



Branding by U.S. Farmer Cooperatives: An empirical study of trademark ownership

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ABSTRACT

With increased consolidation by food retailers and increased fragmentation of consumer preferences, product differentiation is of growing importance to food producers and manufacturers for sustainable competitiveness. While the marketplace is dominated by large corporations such as General Mills and Kraft Heinz, there exist few farmer cooperatives with well-known brands, which may imply its long-term viability is jeopardized. Therefore, this study analyzes trademark data of U.S. farmer cooperatives to better determine (i) which types of farmer cooperatives brand and (ii) how much farmer cooperatives brand relative to firms. Per the first negative binomial model, trademark ownership intensity is relatively high for marketing cooperatives in dairy, fruits and vegetables, nuts, and several other raw commodities. However, the second model indicates farmer cooperatives own 1086% fewer trademarks as compared to firms in the same sectors. U.S. farmer cooperatives thus have relatively weak brand equity. To spur future competitiveness by means of branding, farmer cooperatives may improve product quality, adapt ownership structure characteristics to facilitate member investment in long-term growth opportunities, use strategic arrangements to assign control of non-member business to decision specialists, form common agencies with other farmer cooperatives, or use family-based or origin-based connotations to raise consumer willingness-to-pay.

1. Introduction

Chiquita, Monsanto, Nestle, and Tyson Foods are some of many well-known brands in the agri-food industry. Without exception, ownership of such brands is held by public or private companies with strong consumer awareness. By contrast, there exist few farmer cooperatives with national brand recognition (Hardesty, 2005; Kontogeorgos, 2012). Although each reported over \$500 million in total sales in 2014, few consumers know about United Sugars Corporation in Minnesota, Plains Cotton Cooperative Association in Texas, or Producers Rice Mill in Arkansas. Even Cenex Harvest States (CHS), by far the largest cooperative in terms of total sales, is likely unknown to the average consumer.

While farmer cooperatives can brand (Beverland, 2007), the perceived lack of branding by many is problematic as market orientation is more likely than ownership or governance to positively impact performance (Benos, Kalogeras, Verhees, Sergaki, & Pennings, 2016). At the same time, cooperative performance is jeopardized by the increasing degree of competition in the overall agri-food industry for scarce marketing opportunities (Adjemian, Brorsen, Hahn, Saitone, & Sexton, 2016). As such, branding is potentially of great relevance to the long-term viability of farmer cooperatives, yet the literature is scarce in

terms of applied findings and robust recommendations. Specifically, there is no prior empirical literature which addresses the following two research questions: (i) which types of farmer cooperatives brand? And (ii) how much do cooperatives brand relative to firms? Answers to both questions can help inform recommendations for both academics and practitioners.

This study answers the research questions by means of descriptive as well as quantitative analysis of trademark data of cooperatives as well as firms in the U.S. agri-food industry for the year 2014. The interpretation of trademarks as an indicator of brand equity is relatively new but increasingly common in the recent literature (e.g. Krasnikov, Mishra, & Orozco, 2009; Sandner & Block, 2011; Greenhalgh & Rogers, 2012; Grashuis & Dary, 2017). In fact, as reviewed by Schautschick and Greenhalgh (2016), applied research on trademark data is growing fast in number as evidence of its strong ability to proxy intangible asset ownership is on the rise. As such, empirical consideration of trademark ownership may inform variability in the collective ownership of economic and strategic assets and resources in the farmer cooperative sector.

The present article makes two contributions. The first contribution is the empirical analysis of trademark data of the top 1000 U.S. farmer cooperatives, which revealed variability in trademark ownership is for

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the most part explained by sector heterogeneity. Per the negative binomial model results, trademark ownership is low for farmer cooperatives which market such basic commodities as grain, sugar, or cotton. Relatively, branding by farmer cooperatives is more prevalent in sectors in which vertical integration of processing is common, such as dairy, fruits and vegetables, nuts, and several other raw commodities.

The second contribution is the comparative study of trademark ownership by cooperatives and firms in select sectors of crop production, livestock production, and food manufacturing. After controlling for size and other characteristics, joint ownership by organized farm producers is observed to have a negative relationship to trademark ownership. All else equal, firms own 1086% more trademarks, which implies cooperatives have relatively weak brand equity. Considering scarce marketing opportunities and diverse consumer preferences, the article provides recommendations for farmer cooperatives to build brand equity to spur future competitiveness.

The article proceeds as follows. Section II contains a brief discussion of marketing and branding in the food and drink industry. Section III discusses why farmer cooperatives face difficulties with branding, and Section IV provides a few examples of successful brands in the farmer cooperative sector. Section V discusses the data and presents the summary statistics. The negative binomial model is specified in Section VI, and Section VII and Section VIII present the results for the main sample of 1000 U.S. farmer cooperatives and the results for the comparative study of 215 cooperatives and 77 firms, respectively. Section IX delivers five recommendations for improving the brand equity of farmer cooperatives, and Section X summarizes and concludes.

2. Marketing and branding of food and drink products

Food consumers have become more critical and more segmented in recent history (Grunert, 2005). Specific emphasis is placed on food safety and quality, as manifested by the proliferation of both public and private standards for food producers and manufacturers (Trienekens & Zuurbier, 2008). Also, ongoing consolidation in the retail sector decreases the number of marketing opportunities (Adjemian et al., 2016). Such developments have forced or motivated agri-food industry stakeholders to increasingly engage in product differentiation for the creation of economic value (Johnson, Dibrell, & Hansen, 2009).

However, the marketing of differentiated food products is not straightforward. In many cases, certain food product characteristics are not observable to the consumer. Such characteristics are called credence attributes, such as local, organic, or free-range, which cannot be ascertained or evaluated before or sometimes even after consumption of the product (Fernqvist & Ekelund, 2014). A market failure may ensue if it is difficult and expensive for consumers to gain information of such product attributes. Subsequently, producers have incentive to use labels, brands, certifications, or other mechanisms to signal quality and raise willingness to pay (Lassoued & Hobbs, 2015).

Following the resource-based view of the firm, a brand is an intangible market-based asset or resource which relates strategy to consumer trust and value (Srivastava, Fahey, & Christensen, 2001). For example, Paasovaara, Luomala, Pohjanheimo, and Sandell (2012) concluded taste perception of yoghurt is enhanced by brand familiarity. At the firm-level, a brand drives or supports a strategy of product differentiation, and if it is valuable, rare, inimitable, and non-substitutable, it may also allow competitive advantage in the sector or industry. Belo, Lin, and Vitorino (2014), for example, observed U.S. firms with relatively strong brand equity have a 5.1% higher annual stock return as compared to other firms.

In the recent economic literature, branding is often proxied by trademark data (Schauschick & Greenhalgh, 2016). As described by O'Donnell, O'Malley, Huis, and Hal (2008), "Under the federal Lanham Act, a trademark is any word, name, symbol, device, or any combination thereof that is used to identify and distinguish goods of one source from those of another source. In short, a trademark indicates the source

of the goods." Furthermore, a trademark is the legal protection of intellectual property, such as an image or brand, and facilitates the appropriation of any associated value. The correlation between trademarks and brands is thus rather obvious, and O'Donnell et al. (2008) even used the two terms interchangeably.

3. Branding by farmer cooperatives

Although branding is important to economic performance, few farmer cooperatives own a prominent or successful brand. Using U.S. data, Wills (1985) found one or more cooperative brands in approximately half of 145 product categories. Also, a cooperative owned the leading brand in only 15 product categories (10%). Wills (1985) named Land O'Lakes, Treetop, Sunsweet, Welch, Sun Maid, and Ocean Spray as examples. In Greece, Kontogeorgos (2012) concluded 51 of 88 farmer cooperatives (58%) did not own a brand. Qualitatively, Hardesty (2005) and Beverland (2007) made similar observations in relation to the U.S. and New Zealand, respectively. There exist several possible explanations for the findings by Wills (1985), Hardesty (2005), Beverland (2007), and Kontogeorgos (2012).

The first obstacle to branding by farmer cooperatives is the traditional policy of open membership. Traditionally, the marketing cooperative is obligated to accept all member supply, regardless of product quality. Open access facilitates an adverse selection problem, where low quality producers can always supply the cooperative. In comparison to the firm, the cooperative is therefore expected to be less competitive in the differentiated product market (Hovelaque, Duvalleix-Tréguer, & Cordier, 2009; Mérel, Saitone, & Sexton, 2009). Deng and Hendrikse (2013), Mérel, Saitone, and Sexton (2015), and Liang and Hendrikse (2016) made similar observations and provided formal solutions.

Even if product quality is given, member patron ownership is still problematic. Specifically, farmer cooperatives face issues inherent to its ownership structure, namely the free rider problem and the horizon problem (Cook, 1995).¹ In terms of free riding, new member patrons can benefit from past investment in branding by established member patrons, and non-member patrons may also benefit if there is a spillover effect. Consequently, member patrons face disincentive to invest equity as future returns are diluted by the noninvestment or relative underinvestment of internal and external free riders (Cook & Iliopoulos, 2000; Sykuta & Cook, 2001). The horizon problem facilitates a similar disincentive if the residual claim on the income stream of an asset is shorter than the lifespan of the income stream (Porter & Scully, 1987). If so, exiting or retiring member patrons will be relatively uninterested in investing in long-term growth opportunities, particularly such activities as research and development and branding (Cook, 1995; Hardesty, 2005; Beverland, 2007).

Member control, which is manifested by the dual function of board directors as both owners and managers, is also problematic if specific knowledge or expertise is required to brand and market collective supply (Hardesty, 2005). As such, a classical cooperative is likely to be user- or member-oriented as opposed to market-oriented. Nowadays, however, many farmer cooperatives have a corporate model in which effective control is delegated to decision specialists who are not member patrons (Chaddad & Iliopoulos, 2013). If so, an agency relationship is created in which interests and objectives of member patrons and managers may not align optimally, especially if the farmer cooperative is active in multiple value chain segments (Liang & Hendrikse, 2013; Fulton & Pohler, 2015; Hueth & Marcoul, 2015). It is therefore not surprising Fulton and Hueth (2009) identified poor management as one of several explanations for recent conversions and

¹ In addition to the free rider problem and the horizon problem, farmer cooperatives also face the portfolio problem, the control problem, and the influence problem because of suboptimality in the assignment of property rights (see Cook (1995) for a full discussion).

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