Strategy and Value in Commodity Organizations: Oklahoma Wheat in the 21st Century

Conrad Lyford, Daniel Tilley, and Jared Carlberg

The Oklahoma Wheat Commission is the generic promotion organization for Oklahoma wheat. As agricultural marketing systems change, the value provided may need to adjust. This case illustrates the strategic challenges faced by producer organizations and many agricultural industries. Overall an opportunity to use strategic management tools is provided with a focus on balancing efforts to accomplish program activities with efforts to increase funding levels.

Jeff Sievert reflected as he hung up the phone. A commissioner had called to discuss efforts to reduce refund requests from the Oklahoma Wheat Commission (OWC). Their conversation focused on the need for Jeff, as executive director, to make personal visits to elevators throughout the state. The goals of the visits would be to promote the OWC, listen to wheat industry needs, and, most importantly, work with elevator managers to reduce refund requests.

In a checkoff program like the OWC, producer funds are automatically collected from receipts, but a producer can request a refund. Currently, refund requests total around 20% of funds collected, significantly reducing the amount available for OWC programs. Further, refund requests are perceived to reflect a negative opinion of OWC efforts by producers. As such, a critical issue in Jeff’s job performance is reducing the overall refund request rate.

Recently, the OWC completed major portions of strategic planning required for Oklahoma state agencies. In this effort, Jeff worked with the board and a

Conrad Lyford is an assistant professor in the Department of Agricultural and Applied Economics at Texas Tech University.

Daniel Tilley is a professor in the Department of Agricultural Economics at Oklahoma State University.

Jared Carlberg is an assistant professor in the Department of Agribusiness and Agricultural Economics at the University of Manitoba.
facilitator to develop a mission statement, situational analysis, and long-term strategies. The main output was a 72-page document that met the state’s regulatory requirements, but provided little guidance on resource allocation.

A particularly troublesome concern was that neither Jeff nor the commissioners were certain that current strategic efforts were successful. For example, substantial amounts of OWC resources are spent on promoting U.S. wheat consumption both domestically and internationally. Some producers have questioned the effectiveness of these activities, especially when wheat prices are so low. These producers often state, “I [the farmer] needed the money” due to a precipitous decline in wheat prices from $5.00 to $2.50 per bushel.

The elevator visits were problematic for Jeff as they were time-consuming and typically had little measurable effect. But this begged an overall question for him: “How should I allocate my time and the OWC’s resources for maximum effectiveness?”

**Overview of the Oklahoma Wheat Commission**

In 1965, the Oklahoma Wheat Resources Act established the Oklahoma Wheat Commission, and with it a framework for producers to invest in product promotion, marketing, and production. National organizations provide information and marketing to expand domestic and international demand for U.S. wheat. However, Oklahoma wheat is largely substitutable with other U.S. and world wheat of the same general class.

Another key responsibility of the OWC is to support research to improve Oklahoma wheat production and marketing possibilities. This support typically focuses on improved wheat varieties with higher yields and quality that are adapted to Oklahoma’s production environment. OWC funding has facilitated an ongoing research and breeding program at Oklahoma State University that conducts statewide variety trials. Producers avidly study the results of these variety trials. Without OWC support, private seed companies could increase their research and development to accomplish these tasks.

In addition to the above two main program areas, the OWC supports Oklahoma wheat producers by providing a state and national voice for their interests. For example, recently the OWC worked with a major supplier to release a new pesticide in Oklahoma at somewhat preferential prices. Ongoing efforts support national legislation (e.g., the farm program) that is of interest to producers.

Since the creation of the wheat commission, producers and markets have changed substantially. As in other agricultural industries, farms are increasing in size and most U.S. wheat is exported. Wheat is generally commingled after harvest with other wheat of the same class from a region. Wheat is easily stored for long periods of time (i.e., it is nonperishable). It is easily and fairly inexpensively transported.

Producers earn the commodity price modified by discounts and premiums largely from traditional quality factors (e.g., protein, damage, dockage). There is increasingly a move towards trade based upon more specific quality specifications from nontraditional quality measures (e.g. total defects, kernel size).
Structure of the OWC

The OWC is producer controlled. Oklahoma wheat producers elect five of their peers to serve as commissioners in district elections. Each district elects a commissioner every 5 years. Once selected, commissioners are appointed by the Governor of Oklahoma to serve a 5-year term.

Incumbent commissioners represent districts and decide the location of the election. Votes are only counted for those producers present at the election. Few producers participate in the elections. Generally low participation may reduce the degree to which producers feel they are represented.

Commissioner responsibilities include:

- Developing policy and programs,
- Overseeing the implementation of policy and programs,
- Approving budget expenditures,
- Directing funding of research, market development, and education,
- Representing district producer interests,
- Promoting Oklahoma wheat.

The board and executive director developed the mission statement: "The mission of the Oklahoma Wheat Commission is to promote and further develop the marketability and utilization of Oklahoma wheat through international and domestic market development, research and education."

Selection of an executive director is a key responsibility of the commissioners. The executive director provides day-to-day management of the OWC, including representing the organization publicly. The turnover rate in the position has been high, with executive directors lasting on average less than 3 years. Jeff has been in his position for 1.5 years. He is concerned about the feedback provided by Commissioners about his job performance because it is not clear to him how he should allocate his time to meet OWC priorities. His current evaluation states that he is doing a good job, but it is not clear exactly why or how he could do better.

Jeff is directly responsible for managing the four other members of the OWC staff: (1) the deputy executive director, who provides important backup for the director; (2) the business manager, who handles the budgeting and paperwork; (3) a communications/marketing specialist, who develops OWC promotional information; and (4) a secretary.

Financial Support and Refund Requests

The efforts of the Commission are funded entirely through producer checkoff contributions of 1.5 cents per bushel. Refund provisions of commodity promotion programs allow producers to have their contributions returned.

Producers request refunds because they do not believe that programs create enough benefits to justify their checkoff support or that their contributions are essential for program success (i.e., they can get program benefits without paying for them). Commodity promotion programs generally benefit everyone in an industry, even those producers who request their checkoff refund.

Programs with a high percentage of refund requests will eventually fail of overall lack of industry support. Those program contributors become
Figure 1. Oklahoma Wheat Commission budget and refund percentage, by year

![Graph showing Oklahoma Wheat Commission budget and refund percentage, by year.]

Source: Oklahoma Wheat Commission

disenchanted with paying more than their share of the costs. The Oklahoma Wheat Commission has historically experienced the highest refund rate among states with wheat promotion and research programs. In 1994–1995, Oklahoma’s request rate was 11%, versus 8% in other nearby states.

In February 1998, Oklahoma doubled the wheat promotion and research assessment to the current rate of 1.5 cents per bushel. This increase was passed by the Oklahoma legislature to avoid the cost of a referendum at the request of the OWC. As a result, the budget for programs increased from $1.2–$1.3 million per year to $2.2 million per year for 2000 and 2001 (figure 1). Consequently, refund requests have increased from less than $200,000 per year to over $400,000 per year and most recently are over 20% of the total budget.

**Strategies to Reduce Refund Request Rates**

A number of strategies are available to reduce refund requests. Public relations efforts with producers can involve direct mail publications, television appearances, or direct meetings. The Commission and its staff face whether to directly address those requesting refunds or to promote participation through public relations efforts with producers. The Commission has spent considerable time and effort on the latter option.

Recently, researchers at Oklahoma State University developed a survey of producers, working with the OWC (Tilley and Crowley). This survey drew the following conclusions:
1. Attitudes and beliefs about the effectiveness of the commission and commodity programs in general have the most influence on the probability that producers will request refunds of their contributions.
2. Producers who believe the programs deliver only limited benefits are more likely to request a refund.
3. Because the size of the refund is directly related to the number of bushels produced, larger producers are more likely to request refunds.
4. Producers who strongly believe research has increased yields are less convinced that promotion has increased wheat prices or demand.
5. Producers who personally know one or more wheat commissioners are 10% less likely to request a refund. However, because commissioners are not paid for their time and are also full-time farmers, it is difficult for them to devote sufficient time to meeting and getting to know producers.
6. In general, producers favor spending less money on promotion and more on production research.

Unfortunately, the results of the research did not determine why some producers do not believe the programs are effective.

Refund request rates appear to be higher in specific locations in Oklahoma. Bookkeepers at some local elevators complete refund requests and give each producer the completed form every time they give them a check for wheat. This makes it relatively easy for producers to request refunds and increases refund requests in their trade area. Typically, these bookkeepers are acting at the behest of the elevator manager, who may not see the value of the OWC.

Historically low prices make it difficult for producers to believe that promotion efforts are effective. Low prices and government program changes giving producers more freedom to choose alternative crops have reduced wheat acreage in Oklahoma. Low acreage means smaller volumes marketed and fewer funds for OWC efforts.

Deciding how much time and effort to devote to encouraging participation and discouraging refund requests is particularly difficult. Some producers not requesting refunds may not know that option is available. Other producers who believe promotion programs work may become less supportive if they see considerable time and money spent communicating program results to producers.

Main Efforts of the Wheat Commission

OWC efforts to further the interests of Oklahoma wheat producers require considerable resources. The Commission’s budget varies with the size of the wheat crop (funding is derived from the per-bushel checkoff, so more bushels mean more funds). The OWC commissioners and executive director determine resource/funding allocations to various programs.

Planned expenditures from the budget are shown in figure 2. Currently, approximately 80% of the Commission’s budget is divided equally between research and market development activities. Promotion and education, which would include money spent on producer publications, accounts for only 10%, and administration, 7%.
Figure 2. Planned Oklahoma Wheat Commission expenditures by category, 2001

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Promotion and education</td>
<td>10%</td>
</tr>
<tr>
<td>Research</td>
<td>41%</td>
</tr>
<tr>
<td>Market development</td>
<td>42%</td>
</tr>
<tr>
<td>Administration</td>
<td>7%</td>
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</tbody>
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Source: Oklahoma Wheat Commission

Promotion Directly by the OWC

Efforts to educate the public on wheat production and industry operations are an essential part of the OWC’s role. Planning, coordinating, and participating in these tasks take up much of the executive director’s time. Currently, the OWC sponsors several educational events, including the Junior Wheat Show, the Wheatheart Bread Baking Contest, and the Oklahoma Farm Show. The OWC also participates in other trade shows. Though these programs make up only 1 to 2% of the operating budget, each plays an important role in raising the Commission’s public profile, which, it is hoped, will mean fewer refund requests.

The Wheat Foods Council

The OWC supports the development and utilization of materials produced by the Wheat Foods Council (WFC), which specializes in domestic market development for wheat. The Commission typically allocates approximately 5% of its market development budget to the WFC. Visitors to the WFC’s award-winning web site (www.wheatfoods.org) have access to grains and nutrition information, recipes, photos, links to government and other agencies, and answers to frequently asked questions about the role of grain foods in a healthy diet. Visitors to the site can even post questions to be answered by a registered dietician. In addition, WFC publications can be ordered from the site for a nominal fee.

The primary function of the nonprofit Council is to increase demand for U.S. wheat. It does so by heightening awareness of dietary grains as an essential part of a healthy diet. Some misconceptions that grain-based foods tend to be fattening persist, and a primary goal of the Council is to combat that perception. As more Americans adopt grain foods into their diet, U.S.—including Oklahoma—wheat will be needed to fill that demand.
**U.S. Wheat Associates**

American consumers need less than half of the annual U.S. crop to satisfy their own demand. Given the strong competition for sales in world wheat trade, a common task for U.S. wheat producers is to fund U.S. Wheat Associates (USW) efforts at international market development. The OWC typically allocates approximately 80% of its market development budget to the USW.

Market development is the primary task of USW, which was formed in 1980 through the merger of two smaller market development agencies. Long-term effort and continuous market presence is required for the task of promoting a bulk commodity such as U.S. wheat. With two domestic plus 15 international offices, USW is positioned to carry out its main tasks: market analysis, trade servicing, technical assistance, and consumer promotion.

*Market analysis* provides information and knowledge about various markets and their potential expansion opportunities. With detailed knowledge of the economic, political, and wheat trade conditions of potential buyers, U.S. wheat marketers are more able to focus their strategic activities to better expand demand for U.S. wheat.

*Trade servicing* focuses on providing information services like market reports and seminars, as well as education programs for and sponsorship of visits by international buyers.

*Technical assistance* focuses on aiding buyers in finding new and better ways to use U.S. wheat. Buyers are given technical courses at U.S. institutions, are provided with consulting services by USW staff, and are aided in the establishment of training facilities in their home countries.

*Consumer promotion* aims at helping consumers in importing countries learn more about U.S.-grown wheat. Efforts revolve around surveys designed to ascertain the level of consumer knowledge, followed by media promotions where necessary. Cooking and baking demonstrations and contests also raise foreign consumers’ awareness about the advantages of U.S. wheat and wheat products.

**Wheat Export Trade Education Committee**

The Wheat Export Trade Education Committee (WETEC) is responsible for educating wheat industry members as well as Congress on issues affecting U.S. wheat exports and trade policy. It was founded by farmers who recognized the need for reliable information and objective analysis to help policy makers understand the consequences of their decisions for wheat industry stakeholders. WETEC monitors, analyzes, and disseminates information surrounding administrative, legislative, and international decisions affecting wheat exports.

One of WETEC’s most important roles is the part it plays, along with the National Association of Wheat Growers and USW, in formulating the “Wheat Action Plan” (WAP). The goal of the WAP is to inform decision makers of the policy priorities of American wheat producers. It includes an overview of the outlook for the world wheat market (and the implications for U.S. wheat producers), as well as a Domestic Policy Plan and an International Policy and Export Plan. Each of the plans contains policy recommendations made on behalf of wheat producers.
WETEC is funded by 17 state wheat commissions, including the OWC. The OWC contributes 15% of its market development budget to WETEC annually. In return, the OWC is given valuable trade information, as well as help in understanding how legislative and foreign policies affect Oklahoma wheat producers. WETEC plays mostly an informational role for the OWC, but it is critical because policy considerations in domestic and international markets are extremely important to the export-oriented Oklahoma wheat industry.

Oklahoma Wheat Research Foundation

The OWC views research expenditures as having the greatest direct impact on Oklahoma wheat producers. One-fifth of producer funds collected by the Commission are allocated to the Oklahoma Wheat Research Foundation (OWRF), as legally required. The main efforts of the OWRF are focused on developing new or enhanced varieties that are well adapted to Oklahoma production conditions.

One primary area of current research is wheat breeding, genetics, and end-use quality for Oklahoma wheat. By developing more desirable characteristics, value is added, demand is enhanced, and returns to producers are increased. The OWRF is also striving to improve wheat production techniques, with the goal of increasing efficiency for producers. More efficient production techniques will allow Oklahoma wheat producers to improve their bottom line, which is a major goal of the Wheat Commission.

The OWRF is also pursuing development of nonfood (industrial) uses for wheat to increase demand for Oklahoma wheat. The OWRF also participates in educating consumers about the nutritional benefits of wheat, similar to the efforts of the Wheat Foods Council. The Foundation is also conducting research into the utilization of wheat flours.

Other Research

The OWC funds some special (short-term) projects that approach the OWC with requests for support. When making decisions on which projects to fund, the OWC considers several issues: Are funds available? If so, what are current priorities? Can the funds be leveraged (with matching grants from other sources) or is it a direct commitment? Leveraged funds are most important because funding cuts might result in the loss of a project’s support from other agencies.

The purchase of a plot combine for a research team is one example of short-term funding recently supported by the OWC. The Commission provided support for the purchase of a gas chromatograph, used to separate the various components of wheat flour, for another researcher.

The total amount spent in this area varies a great deal from year to year. In 2000, the OWC spent 18% of its budget on short-term research—more than any other year. The figure has been as low as 6% in some years.

Prospects

Jeff smiled as he looked at his schedule for the upcoming week. Preparing for and attending two trade fairs and the upcoming board meeting would take up
much of his time. It was great to talk with the public about the OWC and outline the benefits it provides. The refund rate problem was troublesome, yet current efforts seemed to be making some progress. He would discuss this issue at the upcoming board meeting to continue focusing OWC efforts on this important issue.

**Suggested Discussion Questions**

1. What is the status of the OWC strategic planning efforts? Are they achieving the benefits of strategic management?
2. How does the OWC create value? This answer should be related to the competitive position of wheat producers and how the OWC helps them become more competitively successful.
3. Comparing OWC program areas, which are most effective for the organization? Should the Oklahoma Wheat Commission put relatively more resources into reducing refund requests or expanding/changing program efforts? How do you or could you know?
4. Is the high refund rate a reflection of producers perceiving a lack of benefit from the OWC or a desire by producers to receive the benefits without paying for them?
5. What is the most effective way for the OWC to reduce refund requests (increase funding)? Discuss various alternative approaches or strategies and their potential effectiveness for the executive director in reducing refund requests.

**Acknowledgments**

This case was developed as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative situation. A teaching note is available from the lead author. Additional information about Oklahoma Wheat Commission can be found on their web page at http://www.state.ok.us/wheat/. The authors would like to thank Gary Gilbert and Mark Hodges for their valuable information and comments; however, the opinions expressed are the authors and do not necessarily represent the opinion of the Oklahoma Wheat Commission.

**Reference**