dairy cooperatives. Given the long-term commitment necessary to effectively develop overseas markets, U.S. dairy cooperatives must plan today in order to take advantage of tomorrow's opportunities.

The cost for individual cooperatives to export is often prohibitive and cooperatives give up control and potential margins by exporting through a domestic-based export broker. A MAC offers the best option for U.S. dairy cooperatives as a least cost method while retaining considerable control. With careful planning that incorporates elements of successful MACs and long-term commitment, an organization such as DARIMAC could be a major competitor in the global dairy market.

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