

A Note on the Multiple-String Structure

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Traditionally, co-operatives have been formed by a relatively homogeneous group of producers to meet a common set of needs. With a homogeneous group of members, a co-op can provide relevant services and clear benefits to its members. As the co-op matures, however, its membership often becomes more heterogeneous and its members' needs more diverse. The co-op may diversify into a broad range of activities in an attempt to meet the needs of a heterogeneous membership.

On the other hand, co-ops that offer too broad a range of services often struggle to make a clear link between the needs of members and the benefit of membership. Profits from one activity may subsidize a less profitable activity. As a result, all members will pay for a certain service that only a few will use. This leads to a situation where the benefits of membership in the co-op are unclear to its members. If the co-op fails to provide clear benefits, members may have no reason to use the co-op and commitment falls.

The purpose of this article is to explore how the application of the multiple-string or umbrella structures can help co-ops avoid or mitigate the problem of cross-subsidi-

zation. In a multiple-string co-op, each product or service line represents one of a number of multiple *strings*, or activities, within the co-op. The co-op may also offer common or umbrella services—such as processing, transportation, or marketing—to each product line. Each product or service line uses some combination of the co-op’s services to meet its needs. One way to clarify the link between services and benefits is to organize each product line as a New Generation Co-operative (NGC).

This paper describes four examples of multiple-string co-ops. The first is a case in which a traditional co-operative evolved to employ an umbrella structure. The second illustrates a case in which co-operatives were created anew using the umbrella structure. The third example describes a proposed venture that would have seen a traditional co-op evolve into a multiple-string structure composed of “finger” NGCs. The final example is a hypothetical model that could be applied to emerging NGCs.

Danish Crown

Danish Crown, the largest pork processing and slaughtering company in the European Union, is an example of a traditional co-op with a multiple-string structure. This organization separates its pig slaughter into heavy pigs, UK pigs, and various types of pigs for the Danish market.

Members of Danish Crown understand that there is a clear mechanism to account for the revenues received from each type of pig. A member can expect to receive the total benefits from the type of pig he or she delivers; there is no cross-subsidization between different types of pigs. Danish Crown pays a premium based on the farm-level costs of production. In some cases, the premium is a means of encouraging producers to move from one type of pig production to another. For example, Danish Crown offers a premium or subsidy to farmers who convert to raising organic pigs.

CUMA Co-operatives

The Coopérative d'Utilisation de Matériel Agricole (CUMA) Co-op is a type of farm machinery co-op being adopted in Québec. CUMAs enable producers to buy and maintain farm machinery co-operatively. The CUMA owns the equipment and rents it to members at the lowest possible cost.

A CUMA is composed of activity branches that correspond to individual pieces of farm machinery. A member can join one or more branches; the costs associated with one branch are separate from all other costs. Therefore, a member of one activity branch knows that the cost she or he pays entirely supports that piece of machinery.

Figure 1 outlines a CUMA that offers spraying, seeding, and raking services. Member 1 belongs to each of the NGCs, Member 2 belongs to two, and the rest of the members each belong to one activity.

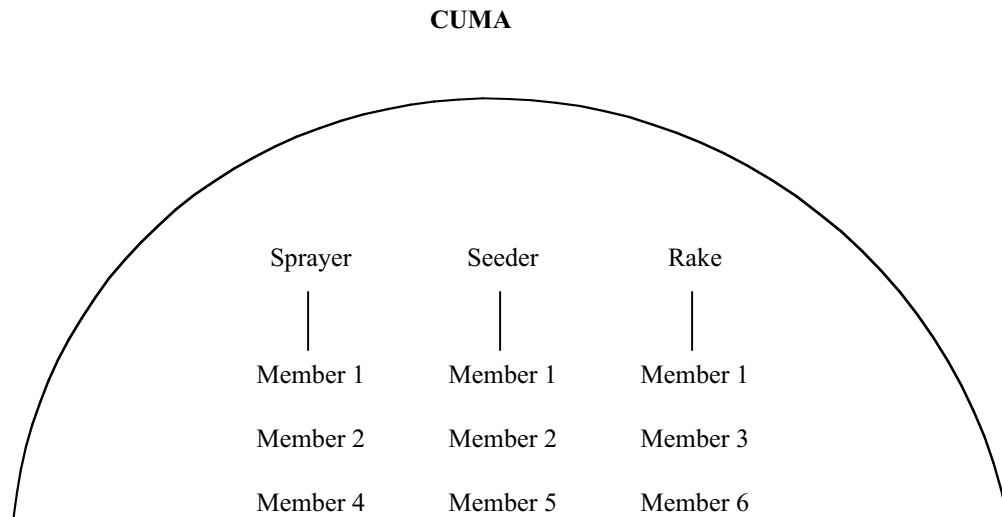


Figure 1: A CUMA Co-operative

United Country Brands

United Country Brands was to be the outcome of a proposed merger between two large, farmer-owned co-operatives—Cenex Harvest States and Farmland Industries. United Country Brands was going to be an umbrella co-op for eleven to fifteen individual organizations, or “fingers.” It was proposed that each finger would be a New Generation Co-op. Members could choose to invest and do business with one or more finger NGCs. In each finger NGC, members would invest an amount proportional to their intended use. By organizing the fingers as NGCs, the co-op would have relied on member equity for financing.

A Model for Emerging Co-ops

The multiple-string structure may be useful for a group of producers who share a number of common needs. Emerging co-ops represent one situation in which a large number of producers may have common needs.

Figure 2 (next page) outlines a hypothetical example of a multiple-string fruit and vegetable co-op composed of three finger NGCs. The co-op markets three crops: cantaloupe, cabbage, and carrots. It offers marketing, transportation, processing, and cleaning services to all product groups. However, each product group has unique needs in terms of transportation, processing, and cleaning services. Cantaloupes require transportation; cabbages require cleaning, processing, and transportation; and carrots require cleaning and transportation.

Producers become members of one or more product groups according to the type of production in which they are engaged. As NGCs, each producer group requires its members to invest in the co-op in proportion to the amount of product they deliver.

Multiple-String Fruit and Vegetable Co-op

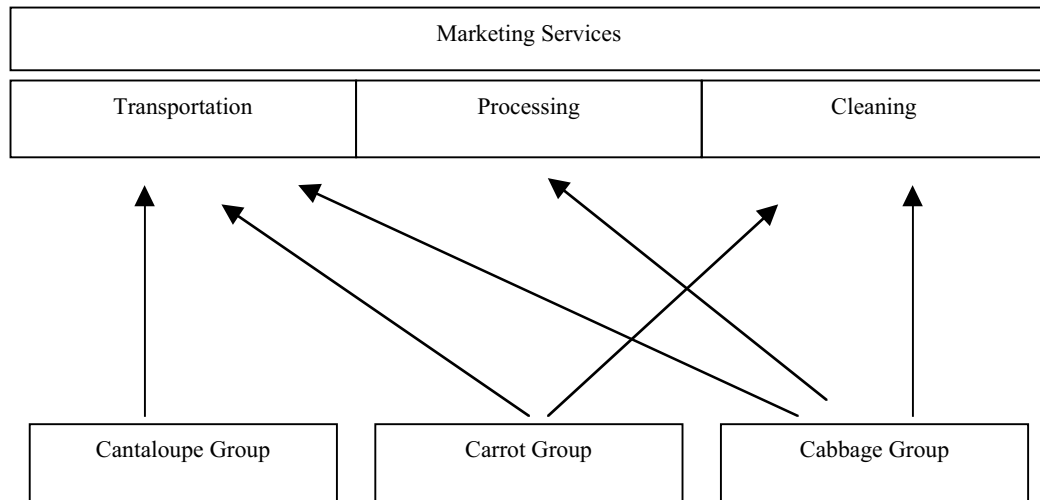


Figure 2: A Multiple-String Field Fruit and Vegetable Co-op

The costs associated with services for each group are allocated exactly to that group. In this way, each member of a product group knows that she or he is paying only for the services that are used for that particular product. No member is concerned that she or he is paying for services rendered to another group. A member of the cantaloupe group, for example, knows that the price she or he pays for transportation services is not higher or lower due to cross-subsidization among the producer groups.

This example of a multiple-string structure shows how a co-op can offer a range of services to groups with both different and common needs. At the same time, the NGC producer groups allow the co-op to provide clear benefits to its members.