

VI. WHY AND HOW BARGAINING ASSOCIATIONS ARE ORGANIZED

Bargaining associations come into existence whenever the growers of a commodity experience prices that are below cost of production or terms of trade that are costly, nonproductive, and irritating. Often, buyers exhibit patronizing and arrogant attitudes that will lead growers to seek ways of dealing with such attitudes. An examination of some of the reasons why growers organize may explain the triggering points that lead to the formation of bargaining associations.

Below Cost of Production Prices

The buying power of the buyers of agricultural commodities is often so great that the temptation to take advantage of that position causes prices to be named that not only too low, but patently unfair. Modern farmers are keenly aware when an unfair price is imposed on them. This imposition is often made by the representative of a large and powerful corporation and in a manner that stimulates a call for action.

The food industry is a highly competitive one. Raw products make up a major cost of the finished product. Whenever a large buying company establishes a price for its commodity requirements, that company literally forces its competitors to meet its prices. Thus, one buyer can often establish below cost of production prices for agricultural commodities. Every bargaining association has heard buyers say that they cannot be placed in a position where a competitor can buy at lower prices. Thus one large company can, by its buying tactics, completely dominate a commodity price.

Modern management techniques also tend to depress prices for farm commodities. Big corporations work with profit centers in order to stimulate good management practices. Profit centers are not only highly rewarding to the individual managers in monetary terms, but also are a common measurement used for company advancement. The temptation to use low prices of raw materials to achieve corporate goals is a common practice. A farm bargaining association provides a means to meet this challenge. Farmers themselves frequently contribute to lowered prices. This is particularly true with respect to commodities that compete with other commodities for land use. Vegetable and field crops, for example, may compete with each other. Potato growers with lands that can grow grains or sugarbeets find that their prices for processing potatoes will be influenced to a major degree by the prices being offered for grains and sugarbeets. While the market for processed potatoes may be very profitable, justifying a good price for the raw product, prices are often dictated by the prices of competing crops, and the resulting willingness of growers in the region to seek potato-growing contracts if they are more profitable.

Adverse Terms of Trade

Modern agricultural processing plants and handling operations are moving more and more to specification buying. As labor costs move up, it is often much easier to transfer some element of the assembly line cost back to the producer. Environmental regulations are also a factor in transferring costs to the producer. Having the exact quantity of raw material delivered at the right time can have an enormous impact on processing and handling costs. Modern computer technology pinpoints the areas in which savings can be realized. In the absence of a bargaining association, these needs are often expressed by imposing delivery restrictions and grade standards on producers that can be costly, require additional capital investment, and be irritating. A bargaining association can smooth the transition and play a constructive role in helping the buyers achieve their goals. Naturally, there is a value that should be related to such changes, and determining such a value is a legitimate part of the bargaining process.

The Arrogant Buyer

Many food companies, whose executives either don't understand the farmer's problems or have a biased view toward them, believe that the best buyers and field representatives come from the ranks of the farmers

themselves. But such buyers have often failed at the business of farming and can, by their manner, antagonize their sellers. There are, of course some outstanding buyers working for food companies and they are highly respected; I wish there were more of that caliber. Few, if any, top executives in the food industry come from the ranks of the procurement departments. This downgrading of the food company buyer, intended or not, has been a factor in stimulating farmers to take action in forming a bargaining association. An arrogant, patronizing buyer attempting to impose delivery restrictions on a commodity at an unfair price is the greatest impetus to the formation of a bargaining association.

Farmers Must Take the Initiative

When farmers begin to realize that they themselves must take the initiative to improve their economic situation, they are ready to move to a bargaining association. Government programs that provided a sense of security in earlier years no longer present a satisfactory reliable alternative. Bargaining is not a perfect solution to the farmer's problem. To be successful requires discipline. Farmers must yield some of their independence to group action. They must understand the need for solidarity.

Advantages to Food Companies

Most bargaining associations have been born out of frustration. Perhaps the time has come for farm bargaining associations to be born out of careful planning. Many food companies that have dealt with farm bargaining associations find there are some advantages to themselves in dealing with a well-organized and knowledgeable group of farmers. Corporations are used to dealing with organized groups among their employees and within the various trade associations. Such a company might welcome a strong well-organized ally to deal with government regulations affecting a commodity. Reducing costs through better coordination in the handling of raw materials can often be quickly and effectively achieved in cooperation with a bargaining association. Evidence of a change in attitudes is beginning to show up in talks made by food executives. Charles E. Bailey, an executive of H.J. Heinz Company, addressing the 23d National Bargaining Conference, told his audience, "We feel and recognize that agricultural bargaining cooperatives are here to stay. In recent years some of the cooperatives bargaining for price and contract terms have developed credibility and integrity which certainly is a credit to the agricultural community."

Cooperative Farm Bargaining

William Smith, former head of raw product procurement for **Hunt-Wesson Foods**, told the managers of the Pacific Coast Bargaining Association Meeting in December 1978 in San Diego that, "I think every successful bargaining association should strive to eliminate the emotional issues and the attitude to look upon each other as adversaries. Sellers and buyers need each other's support too much to spend very much of their time fighting each other."

There are many instances of successful and mutually rewarding results from cooperative bargaining. The California Canning Peach Association has been bargaining and negotiating prices with major food companies for over 50 years. The California Canning Pear Association has been negotiating for over 25 years, and there are many others involved with processing fruits and vegetables and fluid milk that have negotiated and bargained successfully for many years. There are however problems encountered in dealing with buyers by the best of the associations from time to time. A critical problem often arises when the decisionmaking executive in the food company leaves too much authority in the hands of subordinates. Subordinates, if influenced to a major degree by the company's profit plan or by a fear of their superiors, may be unable to carry on reasonable negotiations, and sometimes may embarrass their chief executives. This situation is often well known and recognized by the bargaining association and its members and does not contribute to satisfactory results for either side.

Four Essential Considerations

Successful farm bargaining associations have come into existence when certain basic considerations were present. Four essential considerations should be met before an attempt to organize is made.

Need. There must be a widespread need for a bargaining association and a genuine interest on the part of the producers of the commodity. A very careful judgment should be made, before the organizing effort commences, that the necessary degree of interest is at hand. There are a number of ways to determine this, such as by a sample survey of producers, by the turnout and enthusiasm expressed at information meetings, and by the impressions held by suppliers and dealers who regularly contact the farmers. An objective sample survey is the best vehicle to obtain an accurate evaluation.

Understanding. The farmers need to understand what bargaining can and cannot accomplish. One of the worst mistakes is to oversell the concept and cause the potential members to expect more than can be

delivered. Understanding can be achieved by bringing in people experienced in the business who can accurately describe the parameters within which farm bargaining can effectively operate. It must be understood that successful farm bargaining involves certain disciplines and may mean giving up certain freedoms of choice in marketing. There is a commitment involved on the part of every member of the bargaining association if it is to succeed. An economic analysis should be made to determine what advantage can be expected to accrue to those growers who will join a bargaining association. Such advantages include price enhancement, improved terms of sale, and the potential market growth.

Leadership. The leadership must include most of the recognized and respected leaders in the area. These must be persons of good judgment and sufficient dedication to see the project through. Those who frame their arguments in highly emotional terms should be encouraged to support the idea, but not to assume a leadership role. Price is an emotional issue with many producers, and yet price enhancement is seldom achieved through an emotional appeal. Beware of those who would use the bargaining association for their own ends. Such ambitions arouse suspicions among the members and a lack of respect among buyers. The quality of the leadership is a central factor in successful organizing and bargaining.

Allies. Organizing a new association requires the assistance and good will of many allies. The existing farm organizations, such as the Farm Bureau, Grange, and Farmers Union, can be valuable allies or sponsors of the new organizations. If prices have been poor, suppliers, financial institutions, implement dealers, and others who do business with the producer of the commodity can be enlisted for support. Care should be taken not to associate with an organization that is controversial and will contribute its enemies as well as its supporters.

If these four essential considerations are met, organizational efforts can proceed.

A Typical Organizing Effort

A typical organizing effort would involve establishing the following:

The Sponsoring Committee. A committee made up of responsible farmers and representatives of interested organizations should be the sponsors. In that role, they will develop the initial organizing plans. The sponsors will often determine the type of organization. A contact for the media should be named. Starting a bargaining association is news and

will attract attention from local and regional media. Irresponsible or misinformed statements in the early stages of development can often cause future problems. The media should have a knowledgeable and responsible contact who knows the issues. Plans for developing initial seed money must be adopted. Sources of initial seed money include contributions from the sponsors or leading farmers, contributions from allies, or loans from lending institutions. Plans should be made for initial information meetings and the method of selecting an organizing committee. The organizing committee will have the responsibility of developing the plan of organization, developing a form of membership agreement, and going through the legal steps of incorporating the association. The members of the organizing committee will frequently make up the initial board of directors, so the manner of selection of these people is important. Every effort should be made to make sure that the members of the organizing committee are representative of the potential membership.

The *Organizing* Committee. The organizing committee members must supply the initial leadership for the new organization. They would be well advised to employ as a consultant a person with experience in bargaining. They will need the services of an attorney with a knowledge of cooperative law, antitrust work, and some experience in working with bargaining associations. The organizing committee can significantly influence the tone or philosophical approach of the new organization. Will the new organization be activist and aggressive or will it develop its bargaining power on the basis of good research and careful analyses? Will its growth be fast and dramatic or reasoned and deliberate? These choices will have much to do with the success of a drive for membership.

The organizing committee will choose the first employees, develop the means for financing, and establish the initial goals of the association. The organizers will be faced with many important decisions as they go about setting up a new organization. Some of these decisions, and how others have dealt with them, follow.

Size of the Board. Bargaining associations need a superior system of communications with the membership. Every farmer has a strong opinion as to what constitutes a reasonable price and acceptable terms of sale. Farm bargaining imposes an obligation on the members to base their opinions about price on good factual information about supply, demand, and market conditions. Communicating these facts to the members requires good organization and considerable skill. This will influence the decision on the size of the board of directors who will have

the responsibility of establishing the association's prices and terms of sale. The board, therefore, must be sufficiently large to be representative of the area to be covered, yet not so large that it cannot operate effectively. To be representative, the makeup of the board should, as far as possible, give consideration to such matters as the size of the member's operation, age, experience, and ethnic background. Inevitably, a large board ends up with an executive committee that makes many of the key decisions.

District Advisory Committees. Such committees have proved to be an excellent complement to a reasonably sized board of directors. Although district advisory committees do not have decisionmaking powers, they do provide to the management and the board an excellent means for communication and inputs on grower attitudes. Generally, directors are selected by districts and advisory committees can act as nominating committees for the district board members. District advisors, in some cases, are elected by the members in the district, particularly if they have the responsibility of acting as a nominating committee. District lines should be carefully drawn with consideration given to homogeneous groups.

Members' Voting Rights. This issue can also be controversial, particularly when the members are not of the same relative size. While one member-one vote is very democratic, it often fails to attract the larger producer whose participation is essential to success. A popular solution is to provide one vote for a given number of units of production, with each member having at least one vote. A limit is then placed on the maximum number of votes that any member may have, thus giving some consideration to both the large and small producer.

A typical example would be where the average number of units of production per member would be 100 tons. Each member would be entitled to one vote for each 100 tons or less. For each additional 100 tons, the member would be entitled to an additional vote, but not exceeding 10 votes.

Membership Agreement. The type of agreement will need the careful attention of the organizing committee. The decision on whether the new association will be a marketing-type association where title and responsibility for the member's crop is placed in the hands of the board, or whether the new organization will act as a bargaining agent for the members, or operate as a service organization will be spelled out in the membership agreement. The obligations of the member and of the association are defined. The organizers should carefully analyze the

type of organization that will develop the maximum bargaining power, and yet be acceptable to the members. It is essential to provide for sanctions on those members who fail to live up to the terms of the agreement. A liquidated damages provision with a penalty of sufficient size to discourage membership actions that weaken the association's position will generally suffice.

Consultants and Legal Help. Advice and counsel from people with a knowledge of the problems of the industry beyond the farm gate should be called on when preparing the membership agreement. A cooperative agreement, once signed up, is hard to amend later on because it may involve a whole new signup for an amended agreement. Care should be taken, therefore, that the document does not contain a provision that does not fit the practices in the industry and that will need to be changed later.

A provision in the membership agreement can stipulate that the agreement will become effective only when producers farming not less than a specified number of acres, or producing a specified volume, have signed the agreement. The acreage or tonnage goal should be of sufficient size to give the new association some standing from the beginning. Farmers like to feel that they are part of a successful organization. By assuring them that the organization will become operable only when a significant share of the total production is signed up, a basic concern can be met.

Membership Signup. The membership drive should be carefully planned. It is most important to secure an accurate list of potential members. Such a list can be prepared with the help of allies and by searching the county records. For some commodities, lists can be purchased from publications.

An initial membership drive should be broken down into the smallest number of practical units, with each unit served by a membership committee with an active and responsible chairman. The committees should be carefully briefed and furnished with pamphlets and information describing the new association. Personal calls, in addition to local meetings, should be encouraged. Each local committee should be urged to set a signup goal. Each committee should be contacted frequently for a progress report.

Media coverage should be arranged. Free publicity can be obtained, but if there is a strong opposition group, it too can secure the same free publicity. Sometimes it is better to pay for advertisements to be sure the right message gets through. A good mailing list serves to pinpoint the

targets, and frequent well-written bulletins can be of enormous help. In dealing with the media, efforts should be made to find those individuals who know what they are talking about. Interviews by phone or in person should be resisted by the inexperienced. Well-prepared press releases are the best method of getting a message out. Each meeting can be the source for a good press release. Be careful about making press releases too self-serving.

Timing. The best time to start is when the interest is greatest, but the availability of people to act on membership committees is also important.

Financing

The organizing committee will need to examine the means for financing the organization. A nonrefundable membership fee to finance the organizing drive should be collected when the membership application is signed. An annual service charge to finance the organization should also be assessed. The most satisfactory arrangement is to provide for a checkoff to be paid to the association by the buyer. A number of States have adopted laws that require a handler, buyer, or processor to honor an assignment on proceeds that is signed by the grower. Some of the older associations have negotiated for a service charge to be paid by the buyer for procurement services rendered by the bargaining association. If some form of checkoff or an association service charge based on volume cannot be achieved, the membership agreement must provide for furnishing the association with all weight tags or other evidence of delivery to provide a basis for billing the member. Membership dues or service charges can also be determined on an acreage or square footage basis, and this too should be subject to verification. A system of voluntary payment of membership dues or service charges by members is unsatisfactory. An assignment of proceeds by a member will in most cases be honored by a buyer. It may be necessary to contact the buyers to seek some assurance that an assignment will be honored.

A checkoff system required under law has a number of advantages: it is readily collectable; it can be used as a pledge to secure a bank loan for startup expenses; and it provides a sound basis for attracting the high-quality personnel needed to manage a bargaining association.