CHAPTER 12

BENEFITS OF FARM MARKETING COOPERATIVES

What Are Farm Cooperatives? A great number of people do not understand the meaning of the farm cooperative movement. Such an organization may be defined as a group of farmers who see fit to join together and agree to market one or more farm commodities collectively. A plan must be presented and approved by a majority of the members, officers must be elected, and provisions made to assemble the product and to see that other necessary services are performed before the product is shipped to a marketing center.

An Example. To illustrate more fully, let us suppose that the farmers in your locality were selling their milk or cream to a privately owned creamery. The farmers feel that they should be paid more money for their butterfat than the company is paying. Consequently, they call a meeting of the local farmers, talk over their troubles, and finally decide to handle their own product. They will then elect a board of directors from their own number who will proceed to put their plans into actual operation.

Establishing The Cooperative Creamery. The directors will issue stocks, or shares, to be sold to the members in order to provide the necessary capital for purchasing the site, building, and equipment needed for the manufacturing of butter. The directors will also hire a manager and other help essential for the efficient operation of the creamery. Each prospective patron will be expected to buy one or more shares in order to assist in financing the venture. The manager will have to contact city markets to find the best possible outlet for the butter. This, very briefly, is an example of how many farm marketing cooperatives have been started in this country.

Are Farmers Benefited By This Change. If the farmers in the foregoing illustration have selected their directors wisely, and have lived up to their promises of patronizing their own organization, they will receive more money for their butterfat than they did when they were selling it to a private agency. Every cent over and above the actual cost of handling the butterfat will be returned to the farmers in the form of a higher price paid to them per pound. At least, that has been the history of farm marketing cooperatives in the past. In other words, the profits in manufacturing and marketing the butter which formerly went to the private creamery, are now distributed among the patrons of the creamery, according to the amount of butterfat delivered by each farmer.
Are There Other Marketing Benefits? Is the distribution of marketing profits the only benefit derived from a farm cooperative marketing organization? This question has been asked many times, and the answer is always the same, "NO." There are many other advantages to be gained by members of a cooperative marketing association. Some of the more important benefits will be brought out in this chapter to show that farmers who join cooperative marketing organizations gain in many different ways besides the extra marketing dividends.

Improved Quality. Cooperative marketing organizations are in a position to show their patrons what it means to deliver high quality products to their organization for marketing. A private company which buys farm commodities naturally would not be so interested in urging the farmers from whom it buys to always produce top quality. More often, such a company would simply be content to scale its prices down to meet the quality of the product offered, and would do little to incite them to produce better products. The cooperative, on the other hand, would have every incentive to encourage and instruct its patrons in producing better quality products so that they would receive higher prices when handled in a more systematic manner.

Better Marketing Understanding. Because the cooperative is in constant touch with the market, it has the opportunity of learning how its product can obtain the best prices on these markets. However, this information would be of little help unless it was passed on to the producer. Many farm cooperatives make a practice of keeping their members informed continually on the trends of the market. This may be done through bulletins, circular letters, or by having the manager or field man talk to the different patrons in person.

Volume Of Business. When a group of farmers organize to market their products collectively, they make it possible for the central markets to buy such commodities in large lots, often saving unnecessary expenses to both producer and consumer. Large produce handlers in the big cities much prefer to buy their products in either carlots or trainloads in some instances, rather than in small amounts here and there. When a cooperative can sell its products in carlots, for example, it immediately gains the attention of the big buyers.

Better Services. A farm marketing cooperative will naturally be more interested in performing the various marketing services for its members than will private agencies. The main objectives of the two
marketing agencies are quite different. The chief objective of the private agency is to make profit, while that of the cooperative is mainly to render the best possible services for its patrons. It is only human for one to strive to do a job better for one's self than for somebody else. So, too, with the cooperatives in the big job of marketing. The cooperative is duty bound to do everything possible to win the highest possible price the market will pay for its product by rendering only the very best services. The various private agencies do not always have such an incentive.

**Displacing Middlemen.** Private middlemen perform various services for farm products. Certain services must be performed in the marketing procedure whether by a middleman or by a cooperative. It often happens, however, that there are too many middlemen handling farm products. Every farm product has to be serviced in one way or another. Every private agency that handles farm products extracts a profit for so doing, whether the services be essential or not. The ideal farm marketing cooperative performs as many different essential services as possible on the commodity before it reaches the ultimate consumer. Such a plan returns several marketing profits back to the producers which would otherwise go into the hands of private middlemen.

**The Consumer's Dollar.** In countries where farm marketing cooperatives have forged to the front, such as Denmark, for example, the farmer receives two-thirds of the consumer's dollar, while in this country the farmer receives but one-third of this dollar. Most farmers think that this is too great a spread, and blame the present distribution system for such poor returns. Farm cooperatives have the opportunity for handling these products for more services than the old marketing system, which means that farmers receive a larger share of the consumers' money than when the same products are marketed through private agencies.

**Uniform Products.** Because it is capable of handling a large volume of business, a farm marketing cooperative can market a more uniform product. Grading is a very important item in the marketing of farm products. When different grades of a commodity are delivered to a cooperative plant, the cooperative can, because of its large volume, separate or grade the product into several different grades. This makes the marketing of such products much easier than if several grades were all sold in one lot. Buyers know what consumers want, and are willing to pay more for the various grades, if separated into uniform lots. A farm commodity that lacks
uniformity always has to be sold at a discount, and the farmer who sells such products must bear the loss.

**Bargaining Power.** One of the big advantages derived from a cooperative marketing organization is bargaining power. In fact, some farm marketing cooperatives are formed for this one purpose alone. Some of the present-day milk pools are merely bargaining associations organized solely for the purpose of having a voice in the price for which they sell their milk. Obviously, it would be quite useless for an individual producer to protest against the price he was being paid for a certain commodity, but if this same individual producer joins with hundreds or thousands of other producers and protests against this price, his protest will be heard and respected by the buyers of such commodities.

**Standardizing.** The consumer does not like to buy a pig in a poke. He prefers to buy goods that have been standardized. In order that the producer can benefit from this preference on the part of the consumer, cooperatives generally strive to furnish their buyers with standardized products, as previously noted. If a farmer sells a grocer a case of eggs, the grocer will candle the eggs before he sells them to the consumer, because he knows that the consumer expects nothing but good eggs. Any questionable eggs will be put back in the farmer's egg case and he will be docked accordingly. Almost all farm products are graded or standardized, and it is much more profitable for the cooperative to grade the commodity just as quickly as it can, in order to save further marketing costs on the inferior part of the products. Also, standardized products find a quicker sale on the markets than do the "run-of-the-mill" farm products.

**Advertising.** Very few farmers ever attempt to advertise their products individually, unless they happen to be selling directly to the consumer. The great bulk of farmers produce commodities that are sold on the big city markets, either through farm cooperatives or through private middlemen. Small cooperatives seldom do much advertising, but when a group of cooperatives band together and advertise a particular product, such as the Land O' Lakes, the response is usually very gratifying. Another fine example of farm cooperative advertising is that being done by the citrus fruit growers of California. "Sun-Kist" oranges are known far and wide only because a group of orange growers decided to do some national advertising. If these same oranges had been marketed by private agencies, they would have been sold as just oranges, and no special market would have been developed for them.
Reducing Overhead Expenses. Farm marketing cooperatives usually handle large amounts of the farmers' products. The larger the volume of business, other things being equal the less overhead expense involved. A creamery that manufactures 1,000,000 pounds of butter a year has to have machinery, building labor, etc., but such a creamery would not have to have ten times the amount of machinery or labor that a smaller creamery manufacturing 100,000 pounds of butter would have to have. It is obvious from this example alone that a large cooperative can operate more efficiently than can a smaller cooperative. This saving of overhead expense from the operation of large-sized cooperatives is returned to the farmer as a saving in marketing expense.

Personal Satisfaction. No attempt has been made to list all of the advantages from marketing farm products through the cooperative plan. Only a few of the more important financial considerations have been noted. However, there are many non-financial benefits derived by farmers from marketing cooperatively. Most farmers who are members of one or more marketing organizations feel a sense of personal pride, confidence, and satisfaction in having the opportunity of being a part of a marketing organization.

A Way Of Life. It has been said that cooperative marketing is a way of life. Many friendships are formed through cooperatives among farmers that otherwise never would have been made. Cooperatives develop a feeling of mutual brotherhood and understanding between the producers that would not have existed otherwise. Some of these above named factors are especially valuable to the cooperative when, for one reason or another, dividends or prices are not up to expectations. It is then that the cooperative needs the full support of its membership.

GUIDE QUESTIONS FOR CHAPTER 12

1. Describe briefly what a farm marketing organization does for the farmer.
2. Explain the first step that should be taken by a group of farmers when organizing a cooperative marketing association.
3. How is the necessary capital raised for financing a marketing association?
4. What additional money do the members of a farm marketing organization receive that they would not when selling to a private marketing agency?
5. Are there any other advantages from cooperative marketing besides marketing profits?
6. Explain why a cooperative marketing association would want to encourage its members to improve the quality of the product?
7. Name one way by which a cooperative marketing association assists its members in producing better quality.
8. Why can farm commodities command higher prices when sold in large lots?
9. Explain how private middlemen reduce the income of the farmer on a commodity when compared to a cooperative marketing agency.
10. Explain the main difference between the objectives of the private marketing agency and the cooperative marketing agency.
11. Compare the share of the consumer’s dollar by farmers in this country with that of Denmark.
12. Name one advantage in selling a farm commodity in large rather than in small lots.
13. Why are some so-called cooperative marketing associations merely price-bargaining organizations?
14. Explain why the consumer prefers to buy standardized or graded farm products.
15. Give an example showing that advertising is profitable for cooperative marketing organizations.
16. Explain why a large cooperative marketing association can return greater profits to its members than can a smaller association.
17. Name two non-financial benefits derived by the members of a cooperative marketing association.