



## **THE AGRIBUSINESS TRADE ASSOCIATIONS; THEIR BENEFITS AND COSTS**

That period of the year beginning in January and ending in March is somewhat unique to the agribusiness industry. The previous fall's crop has been processed, stored, or marketed. Supply sales volume has not yet been impacted by the pending spring planting season. It is, to the extent possible, a period of relaxed tempo, contemplation, and endless cups of coffee. But it is also the season for trade association annual meetings. Experience suggests that most agribusiness firms support one trade association, while others may pay dues to three or more such organizations. I do my best to fulfill a role of university liaison with these groups and attend their annual meetings whenever possible. At the very least, these meetings provide for me an opportunity to renew old acquaintances and review those contemporary issues confronting the specific industry.

In the agribusiness industry, trade associations are both varied and numerous. They may represent a commodity orientation (wheat, potatoes, fruit), they may focus on a product (fertilizer, chemicals, equipment), they may represent a specific function or service (applicators, processors, financiers), they may have an organizational **affinity** (cooperatives, accountants), they may expose a specific philosophy or economic goal (bargaining associations, farmland preservationists, conservationists), and they may be local, state, regional, or national in scope. As I emerge from another season of trade association annual meetings, I can't help but marvel at the effectiveness of some,

while at the same time wonder why others remain as viable entities. No doubt some agribusiness managers ask themselves similar questions. Is it necessary for the agribusiness industry to support so many different trade associations? Do they truly represent the industry's best interest and are they as effective as they wish to be? What types of services are provided by these associations and are the costs commensurate with the benefits derived? All too often these questions are not asked by agribusiness managers as they renew their memberships each year solely within the context that association dues are simply another standard "cost of doing business." Still other business firms refuse to support such organizations based only on the presumption that their larger competitors dominate the affairs of these associations. Quite obviously there is more fiction than fact surrounding trade association's activities, benefits, and costs. Membership in such associations should not become a perfunctory judgment by management. Neither should nonsupport of such associations be based on suppositions or hearsay evidence. The objective of this discussion is to encourage agribusiness managers to look more closely at their industry's trade association and, thereby, base their support or nonsupport on the basis of more credible criteria. My objective is not to compliment nor in any way to criticize, the actions of trade associations, in general. Rather, I seek only to cause agribusiness managers to approach trade association expenditures in a manner not unlike other business decisions; i.e., judging both their benefits and their costs.

## **Trade Association Membership?**

In the past, your business may have joined a trade association within a rather "automatic" environment; i.e., to do so was somehow good business and to decline was somehow judged as being uncooperative. Yet the costs of supporting trade associations have risen in recent years. Hence management should assess these costs much as they do others; i.e., they must be reexamined occasionally and justified on the basis of some reasonable criteria. Are the benefits of association membership proportional to the costs? This becomes the major question. The answer, of course, depends very much on your individual corporate expectations. Obviously the direct costs of association membership can be identified more or less objectively. Appraising the benefits, unfortunately, requires a more subjective process. To make such subjective assessments, you must first understand the basic functions of an industry trade association.

## **Government Relations**

To some, the major function of a trade association is to stage entertainment-filled conventions and annual meetings in rather pleasant surroundings where one can socialize with customers and industry friends. Association-linked social activities are important, of course, but it is very doubtful that such functions are perceived as being the most important from a firm's viewpoint. Instead, one of the most important functions performed by trade associations today is government relations. It is generally understood that included within this function is that activity referred to as "lobbying." More often, however, the government relations function also includes the association monitoring and alerting its members to pending legislation and/or regulation, which might impact them. Quite obviously, this involves some contact with legislative staffs, committees, and regulatory commissions in addition to elected and appointed officials. In this regard, trade association personnel must be fully familiar with the operational practices of the legislative bodies with which they work.

Rarely can this overall function be effectively conducted in the absence of basic and astute political acumen.

How well does your trade association perform in this area of government relations and what is the value of such services? A brief historical review of legislative or regulatory measures impacting your industry may shed some light on this question. Unfavorable or restrictive legislation can prove to be very costly to industry. Similarly, court tests designed to challenge regulatory constraints are costly in both time and money. Most trade associations prefer to operate within a "preventative" posture as it relates to possible legislative constraints. I tend to agree with their proposition that a penny's worth of prevention is much more attractive than undertaking an expensive cure. With this in mind, trade associations will, or should, spend a great deal of time analyzing and testifying on the content of proposed legislation. Less time and effort is, thereby, expended in an attempt to challenge or invalidate legislation already enacted.

Finally, in assessing the value of this association service, the member must keep in mind that two different strategies might be employed. First, some trade associations take an active role in political affairs by speaking or acting "directly on behalf" of its members. Other associations may elect to remain low profile in political affairs and serve their members by assisting them as they (the members) speak directly to legislators on matters of concern to the industry. Each association must first decide which strategy it wishes to follow and then judge the effectiveness of their government relations effort accordingly.

## **Maintaining The Competitive Environment**

Because of the existence of antitrust laws, trade associations are often forced to walk a competitive tightrope. It's something like trying to maintain membership in a social club when all the members are occupationally positioned as archrivals, one with another.

First and foremost, a trade association cannot in any way instigate or contribute towards an industry practice that might be construed as a collusive action or a restraint of trade. What comprises collusive action or restraint of trade? Only the courts can provide the true definition of these terms and here the results are somewhat unclear. Given this lack of clarity, your trade associations are best advised to stay clear of any issues or actions referencing the "pricing or marketing presence" of their members.

How well does your trade association solicit and secure the cooperative assistance of members who, in the marketplace, are archrivals and competitors? If an association is to be successful in this regard, it must be astute enough to pursue those goals and objectives, which are of such a depth, and breadth that industry enthusiasm for them is so great that it overshadows the select competitive interests of individual members. These goals and objectives are often not that difficult to identify, particularly in the agribusiness industry where problems common to all members abound.

Commensurate with this antitrust concern, the trade association is advised to keep discussions of pricing, merchandising, and marketing practices in a rather abstract mode. Many large trade associations have outside legal counsel present at all board of directors and association committee meetings. Annual meetings and other program agendas are sometimes reviewed by legal counsel and the preparation of accurate and comprehensive minutes is strictly adhered to.

### **Other Service Provided**

In addition to government relations and the conduct of annual meetings, trade associations often provide other services. In the agribusiness industry, those trade associations linked to specific commodities are heavily involved in the areas of consumer information, advertising, and market development.

In the consumer information area, association efforts focus on two functions. First, an attempt is usually made to document the nutritional value of the specific commodity. Second, the association will provide for the consumer information on how to use the product safely and in a greater variety of ways. Brochures, pamphlets, news releases, etc., are designed to show the homemaker how this agricultural commodity should be prepared and how it might be used. This dual focus function is not restricted solely to commodity-oriented trade associations. For example, agricultural equipment, chemical, and fertilizer associations also devote a significant amount of time demonstrating to the farmers how the product can be safely and most effectively used. Consumer information, as a separate association service, is often hard to separate from the advertising function. We normally associate the advertising function with large commercial enterprises. Indeed, this is precisely why the agribusiness industry often asks its trade associations to perform this service.

As producers of specific agricultural commodities, farmers are individually unable to advertise. The skills, talents, and costs involved are simply too great to allow each agricultural producer to promote his individual output. But trade associations, at least those that focus on individual commodities, can provide this function. The effectiveness of this effort often is impacted by the size of the association, the resources available, and the level of specialization associated with the commodity.

Market development is a relatively new function sometimes performed by trade associations. Most often this activity is linked to efforts to find new or expanded foreign markets and is practiced by those agricultural sectors possessing "exportable" products. In this regard, the agribusiness trade associations of the Pacific Northwest have been especially successful. Our grains, pulses, fruits, vegetables, and even some hay products are now being exported to markets

throughout the Pacific Rim area. Obviously, these new markets were not all the result of trade association actions. However, the importance of this function can be partially judged by assessing that portion of association budgets now allotted to export trade and market development.

Another service often provided by trade associations is that referred to as public relations. In many cases, this service takes the shape of an "information clearinghouse." Interviews and press conferences are sometimes conducted by association officers and members. In a similar vein, the association may regularly collect, collate, and evaluate statistical data from its members. The information thereby generated may be returned only to the members for their benefit, or it may be released to the press for more general consumption. In this regard, data such as those relating to plantings, growth conditions, harvesting progress, volume of production, prices, marketing, production practices, varietal improvements, or other industry relevancies are disseminated.

An additional service provided by some associations is the sponsorship of generic research designed to benefit all of their membership. As a general rule, the research is problem-oriented and is very pragmatic in intent. Rarely would the association itself conduct or coordinate this research. Typically, the association would contract with a separate private or public agency for the purpose of completing this research. Obviously, the value of this service is exceptionally difficult to measure. Results are varied and sporadic. Progress takes a quantum leap forward with a technological improvement or new disease resistant variety, but these occurrences are most often preceded by a lengthy period of experimentation and basic research. If your trade association sponsors research, it does so in the realization that progress may be slow and perhaps expensive.

An increasingly popular service provided by agribusiness trade associations is

categorized as member education. A growing number of associations are now sponsoring seminars and classes where the management and/or employees of member companies can gain an educational exposure to such things as safety and health requirements, product liability, marketing, merchandising practices, finance, and other business-related topics. Such educational offerings may vary from informal half-day seminars to intensive week-long experiences involving lectures, quizzes, and grading. Many programs deal with those legislative matters impacting the industry or are designed to secure a general enlightened state amongst association membership.

Last, but not least, some agribusiness trade associations offer business opportunities whereby their membership is afforded a chance to become better acquainted with their current or potential customers. Often referred to as "trade fairs" or "agricultural expositions" these functions provide agricultural businessmen with an opportunity to contact customers and prospects in an informal and relaxed setting. These occasions concentrate customers in a single location, thereby providing the businessmen with a means for saving on expensive time and travel. A series of interviews with customers or industry associates that might normally take two months to arrange can be accomplished at a trade fair in two or three days.

Association skeptics argue that as trade associations attempt to reconcile the competing interests of their members, they are, therefore, seriously hampered in their ability to provide valuable services to those same members. As a general rule, they argue, the broader and larger it is, the harder it becomes for that association to reach a consensus on an issue. Opposing arguments suggest that the greater pool of resources afforded by larger associations, render its influence more potent, particularly as it related to legislative matters.

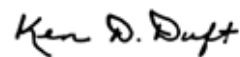
## Approaches To Evaluation

It is truly a difficult task to measure the performance of trade associations. Deciding whether they are effective and beneficial to the industry is generally a subjective process based on each member's goals, expectations, and resource availability. I would, however, like to suggest some quantitative yardsticks that might be used by the agribusiness industry in measuring the value of trade association membership and/or in comparing the relative merits of alternative associations. Obviously, dollars are the most evident yardstick. But a second such yardstick might be the amount of volunteer time the association is able to solicit from its members and staff. For example, the following questions might be asked: Have dues and/or assessments risen regularly and if so, were they warranted by inflation or an expansion of services provided? If new services have been added, are they of direct benefit to you or your company? Be aware that ever-rising association budgets and increasing services, when combined with a rapidly expanding staff, may smack of empire building or complacency. Conversely, it may be indicative that association membership has imposed new demands on the organization and the staff is simply moving to meet those challenges.

Association staff size always needs to be examined. Does the organization employ or have access to the number of professional and support personnel needed to fulfill the expectations of membership? Is the necessary combination of skills available? Has your association drawn on the skills of outside parties in its search of a particularly difficult or confusing objective? What is the rate of turnover in the association staff? Does your association provide for its staff a career-type setting, or does it merely serve as a training ground for young talent, which is ultimately being hired away from the association by member companies? How much time do officials of member firms contribute toward association activities? Do committees function effectively within the confines of the association or does the power rest exclusively with the staff and board of directors?

Ultimately, of course, an association must be judged within the context of each member's objectives. Only within that setting can the pros and cons of trade association membership be meaningfully assessed.

Sincerely,



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