

Economic Impacts of Alternative Premium Structures by Cooperatives and Milk Handlers in New York State

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The Need

With more than 80% of the nation's milk passing through them annually, dairy cooperatives play an ever more prominent role in the management of U.S. milk markets. But their management presents some unique challenges for cooperative members to navigate. For example, differing member interests become more prevalent and costly the longer a cooperative exists, and the cooperative's board of directors is tasked with increased responsibility in balancing the representation of these interests. Through a cooperative structure — where users of the business have ownership and, with it, democratic control — members' needs are prioritized over return on investment. The value that members see in belonging to and co-owning their cooperative has important implications for operational efficiencies and governance participation—factors that may allow cooperatives to form and succeed when other types of business models may not.

The Approach

The overall goal of this project was to assess what value dairy farmers assign to cooperative membership, as well as to the pricing and cost structures for levies on volume, quality and hauling provided by handlers. The project team conducted a year-long national survey that examined seldom researched preferences for milk pricing attributes and handler business structures. With insights from more than 200 participating dairy farmers, the project team evaluated the values and strategic tradeoffs between price components and handler business structure (cooperative or independent). By controlling for handler pricing factors, the team more accurately estimated the value of cooperative ownership to members.

The Impacts

This research provides new insights on the specific value that dairy farmers assign to their cooperative membership. Results suggest that dairy farmers, on aggregate, are willing to accept lower per-hundredweight (cwt) compensation to be cooperative members — 2.3% of the average milk price — versus selling to independent handlers. This indicates the average value of cooperative ownership to be \$0.45/cwt. The inclusion of member demographic variables in the study highlighted preferences that are important for understanding diverging member interests, informing improved cooperative governance strategies and board decision-making to address them. The results suggest it's critical for seasoned cooperative members to communicate value of the cooperative to existing younger members, both for recruitment and long-term member retention.