Cornell University Cooperative Extension

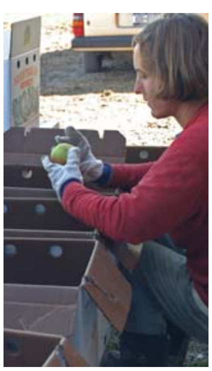
Collaborative Marketing for Small Farms

SELLING AND WORKING TOGETHER FOR PROFITABILITY

INTRODUCTION

Collaborative marketing is a realistic solution for small- to mid-size farms that are seeking access to larger markets, but are unable to individually serve such accounts. In collaborative marketing, several like-minded producers join together formally to market and distribute farm products, but not necessarily under the governance or control of a cooperative.

Generally, small farms should consider temporary, limited-scale collaborative projects before developing substantial business agreements. Such arrangements can be a simple as consignment sales, or as complex as a corporation dedicated to marketing and distribution.



The range of farm products that can be sold through a collaborative group is as diverse as the farms themselves: meats, vegetables, forest products, fruits, grains, flowers, nursery & greenhouse products, cheeses and other dairy products, and livestock.

Collaborative marketing may influence many areas of your farm. By choosing to market jointly with other farms, you will adjust your planting intentions, harvesting and storage techniques, crop schedule, certifications, buyer relationships and many other farm office decisions. It is not a decision to be taken lightly. In fact, establishing some type of business collaboration may be one of the more complicated decisions you will make for your farm.

The financial bottom line for family farms is profitability. Collaborative marketing could reduce your marketing expenses, but it might not make your farm profitable overall. Fortunately, there are ways for you to collaborate with other farms for trial periods to assess the economic strengths or weaknesses. The opportunities opened up through multi-farm marketing need to be tempered with good agreements and procedures.

SUCCESS FACTORS IN COLLABORATION

Communication: All producers in a collaborative group are known to each other. They discuss issues and opportunities regularly, openly, and honestly.

Enhanced market opportunities: The farm marketing group should be providing access to a new buyer or a larger-scale customer. Another opportunity would be to access a more profitable market channel, maintain a consistent product supply, reduce risk for a particular buyer, or promote a marketing advantage shared by several farms.

Improved bottom line: The farm marketing collaboration demonstrates its strength in economic terms, with reduced labor and advertising expenses.

Written terms and agreements: The terms of the collaboration are spelled out in a written agreement, with limited legalese, clear terminology, and specific terms. The agreement should be thorough, and easily understood by all the collaborators.

Like-mindedness: The essence of collaborative marketing is in having both shared goals and shared values, not just being located in the same town or county. Collaborating farms have to agree on the principles of their marketing strategy as well as how it is executed and how success is to be measured.

Creating a Collaborative Marketing Strategy

Farms considering collaborative marketing should define basic questions of who, why, what, when, and how the collaboration will work.

DEFINE THE WHO AND WHY

Collaboration requires various individuals to work together. The first question to answer is exactly who is collaborating. The worksheet included at the end of this guide gives you a place to write down the names and roles of the participating farm owners.

The "why" of collaboration can be trickier. Clearly defined business objectives are the key, since it is more than just physical proximity that would draw two or more farms to work as one in marketing. The rationale for collaboration should be clear, and how it is preferable by the collaborators compared to individual marketing.

Some reasons for collaboration include:

- Reduce individual farm marketing expenses by dividing a single larger-scale marketing opportunity across multiple farms
- Meet expectations of a new buyer and to reduce their risk, while reducing risk to a participating farm
- Maintain product availability by dividing production across several farms
- Maximize a marketing advantage shared by the participating farms

DEFINE THE WHAT

A collaboration may only involve a select number of products from your farm, or only one product. The products to be marketed from your farm should be explicitly documented, along with quantities, grade, and units.

Examples:

- *Cabbage, three deliveries from mid-August to end of September, U.S. No. 1, 1 lb. minimum per head, 150 heads per delivery, total 450 lbs.*
- *Tomatoes, mixed color, 20-lb boxes, 12 boxes each week July 1 to September 30.*
- *Raspberries, ripe, 50 half-pint cartons delivered on August 16, August 30, September 10, September 18, and September 30, 250 cartons total.*

DEFINE THE WHEN

Collaborative business ventures between farms often have a start date, but less attention is given to the end date. The end of a collaboration can be planned or the result of changed circumstances or disinterest from one of the parties.

Most collaborations will experience disagreements, and when they do, a dispute resolution process, or a termination plan can keep the parties from resorting to litigation. Whether the entity is developed as a joint venture or a formal corporate structure, part of forming an effective venture is knowing how to renew, re-affirm, or possibly end it when necessary.

DEFINE THE HOW

This publication introduces several options for collaborative marketing. The exact arrangements that will make sense for your farm will be borne out of your own specific circumstances. When you are making preliminary plans to market cooperatively with other farms, discuss your intentions with an independent advisor and professionals familiar with your type of farm. The discussion and note taking will help answer questions and point you in a profitable direction.

Collaborative Marketing Business Structures

One of the first things many producers assume is that they need to organize a "cooperative" for multiple farms to sell together; this is not true. There are several collaboration approaches available to farms. Collaborative marketing business structures range from very simple, contract-like agreements to the formation of new corporations. Something as simple as a consignment agreement allows one farm to sell through another's market channels. In other cases, it is better to form a full corporation, cooperative, or partnership. More complicated options take longer to form and involve many legal, business, liability, and taxation considerations. Many small farms will benefit from starting with basic agreements (such as a joint venture or consignment), maintaining independence as an individual farm, before committing to a more lasting business structure.

It is important to understand the basic collaboration business structures, along with their advantages and disadvantages, before committing to one over another.

The simplest way for two farms to work together in marketing is for one farm to purchase directly from another. If this basic commerce relationship is not adequate for the objectives of each farm, then the farms can consider more formal collaboration options. It is important to understand the basic collaboration business structures, along with their advantages and disadvantages, before committing to one over another.

Initiative		Collaboration Options to Consider
Farms join to supply institutions or wholesale buyers		▪ Joint venture agreement among farms ▪ Cooperative formation ▪ LLC formation
Multi-farm CSA		▪ Joint venture agreement among farms ▪ LLC formation ▪ Cooperative formation
Farm market stand sourced from multiple farms		▪ Wholesale purchase from partnering farms ▪ Consignment sales ▪ Joint venture agreement among farms
Farmer-run processing facility		▪ LLC formation ▪ Corporation structure (profit or not-for profit)
Food hub		▪ LLC formation ▪ Cooperative formation ▪ Corporation structure (profit or not-for profit)
Aggregation of product for urban delivery		▪ Wholesale purchase from partnering farms ▪ Joint venture agreement among farms
New product offering from several small farms		▪ Joint venture agreement among farms ▪ Cooperative formation

CONSIGNMENT SALES

Consignment is a common means of selling farm goods on a small scale. Selling by consignment involves a written agreement to advertise, display, and sell your product at a market you do not own. As the producer, you would still own the product, but the other farm would sell it for you. In the consignment agreement, the original producer retains ownership of the product until it sells through the farm stand or store.

To make the most of consignment, both the producer and the farm stand owner have to maintain good, updated records. Both parties must document all aspects of sales and inventory. The producer needs to manage cash flow differently because they will not receive payment immediately after each sale. The cash for a consignment sale might not come until the end of a month or at the end of a season.

Like any other collaborative arrangement, you should develop an agreement in writing with the farm stand owner. The agreement should cover much of the following:

- **Product description** - name the products and how many are provided of each size.
- **Terms of consignment** - duration of consignment, retrieval and substitutions, and exclusivity of sales.
- **Price** - expressed as a percent or simply how much is due as a commission, and who pays sales tax if necessary (usually the retailer).
- **Payment method** - monthly, or at season's end, depending on the business; how special orders are handled.
- **Damage or loss** - agreement on how loss is handled during sales.
- **Product liability or warranty** - specific language about which party is responsible in the event of contamination or product failure, or simple dissatisfaction with performance.

JOINT VENTURE AGREEMENT

It is helpful to think of a joint venture as a limited-term project, but with more business and legal rigor than a mere handshake or verbal agreement. A joint venture is an enterprise created by two or more farms, or between a farm and another business, for a limited purpose and usually with a profit motive. The written agreement formalizes the expectations of each farm as well as the duration of the arrangement (anywhere from a few months to a few years) after which it terminates or is altered. The farms remain independent from each other, except as agreed to in the joint venture document. The joint venture agreement is customized and all parties must sign the agreement document.

A joint venture for small farm marketing starts with basic information about the participating farms and a clear understanding of the rationale for the collaboration. The main purpose of the written agreement is to put in clear terms the marketing activities being carried out, the period of time the collaborators will work together as combined unit, and the nature of sharing profits and losses from those activities. Another key aspect of the joint venture agreement is to state unambiguously that no partnership or separate entity is intended or is created by the collaboration, and that one farm cannot use the collaboration to rope another farm into something.

The most diligent step each farm can take is to work with an attorney to review the agreement, checking to see if anything important is left out. Avoid the temptation to take an agreement found online or modify one that worked in another situation. Be sure to hire a capable attorney and check with other advisors with the skills and experience necessary for your project.

EXAMPLES OF HOW THE TERMS OF A BASIC JOINT VENTURE AGREEMENT MIGHT BE WORDED

- *Willow Creek Farm is a sole proprietorship farm operated by Wendy Trudell. The farm produces fresh market vegetables, eggs, and small fruit.*

- *Mountain Home Family Farm CSA is a sole proprietorship operated by Michael and Julie Corcoran, marketing vegetables, small fruit, herbs, and cut flowers to a 70-member CSA.*

- *Mountain Home Family Farm and Willow Creek Farm are entering into a joint venture agreement for the period June 1, 2012 to December 31, 2012. No separate legal entity or partnership is created by virtue of this agreement, nor is intended to be created.*

- *The objective of this collaboration is to provide Mountain Home Family Farm with the following farm products, produced by Willow Creek Farm for distribution to CSA members:*

Tomatillos	*Arugula*	*Eggplant*
Aji peppers	*Cabbage*	*Carrots*
Zucchini	*Free-range eggs*	

- *Willow Creek Farm will receive a proportional share of CSA member revenue equivalent to the value of the products delivered.*

- *Neither party has legal authority to enter into separate agreements, contracts, or other representations that would bind any other party to this agreement. Each party agrees to remain separate and individually liable for their proportional share of profits or losses through the conduct of this joint venture.*

PARTNERSHIP

In a few cases, a partnership will be the preferred way for two or more farms to market or otherwise work together. A general partnership binds two or more farms or individuals into one long-lasting entity. Even though partnerships are often assumed to be a good way to approach farm collaboration, they can have substantial drawbacks for the individual farms. Think of a partnership as a form of a separate legal entity, even if it is formed by conduct and not by agreement. Under the right circumstances, a legal partnership can work out very well for all concerned.

For something as specific as collaborative marketing among small farms, a partnership is usually more than the participating farms bargained for. A general partnership is a full joining of individual farm operations that were previously separate, creating a new business entity, and losing the marketing identity of the individual farms. New York Partnership Law defines a general partnership as "an association of two or more persons to carry on as co-owners a business for profit . . ." The partners establish a business agreement that binds the farm assets together, and can hold each farm liable for the obligations of the other farm, well beyond the marketing realm.

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SEPARATE LEGAL ENTITIES

If a short term collaborative marketing agreement is working well among two or more small farms, it may be time to consider a long-term association. The type of structure depends on what each farm wants to contribute, what kind of governance is in effect, tax considerations, and exposure to the debts and other liabilities of other farms and individuals.

The type of business structure selected depends on what each farm wants to contribute, what kind of governance is in effect, tax considerations, and exposure to the debts and other liabilities of other farms and individuals.

Discuss a long-term collaborative marketing approach with family members and other key personnel at your farm. The choice of which business structure to use should be made with professional assistance from an accountant, a lawyer, a business counselor, bank representatives, and insurance agents.

Agriculture cooperative: A farmer cooperative is one of several ways that farms can buy or sell as a group. Strictly speaking, a cooperative is a formal legal structure that stands on its own, and is governed and administered separately from the member farms. A farm can purchase an equity share in a cooperative, but just by working with another farm, a cooperative is not automatically formed.

No matter which marketing structure is used, it is very important to have the terms in writing and reviewed by an qualified attorney.

A cooperative is a separate legal structure that limits liability since it is not an individual farm – it is a separate entity from the member farms. Members of a cooperative "buy in" to an equity interest. Different types of equity interests may be created and issued by a cooperative as determined by its Board of Directors. Cooperatives are exempt from securities registration laws and have less exposure to anti-trust liability concerns under federal law.

Corporation or Limited Liability Company: Two or more farms can use a partnership or a corporate structure for their group marketing efforts, such as a Limited Liability Company (LLC), a cooperative, or a C or an S corporation. With such a legal entity, each farm would need to make a contribution to own an equity interest and share in the loss or profit. A legal entity has a separate legal existence from its owners and could be viewed as a separate taxpayer.

A business corporation is a structure separate and distinct, and so is owned by shareholders and is managed by a Board of Directors. A corporation has the power to do anything which an individual person may do, including owning farm assets. Whether it is a C corporation or an S corporation relates more to income tax treatment of the business corporation. A limited liability company is a type of business corporation that is managed directly by the members as managers.

No matter which collaborative structure is used, it is very important to have the terms in writing and reviewed by an qualified attorney. A written agreement is the best way to make sure good intentions turn into good business decisions for your farm. If two or more farms collaborate without a written agreement, the law can imply that a general partnership is formed. This can unintentionally create legal problems and even liability for each other's debts.

REVIEW POINTS

- √ There are several good ways farm owners can choose to market a small set of products from multiple farms.
- √ Marketing agreements and related records should be in writing.
- √ Engage in a trial effort or short-term joint venture before forming long-standing collaborative marketing business structures.
- √ Keep communications robust, with an eye toward reaching defined sales goals.
- √ Avoid complicated agreements unless the situation is in fact complicated.

Attorney Assistance in the Development of Collaborative Marketing Agreements

Attorneys are usually necessary to develop collaborative marketing agreements

One of the key elements of collaborative marketing among small farms is simplicity. Unfortunately, if an agreement is too simple, the participating farms can face big disagreements and supply problems that can make everyone look bad.

There are tough and unfamiliar issues that need to be addressed by a qualified attorney in most farm collaborative arrangements:

- How to handle disinterest or poor performance by a collaborator
- Determining the legal identity and product liability of the collaborative in case of problems
- Which participants are authorized to sign contracts on behalf of the whole group
- Selecting the proper form of business arrangement
- Tax liabilities the group may incur
- How to enforce oral agreements if there is a dispute about who said what
- How and when to allow other farms to enter into the collaboration

Lawyers who have experience helping businesses collaborate will be able to develop documents based on the terms that the participating farms have generally agreed to. The goal is to make sure potential problems are addressed up front. Sometimes, the interested collaborators have to start with an attorney before writing up their terms, just to make sure they are headed in the right direction.

How to find a good attorney

Word-of-mouth references can often lead you to a qualified attorney. If you need assistance, Cornell Cooperative Extension, New York Farm Bureau, and the NY FarmNet program can provide suggestions. The attorney should at least be familiar with the world of agriculture and also have experience working with small business issues and business collaboration agreements,

A qualified attorney can insure your marketing collaboration agreement is exactly what you want it to be for your farm.

Managing Common Collaboration Problems

Small farm operators who enter into collaborative marketing groups can anticipate problems. Most of the problems are avoidable, and do not have to scuttle the group's intentions.

Problem: Matching the needs of the buyer with the capacity of the collaborative: Marketing as a farmer group has the advantage of increasing the supply of product, but it has the disadvantage of increasing the scale of mistakes. The collaborative could run into a misalignment of what the buyers want and what the collaborative has available.

A marketing collaborative is likely to experience problems consistently meeting the buyers needs, finding adequate storage, maintaining consistent certifications, and running out of money. Each of these issues can be solved with planning and communication.

Approach: Designate one of the collaboration members as a communications coordinator. Their duty is to stay in touch with buyers regarding product availability, timing, transportation, and other logistics. The coordinator of communications needs to know what the buyer is expecting and work with the other farms to meet the expectations. If the collaborative may fall short, then the communications lead needs to handle that right away with the buyer.

Problem: Inadequate post-harvest handling: A collaborative marketing group could wind up with a lot more product than their storage can handle. When products are aggregated, temporary storage capacity (dry, refrigerated, or frozen) has to be able to keep up.

Approach: Long before harvest, establish several options for storage of larger quantities of farm products anticipated by the collaborative. The cooling, packing and storage facilities can be centralized to one farm or rented from another business or entity. Make sure that security and sanitation are maintained.

Problem: Variability in certification and credentials: Some farms in the collaborative may be certified for organic labeling, food safety credentials, or other designation. With multiple certification programs, the "least common denominator" may drive what the group can accomplish.

Approach: Documents and operating agreements should include specific expectations of maintaining whichever certifications the collaborative will use for marketing. For example, if the collaborative has a food safety certification standard, the consequences of one of the collaborating farms losing those credentials should be clarified in writing. Certifications need to be consistent among all participating farms.

Problem: Lack of money: Small farm marketing collaborations need to spend money to develop the collaboration fully. There are expenses related to changes in production practices (e.g. more mechanized equipment), storage (e.g. new cold storage units), and staffing (e.g. coordinator).

Approach: Develop an enterprise budget with thoughtful figures about how much money needs to be spent each month. All collaborators should have a chance to review, edit, and eventually agree on the expense projections for the expected duration of the venture. Some expenses to anticipate include:

- Labor – coordination, bookkeeping, recordkeeping, marketing, communications, quality control, transportation and delivery.
- Equipment and supplies – cooling, washing, packing, and product handling.
- Building – use of storage, rental, construction expenses.
- Management – compensation for leadership roles, consulting, and legal & accounting fees.

In most cases, the funds for the collaboration expenses will be shared by the participating farms. Efforts to obtain grants and other incentives incur new expenses for grant administration and reporting.

Why can't a couple farms simply agree to work together on marketing, without going through all the formalities?

Informal agreements, especially oral agreements, carry a lot more risk than meets the eye. Each farm involved in a marketing collaborative is obliged to look out for its own interests. An oral marketing agreement is risky for your farm because:

- The oral agreement could become legally binding when you would rather it didn't.
- What each person recalls from an oral agreement may be different.
- There is no record of what exactly was agreed to.

How can I tell if the collaboration will be more profitable than my current sales approach?

To help you with figuring the numbers, you will have to make some assumptions. Look at how your expenses could increase or decrease and also how your income could increase or decrease respectively.

Example:
Jack Hallberg of Hall Acres Farm sells about 250 broiler chickens each year direct from his farm and has pretty good records about his income and expenses. He is approached by another farmer who wants to collaborate and sell their lamb and Jack's broilers to a local college, using a new marketing identity they would share. The new arrangement will cause Jack to change from processing on the farm to transporting the birds to a certified facility for processing.

First, Jack will assume that he will still raise 250 chickens, but will end his farm direct sales.

In the financial analysis, Jack will incur some new expenses to change his labels, deliver the product to the college every other week, and incur the poultry processing fees. On the contrary, he also would have decreased labor expenses, since he no longer would do the processing himself. Jack will have decreased income because he will be paid less for the same birds.

Increased expenses	***Decreased expenses***
Label change: -$50 *Delivery costs: -$200* *Processing fees: -$350*	*Processing labor: +$1000* *Marketing expenses and labor: +$550*
Increased income	***Decreased income***
0	*Institutional price: - $1,500*

Loss = Lower income + increased expenses = $2,100

Gain = Increased income + decreased expenses = $1,550

Net loss from current collaboration terms = - $550

If Jack took this deal, he would be in an unprofitable collaboration. He will have to renegotiate the deal or make different assumptions.

Another farmer in my community is talking about joint marketing so several of us can aggregate enough products to supply a group of restaurants. How do we get started?

A good first step is to organize an in-person meeting of the farmers and key personnel who may be involved. At this gathering, the collaborating farms should each talk openly about what they are expecting out of the arrangement and what each can provide. It should not be a sales session with one person dominating. Each farm should have a chance to ask questions and clarify the marketing opportunity, potential price ranges, and logistics like delivery and distribution of the products. Take notes at the meeting make sure each farm agrees on the outcome of the meeting. It can help to have the meeting with a Cornell Cooperative Extension staff person or other neutral advisor on hand.

For the farms that wish to pursue a collaborative marketing arrangement on a trial basis, the next step is to make choices about a formal agreement. It could become a joint venture, a cooperative, or a separate business entity. Remember that in many cases it is easier and just as profitable to simply sell wholesale to one farm and let them handle the institutional or retail relationships. Each farm will probably have to run the production, expense, and storage numbers to make sure it works economically for the farm.

Who exactly is in charge of the collaboration?

Leadership roles in a collaborative marketing group can (and usually should) be divided among the participating farms; avoid having one person in charge of everything. One person might be responsible for handling recordkeeping, another in charge of communications, and perhaps a third who handles finding new accounts. Each of these tasks requires a distinct set of skills, seldom found all in one person.

When key responsibilities are divided, the collaboration acts more like a team. The collaborators will probably experience some discord or tension, but if terms are kept clear, then the group can still thrive despite the difficulties.

Collaborative Marketing Worksheet

The following list will help you organize some the basic aspects of collaborative marketing:

Individuals or farms in the collaborative group (name each person involved and the farm they represent):

Target customer(s):

Farm products involved in the collaboration (specific list of each product):

Rationale for using a collaboration instead of individual marketing:

Start date for collaboration agreement:

End date (if necessary) for collaboration agreement:

Responsibility and contribution of each individual (activities or contributions they are accountable for):

Name	Responsibility / contribution

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Written by Jim Ochterski, Agriculture Economic Development Specialist
Cornell Cooperative Extension of Ontario County, NY
480 North Main Street, Canandaigua, NY 14424
585-394-3977

Cornell University
Cooperative Extension