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Co-operation in buying

by LEONARD HARMAN

General Manager, United Co-operatives of Ontario, Canada

FARMERS engaged in the basic production of food or fibre in the seventies represent one integral part of an agribusiness¹ complex reaching back into the manufacturing of their production supplies and reaching forward through the processing and distribution of their raw product. For farmers to rage at other parts of the food industry not only is futile but even may weaken necessary links in the economic chain. To organise in small isolated local groups is only to nibble noisily at the farmers' problems.

In the total complex of agribusiness integration is growing rapidly. In many products and places the farmer still has considerable choice of whether he will control or be controlled beyond his own gateposts. In my home province of Ontario, wholesaling of fertilisers disappeared years ago. Retailing of 90 per cent of the product is integrated with basic manufacturing. The fertiliser firms that couldn't go basic made way for the multinational conglomerates by disposal of their business, either voluntarily or through bankruptcy.

Our United Co-operatives of Ontario was able to "go basic" by alliance with similar regional co-operatives in the United States. Multiplying our Ontario volume by thirty we engage in continental mass buying, in planned transportation and in a number of projects of highly technical manufacturing, even mining much of the raw materials. The big instrument the farmers of North America own for this particular purpose is called CF Industries Limited and employs assets of 130 million dollars.

The same thing happened to feed. Fortunately most regional co-operatives in US and Canada started manufacturing feed under their own brands about 30 years ago. Wholesaling disappeared and manufacturing and retailing integrated in one programme. The regional co-operative programme and three other big brands handle 80 per cent of the volume while smaller businesses handle the other 20 per cent. UCO joins with the other regional co-operatives of Canada to buy animal health products; and joins with the other regionals of US and Canada to operate a chain of modern test farms on co-op feed.

With fifty million dollars of assets and a hundred million dollars of volume, UCO is not big enough to go it alone. To operate one of the leading feed businesses without joint action with other regionals

would be more difficult and less successful; to do so in fertiliser would be virtually impossible. Yet how can you imagine a leading farm supply business without a major programme in fertiliser? In spite of an extreme squeeze on gross margins during the past two years, UCO has been able to provide for local bulk blenders and warehouses as a leading "nearby" service to farmers and to increase volume more rapidly than competitors.

Another indication of the need for size is that 2 years ago with ten million gallons of petroleum distribution a year, UCO was nearer the practicability of owning a refinery of that day than it is to owning a 1971 size refinery, even though we now have seventy million gallons volume. Many of UCO's competitors and many of UCO's major suppliers (sometimes they are both suppliers and competitors) are ten times as large as UCO in Canada and hundred times as large multinationally.

A region may be a large province or a country or small geographical size. The regional co-operative will need to collaborate on a continental or international scale. Yesterday's competitor in the local family mill or store either has disappeared or become some subsidiary label of a multinational conglomerate, of which it now is a franchised adjunct. The effective competitors of the co-operatives are multinational conglomerates. The staff and facilities and finances and services of the co-operative at least will need to compare favourably with those of its major competitors.

To have a desirable impact on distribution of a major product in a region a co-operative needs to handle at least 10 or 20 or 30 per cent of the volume. While diversification of products and programmes brings wider problems of administration, it can bring strength in building a number of programmes at once. And it can protect the organisation.

1. The word "agribusiness" is used in its original connotation as first used publicly by John I. Davis in 1955, and developed in the book, *Concept of Agribusiness*, published by Harvard University in 1957. "Agribusiness means the sum total of all operations involved in the manufacture and distribution of farm supplies; production operations on the farm; and the storage, processing, and distribution of farm commodities and items made from them".

tion against a share of inevitable and irreducible losses which strike on certain projects, products and periods.

In Ontario during the forties, the regional organised a hundred new local co-ops, largely out of the discussion groups of Farm Radio Forum. Each of these was to be served by the regional wholesaler but was developed with extensive local initiative and independence. The regional was re-organised as a federation of the locals.

Soon some of the weaker locals were on the doorstep of the regional for more assistance with management and financing. A few of the stronger ones exhibited marked tendencies to separatism and all of the retail units needed more and more regional planning and leadership on product programmes, personnel, finance and general administration.

In 1950 some of us changed our views and embarked on a programme of providing and supervising retail management until there were management agreements with 65 locals by 1963.

It then became apparent that the needs of financial reorganisation, the phasing up of some retail facilities, the phasing down of others, could not be carried out with a hundred corporations. In the past five years 60 local co-operatives have reorganised by merging with UCO as direct membership branches. Twenty still have charters but use management agreement and in 30 the boards hire the local manager.

It is expected that in the next five years another 40 will merge leaving 10 or so including some of the largest and strongest with local charters and managers hired by local boards.

Evidence is growing that more integration or co-ordination is required in each regional. The co-operatives cannot do a strong job with a hundred people at a hundred local points deciding where and when the fertiliser or fence will be purchased or where or when carloads of grain will be shipped.

Wholesaling, in its form of 50 years ago, or 30 years ago, has been replaced by mass buying and regional procurement and product programming. It sometimes appears that many people in co-operatives are among the last to recognise this obvious trend. When co-operators abolish the local corporate lines they enter new opportunities for planning the economic and efficient service of the region.

There are many places in the world where new local co-operative services should be established. But there is an urgent need, in both developed and developing countries, for reorganisation and co-ordination of existing co-operatives.

What does the farmer want from his supply co-operative?

1. The farmer wants availability of supplies best suited to his needs. To service highly seasonal functions, timing and location are of the es-

sence. The cost of meeting these objectives must be covered by whoever may own the distribution business.

2. As farmers operate on a larger and more specialised scale they transfer their concern from price to value. The issue no longer is the number of dollars for a ton of feed or fertiliser; but what will a hundred dollars worth produce in pounds of meat gained or units grown per acre?
3. The farmer wants service. Together he and other farmers can keep a bulk feed truck busy, mechanically loading at the mill and unloading at the farm into limited storage at the farmer's mechanised feeding equipment. He may want to rent a spreader to apply fertiliser or pesticide, or he may want to pay his supplier for doing it. He wants a prescription of fertiliser suited to his land and crop and a prescription of a remedy for his ailing poultry or hogs.
4. The farmer wants related supplies in a programme. He wants fertiliser and weedicide to use with hybrid seed corn from the same supplier. He wants chicks and feed and medicants and poultry house equipment that fit in a programme. He wants a one-stop-drop for varied hardware supplies and parts for some of his equipment.
5. The farmer wants a market for the particular kind of product at the time it will be ready; or he wants to produce for a known market. The co-operative unit which provides his growers' supplies may need an elevator to receive his cash grain. Certainly the feed mill will need to be associated with a processing plant for broilers and turkeys or the co-operative can forget feed for these purposes. If the feed co-operative hasn't a grading station for eggs it will need an alliance with one or more unless it is reconciled to a declining proportion of layer feed.
6. The farmer wants supplementary financing for his supplies and, perhaps, even some for equipment and buildings. The productive expanding farmer, particularly the younger one, rarely can have the solid foundation of equity or ownership that would be desirable. Beyond this base most regions lack a system of supplementary farm credit realistic in the face of larger units, greater specialisation, and inflation. The farm supply business becomes a necessary source of a significant proportion of the financing: so providing funds, granting credit, and collecting accounts become important determinants of who really is in the business.
7. The farmer wants a sharing of risks. The stakes are high and he cannot afford being wiped out

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by a sudden blow from market price, weather, or infestation. Starting with vegetables, broilers, turkeys, layers and hogs, more and more farmers want contracts where their efforts and their management can yield rewards but where the supplier shares earning or loss. When this reaches the ultimate stage we have lost the enterprising operator of his own farm business and replaced him with a labourer paid for his day's work and perhaps for use of some facilities. Farmer-owned co-operatives can help provide a defence against that trend.

Since, on some products at least, a degree of marketing farm products becomes integrated with distribution of farm supplies, something should be said about overall commodity marketing plans. Confusion should be eliminated by realising that marketing plans and marketing co-operatives are not alternatives to each other. Overall marketing plans are needed either by organisations of producers with special powers granted by governments, as is the case with our Ontario Hog Producers; or as creatures of government of which our Canadian Wheat Board is an example. While emphasising the importance of such agencies operating on the whole industry, we must not neglect the even more basic requirement of enterprises operating in the industry, actually handling the product. The greater proportion of this function that is provided effectively by farmer-owned business, the better. But marketing boards frequently elicit over-expectations. Some weaken the industry by over-pricing or creating unnecessary costs by unsound forms of production control. Or they fail to encourage (or they even discourage) enterprising business in the processing, merchandising and supply segments under ownership of either patrons or investors.

Co-operatives should recognise the importance of a general direct membership occupational organisation aimed at influencing public policy and public opinion affecting farmers. Co-operatives, commodity groups and general farm organisations should inform, encourage and assist each other. But even if composed largely of the same people, in most cases these should be separate organisations with separate objectives and functions.

In areas of extremely high specialisation of production, such as the cranberry bogs, it may be desirable for the co-operative to concentrate on the processing and marketing of one product. In a region like Ontario we have very diverse farm production. The major growth of UCO and its associated locals has been in a wide range of farm supplies.

Because UCO has been established in marketing some farm products for many years, programmes on these continue actively. There is marketing of dairy products through a separate organisation of dairy producers, adding to its merchandising programme

an increasing range of specialty foods. There is the selling of 40 million dollars worth of cattle a year. There is marketing half the cash grain in Ontario through elevators associated in location and management with the co-operative units in farm supplies. There is the operation of a large modern poultry processing plant. Board and management of UCO have not found it confusing to operate this variety of functions.

UCO has stepped up its adding of consumer goods to farm supplies. Half of UCO petroleum volume is furnace fuel for farmers and others, including several retail units right in the cities. We are increasing the volume of household hardware and of lawn and garden supplies. Instead of easing out of the eight grocery stores acquired through the mergers, we are pressing further into the grocery field. Already this year a large new retail branch grocery store has been opened by UCO, supported by much local initiative mainly from active labour unionists in a strongly industrial city. While Ontario will continue for some years to be the largest province in producing agricultural supplies, rapid urbanisation in many areas cannot be ignored.

For 20 years UCO, along with farm and city groups, has been a major sponsor of a co-operative insurance company which now leads in volume and value of automobile and some other kinds of insurance.

In many countries co-operatives will soon conclude that limited finances represents one of their greatest handicaps. Particularly will this relate to building the third of the balance sheet which should be in long-term "equity" or "ownership" risk capital. The well operated regional with adequate cash flow budgeting and sound relationships with lending sources should be able to secure two dollars of debt for each dollar of equity.

First, there are values in having many members and friends of the co-operative place some of their savings in long-term debentures or bonds. There is a place for mortgages, as there is for planned bank borrowings. One place co-operatives should be getting more funds is in payables to manufacturers. Since manufacturing tends to be a larger field of generating funds than does distribution, and since so much credit is being required for distribution of farm supplies, terms on some payables by distributors to manufacturers should be three times as long as they are at present.

Many co-operatives are building greater shock-absorbers of general reserves even if comparable amounts from earnings must go in corporation income taxes. Co-operatives need some considerable proportion of free money such as gives much strength to many of their competitors. Plans for widespread raising of significant amounts of shares wherever these have succeeded should be publicised widely among co-operative leaders everywhere.

In marketing co-operatives, a small "retain" or "cess" from the settlement for the product has built the foundation for many a fine balance sheet. Twenty-five years ago some of us became oversold on deferring patronage returns into a revolving plan. This worked well for a time but has more past than future.

We have moved generally from a type of business that had potential of high percentage of gross earnings and a high percentage of net earnings: now most business has a high volume and low unit net. When rates of patronage returns could be five per cent that was very different from the one per cent possible on many present operations. Many co-operatives which do not have high rates of net from basic manufacturing are likely to move away from the patronage returns system or at least modify and reduce its use.

Fran Wilcox, former general manager of Sunkist, that unique citrus marketing co-operative in California, used to say there were two possible losses their organisation would be least able to survive. The first would be their management team and the second their brand name.

Most local co-operatives quite fail to produce adequate management succession. In a well administered regional the general manager, approaching retirement, will have one or more "lieutenants" he can recommend confidentially to the board as successor. The senior management group will bring a variety of talents and experience to balance the various major aspects of business administration. Various seminars and other sources of information will emphasise for managers of co-operatives fundamental principles and practices that are inescapable in modern business, whatever the ownership.

It is important that full-time employed management be given responsibility and support to manage. If management is not sufficiently strong and firm, the vacuum created will invite invasion of necessary management prerogatives by directors and others. This problem will become most apparent in periods when management faces the greatest difficulties, frequently from unavoidable industry conditions.

In the earlier small local co-operative, the board might find a great deal of interest in whether the

co-operative should buy a yellow truck or a blue truck, and perhaps a committee of the board would participate in the actual purchase. Now all the trucks are green and are bought according to specifications provided by staff experiences in such matters. The capital expenditure for the truck is part of a larger budget submitted to the board by management annually.

At the merged branches in Ontario the local co-operative board is replaced by an elected local co-operative Council. While not having the legal authority of a board, the council may have more real influence than had many local boards, particularly those where the co-operative was drifting or where finances for development were entirely unavailable.

Many regional co-operatives are able to attract to voluntary service on their boards able, successful, leading farmers who represent the patrons most faithfully. There is great need to keep bringing forward leading local directors or councillors for the regional boards. The boards need men of age sixty bringing forward others of age forty as their successors. Delegates should beware of candidates with special axes or knives to grind. While recognising the difficulties of busy, active farmers devoting the time necessary to a regional board, one of the poorest qualifications for a director is that he hasn't anything else to do.

The regional directors and the local councillors can provide unique service in the fields of member information. Management should not load this activity entirely on the elected representatives; for staff and budget should be available for active programmes of the participation of the member-patrons which make the co-operatives uniquely unlike business under investor ownership.

The voluntary democracy of co-operatives can be a constructive force in any region. We must remember that this is not the Athenian Forum or Runnymede or a New England Town meeting. It is large scale people's business in the 1970's. We co-operators are responsible for complex operations in a highly competitive environment requiring able and tough leadership focused directly on building the co-operative business.

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CO-OPERATION IN BUYING

DISCUSSION SUMMARY

1. The point was made in discussion that, as co-operative supply societies expanded and integrated into the manufacture of requisites and forward into marketing, in an effort to match the business efficiency of their competitors in the private sector, the dividing line between co-operative and other businesses became less clearly defined. There would appear to be little essential differences between dealing with large scale co-operatives and private firms, when each had the same profit and maximisation objectives.

2. If it was essential that co-operative supply societies must develop into massive business concerns, where individual member involvement was reduced to the point of insignificance, it was likely that farmers would eventually seek to achieve positions of influence by forming groups to formulate buying policies aimed at securing the best possible terms from the big suppliers, including the big co-operatives.

3. This had happened in the UK, where in spite

of the amalgamation of a number of co-operative requisite societies, to form efficient business concerns, buying groups had proliferated, because farmers could see advantages for themselves at the farm level. These groups had federated themselves into a national organisation.

4. Mr. Harman stated that though buying groups were a recurring phenomenon in Ontario, they were not recurring as frequently as previously. That, attributed to the maintenance of a high degree of customer concern which was a feature of UCO.

5. He further stated that UCO would not be prepared to deal with small producer groups. Member interest was also maintained by the democratic representation of members in the society from the local council to the board of directors, to which high quality management was answerable.

6. To questions regarding the acquisition of capital, Mr Harman stated that in this respect UCO experienced no different handicap compared with other commercial bodies. To a question regarding the nature of credit facilities that the UCO made available to members, the reply was that they were principally concerned with the provision of short term and seasonal credit.

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