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## Chapter 3. Cooperatives

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### U.S. Situation

The most complete data available on U.S. agricultural cooperatives are collected through an annual survey of marketing, farm supply and selected service cooperatives conducted by the Cooperative Service of RBS, USDA. Results of the most recent survey are summarized in Table 3-1.

<b>Major Business Activity</b>	<b>Number</b>		<b>Net Volume</b>		<b>Net Income</b>	
	<b>1997</b>	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>	<b>1998</b>
			<b>(\$ billion)</b>		<b>(\$ million)</b>	
<b>Marketing</b>	<b>1,943</b>	<b>1,863</b>	<b>77.8</b>	<b>76.7</b>	<b>1,313.3</b>	<b>1,017.5</b>
<b>Farm Supply</b>	<b>1,386</b>	<b>1,347</b>	<b>25.2</b>	<b>24.2</b>	<b>834.6</b>	<b>578.8</b>
<b>Related Service</b>	<b>464</b>	<b>441</b>	<b>3.6</b>	<b>3.5</b>	<b>166.5</b>	<b>146.0</b>
<b>TOTAL</b>	<b>3,793</b>	<b>3,651</b>	<b>106.7</b>	<b>104.4</b>	<b>2,314.4</b>	<b>1,742.3</b>

<sup>1</sup> Totals may not add due to rounding.  
Source: Farmer Cooperative Statistics, 1997, Rural Business - Cooperative Service, USDA, RBS Service Report 56, Washington, D.C., December, 1998 and preliminary release from Rural Business - Cooperative Service, USDA.

The number of cooperatives in the United States has continued to decline to a total of 3,651 in 1998, a net decrease of 142 associations. This is primarily due to ongoing consolidation and merger of local marketing and supply cooperatives in the Mid-west. However, there also were mergers of some very large regional cooperatives as well. The rate of decline increased over the past year. However, 55 cooperatives were added to the list in 1998. Total net business volume, which excludes intercooperative business, amounted to \$104 billion, down over \$2 billion from 1997. Total net income for 1998 was \$1.74 billion, down from \$2.3 billion in 1997 which is the lowest income level since 1993. Lower margins for farm supplies, poultry and sugar were major factors contributing to the decline.

Combined assets in 1998 for all cooperatives totaled \$46.5 billion, a 5.8 percent increase from 1997. Total liabilities of \$26.6 billion increased 4.5 percent from the previous year. Net worth totaled nearly \$20 billion, up nearly 7.6 percent.

The estimated number of full-time employees in U.S. cooperatives for 1998 totaled 173,782, up from 172,199 in 1997.

**New York State Situation**

Data for agricultural cooperatives headquartered in New York State were obtained from the Cooperative Service survey cited previously. State level data are collected every other year. The most current statistics available, are for 1995 and 1997. Table 3-2 summarizes cooperative numbers and business volume for New York State.

<b>Table 3-2. NEW YORK STATE AGRICULTURAL COOPERATIVE NUMBERS AND NET BUSINESS VOLUME BY MAJOR BUSINESS ACTIVITY, 1995 and 1997<sup>1</sup>.</b>					
<b>Major Business Activity</b>	<b>Number Headquartered in State</b>		<b>Net Volume</b>		<b>(\$ million)</b>
	<b>1995</b>	<b>1997</b>	<b>1995</b>	<b>1997</b>	
<b>Marketing:</b>					
Dairy	61	63	1,228.8		1,171.7
Fruit & Vegetable	10	9	293.0		285.8
Other Products <sup>2</sup>	7	7	81.2		353.5
<b>TOTAL MARKETING</b>	<b>78</b>	<b>79</b>	<b>1,603.0</b>		<b>1,811.0</b>
<b>Supply:</b>					
Crop Protectants			13.4		36.1
Feed			123.8		133.1
Fertilizer			24.1		55.3
Petroleum			143.2		244.9
Seed			7.6		23.3
Other Supplies			<u>136.0</u>		<u>139.2</u>
<b>TOTAL SUPPLY</b>	<b>12</b>	<b>11</b>	<b>448.3</b>		<b>631.9</b>
<b>Service<sup>3</sup></b>	<b>5</b>	<b>6</b>	<b>201.9</b>		<b>152.6</b>
<b>TOTAL</b>	<b>95</b>	<b>96</b>	<b>2,253.2</b>		<b>2,595.5</b>

**Source:** Farmer Cooperative Statistics, 1995, RBS Service Report 52, USDA, RB-CS, Washington, DC, November 1996 and 1998 preliminary release, USDA, RB-CS, Washington, DC.

<sup>1</sup> Totals may not add due to rounding.

<sup>2</sup> Includes wool, poultry, dry bean, grains, livestock, maple syrup, and miscellaneous.

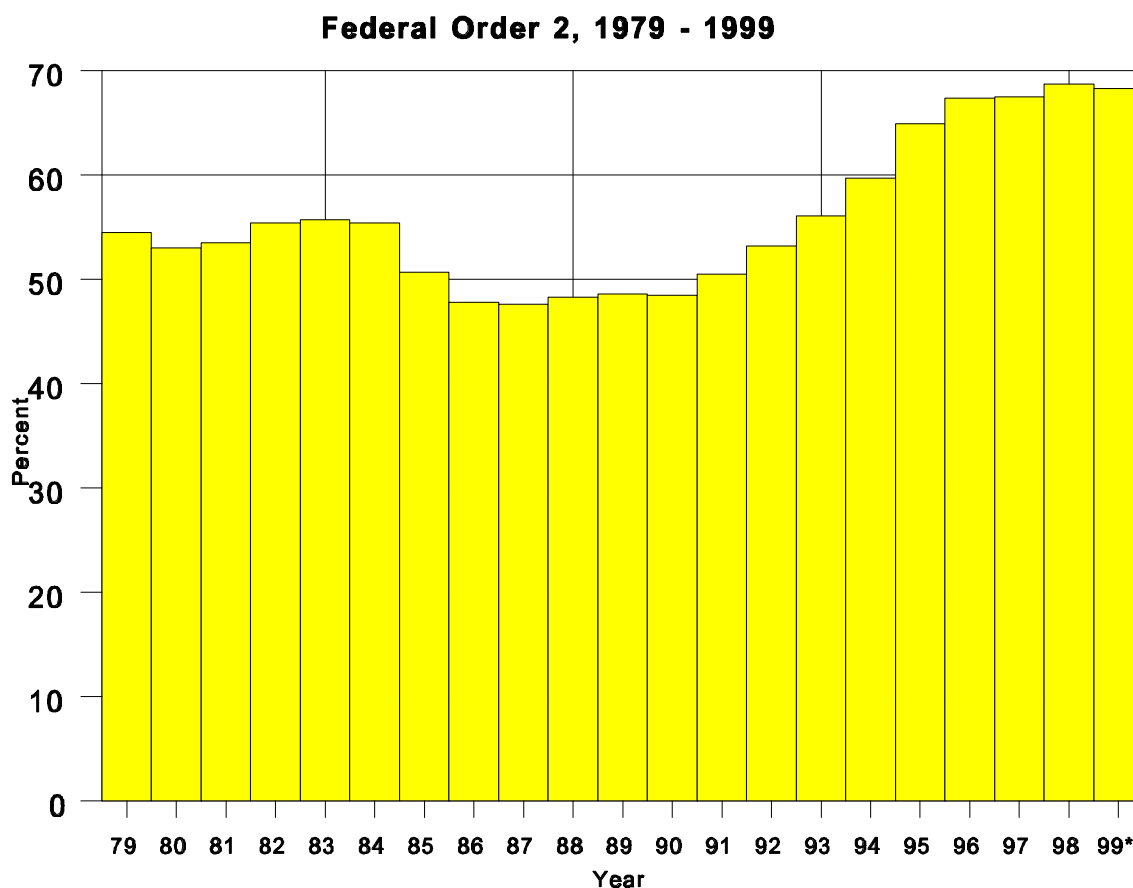
<sup>3</sup> Includes those cooperatives that provide services related to cooperative marketing and purchasing.

The number of agricultural cooperatives in New York State in 1997 showed a net increase of 1 cooperative from 1995 with an increase in dairy cooperatives and a decrease in the number of fruit and vegetable as well as supply cooperatives. Total net business volume increased by \$342 million, an increase of fifteen percent from 1995. Supply cooperative volume increased significantly by \$184 million while cooperative marketing volume increased by over \$208 million. Dairy and fruit & vegetable marketing cooperatives showed decreases in volume over the two year period. Total volume of other products marketed through cooperatives increased significantly. The increase for other products was primarily in manufactured products marketed through fruit and vegetable organizations as well as increases in livestock and maple syrup sales.

### New York Cooperative Performance

The major cooperatives operating in New York had mixed financial performance during 1999. Due to their significance in the state, we will start by examining dairy cooperatives=share of producer milk receipts, review important developments in all types of cooperatives, and finally look at some major factors likely to influence cooperatives in the coming year.

As indicated by Figure 3-1, the proportion of milk receipts handled by Milk Marketing Order 2 dairy cooperatives declined slightly in late 1998 and the first eight months of 1999. However, over two-thirds of all milk produced in Order 2 is marketed through dairy cooperatives. This is the next highest cooperative share since 1974, and 20 percentage points higher than a decade ago.



\* 1999 based on first eight months

Source: Market Administrator's Office, NY-NJ Federal Milk Marketing Order.

As predicted last year, the structure of dairy marketing cooperatives continues to experience significant consolidation. While unlike last year, there were no new major consolidations in the Northeast during 1999. However, Dairylea announced a joint procurement and marketing arrangement with Dairy Farmers of America (DFA). The strategic alliance is estimated to reduce assembly, sales and administrative costs. During 1999, DFA continued to be active in merging with other smaller dairy cooperatives around the U.S., and entering into supply arrangements and joint ventures with fluid processors.

Despite the significant fluctuations and relatively strong milk prices over the last year, the financial performance of northeast milk marketing cooperatives were mixed in 1999. In most cases, lower bottom line results were due to special circumstances. One cooperative had good results primarily due to its membership in another dairy processing cooperative that had an excellent year. Another organization was negatively impacted by falling cheese prices and an abundance of milk that challenged the capacity of their balancing operations. A third cooperative experienced a write-off of a large customer account. And a fourth organization continues restructuring after a recent merger.

Dairy related cooperatives generally experienced increased profitability, probably due to high milk prices. On April 1, 1999 the major artificial insemination cooperative merged with two other mid-western AI organizations in an effort to reduce overhead and spread fixed costs. While their international sales remained soft during the year, increased domestic sales more than compensated. The primary dairy herd improvement cooperative also reported increased profitability, after basically a break-even year. Even the major cooperative livestock marketing organization in the northeast, a subsidiary of a milk marketing cooperative, generated net earnings after several years of losses.

The major supply cooperative in the Northeast reported lower sales and marginal profitability in 1999. The poor performance was attributed to two major factors: a) poor performance in their retail store operations, and b) losses due to unauthorized trading in their grain division. The cooperative has announced a re-organization of their retail store operations which will result in the sale of local retail stores to franchisees. They also have revised their contractual arrangement with existing franchisees. These initiatives are expected to increase sales and the incentive for franchisees to do business with the organization.

The major vegetable and fruit processing cooperative reported increased sales, but flat net proceeds. The organization continued to out-source non-core business functions, and re-organize their internal structure after the acquisition of a major branded vegetable processor. The acquisition could increase the cooperatives sales by over 50 percent. Over the next few years, one should continue to see additional re-engineering efforts (selling non-core businesses, out-sourcing of secondary business functions, consolidation of general management functions, etc.).

The major grape cooperative in New York reported record sales volume, net sales and net proceeds to growers. Increased marketing efforts in terms of new product development, increased spending on advertising, and positive public reaction to health research concerning the consumption of grape juice. The 1999 grape harvest was the largest ever, quality was excellent and the prices have remained strong. Grape demand and prices will likely remain strong in 2000.

The farm credit cooperatives had good financial performance during the year. Strong milk prices were a major contributor to their results. Also, low grain prices have had a positive result on northeast farm credit cooperatives, since grains are used as an input, rather than as a major source of income for dairy farmers in the region.

### **Cooperative Outlook**

While, New York and northeast cooperatives had mixed results in 1999, most are financially very strong. In addition, they are pursuing consistent, and generally conservative strategies that will not unduly risk farmers=cooperative investments

One major factor that could have a negative impact is a significant drop in milk prices which could depress the dairy economy. This could depress the performance of credit, farm supply, artificial insemination, and dairy herd improvement organizations.

The weak global economy has had only a minor impact on Northeast cooperatives. As the economies of Southeast Asia, as well as Latin and South America improves the demand of U.S. agricultural products, specifically feed grains, could begin to increase, and in turn increase the price of inputs for the Northeast. Up to this point, weak international markets have had a positive impact on Northeast agriculture by reducing the cost of production inputs.

Fruit and vegetable marketing cooperatives could experience a significant growth in sales, earnings and returns to members in 2000. Between strong demand, improved economies of scale and increased marketing initiatives, there is the potential for a significant increase in their financial performance.