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GROWTH OF FARM CO-OPS -
THEIR IMPACT ON AGRIBUSINESS

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Cooperation 1177

GROWTH OF FARM CO-OPS - THEIR IMPACT ON AGRIBUSINESS

The recent growth of farm co-ops has sparked attention from all areas of agribusiness. Because of their newly recognized growth, many areas of co-ops are being looked at intensively.

The purpose of this paper is to identify what type of growth co-ops have made and relate this growth to their present and future impact on agribusiness.

The scope of this paper intends to focus on cooperative growth and its impact. It does not include explaining the history, areas of management, and other issues associated with cooperatives although this material was used as background for the paper.

Growth

To begin with, we first need to identify areas of growth that farmer cooperatives have experienced. We have to distinguish this growth among:

- (1) Market shares;
- (2) Numbers of co-ops; and
- (3) Sales.

Market Shares

As sectors of the nation's economy became increasingly concentrated in the hands of a few large firms, market shares become an increasingly important topic of conversation and often public concern. (Ingalsbe, 1977)

Ingalsbe pointed out in a recent article in Farmer Cooperatives the need to know the three distinctions about market shares:

- (1) The difference between a cooperative and a corporate market share;
- (2) Whether the figure being used is an aggregate share, involving many cooperatives, or a single-entity share, such as one centralized cooperative, and
- (3) At what stage of the marketing process the market share was cited.

Table 1 shows both the cooperative share which is a total for all cooperatives and also the number of co-ops involved in that market share. Many articles such as a February 7, 1977 Business Week article claim growth involving market shares to almost 1/3 of the total agribusiness market. Yet this is only a 4% increase in the first half of the 1970's which is not an alarming rate. I would like to note that many such articles only quote the marketing market share in the headlines and hardly mention the supply market share of only 18%.

Numbers of Co-ops

From Table 1 a decrease may be noted in numbers of farmer cooperatives. This is partly a result of mergers between farmer co-ops. I might add that there is a corresponding decrease in the numbers of farmers in the U. S. in the past few years. Therefore, a farmer's vote in some of the larger cooperatives resulting from a merger is similar to the smaller cooperative with more farmers as members.

Table 1. Farm level share of the market handled by farmer cooperatives,
major selected years:

Functional group and commodity	Cooperative Share of Market							
	1960-61		1964-65		1969-70		1974-75	
	No. of cooperatives handling and pct. of cash farm receipts							
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Product marketed								
Cotton & cotton products	561	22	581	25	554	26	494	26
Dairy products	1609	61	1346	65	971	73	631	75
Fruits and vegetables	697	21	592	25	499	27	436	25
Grain and soybeans	2661	38	2596	40	2539	32	2540	40
Livestock and livestock products	532	14	479	13	546	11	572	10
Poultry products	567	10	410	9	295	9	167	9
Other	<u>284</u>	<u>22</u>	<u>224</u>	<u>25</u>	<u>189</u>	<u>27</u>	<u>164</u>	<u>35</u>
Total	6548	23	6009	25	5415	26	4816	30
	No. of cooperatives handling & pct. of farm supply expenditures							
Farm supplies purchased								
Feed	4412	18	4363	18	4214	17	3744	18
Seed	3912	19	3962	21	4007	16	3553	16
Fertilizer & lime	4276	24	4409	30	4294	28	3865	30
Petroleum	2798	24	2773	26	2774	29	2624	35
Farm chemicals	3014	18	3329	16	3721	18	3328	29
Other supplies & equipment	<u>4558</u>	<u>7</u>	<u>4858</u>	<u>7</u>	<u>4856</u>	<u>7</u>	<u>4224</u>	<u>10</u>
Total	7016	15	6763	15	6209	15	5554	18

SOURCE: Farmer Cooperatives/February, 1977.

Probably the most publicized merger was the Far-Mar-Co merger with Farmland. There were several reasons for this merger involving capital acquisition for increased exporting by Far-Mar-Co but the main justification for the merger was a 96% overlap of member cooperatives. Even with the Far-Mar-Co merger, Farmland would only rank 75th in the list of nations 500 largest industrial corporations. Some 604 cooperatives owned Far-Mar-Co and 2,231 co-ops owned Farmland. (Ingalsbe, 1977)

Essentially, numbers of co-ops haven't changed or grown that rapidly when compared to changing situations around them such as growth and size of farm corporations, the increase in the size of farms, and the decrease in the number of farmers.

Sales

Sales of Farm Co-ops have grown from \$25 billion to \$57 billion in the first half of the 1970's (Business Week, Feb. 7, 1977). These figures can be misleading if not compared to the market share which only increased 3% in the same period (Table 1). The reason for the increase in dollar-value of sales resulted from a combination of inflation and more highly mechanized farming operations.

Impacts

The present impact on agribusiness has been more of a psychological impact on large corporations and private firms. They have suddenly taken notice of cooperatives as

a major form of agribusiness. The actual portion of the market that cooperatives have moved into isn't significantly larger but it is large enough to put them in the spotlight of agribusiness attention.

Articles claiming that cooperative expansion has forced independent farm supplies out of business in droves (Business Week, Feb. 7, 1977) seem to lack the statistical information to back this assertion up. Another article by Business Week states that before the growth of the co-op becomes uncontrollable and corporations are driven out of agribusiness, Congress should take a hard look at some of the privileges the farm co-ops enjoy. Contrary to this, Lee F. Schrader argues in a recent paper entitled "Cooperatives and the Tax Law," that the cooperative tax advantage is much smaller than indicated by critics, if indeed it is an advantage in that sense. This statement is backed up by numerous examples and citations in his paper.

As people and firms become better acquainted with the adaptability of the cooperative form of business enterprise to their needs, its use can be expected to spread. However, it need not and should not ever completely supplant other forms of business. The cooperative form of enterprise both complements and supplements the services performed by other forms of private business, thus giving our system even greater flexibility and strength.

By providing a self-help mechanism through which people and business firms can serve themselves according to their

needs, the cooperative can also democratize and decentralize parts of our economic life, provide pace-setting competition for other forms of business, and give the individual a sense of belonging. It can act as a balance wheel - or a safety valve - in our economy by providing an alternative type of business organization within the free-enterprise system that we value so highly. (Knapp, 1963)

Yet cooperatives are subjected to the same frailties and uncertainties of human behavior as should be expected from the officers and leaders charged with responsibility for business. (Peck, 1934)

I would like to point out that the future need for cooperatives rests upon the following:

Suppose that cooperatives and their private competitors continue to improve their operations over a period of several years and reach a very high level of efficiency where there are no significant differences in prices, service or quality. Many farmers reason that there is no further economic need for a cooperative because they have been told that there is no need for the co-op unless it can do a better job in terms of prices, service, or quality of supplies.

Yet this is only the visible need for a cooperative. The invisible need lies in the question of whether the noncooperative firms would do as good a job as they are doing if the cooperative were dissolved. If the answer is no, there definitely is an economic need for the cooperative (even if there is no difference in price, service, or quality of supplies between it and its competitors. (Roy)

Another factor affecting the life of cooperatives is based upon some founding principles of cooperatives. Peck wrote

interesting guidelines in the 1930's about a major responsibility of cooperatives. This responsibility is necessary for its existence. It goes:

If individual producers and group leaders in cooperative undertakings have an adequate understanding of their responsibilities and an adequate knowledge of the needs of their institutions and how these needs may best be met, then "producer-owned" and "producer controlled" becomes a very practical achievement as well as an important objective. (Peck, 1935)

A final area of concern is that of size. A recent article states that the small co-ops may still deserve special treatment, but the big organizations - especially the ones that are moving into manufacturing - should be treated like any other business (Business Week, Feb., 1977). I would like to use a quote from Harold F. Breimyer to elaborate on this.

"The economy has drifted into large scale organization. The foremost defense of Farmland/Far-Mar-Co is that it must compete with other giants, as Continental, Cargill, and Bunge. If giantism is to be accepted generally, there is little basis to object to it in cooperatives. And if bigness does not quite fit with our ideas about cooperatives, neither does it really fit with the dreams our forefathers had for the competitive make-up of the Nation's economy." (Breimyer, 1977)

Conclusion

Farmer cooperatives as a whole have grown in recent years but not to overwhelming extent many times publicized. And if individual cooperatives are any larger, so are nearly non-cooperative firms. Co-ops have grown enough to cause other forms of agribusiness to become concerned. Cooperatives' impacts upon agribusiness mostly relate to their increased competition and with their successful member - owner type of organization. But a basic reason for having cooperatives is to do just that -- to keep other kinds of business sufficiently concerned that they perform well in the market.

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