1981

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Recommended Citation
Tempo, Vol. 27, no. 1 (1981), p. 21-24

FARM COOPERATIVES

reaping a bigger share of the harvest

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American farmers have created some remarkable cooperative business organizations. As a result, they are harvesting an increasing share of the benefits generated by our food system.

Some of these cooperatives are well known by brand name—Sunkist, Welch's, Land O' Lakes, Ocean Spray, Sun-Maid, Sunsweet, Diamond, and Sioux Bee—even though they are not widely recognized as farmer-owned cooperatives. Such organizations are among 82 that produce more than 300 brands of processed food, plus dozens more of fresh products. They are also among the 6,700 farmer cooperatives which had a sales volume of $43.5 billion in 1977. (This net volume is expected to exceed $55 billion for 1979.) In 1980, at least a dozen cooperatives will register annual volumes in excess of $1 billion each. The largest, Farmland Industries, Inc. of Kansas City, has announced sales of $4.75 billion.

Why Cooperatives?

How significant is this growth in cooperatives? Increasingly so. For the farmer has learned through experience that by working with other farmers he can:

- Become more competitive.
- Develop auxiliary services.
- Broaden marketing capability.
- Improve efficiency.

Farmers have long recognized that they have been at a disadvantage in the nation's food system. Required to deal individually, and from dispersed locations, with firms that are far larger and far more concentrated than themselves, they have had little bargaining power. By investing $18.6 billion in all types of cooperatives—an average of $8,055 per farm—farmers have sought to lessen that disparity and increase their competitiveness in the marketplace.

The lack of a product or a service has also prompted the start of many cooperatives. A current example is the need for rail transportation. Someone may soon ask why farmer cooperatives are getting into the railroad business. The answer is that rail line abandonment reduces the farmer's ability to transport his produce from rural America.

Farmers also have had to join forces in order to supply to consumers the volume, uniform quality, continuing supply, and product form that the market requires. Otherwise, corporate farms and food conglomerates would pursue the job of aggregating and processing, and leave to farmers the more subservient role of raw supplier. Through cooperatives, farmers have been able to expand marketing functions, bringing a value-added dimension to farm products.

The efficiency that one finds in larger organizations has also motivated the development of cooperatives. Farmers first learned that lesson right on the farm, as increased landholdings increased their operating efficiency. Applying that lesson to off-farm cooperative ventures has enabled farmers to expand their business horizons. The bottom line for this interest is the same for farmers as for other businessmen—higher profitability.

Market Share

How extensive are farmer cooperatives in our agricultural economy? How large are they as compared to food corporations? Is their rate of growth significant? A few statistics might help to put the development of farmer cooperatives in perspective.

The relative size of farmer cooperatives can be illustrated by comparing market shares. In 1976-1977, cooperatives handled about 29 percent of the off-farm sales of farmers' products and supplied 19 percent of their purchased inputs, excluding credit. Even more impressive are their market shares for specific commodities. For example: 558 dairy cooperatives together handled 69 percent of farmers' total off-farm sales of milk or dairy products; 2,452 cooperatives handled 44 percent of all grain and soybeans; 500 cooperatives handled 30 percent of all cotton products; and 424 cooperatives handled 25 percent of all fruits and vegetables.

Even more cooperatives—more than 3,000 in each of four major product lines—are involved in purchasing farm supplies. Combined, these cooperatives handled 39 percent of farmers' fertilizer and lime purchases, 35 percent of their chemical and petroleum purchases, and 20 percent of feed purchases.

Since 1950, cooperatives have increased their share of marketing activity for cotton, dairy products, fruits and vegetables, and grain, and have held even for poultry products and specialty crops. For livestock, however, they have lost ground. With respect to farm supply purchases, the market shares of cooperatives have increased most for fertilizer, pesticides, and petroleum products, and have held even in feed, seed, general supplies, and equipment.

Despite these dramatic business extensions beyond the farm fence, the plain truth is that farmers have just begun to cooperate. Measured against opportunities, a 29 percent market share and a 19 percent purchasing share at the first-stage handling level is only a modest beginning. Nevertheless, the handful of cooperatives which have achieved spectacular growth and high visibility have drawn the attention of those who view the agribusiness scene.

How Big Are They?

Because a few large cooperatives have gained prominence in recent years, some agribusiness competitors and some critics have expressed concern about cooperatives' size and growth. The issue of bigness can be laid to rest quickly, however, when their size is compared to that of the major corporations in the field.

Fortune magazine's list of the 500 largest industrials is generously sprinkled with firms that are a part of the nation's food system. Only six agricultural cooperatives appear on that list, however, and their sales, combined with those of all other farmer cooperatives, are less than the number one industrial, Exxon, which happens to be a major supplier to agriculture.

The vast majority of cooperatives are relatively small businesses. A 1976 study revealed that 79 percent of all cooperatives had annual sales of less than $5 million each. In a study made a year earlier, a comparison was drawn between the four largest cooperatives and the four largest agribusiness corporations. Though the sales figures were not adjusted for different marketing levels in a value-added sense, they are an indicator of relative economic power. The total sales of grain by the four largest grain cooperatives were only 24 percent of those of the four largest grain companies. Using the same comparison, the sales of fruits and vegetables were 43 percent; sales of dairy products were 55 percent; and sales of poultry and eggs were 51 percent.

Disparity of size was similar on the supply side. Sales of feed by the four largest feed cooperatives were only 24 percent of those of the four largest feed companies; sales of fertilizer and lime were 69 percent; while sales of petroleum were only a drop in the barrel—1.5 percent—as compared with the sales of the four largest oil companies. A similar picture emerged when assets were compared.

Though cooperatives still cast a small shadow against the industry's biggest corporations, the presence of a few cooperatives that are large, complex, innovative, highly integrated, and effective competitors is a sign that farmers are becoming more aware of what is required to survive in today's business environment. Some of their latest structural developments bear this out.

Four Structural Developments

The decades of the 1960's and 1970's witnessed the beginnings of some basic changes by cooperatives that have had national and even global significance. Key attributes of the new emerging system are improved efficiency and coordination, organizational structures that are more complex at regional and higher levels, increased market penetration, and increased, but judicious, use of what economic and political power is possessed by this system.

Mergers and consolidations. A marked trend in the food manufacturing industry is an increase in both the ownership of assets and the control of sales by a few large firms, many of which are conglomerates. Recent Department of Agriculture estimates indicate that 50 of the nation's 18,000 food manufacturing firms control nearly two-thirds of the combined assets of all U.S. food manufacturers; in 1963, they controlled 42 percent. Owner-users of cooperatives have had to adapt their organizations to this trend by merging or consolidating their cooperatives, or by acquiring firms.

The most noticeable development with respect to mergers occurred among dairy cooperatives in the late 1960's and early 1970's, when at least four multistate, direct-membership cooperatives were created through the consolidation of hundreds of smaller ones. As a result, the number of dairy cooperatives was reduced by more than half between 1967 and 1977. The new and larger organizations are vastly more efficient in processing and routing milk, balancing the market supply, and manufacturing reserve supplies through large and technologically up-to-date processing plants. A recent study by Purdue University indicates, for example, that manufacturing cooperatives in Wisconsin have developed cheese manufacturing plants that are twice as large as those operated by firms that are not cooperatives.

While mergers in the dairy industry have been primarily along commodity lines, other mergers by cooperatives have resulted in combined supply and marketing organizations. As examples, Land O' Lakes, headquartered in Minneapolis and one of the premier marketing cooperatives, merged in 1970 with FELCO, a regional farm supply cooperative based in Iowa. Similarly, Farmland Industries of Kansas City made headlines in 1977, when it merged with Far-Mar-Co., a Kansas-based grain marketing cooperative, thus creating an organization with $3 billion in annual sales.

Our annual statistics indicate a decrease of more than 100 cooperatives per year, either through merger, consolidation, or dissolution. If these trends continue, we may have 3,000 cooperatives in the year 2000 as compared with the 6,700 of today.

Interregional federations. Another significant development among cooperatives has been the expanded use of interregional federations, best exemplified by Farmers Export Co., which deals in grain, and CF Industries, which deals in fertilizers. In many respects, these federations represent a national, or North American, level of cooperation similar to that in northern European countries. There are logical reasons for this cooperation, the chief of which is the ability to realize system benefits from large-scale, technologically complex operations that permit regional identification and autonomy.

> "The agribusiness companies once looked down their nose at farm cooperatives. But now I see it as a likelihood that some day cooperatives will dominate all agribusiness in the U.S."
>
> ERNEST T. LINDSEY
> president and CEO
> Farmland Industries, Inc.

> "In many farm towns, there used to be a feed store, a seed store, a hardware store, and a fertilizer dealer. Now many have but one store—the co-op store."
>
> RICHARD L. GILLILAND
> executive v.p.
> National Fertilizer Solutions Assn.

Of the 23 interregional federations now operating, most are in the farm supply and related service fields. Outstanding examples of these are found in the transportation cooperatives, such as Ag Carriers, Mid-America Farm Lines, and Agri-Trans, inc.; in interregional supply federations, such as Energy Cooperative, Inc. and Cooperative Research Farms; in international development assistance, through Agricultural Cooperative Development International and Volunteer Development Corps; in leasing, through Interregional Services Corporation; and in marketing cooperatives, such as Amcot and the National Livestock Producers Association.

Multinational cooperative coordination. As global commerce became dominated by multinational firms and as industry concentration increased, cooperatives have linked together across national lines to improve coordination and to become competitive. Organizations in petroleum, seeds, and credit union activities have existed for many years. However, the correspondent relations that have been developing recently among cooperative banks in various countries suggest that the groundwork is being laid for cooperation along other business lines. The cooperative banks in Europe, incidentally, are among the world's largest commercial banks.

Further evidence that multinational business relations are developing is the recent joint venture in grain trading by European and North American cooperatives. The North American cooperatives are Gold Kist, Indiana Farm Bureau Cooperative Association, Agway, Citrus World, Land O' Lakes, Landmark, and United Cooperatives of Ontario. These seven and four European cooperatives, through an intermediary corporation, Intrade, Inc., have purchased an interest in Alfred C. Toepfer, Inc., a multinational grain trading firm. Toepfer handles about 10 percent of the world's grain trade through offices or subsidiaries in 18 countries and its annual sales exceed $8 billion. The entry of Intrade into multinational trading shows great promise.

Joint cooperative ventures. One type of coordination that is fast developing among cooperatives is the joint venture. In a typical situation, two cooperatives share in owning the assets of an acquired firm or of a joint enterprise. While one supplies the raw product, the other assumes the managerial responsibility. Such cooperative ventures are exemplified by: the recent acquisition of Hiland Dairy in Springfield, Mo., to which Mid-American Dairymen, Inc. supplies milk and which Prairie Farms Dairy manages; the acquisition of the H.P. Hood Company of Boston by Agway, a regional farm supply cooperative in the northeast, and Agrimark, a newly organized dairy cooperative; the can manufacturing operations by a number of fruit and vegetable canning cooperatives; and the joint marketing company, Sun-Diamond Growers of California, organized by Diamond Walnut, Sun-Maid Growers, and Sunsweet Growers.

The rationale behind joint cooperative ventures is that they make possible the achievement of goals that would be beyond the capabilities of cooperatives acting individually. For example, such ventures often can increase a cooperative's borrowing capacity, thereby making possible what was economically unfeasible when it was operating independently.

Joint cooperative ventures can also be an interim step toward a merger or consolidation. In most cases, however, their advantage is that they represent a prudent use of capital resources, which is the case with national federations. Also, they are a means for taking advantage of the strengths of each participating organization.

While joint ventures between cooperatives and noncooperatives have been attempted, several have not worked out in the interest of the cooperative members. Also, the Department of Agriculture foresees some policy implications in the arrangements between cooperatives and noncooperatives that politically could compromise the status of cooperatives under such laws as the Capper-Volstead Act.

Another structural variation of the joint venture is found in situations where reciprocal services are performed among cooperatives located in geographically separated areas. Examples of this can be found in the reconstitution of juices, the use of forward distribution centers, and the like. Using this structural form, duplication of facilities is often avoided, and transportation costs are minimized.

The Future of Cooperatives

Agricultural cooperation is a dynamic and growing component of the food production and marketing industry in the United States. And I think that the vitality of cooperatively owned businesses will be even more evident in the year 2000. To assure that will happen, however, cooperatives must continue to demonstrate their ability to increase farm income.

Some evidence of this ability was revealed in a 1976 study, which reported that the net margins realized by 5,900 marketing and supply cooperatives were $1.3 billion, after eliminating intercooperative distribution of patronage refunds and dividends on member capital. These savings were equal to 21 percent of the $6.14 billion investment that members had in these cooperatives that year. Measured another way, these savings in 1976 increased total farm net income by 7.1 percent.

Thus, farm cooperatives are becoming better managed businesses, and while they may not be growing as rapidly as their corporate competitors, expansion has brought new recognition to their brand-name labels. In fact, I am confident that the farmers who survive in the year 2000 will be those who best employ cooperatives in support of their farming operations. The dispersed nature of agriculture requires that some type of aggregate business organization perform the production input, processing, and marketing functions. Such a system will also enable farmers to become full participants in the total food industry.

The challenge is to develop cooperative organizations that will unite farmers of similar economic interests and who are situated over broad geographical areas. As in the past, their willingness to join in a cooperative system, in the face of strong competition from other agribusiness firms, will govern the pace of cooperative development.

Cooperatives enable farmers to remain entrepreneurs, yet build organizations capable of competing in a business world of massive and complex firms. But whether these unique cooperatives will enable the nation to preserve its tradition of individual farm ownership is a question yet to be answered.