Pecan growers in the Southwest have traditionally sold their crop to shellers or accumulators for cash at harvest time. Storing the crop is often not a viable option for growers due to the expense of storage facilities, so they look to the cash market for immediate sale of their product. Growers without their own shelling facilities harvest their pecans and transport the crop to an independent sheller. If the crop must be delivered to the sheller when the plant is at capacity, shellers may be backed up for anywhere from several days to several weeks during peak harvest season—this can introduce price risk for growers.

The standard commodity market is clearly a viable option for most growers, but product differentiation is made impossible by this approach. There are, however, alternatives available to producers wishing to differentiate themselves from the standard commodity market. These marketing alternatives may require collective action and may be utilized by individuals or groups who seek to increase per-unit prices for their crop.

**ALTERNATIVES FOR INDIVIDUALS & GROUPS**

Several alternatives to the cash market are available, both to individual growers and to groups of growers. For individual growers, independent marketing decisions may be easier to carry out as there are fewer people involved, but they may also be more difficult to finance or organize. For growers working collectively, these alternatives can be especially attractive. For some growers, the additional effort or financial outlay associated with alternative marketing efforts can be recovered through larger profits. Three possible marketing alternatives pecan growers may be interested in are forward contracting, direct marketing, and vertical integration into additional markets beyond raw pecans.

**Forward Contracting.** A forward contract is a written agreement outlining the terms of a future transaction. In the pecan industry, a forward contract could be used by a producer and a processor at the beginning of the production year to outline a sale that will occur at harvest. In addition to identifying when the transaction would occur, the contract specifies what and where the grower will deliver (quality, volume, and location) and how the sheller will pay for the product, either by specifying the price or how the price will be determined.

While forward contracting is an option for both large- and small-volume pecan growers, it is more often utilized by large-volume growers. This is primarily because it is more cost-effective and often more stable for shellers to use a few large contracts to stabilize processing needs and in cases of shortfall to use smaller purchases in the cash market to supplement the larger volume that has been forward contacted.

Forward contracts can be beneficial to both shellers and growers. The sheller is assured of a steady input supply, while growers are ensured market access with reduced price risk. There are also risks involved, however; growers may have to forfeit higher-than-expected cash prices because they have contracted a specific price months before harvest.

While forward contracts are not often utilized by pecan growers, the broiler and hog industries both have...
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successfully employed this alternative for a number of years. Figure 1 illustrates the increasing use of forward contracts across all U.S. farms.

**Direct Marketing.** Direct marketing allows both small and large growers to sell pecans directly to the final consumer. There are several ways to market production directly to the consumer. Roadside stands, farmers’ markets, mail order catalogues, online stores, and on-farm sales are all direct marketing tools that could be used. Direct marketing channels can be time-consuming to establish and maintain, but they can facilitate a close relationship between the grower and the final consumer. Growers often receive higher prices for their production by directly marketing the pecans to consumers, but they must undertake additional, often time-consuming marketing duties for this increased revenue.

**Vertical Integration.** A grower in the pecan industry can vertically integrate by taking on additional responsibilities within the marketing channel. For example, a grower can shell his/her own pecans. There are several advantages to vertical integration, including additional profit potential, improved quality control and better market access. Growers must consider a number of issues when considering vertically integrating their operation. They must make sure they will have sufficient volume to operate processing facilities, consider requirements for additional management and capital, and evaluate their need and ability to market further processed pecan products. Marketing retail products and working with consumers presents many new challenges producers may not anticipate.

**COLLECTIVE ACTION ALTERNATIVES**
Collaborating with other growers offers several benefits for the individual pecan farmer. Growers can work collectively to increase profits by one of two ways: either by lowering costs or by increasing revenues. Increased

![Figure 1. Percent of U.S. farms and percent of value of production under forward contract, 1969–2006. (Adapted from USDA, “Agricultural contracting: trading autonomy for risk reduction.” *Amber Waves*, February 2006.)](image)
profits can be achieved with economies of size, that is, greater efficiencies are seen when larger amounts of production are grown or processed. Larger-volume producers or groups enjoy greater bargaining power than do growers with small production volumes. This bargaining power may make it possible to receive higher prices than a small individual pecan grower could receive. In addition to the marketing benefits, when larger input volumes (e.g., fertilizer) are purchased, the per-unit price may be cheaper.

There are three primary ways that growers work together to increase profits: joint ventures, traditional cooperatives, and new generation cooperatives.

**Joint Ventures.** Two or more growers can agree to form a joint venture. With this agreement, the growers create a new business by contributing individual assets, e.g., cash or capital. Growers share expenses and revenues from the new business. Key advantages of a joint venture are opportunities for additional capital investment and larger production capacity, both of which may offer greater production efficiency. With larger joint venture production, growers may find that better bargaining power gives them access to forward contracting and the resulting higher cash prices.

Integrating two independent businesses is not without complications. To protect both parties, the joint venture must be legally defined. Each grower’s responsibilities and compensation should be clearly stated to all parties involved. Tax and liability issues arise and should be thoroughly investigated with a qualified attorney.

**Traditional Cooperatives.** Traditional cooperatives present a useful way for growers to organize the purchase of inputs as well as processing and marketing activities in order to reduce costs and increase returns. A cooperative endeavor will need a qualified manager in order to take full advantage of the opportunities a large, unified operation presents. Cooperatives are voluntary and members are free to leave at any time. Traditional cooperatives are open to any grower who wishes to join.

A cooperative is owned by its participating growers and the cooperative’s growth is funded by the growers’ revenues. Cooperatives return profits to members based on their participation and pay limited returns to members on the capital invested in the cooperative. Members elect a board of directors, which governs the cooperative. Cooperatives are not popular at this time in the Southwestern pecan industry, but an example of a successful cooperative at work in the almond industry is the Blue Diamond Cooperative, based in Sacramento, California. Blue Diamond is completely vertically integrated, managing its own growing, processing, and marketing, and handles a large portion of California almond production.

**New Generation Cooperatives (NGCs).** NGCs, or closed cooperatives, differ from traditional cooperatives in that the membership is limited to a specific set of growers. When an NGC is first created, shares are sold to growers. The revenue from the sale of these shares funds the startup costs of the cooperative, and further cooperative growth is financed through retained earnings. Each share grants the grower the right and obligation to deliver a specified quantity (with quality restrictions) of production to the cooperative each year. Since the membership is limited, input levels are pre-established and the cooperative is able to plan the most efficient use of the processing facility. Growers lower sales risk by having a contract to provide a specific amount of production at a specific time. Delivering the contracted production, however, may involve additional risk, as tree production can vary from year to year.

**FOR MORE INFORMATION**
For more information about any of these marketing alternatives, contact your local Extension agent or the New Mexico State University Cooperative Extension Service. The following articles may also be of interest:


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1While it is not necessary for a cooperative to own its own processing facility, it is a standard practice in other industries where cooperatives are prevalent.