New business ventures for agricultural cooperatives

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NEW BUSINESS VENTURES FOR AGRICULTURAL COOPERATIVES

by Gail N. Brown
The efficient productivity of American farmers is one of our modern-day miracles. Fewer farmers are producing more food with less help and at a lower cost to the consumer. Yet there is increasing demand for new types of food—and there is still hunger and malnutrition in the United States and the world.

These demands have made the agribusinessman look for—and find—new ways to meet the world's crucial nutritional needs.

Agribusinessmen, or men in farming and its related businesses, have turned to a combination of the cooperative, a way of doing business that has served farmers well for decades, and the regular corporation. This joint arrangement, which is now being tried out by such companies as Hublein, Inc. and Curtice-Burns, Inc., allows the farmers to integrate their entire farming operation, from the production of an adequate supply of raw product to the orderly processing and marketing of that raw product.

All businessmen are well acquainted with the regular corporations, but they seem to view the agricultural cooperative as relatively unimportant. A review of the economic area of which the agricultural cooperative is a part will dispel that belief.

Agribusiness is one of the largest segments of the American economy. This is demonstrated by recent figures which show that consumer purchases of agricultural product totaled $118 billion and nearly a third of the total work force of the country was employed in agribusiness.

Agricultural cooperatives are a major part of this economic picture with 80 percent of farmers in the United States being members of one or more cooperatives and 20 percent of all farm purchases—such as feed, seed, fertilizer, equipment—being made through agricultural cooperatives. At the other end, 30 percent of all farm sales are made through cooperatives.

In 1965, purchasing cooperatives, which provide farm supplies and services to their members, had net margins of $150.0 million, a six percent return on $2.6 billion of sales, representing a 10 percent return on net worth.

To better understand what agricultural cooperatives are and how they work, a brief history is in order.

In 1844, a time of general economic depression in Europe, a group of weavers in Rochdale, England, already on strike for higher wages, looked for a way to lessen their financial plight. They decided that economic salvation lay in transforming themselves collectively into capitalists, so they would own the means of production and would be able to provide themselves with steady and dependable employment. By the end of 1844, 28 of these weavers had accumulated 14 pounds and opened a store in a rented warehouse. They hoped that by patronizing this store and saving the profits, they would be able to buy the tools of production.

The venture, which they called the "Rochdale Society of Equitable Pioneers," prospered. Their methods of operation have become known as the "Rochdale Principles" and have been adopted by successful cooperatives since that time.

These cooperative organizations include mutual banks and buying organizations jointly owned by smaller, individually-owned grocery stores. There are even today some cooperatively-owned grocery buying organizations formed by individuals in depressed areas of some of our larger cities.

In the United States, farmers soon grasped the "Rochdale Principles" and organized themselves into agricultural cooperatives based on the principles:

There is democracy of control in that each member usually has only one vote (although other voting procedures to meet changing conditions have been adopted by some cooperatives in recent years).

If any interest at all is paid on members' capital, it is usually not more than the minimum prevailing interest rate.

If earnings or savings result from operations of the cooperative, those earnings are set aside as required reserve funds, used for the good of member-patrons or returned to member-patrons in proportion to their patronage.

From these beginnings—and using these principles—modern agricultural cooperatives have evolved. It has been estimated that there are now about 8,000 agricultural cooperatives in the United States. This is less than a few years ago since some cooperatives have gone out of business and others combined to become larger, more successful organizations. Today's cooperatives range in size from Agway Inc., considered to be one of the largest agricultural cooperatives in the United States with an annual volume of $500 million, to small local cooperatives with less than $1 million of volume.

And they have become grouped into two general types: supply or purchasing cooperatives and marketing cooperatives. The purchasing cooperatives furnish various services and commodities to their members, including farm supplies, seed, fertilizer, gasoline, oil and
oil products, insurance and financing. Examples of this type are the large regional and federated cooperatives such as Agway Inc., Southern States Cooperative, Inc., Landmark Farm Bureau Cooperatives, Farmland Industries, Inc., Pacific Supply Cooperative, Missouri Farmers Association, Inc. and many others.

Many of the large regional and federated cooperatives also furnish marketing services to their members. An example is Farmers Union Grain Terminal Association which is one of the largest handlers of grain in the United States. These, and similar cooperatives, are large business enterprises, farmer-owned and controlled, providing the varied needs of modern-day agriculture.

The second major class of agricultural cooperatives, the marketing cooperatives, provides a way for farmers to efficiently sell their product through farmer-owned and controlled processing and marketing organizations. Items usually handled by marketing cooperatives are dairy products, eggs and poultry, grains, fruits, vegetables, sugar and wines. Many well-known brands found in supermarkets are products of agricultural cooperatives. These brands include: Welch Grape Juice, Ocean Spray Cranberries, Land O' Lakes Dairy Products, Sunsweet Prunes, Sun Maid Raisins, Italian Swiss Colony Wines, Sunkist Citrus Products, Norbest Turkeys. Many well-known brands of canned fruit and vegetables are products of agricultural marketing cooperatives. A major portion of the milk consumed in the United States is either produced or sold through agricultural cooperatives under such brand names as Dairylea in the East and Challenge in the West.

Just as new trends in business combinations have developed among other forms of businesses, new trends have developed in agricultural cooperatives. They have grown through various kinds of consolidations and mergers.

For example, California Canners and Growers (CalCan) was incorporated in 1957 as a cooperative. Money raised by farmer-members was used as a down payment to acquire two well-known food processing companies. Subsequently, three additional companies were acquired. The cooperative now has approximately 1,200 members. Its sales volume is about $115 million, making it the largest grower-owned canning business in the United States. A newly constructed plant costing $6 million is being opened in Wisconsin this month.

In this case, then, the farmers acquired existing food processors and retained the entire processing and marketing function within the cooperative and have been successful in retaining and strengthening the acquired management team.

Another large food processing cooperative in California, Tri-Valley Growers, resulted from the merger of two cooperatives several years ago. It also processes and sells fruits and vegetables for some 500 members. Its annual sales volume is approximately $80 million.

A most interesting development in marketing cooperatives was the formation of Pro-Fac Cooperative, Inc. and a related regular corporation, Curtice-Burns, Inc. These two organizations were formed under the auspices of the Grange League Federation Exchange (GLF).

(In 1964 GLF joined with Eastern States Farmers Exchange Inc., to form Agway, Inc. Later the Pennsylvania Farm Bureau also joined Agway, Inc.)

Over 500 fruit and vegetable grower-members of Pro-Fac Cooperative, Inc. invested sufficient funds to make a down payment on two well-known food processors in New York State. At the same time, Curtice-Burns, Inc. was formed as an operating unit to lease the facilities owned by the cooperative and to process and sell the fruits and vegetables delivered by the farmers through their cooperative. Generally, Curtice-Burns, Inc. pays the cooperative the commercial market value of the raw product received plus an agreed-upon percentage of the earnings from processing and marketing of that raw product. The stock in Curtice-Burns is generally held by former owners of the acquired businesses, by employees and by Agway Inc.

Initially, the two organizations acquired Curtice-Brothers Company and Burns-Alton Corporation. Subsequently, Haxton Foods, Inc., Empire State Pickling Company, both in New York, and P. J. Ritter Co., in New Jersey, were acquired. There are now some 500 members of Pro-Fac Cooperative, Inc. Approximately 10 percent of the members produce about 30 percent of the raw product delivered by Pro-Fac Cooperative, Inc. to Curtice-Burns, Inc. The annual sales volume of Curtice-Burns, Inc. is in excess of $50 million. There are now 12 plants and three distribution centers producing and distributing a wide variety of canned and frozen fruits and vegetables.

The approach used in the Pro-Fac/Curtice-Burns arrangement was designed to assure a supply of raw product through farmer ownership of processing facilities and processing and marketing agreements with a proprietary corporation. The corporation is assured a
dependable supply of raw product and at the same time has a management team which can be given incentives generally not available to employees of cooperatives. There are common stock options, deferred profit sharing plans, incentive bonuses, etc. Also, the corporation can generally be more flexible in its operations and can attract sources of outside capital which are not generally available to cooperatives.

This marriage of cooperatives and proprietary corporations has also moved in the opposite direction. A few years ago, a group of California grape growers formed Allied Grape Growers and a wholly-owned subsidiary. It acquired one of the largest wineries in the United States as well as a ship to move bulk wine from the West Coast to New Jersey. It also acquired the well-known Italian Swiss Colony brand. The cooperative was successful, earning its members a higher than market price for grapes. However, 80 percent of the cooperative's subsidiary, United Vintners, Inc., was recently acquired by Hublein, Inc., a large liquor processor and distributor. This gave Hublein a prominent position in the wine business with an assured source of grapes.

Allied Grape Growers has entered into a favorable supply agreement with United Vintners, Inc. Thus the farmers are assured of a place to deliver their grapes at a favorable price and the Hublein subsidiary is assured of a dependable source of wine grapes; plus, the growers share in the profits of United Vintners, Inc., through a continuing 20 percent ownership of that company.

Other major food processing corporations such as Duffy-Mott Company, Inc. and Seneca Foods Corporation have also entered into similar arrangements with agricultural marketing cooperatives.

It would seem that other similar arrangements will emerge as growers, through their agricultural cooperatives, seek to improve their position in the market place by acquiring or combining with various corporate organizations with strong management and adequate processing and marketing capabilities. It also seems probable that the large proprietary corporations involved in processing and marketing of food products will also look to agricultural marketing cooperatives as a steady and dependable source of raw product.

Whether agricultural cooperatives take the route of expansion and strengthening their own organizations or whether they take the route of working with large proprietary corporations, it is certain that the future will see many changes in agricultural cooperatives as they continue to help meet the challenge of satisfying the ever-increasing world food needs.