Why Marketing Together Is Especially Important for Organic Grain Farmers

By Richard A. Levins

(Prepared for KOP Annual Meeting, Salina, KS, March 21, 2015)

I am a professional agricultural economist with over 30 years' experience in the field. When I look at organic grain farming, I see a market in which the farmers need better market information. I see a market that needs powerful ways to defend organic standards. And I see a market that would respond especially well to organized management. All three of these objectives can be met by farmers working together. None of these objectives can be met by farmers acting alone.

Let me begin by saying how important group marketing is for all farmers, not just organic farmers, or even just organic grain farmers.

Here's a good example from the St. Louis Post-Dispatch. It is from a story about how McDonald's is planning to phase out certain antibiotics from the chicken the global giant buys from its suppliers. Production costs would be higher, and that raised the question of who would be stuck paying for those higher costs.

Maybe consumers, but McDonald's didn't want to pass the costs along. They were already facing stiff price competition from other fast food chains. That left McDonald's and its farmer/suppliers. Guess who won that one?

The winners would be McDonald's, of course. The losers would be the suppliers who, according to the article, "may not have the market power to resist." McDonald's "carries a lot of clout with suppliers." In some cases, suppliers are completely dependent upon McDonald's to sell anything at all.

So, even though the suppliers are themselves corporate giants in many cases, they are no match for McDonald's when it comes time for head-to-head negotiations about prices and contract terms. I'll leave it to you to guess what chance an individual farmer has in such a bad economic neighborhood.

What I have said so far applies to each and every farmer in the country—they are all out-gunned by global buyers. But there are some special concerns for organic grain farmers, and those are what I want to talk about today. I want to talk about the implications of a market in which prices are difficult to determine. I want to talk about a market that depends so much on standards set by USDA. And I want to talk about a market that both needs, and lends itself to, growth management.

But first, let's remind ourselves about how rapidly global giants are taking over the retail markets for organic products of all types. I thought about spending the next several hours listing mergers and buyouts. Along the way, I could maybe show some charts of who owns what that have so many lines crossing here and there that the pictures look more like a giant plate of spaghetti than anything else.

Instead, I took the lazy man's way out and wrote my friend Patrick Woodall at Food & Water Watch in Washington, DC. I worked with F&WW a few years ago on some of their projects. They are a great friend to organic farmers, and Patrick is one of the most thorough economic researchers I have ever met. What he wrote back is simple and to the point: "It is impossible to stay current, too may mergers... it is a mess and changes every day."

In 2012, the New York Times put it this way: "organic food has become a wildly lucrative business for Big Food and a premium-price means premium-profit section of the grocery store." Since then, things have gotten worse, not better.

So what does this mean for organic grain farmers? For starters, it is obvious that the fewer the buyers, the less competition for what you sell. That's what any farmer would face. Buyers will constantly be trying to get the product for less.

But here's what is different. The buyers of organic brands are conventional retailers and food manufacturers. Kellogg's, Post, General Mills, Coca-Cola, Pepsi…the list goes on. These companies are buying organic brands so they can "offer choices to consumers" and, no doubt, get a piece of the action on a market they did nothing to help build. They won't care about the organic standards. Instead, they will press to change the standards for organic products in ways that make the products cheaper. Or, they might reformulate the products altogether so that they appear the same, but are no longer USDA organic.

Let's not forget what happened when Dean Foods bought Whitewave, the owner of the Silk brand of soy "milk." Dean saw no reason to pay for expensive organic soybeans when conventional beans were available for a fraction of the cost. So they first reformulated with conventional beans, some from China, and then succumbed to consumer pressure to go with a GMO Free label. They never got back to using organic soybeans, however.

This was very costly for organic soybean producers. According to the analysis I helped F&WW do a few years ago, the switch to so-called "natural" soy milk cost organic soybean farmers 1.2 million bushels per year in lost demand. Something like $8.7 million per year went out of growers' pockets and into those of Dean Food investors.

How could Dean get by with such shenanigans? Why didn't its rivals blast them for what they did and tout their own organic products? The answer is the same answer we will have for most of our economic problems today: corporate concentration. Dean had such a large market share in soy beverages that there were no other companies out there to effectively counterbalance what Dean was doing.

So, that sets the stage. Now let's get down to the specifics of working together as organic grain farmers to make sure we get our fair share of the market we have helped create.

First, and very important, I am not going to discuss the "hassle factor" in marketing organic grains. Marketing organic grains takes more paperwork, more testing, more looking for buyers, more concern with shipment, and more worrying about payment than conventional grains. Dealing with these hassles takes experienced people with plenty of time, and those people are best hired by groups of farmers. There are lots of people in this room with more experience and knowledge than I do on these matters, so I will leave your questions for them.

What I want to talk about with you about are three economic issues: (1) price discovery, (2) protecting standards, and (3) managing growth.

Let's look first at market information. There is no organized, widely-available source of pricing information farmers can use to their advantage. Put another way, organic grain farmers don't have the CBOT and other resources available to conventional producers. Because buyers are usually bigger than organic farmers, they have better information. They see more producers and can play one against the other. And, let's face it, any time your principal source of market information is your buyer, you're in trouble. That applies to any business, not just organic grain farming.

An organic grain organization could profitably begin with the goal of collecting high quality market data that would not be available to buyers. Participating producers would share information on product on hand, expected production, available pricing, and market opportunities. Collectively, the organized farmers would be larger than any buyer and therefore have superior information. That information alone should translate into more profitable decisions for the group. OFARM does some of this now. The quality and value of the information will only increase as OFARM grows in membership.

I was personally convinced about how effective this price discovery and bargaining process was by a study I did for OFARM for crop years 2002 and 2003. Wheat, corn, clear hilum soybeans, and Vinton soybeans marketed through OFARM brought higher prices than did those marketed by individual farmers. The price premiums were often substantial. The highest was 42% for wheat in 2002, and premiums in the 20% range were fairly common. This study got quite a bit of attention when it came out. As far as I know, no one has seriously challenged the conclusion that group marketing pays.

Now let's turn our attention to protecting organic standards. Consumers of organic foods normally think of farmers as producers of fruits, vegetables, milk, and meat products. These are the products consumers see on grocery shelves. In terms of organic acreage, however, organic grains dwarf all other organic crop uses. And, since most organic grains go to feed livestock, the farmers who grow those grains are all but invisible to the organic consumer.

Grocery shelves now contain organic products from General Mills, Kraft, and many other global food processors. Also, agribusiness continues to gain influence with the USDA advisory board that establishes the standards for organic farming and food manufacturing. Both trends have resulted in threats to organic standards. We must anticipate that these threats will continue and intensify.

Organic grain farmers are especially vulnerable to these threats. They are the ones who lost 32,400 acres of food grade soybeans in the Dean/Silk fiasco. Because of their large acreage and proximity to conventional grain producers, organic grain farmers are most affected by GMO and pesticide drift. And as weather patterns disrupt organic grain production, it is easier for corporate livestock producers to argue that we need relaxed standards or "natural" brands to cope with organic feed shortages and higher organic feed costs.

Organic grain farmers need better communications with those who consume their products. Such communication is at the foundation of building a strong, robust movement that will beat back all challenges to organic standards. We have made a great start with the Organic the Real Natural campaign, but much more needs to be done. No individual farmer is large enough to counteract the "messaging" from today's corporate giants. Only organized farmers can do that.

Now let us look at the advantages of being able to better manage the entire market for organic grains. There are four reasons that make me think organic grain farming is a perfect candidate for market management.

The first reason is that the supply of organic grain adjusts to changes in demand very slowly. When demand increases, it takes several years for new supply to be certified. On the other side, falling demand does not necessarily mean farmers will immediately leave organic production. They don't want to lose their certification.

The second reason the organic grain market needs management is that demand is also slow to change. A good part of organic grain production goes for feeding organic livestock. This industry, like grain production, is slow to adjust because of certification issues.

Third, organic grain can be stored for relatively long periods of time. This can be good at times, but at other times it means that excess supply results in large storage that hangs over a market and kills later price increases.

The fourth reason to consider a managed market is somewhat unique, and very important--there is a readily available alternative market for the product. Organic grain can be sold into the conventional market at any time.

These four factors add up to a classic situation that calls for a managed market. Without management, prices will be lower than they otherwise would be. They will also be more volatile, that is, they will whipsaw up and down in ways that make planning very difficult. As long farmers face the market as unorganized individuals, this is what they will get.

On the other hand, a managed market can carefully match supply and demand in ways that assure strong, stable prices. When supply exceeds demand, the excess can be sold in the conventional market. Even though there will be losses with such sales, the gains from higher prices in the managed organic market will more than make up for the loss.

Of course, an individual farmer selling into the conventional market sees only a loss. His or her action is not big enough to influence the overall market, so there is no incentive to take the loss. However, if there was some way he or she could sell, say, ten percent of a crop into the conventional market in return for higher prices on the other 90 percent, that would make good business sense.

The only way that good business sense can be put into practice is if most of the farmers in the market have a means of coordinating their sales into various markets and participating in the gains from doing so. This level of coordination exists to some extent in OFARM now, but increased participation is necessary for the concept of a managed market to have maximum benefits for organic grain farmers. The question is: “Would the headache of additional organizing be outweighed by the additional income that would result?” My economic training tells me that it would.

Here is a little something to think about. Why do airlines charge one price for business travel and another for vacationers? Why do movies cost less in the afternoon than in the evening? Both are classic examples of industries using smart marketing. In the first, airlines keep the price up for business travelers and “dump” the remaining seats into the lower priced vacation market. In the second, theaters charge more to people who strongly prefer evening shows and “dump” the remaining customers into the afternoon market. These are standard business practices that can be found in any “ECON 101” text. In both examples, if a “one size fits all” pricing policy were adopted (the way organic farmers now do), profits would fall.

I realize that this is a lot to cover in one talk, and thank you for your patience in listening to me. The important thing is this: there is a lot on the line here. Today’s organic farmers can pursue the individual “last man standing” strategies that have worked so poorly for conventional grain farmers. Or they can act together in ways that point toward the fair, stable markets that are necessary for planning and growth.

I hope you make the right choice. Your own prosperity, not to mention the future of organic grain farming in the United States, hang in the balance.

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