

# Developing a Cooperative Marketing Plan

*Kentucky Center for Agriculture & Rural  
Development (KCARD)*



# What is a Cooperative?

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- Simple Definitions:

“An enterprise or organization owned by and operated for the benefit of those using its services” (Merriam-Webster Dictionary)

“A cooperative is a business owned and controlled by the people that it services.”  
(Larry Snell, former Ex. Director, KCARD)



# Co-ops Today by the Numbers

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- More than 400,000 cooperatives in the US
- Serve more than 130.5 million members
- Nation's 100 largest co-ops, representing agriculture, finance, housing, energy, and hardware sectors reported over \$226 billion in sales in 2012

(Source: National Cooperative Bank)



# Kentucky Co-ops: Hopkinsville Elevator

- Established in 1968 with 180 members
- 6 locations with over 2300 members from surrounding 34 counties
- Agri-Chem, HEC Crop Insurance, and Commonwealth Agri-Energy



# Kentucky Co-ops: Lexington Farmers Market

- Established in 1975
- 75+ members
- Members pay annual dues, booth space rental per marketing day, gate fees per marketing day
- Multiple locations



# Kentucky Co-ops: Kentucky Organic Farm & Feed

- Established in 2009
- Organic Feed Mill Located in Guthrie, KY
- 18 Members who are Organic Dairy Producers



# Kentucky Co-ops: Central KY Growers Association

- Established in 1998, Georgetown, KY
- Vegetable marketing cooperative
- Cabbage, cucumbers, fall décor, green peppers, pumpkins



# Economic Principles of Cooperatives

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- **User-Owned:** The people who own and finance the co-op are those who use it
- **User-Controlled:** The people who use the co-op control it via “One Member-One Vote” on major organization decisions and electing board of directors
- **User-Benefited:** The sole purpose of the cooperative is to provide and distribute benefits to members on the basis of their use of the services of the cooperative. (Operation (Service) at Cost, Patronage Refunds, Improved Pricing, Market Access to Goods and Services otherwise not available)





# Cooperative Principles

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- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training, and Information
- Cooperation among Cooperatives
- Concern for Community



# Cooperative Business Structure

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## ■ Cooperative

**Control** - Members elect board.

**Capital** - Members provide equity.

**Liability** - Liability is limited to their investment.

**Earnings** - Profits are shared by members based on patronage; limited by law (8% in KY)

**Taxes** - Income taxed **either** as corporate income or as member income.

**Life** - Perpetual existence.



# Cooperative Benefits

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- Cooperatives exist to meet their members needs. Focus is on service not investment.
- Cooperatives are owned and controlled by their members. Increased local control keeps the co-op in the community .
- Earnings return to members. Co-ops keep money in the community.
- Benefits reflected with: patronage refunds, better prices, services otherwise unavailable, access to markets, and assures sources of supplied



# Disadvantages of Cooperatives

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- Access to capital
- Cost of member and public education
- Investment in democratic process
- Limit in scope of operations
- Co-ops are only as good as their members ask them to be.



# Elements of a Marketing Plan

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- Market Research & Analysis
- Development of Marketing Goals
- Identification of Target Market
- Marketing Mix (4 P's of Marketing)
  - Product
  - Price
  - Promotion
  - Place
- Evaluation Methods



# Market Research & Analysis

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- Identify Trends
  - What are the trends that are impacting your business? Examples could include local food movement; product differentiations; food safety
- Understand the Market
  - Demographics
  - Recent Developments
  - Customer Feedback
- Sources of Information



# Market Research & Analysis

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- Competitor Analysis
  - Identify Key Competitors
  - Profile Competitors based upon Key Characteristics (Product Mix, Price, Location, Reputation, etc)
- Analyze Yourself—SWOT Analysis
  - Strengths of your business
  - Weaknesses of your operations
  - Opportunities presented by the market
  - Threats presented to your business by the market



# Marketing Goals

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- Set specific goals that can be measured
- Goals may include measures for:
  - Sales
  - Number of Customers
  - Customer Retention
  - Sales per Transaction





# Target Customers

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- Identify Target Customer Groups
  - Needs that your business can fulfill
  - Ability to purchase
  - Willingness to purchase
- Retail and Wholesale Customers
- Key Demographics
- Psychographic Analysis
  - What do they value?
  - How do they make decisions?



# Products & Services

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- Key Features of the Product/Service
- Benefits Offered: How does the customer benefit from the product?



# Market Positioning

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- **Value Proposition:** What are you offering to your customer?
- **Competitive Advantage:** Why should customers buy from you instead of your competition?
- **Reputation in the Marketplace:** How is your business viewed in the market?



# Pricing

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- Critical Part of Marketing that is both an Art and a Science
- Pricing Must Be Consistent with Marketing Efforts
- Key Considerations in Pricing
  - Cost of Production
  - Customers' Values and Willingness/Ability to Pay
  - Competition



# Pricing Strategies

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- Competitive Pricing
- Cost-Based or Margin-Based Pricing
- Premium or Willingness-to-Pay Pricing
- Loss Leader Pricing
- Penetration Pricing
- Volume Pricing
- Bundle Pricing



# Distribution (Place)

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- Identify Marketing Channel and Distribution Requirements
- In-house or Third Party Transportation
- Wholesale Marketing Channels
  - Grocery
  - Restaurant
  - Institutions
- Direct Marketing Channels
  - Farmers Market
  - On-Farm Store
  - CSA
  - Internet/Mail Order



# Sales & Promotion Strategies

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- Develop Promotion Strategies based upon target customers, goals, and expected sales
- Dedicated Sales Representative
- Promotion tactics include:
  - Website/Social Media
  - Radio or Print Advertising
  - Signs
  - Events
  - Printed Materials



# Evaluation Methods

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- “You Cannot Manage What You Do Not Measure”
- “You Are Not Given the Opportunity to Grow If You Are Not Evaluated”
- Dashboard for Business
  - Financial Benchmarks
  - Key Performance Measures
  - Sales Forecast
    - 3-5 years
    - Broken down by Product Line





# Financial Benchmarks

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## ■ Profitability Ratios

- Profit Margin (Net Income/Sales)
- Gross Margin (Gross Profit/Sales)
- Return on Equity (Net Income/Total Equity)

## ■ Liquidity Ratios

- Current Ratio (Current Assets/Current Liabilities)
- Working Capital (Current Assets-Current Liabilities)



# Financial Benchmarks

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## ■ Operating Efficiency Ratios

- Labor to Sales Ratio (Total Personnel Expenses/Sales)
- Operating Expenses to Sales (Operating Expenses/Sales)
- Inventory Turnover (COGS/Inventory)

## ■ Debt and Risk Ratios

- Debt to Asset Ratio (Total Liabilities/Total Assets)
- Debt Service Coverage ((Net Income + Depreciation + Interest)/Loan Payments)



# Performance Measures

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- Designed for Your Business and Beyond Sales and Expenses
- Measure Performance for Specific Areas of Business
- Examples include:
  - Sales per transaction
  - # of transactions
  - Labor cost per unit
  - # units produced per hour



# Closing

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- Any Questions?
- Thanks!

