

# Case Studies of Cooperatives in the Value Chain: Texas Cooperatives

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NCERA-210

NOVEMBER 7, 2018

# Cooperatives in the value chain

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Storage, distribution, purchasing, customer preferences

Benefits to members

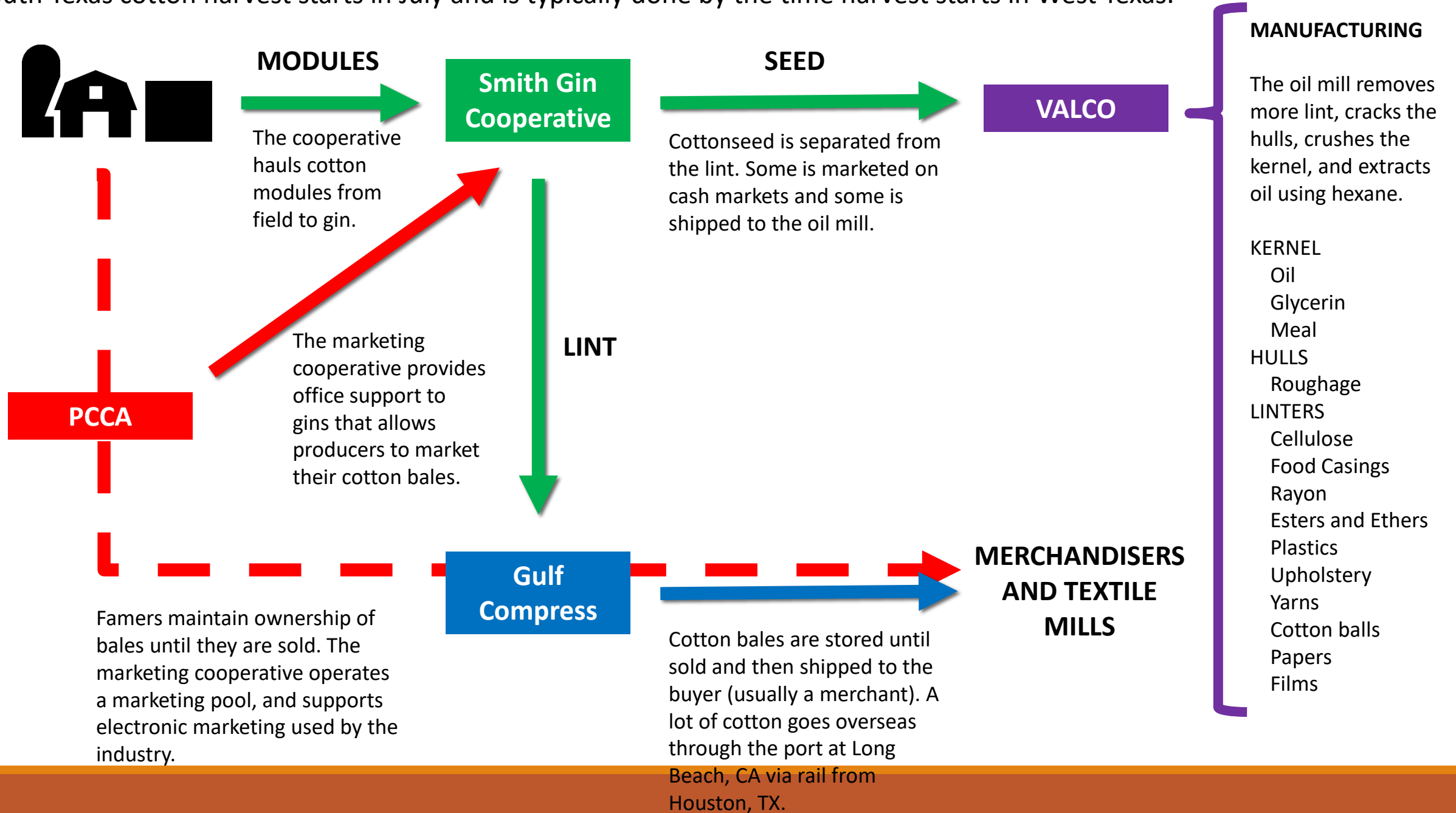
- Financial, non-financial
- Easy to identify, hard to identify
- Farm-level and transfers

Investment

- Returns to members
- Closed vs open co-ops

Competitive conditions and options for expansion

South Texas cotton harvest starts in July and is typically done by the time harvest starts in West Texas.



# Cotton Value Chain

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Farmers produce cotton

Intermediaries process, store, and distribute cotton lint and seed; they buy fiber and oil

Consumers buy end use products: shirts, cheetos

Through cooperatives, farmers own firms that create value at each stage

- Financial returns
- Risk
- Pro-competitive
- Access to service

Cotton Ginning

Bale Storage

Bale Shipping

Textile and Oil  
Manufacture

Wholesaling and Retailing

# Smith Gin

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2018 conditions

Provide ginning and cleaning service to make cotton market-ready

Service quality affects cotton quality; harvest quality also affects cost of service

Ginning volume affects scale economies and associated patronage

Patronage refunds from regional co-ops not allocated to members

Processing pace affects access storage and access to government programs

- Speed and efficiency
- Access to labor



# Gulf Compress

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Centralized storage at multiple facilities

Provides shipping service

Storage allows access to favorable variations in world cotton price – south Texas cotton hits the market first

- Speed vs. profitability

Storage facilities maintain quality by protecting from storms

Challenges

- Metro encroachment
- Age and location of storage
- Changes in tax laws (land)



# VALCO

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Process cottonseed into oil, oil meal, hulls, linters; assets for biofuel products available but not used

Owned by farmers and gins

Cross-subsidization of cotton prices by seed product prices

Profits from seed processing distributed as patronage

Provides market access for seed products

- Changes in Mexican demand for seed



# PCCA

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Facilitates sales of bales through pools, contracts, and cash arrangements

Marketing expertise; innovation

- The Seam.com

Shared risk in pooling

Sustained relationships with buyers

Farmers receive quality, sales, and historical data through membership





# Questions for study

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## Smith Gin

- How important is processing speed to providing a weather risk benefit?
- The gin provides free shipping to the processing facility. What does this imply about whether the distant producers need the closer members?
- Gin capacity expands based on the available cotton processing demand. Cotton plantings need gin capacity. How should patronage be managed in this case?

## Gulf Compress

- How does this co-op, being federated, show its value to farmers?
  - Value to individual farmer vs. all farmers
  - Challenges of communicating risk management value
- How does technology affect the value of the co-op?

# Questions for study

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## VALCO

- How fast should boards make decisions about expanding into other products?
- Seed quality is affected by weather. What are the prospects for pooling and associated patronage payments?
- Regulation and compliance costs are significant. How would farmer value be affected if these costs were borne in a non-cooperative firm?

# Sugar value chain

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Farmers produce sugarcane

Intermediaries process, store, and distribute molasses; sugar at raw or finished stages; byproducts

Consumers buy sugar products

Through cooperatives, farmers own firms that create value at each stage

- Financial returns
- Risk
- Pro-competitive
- Access to service

Seed development

Cane production

Cane milling

Marketing

Wholesaling and Retailing

# Rio Grande Valley Sugar Growers Co-op

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Closed cooperative; refinery built in 1960s

Processes sugarcane into raw sugar; electricity

Markets raw sugar to processor into refined sugar

Options:

- Ethanol
- Raw sugar refining
- Sweetener production

Buyer is a JV between co-op and IOF



# RGVSG – Farm-level benefit

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Texas has 4<sup>th</sup> largest acreage for sugarcane  
(Florida is #1)

Texas sugarcane season is six months; four in  
Florida

- Weather, variety, disease, pests

Co-op jointly bears harvest cost

- Coordinated harvest timing
- Direct shipping to processor
- Harvest equipment
- Maintenance of harvest equipment

Seed variety development program



# Questions for study

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Value of harvest coordination?

Why stop at raw sugar?

Hold up problems?

# Edinburgh Citrus Association

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Producers own groves and deliver harvest to plant for processing

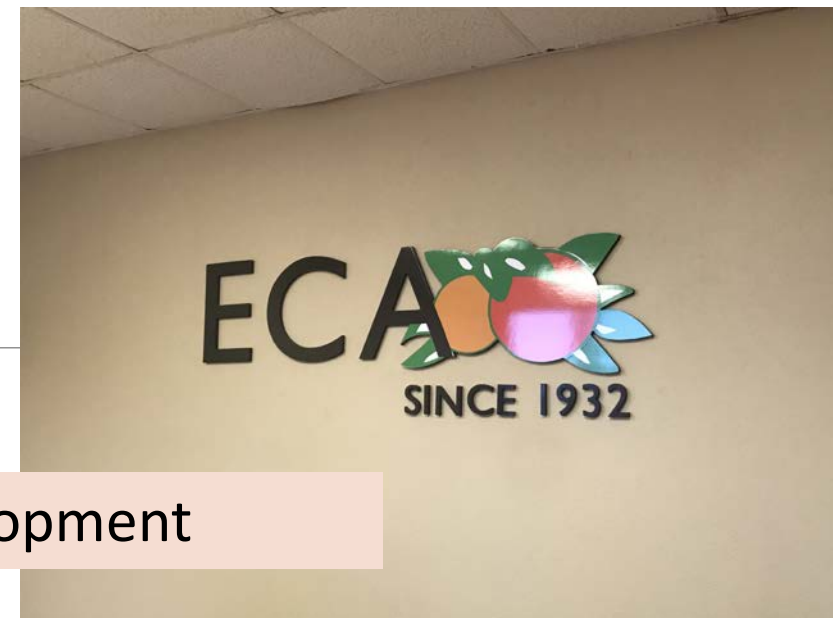
- Fresh
- Juiced

Fruit pricing driven largely by aesthetics (consumer preferences for “pretty fruit”)

Members obligated to deliver (closed co-op)

ECA provides grove management services

Fruit harvested late Oct – early May



Grove development

Citrus production

Citrus processing

Marketing

Wholesaling and Retailing

# ECA Nuances

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Only remaining citrus fruit co-op in Texas

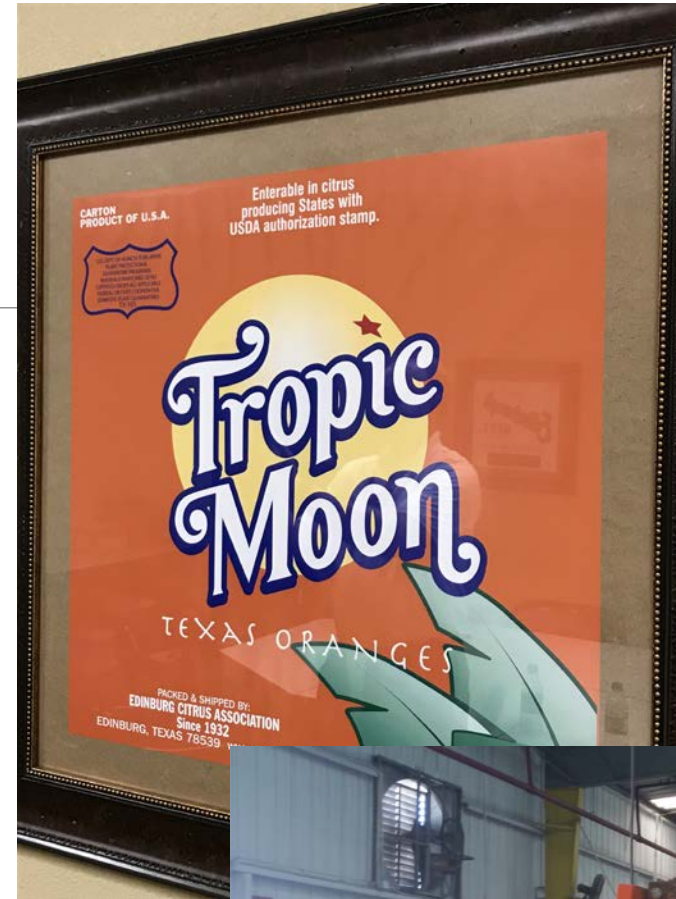
Producers seem to be paid by pack-out volume, not quality

Labor a significant issue

ECA is contributing food-grade expertise, marketing labels include Tropicana and “B grade” fruit

Sold juicing plant a few years ago

ECA buys groves to add production “on top of” members’ production





# Questions for study

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What does grove-longevity suggest about innovation by producers and need for ECA?

Board decisions: sold the juicing plant putting ECA in a precarious situation with Wonderful (who invested in local groves)

Not clear the extent to which producers believe they have control over quality; how does this impact pricing, producer innovation

Service value in maintaining food-grade certification, licensing



# How to use in classroom

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Short write-ups available upon request

Suitable for Cooperatives course, agribusiness strategy course, supplychain course