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# Agricultural Co-operation in Wales

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BY

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# THE AGRICULTURAL MOVEMENT IN WALES

BY

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## I. HISTORICAL INTRODUCTION

It is significant that the agricultural co-operative movement in the British Isles began to take definite shape after the close of the nineteenth century, when economic hopes and efforts were beginning to rise after the depression of the early nineties. The crisis in cereal production had been almost world-wide. Changes in the trade and in the prices of meat and livestock produce had occurred, and further changes were threatened. But not only were products of farms changing and their prices uncertain, new methods in production were being introduced. New materials were becoming available, and British farming was changing from the conditions of a mainly self-supporting economy to conditions more approaching those of a manufacturing industry. The growth of the co-operative movement is an indication of the way in which changed conditions produce new business methods. Farmers were then being faced with increasing foreign competition, not merely in supplying this country with cereals, but also meat and animal foodstuffs generally. They looked, as they are still looking, for a partial solution of difficulties to the improvement of markets on the one hand, and to the reduction of costs on the other. Reason, and possibly instinct, seemed to show that the attainment of both these objects involved the supplanting of individual by collective action in the matter of purchase and sale.

The farmers of Wales had never been so dependent upon the

cereal markets as those of some parts of England. Nevertheless, they felt the effects of changes in these markets. Whereas they had previously grown a large part, probably most, of the cereal foods consumed by their families and their livestock, during the years round the change of the centuries they began to find that their needs could be supplied in other ways. As their chief interests were in livestock and their products, Welsh farmers were naturally interested in the methods adopted by their competitors, especially of the neighbouring country of Ireland, whence they received their most potent ideas in trading organisation.

In 1901 the work of creating the collective point of view was undertaken in England and Wales by the A.O.S., which, for about twenty years, generally directed and fostered the movement by propaganda and advisory work. Experience taught the Society that conditions over different parts of the country were so varied that a certain amount of decentralisation was advisable. This departure, as far as the Principality was concerned, resulted in a North Wales branch being formed in 1910, followed by a South Wales branch in 1914. This arrangement continued until 1919, when a Welsh Provincial Council took over the work in Wales, subject to the general control of the A.O.S. Council. In 1922, when, for financial reasons, the A.O.S. had to curtail its activity, Wales decided to form an Agricultural Organisation Society of its own. For about five years this Organisation has done valuable service to the movement in Wales. Another central organisation—Stapleton-Cotton House—was established in 1919 to carry on propaganda and advisory work in North Wales. It also provided some accounting and trading services. The W.A.O.S. and Stapleton-Cotton House worked in close relations with each other, but each has now been forced to reduce its activities. The two central organisations for propaganda and advisory work have both suffered from the financial and moral effect of failures

of trading societies which were not due to their negligence or to defects in their policies. They have also suffered because only the better-established societies, which need least assistance, have been able to maintain their financial position since about 1920. The weakening societies, needing most assistance, were least able to support the central organisations. And while a number of existing societies were weakening, sometimes failing and disappearing, there could be little opportunity of general and useful propaganda. Some of the established societies have contributed in generous measures to these central organisations, but others in their days of security were inclined to forget the days of their struggles.<sup>1</sup>

The ready response which Wales made to early efforts in agricultural organisation can be attributed largely to the topographical and economic features of the country. Wales is mainly a hilly country, not too well supplied with good road and rail transport. Consequently there was ample room for the organisation of collective purchase of requisites in districts remote from centres of distribution so that freight costs could be reduced. On the other hand, distributors in many isolated areas had partial monopolies which farmers were anxious to challenge. New raw materials, such as concentrated foodstuffs and fertilisers, and the greater use of purchased seeds, brought new trading conditions. There was need for securing honesty as well as economy in the purchase of materials whose qualities could not always be judged by the senses. Where individual farmers, and often farming communities, were living isolated from the sources of cheap and reliable information there was ample opportunity for the practices of the less reputable traders in new goods, and need of protection

<sup>1</sup> Arrangements have been made between the W.A.O.S. and the University College, Aberystwyth, whereby the trading and financial advisory work hitherto done by the Society may be carried on by the Agricultural Economics Department of University College.

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even from honest traders who had comparatively little experience of the goods they handled. And whatever else the co-operative trading in requisites may have done, it has brought a high standard of honesty and service into this class of trade.

The same conditions of transport and communication, together with the fact that consuming centres were either concentrated in one or two parts of the Principality or in industrial England, produced an acute marketing problem, for the solution of which farmers looked to co-operation. There was also another aspect of the economy of Welsh farming which theoretically at least provided a fruitful field for collective effort. At the close of the nineteenth century, to a larger extent than even today, a store stock-raising system was practised in Wales, with the result that income was largely concentrated into two seasons of the year. Thus the need for credit was often serious and the co-operative movement might have provided this additional service.

But, looking at actual developments, the movement has been fairly conservative in scope, and little has been done in some of the most important fields of co-operative activity. As elsewhere in Great Britain, the organisation of joint purchase has been the easiest and most successful form of business. By 1903 about sixteen requisite societies, with a turnover of nearly £16,000 a year, were trading in the Principality, and by the beginning of the war there were nearly seventy societies doing a trade of about £400,000. The abnormal conditions produced by the war proved a boon to these societies, since farmers often found difficulty in securing their requirements and turned to co-operation for better service on more favourable terms. Consequently, from 1914 to 1919 there was a substantial increase in the number of societies, in membership and turnover. Prices were, of course, inflated, but trading was an easy matter when supplies were obtainable, with the result that most societies were able to build up

substantial reserves during this period, and at the same time extend their area of operation. After the peak of prices and prosperity in 1920, some requisite societies suffered losses in the post-war slump, but failures in this branch have been few, and the majority are now in a fairly healthy position.

Practically from their inception some of the requisite societies undertook the marketing of farm produce. At one time or other several have undertaken the selling of eggs or butter, or both, on behalf of their members. Other societies in response to local requirements sold grain, dairy produce and wool.

A few societies, on the other hand, were formed with the express purpose of marketing produce for members. These were chiefly concerned with the disposal of eggs, the manufacture and sale of dairy products, and one or two societies entered the meat trade as wholesalers or as bacon curers. In common with other areas, Wales has its records of failures in this sphere of co-operative organisation. There is now only one produce society which has been trading without interruption since pre-war days, whereas a number of societies for the manufacture and marketing of produce have gone out of business within the last two or three years. Some such societies have unfortunately been of great disservice in that disastrous failures have at times tried the faith of farmers in the movement and entailed agriculturists in heavy financial burdens. Past experience invites the conclusion that the co-operative sale of produce cannot be conducted successfully without a changed attitude on the part of suppliers, and the accumulation of more technical knowledge and better market intelligence on the part of co-operative managers.

Wherever finished commodities leave the farms, as where live-stock is fattened or products like butter or cheese are made, there is ample room for the development of co-operative organisation for marketing, manipulation or treatment of products and

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wholesale distribution. Also, where products like raw milk have to leave farms there are opportunities for co-operative organisation of manufacture and marketing of products. But over large areas of the Principality the chief output of the farms is store stock, which is not finished in the same area or, frequently, even within the country. Trade is of an intermediate character between a producer of one stage and the producer of another. Marketing must proceed on simple lines, and here the private dealer is deeply entrenched. The functions, even the characters, of the stock dealers of Wales are deeply embedded in the traditions of the country, and farmers cling closely to their known methods of business. They often grumble at the dealer's prices, but they enjoy his visit. And they would need clear proof of efficiency before they entrusted the selling of their livestock to any collective agency.

There have been several minor developments of an interesting character in Wales. In the more industrial areas several societies can claim a good record of service in renting land from county councils and subletting this to their members. Several small-holding societies in Glamorgan and Monmouth have been functioning for years and have gained for themselves good reputations as lessors of land. Moreover, a large number of allotment societies were successfully organised during the war. In connection with two or three of the small-holding societies co-operative credit was taken up, but little has been done generally in this connection, although the demand for credit accommodation has been insistent. In the past little has been done in undertaking the allied work of arranging agricultural insurance, though doubtless there has been room for expansion in this direction. A few societies have interested themselves in developing small rural industries, but their history has not been very encouraging. A small number of societies have greatly improved local marketing conditions for livestock by operating auction marts.



Wales can claim what may now be regarded as the doubtful honour of having started a scheme of centralised purchase of requisites for societies. The Farmers' Central Trading Board—later absorbed by the A.W.S.—was the outcome of meetings of managers of South-West Wales societies, which used to be held at Whitland, Carmarthenshire. For a short time prior to the formation of the A.W.S. there was a scheme in operation in Anglesey to sell farm produce on similar lines, but the experiment proved impracticable. It is extremely unfortunate that centralised trading, so sound in principle, should have proved so disastrous in practice. The recent failure of the A.W.S., involving a number of Welsh societies in heavy financial liabilities, has produced among them definite antipathy towards schemes of joint action.

## 2. PRESENT SCOPE OF THE MOVEMENT

Agricultural co-operation is well represented in all parts of the Principality, although there is a greater concentration in some parts than others. Relatively, there are fewer societies in the border counties, and in general the English-speaking parts of the Principality contain a smaller number of societies than the more purely Welsh districts. The number of registered societies is about equal in North and South Wales, but probably about 70 per cent. of the total trade is done in South Wales. At present there are about ninety registered societies, with a turnover of just over a million pounds per annum. The membership of the movement is probably in the neighbourhood of 20,000, which represents over a third of the total number of farmers and allotment holders in Wales. The big bulk of this trade is concerned with supplying farmers with agricultural and household requisites, and between 90 and 95 per cent. of the trade of the movement is in the hands of societies chiefly concerned with supplying requisites. While

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there are three societies marketing farm produce entirely, and a small number which manufacture cheese, there are several requisite societies which also sell produce for members. It is difficult to state exactly how much local farm produce is handled by the requisite societies. Most of the corn in Wales is grown for consumption on the farm, and the total supply is not equal to requirements. When corn is sold by one farmer it is most generally bought by another, even though it passes through the books or premises of an intermediary. A number of societies trading in feeding stuffs buy some of their cereal supplies in their own localities, or sell produce for members on agency terms. These sales do not necessarily, even perhaps generally, appear in accounts or returns as sales of farm produce. There are possibilities of increasing this local trading and of more inter-trading between societies in districts having supplies for "local export" and those in "consuming" districts. But at present the sale of produce would account for no more than one-sixth of the total business of the movement.

Although the marketing of produce forms such a small fraction of the total business of societies, it is a matter which deserves attention both on account of its possibilities in the future and its problems in the present. In various districts much attention is now being directed to the existing systems of marketing animal products such as wool, eggs and dairy produce in the form of milk, butter and cheese. Eggs and butter, and in some districts corn, have been dealt with by marketing and general purpose societies for a number of years, so that considerable experience has already been gained. While societies have done a real service in providing their members with a market alternative to that of the travelling higgler or local merchant, they have by no means solved the problem. The experience of all societies trading in produce focuses attention on the very difficult matter of obtaining

regular supplies. Complaints are made, with the appearance of justice, that farmers are extremely disloyal and will patronise the society during glut seasons, while selling to competitors for a small-price advantage in times of scarcity. This problem, which emphasises the intimate connection between the conditions of production and marketing, is an extremely difficult one, and may only be solved by the introduction of a contract system. But, in view of recent developments among foreign competitors, it appears that marketing societies must change their methods considerably if they are to give the type of service which is in demand today. As yet, societies have contributed little to the elevation of the standard of produce. It is true that in the case of eggs some societies are collecting, testing and grading, and have attempted to pay for supplies on a quality basis. But these practices have been experimental, and the difficulty which some societies have experienced recently in finding a suitable market may be largely attributable to the inferior quality of the produce. This also applies to the sale of butter in the Principality, though one society is placing a uniform product on the market by blending all supplies in its own factory. While present conditions of production prevail and alternative methods of selling are available to producers, it is difficult for any one society to do pioneer work in this direction. But co-operative societies can legitimately be called upon to help in meeting the very keen "quality" competition now set up by overseas produce.

In the manufacture and sale of dairy produce, there are still a few societies in North Wales which have survived the post-war wreckage. These societies, which were the outcome of the Cheese Schools campaign, have been very badly hit by the prolonged disparity between the price of liquid and converted milk. Their immediate problem is rather different from that of general marketing societies in that the general price has been low and,

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in so far as cheese prices may recover, is only of a temporary character. But, assuming that general price improves, the main requirements of assuring regular supplies, good and standard quality products, and reliable markets will always require attention.

As has been mentioned above, the bulk of the trade of co-operative societies in Wales is concerned with the supply of agricultural requisites, and in this the movement has rendered genuine service to agriculture. There is great variation in the aims and achievements of individual societies. The majority are small concerns, although there are a few with a large turnover and a number of depots covering a wide area. The records of forty requisite societies in South Wales give some indication of size distribution.

<i>Turnover.</i>	<i>Number of Societies.</i>
Below £10,000	21
£10,000—£20,000	7
£20,000—£30,000	7
£30,000—£50,000	3
Over £50,000	2
	—
	Total 40

But a size classification gives an inadequate guide to the real scope of co-operative activity. In Group I. are included societies doing merely a truck-load business, and also societies with central stores, and one or more depots. The majority of societies with a trade above £10,000 have one or more depots, and some have an organised transport service in addition.

The truck-load societies are survivals of the earliest essays in joint purchase whereby farmers bought collectively as occasion demanded in order to secure favourable freight rates. The trading of these societies is rather spasmodic. They work on narrow margins with little capital, no storage accommodation, and the

part-time labour of a secretary-manager. Most of these societies have worked on such limited lines that members have enjoyed little of the real benefits of co-operation. The result is that they do not look for much expansion, but keep the organisations in existence as a bulwark against possible aggression on the part of general distributors.

The remaining storage societies are in various stages of development, and do not lend themselves to simple classification. But they can be segregated more or less on the lines of possible development in the future. On the one hand, there are societies which cannot easily expand territorially without becoming unwieldy. On the other hand, there are societies which could with advantage extend operations into districts not now served by them.

Both types have opportunities in common: they can work their existing areas more intensively, and provide their customers with better service. More than one of the larger societies are beginning to feel that the economic limit of territorial expansion has been reached, and that future policy should be directed to working the existing area more thoroughly and to the delivery of goods. Owing to the prevalence of trade with non-members, it is extremely difficult to estimate the extent to which members purchase from their societies. There are, however, extreme variations in this respect, and some societies only sell to the extent of £20 per member, whereas others sell up to £100. Assuming the average sales per regular customer to be £50 per year, it is evident that most societies have a long way to go before they can be regarded as the farmers' principal source of supply. There are, however, many varying local conditions as to size of farms, qualities of land, and kinds and numbers of livestock; and the average sales to members or customers necessarily vary to some extent with these conditions. Whereas most kinds of farm

requisites are now supplied—and in many cases household necessities also—societies are still deprived of supplying one class of goods. The agricultural implement “ring” adheres to its refusal to give agency terms to Welsh societies, and there is a growing demand on the part of co-operatives for this ban to be removed so that all farm requirements can be supplied.

Competition in the supply of farm requisites is today keener than ever, and societies will be forced to meet the situation by adopting new methods. In the past, partly owing to policy, but largely because of limitation of staff, co-operative societies have done very little canvassing. Competitors now take every opportunity of pushing their goods by meeting farmers at home or in the market. It would seem that societies will have to follow suit and take every possible step to keep the farmers informed of the merits of their goods and of the advantages of trading with their own organisations. It is also probable that benefits could be derived from paying more attention to advertisement, shop display and salesmanship.

These departures may become imperative because other developments in the requisite trade are foreshadowed. To an increasing extent farmers are demanding that goods should be delivered, and competitors of the co-operative movement are meeting the request. As yet only about a dozen societies in Wales are delivering goods by their own lorries, though a larger number as occasion arises hire transport for this purpose. With the increase in motor traffic and the making of roads unfit for horses, the demand for farm delivery will become more insistent, and if trade is to be maintained societies must organise delivery services. Considerable modifications will be necessary in existing methods of retaining touch with customers when the delivery of goods becomes general. Visits by customers or their representatives to co-operative depots will become less numerous. Representatives of

societies will then have to visit farmers and markets in order to solicit orders and maintain personal contacts with members. More outdoor work will become necessary, and this may entail considerable changes in methods of internal management. It is also possible that unless motor transport can be hired at favourable rates the general extension of delivery service will in time have some influence on the average size of societies in the Principality. Even with the amount of service rendered at present, many of the societies are too small to be a real force in the requisite trade, and would certainly be uneconomical if delivery became essential. Societies with a turnover of about £10,000 and less would then have to consider seriously the possibilities of amalgamation or expansion, so that the overhead expenses of delivery might be reduced as much as possible.

### 3. BUSINESS ANALYSIS OF SOUTH WALES REQUISITE SOCIETIES

An analysis of financial accounts, supplemented by personal inquiry, has made possible a fairly close study of a number of requisite societies in South Wales. So that results may be fairly comparable, the study is confined to thirty-one storage societies who do a regular business. Most of the societies are small, twelve of them with a turnover below £10,000, seven with £10,000 to £20,000, seven with £20,000 to £30,000, and there are five with a turnover above £30,000 per annum. These variations in size should be borne in mind when group averages are being discussed.

Despite the lower prices and industrial troubles of 1926, few societies suffered losses, although they all suffered a reduction in turnover as measured in terms of cash, and had to be content with smaller profits. In the following table societies are grouped

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according to their trading results for 1926. The items are shown as percentages of sales.

### I. CONDITION OF SOCIETIES, GROUPED ACCORDING TO PROFIT AND LOSS.<sup>1</sup>

<i>Profit or Loss.</i>	<i>Number of Societies.</i>	<i>Average Sales per Society.</i>	<i>Trade Expenses.</i>	<i>Trade Margin.</i>	<i>Profit or Loss.</i>
<i>Per Cent. of Sales.</i>			<i>Per Cent. of Sales.</i>		
Profit:					
2 per cent. or over	7	£37,011	6.5	9.6	+3.1
2 to 1 per cent. . .	6	24,610	7.04	8.7	+1.66
Under 1 per cent.	12	19,194	6.6	6.9	+0.3
Loss . . . . .	6	14,151	10.3	6.3	-4.0

In the determination of profit and loss there are so many complex factors that it is difficult to isolate any one as exercising the

#### <sup>1</sup> Definitions of terms used:

1. *Management Expenses*.—These include salaries and wages, rents, rates and taxes, office expenses, motor charges, etc.—in short, all costs except financial charges, depreciation and bad debts. This broad classification is used because it is that of Form of Return A.R. 17 compiled by these Societies.

2. *Working (or Trade) Expenses* represent “management expenses” plus financial charges, depreciation and bad debts.

3. *Society's Working Capital* is the amount of capital owned by a society (members' interest), less the amount of fixed capital in land and buildings, fixtures and investments.

4. *Trade Capital* represents total capital employed, less the amount of fixed capital in land and buildings, fixtures and investments.

5. *Credit Sales*.—Proportions of credit to total sales have been taken from “trade debtors” at end of year. Credit sales vary at different periods of the year, and are apt to be high March to May. The average amount of credit during the whole year is probably a little higher than at the end of the year, but this applies to all groups, and scarcely affects comparisons.



dominant influence. Naturally, the amount of profit will depend on the relation of expenses to the total income in the form of gross profits and miscellaneous receipts such as dividend on purchases and interest on loans and investments. The gross profit which a society can retain is variable and depends mainly on the strength of the society in relation to local competition and on the keenness of buying. In the latter respect the majority of managers are efficient and can draw on their experience as to the most advantageous times and places at which to purchase. A few, on the other hand, lack both keenness and experience, and are not in touch with the best market intelligence, and some are hampered by having to consult a buying committee before purchases can be made. It is extremely difficult to assess the buying efficiency of managers, but it can be said without hesitation that all societies should now have passed the stage when a buying committee is necessary.

But some factors can be isolated. In the table below the total working capital belonging to the societies (members) and the "outside" (borrowed) and total trade capital are shown in relation to sales. The proportion of debtors to total sales is also shown for the same groups of societies.

IA. SUPPLY OF CAPITAL AND PROFIT OR LOSS.

<i>Average Profit or Loss.</i>	<i>Society's Working Capital.</i>	<i>Outside Capital.</i>	<i>Total Trade Capital.</i>	<i>Debtors.</i>
		<i>Per Cent. of Sales.</i>		
+3·1	22·8	5·8	28·5	17·2
+1·66	16·05	12·4	28·4	17·9
+0·3	16·2	13·2	29·4	19·1
-4·0	12·9	29·9	42·8	28·3

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In the first table the relationship between size of society, as measured by turnover, and profits or losses is fairly clear. But the influence of mere size is complicated by that of other factors. The smaller societies have the greater proportion of credit sales, and long credits are connected with the heavy borrowing of capital. A society may have a trading margin sufficient to provide a small profit on all its capital if none were borrowed, but when a society borrows the larger proportion of capital used the payment of interest on this may cause loss to the society.<sup>1</sup>

But profits are determined by the relation of income to expenditure, and handling costs will show considerable variations according to the amount of service given and to the financial conditions. The following grouping on an expenses basis is instructive.

### II. CONDITION OF SOCIETIES. (Grouped on Expenses Ratio.)

<i>Expenses. Per Cent. of Sales.</i>	<i>Number of Societies.</i>	<i>Average Sales.</i>	<i>Expenses of Manage- ment.</i>	<i>Other Ex- penses.</i>	<i>Total Ex- penses.</i>	<i>Profit or Loss.</i>
			<i>Per Cent. of Sales.</i>			
Under 6 per cent.	9	£32,500	4·2	0·5	4·7	+1·5
6 to 7·9 per cent.	11	21,730	5·8	1·2	7·0	+0·75
8 per cent. and over	11	17,317	7·6	2·4	10·0	-0·7

An analysis of the methods of providing capital and of credit trading again shows that the smallest societies with the greatest

<sup>1</sup> Thus if a society borrows half of its capital, and pays 6 per cent. on this, it provides interest equal to 3 per cent. on all its capital. If trading profits amount to 5 per cent. on capital, the members suffer loss.

operation costs and poorest results have both heavier credit sales and the larger proportion of borrowed capital.

IIA. SUPPLY OF CAPITAL.  
(Per Cent. of Sales.)

<i>Expenses.</i>	<i>Capital.</i>		<i>Proportion of Credit to Total Sales.</i>	<i>Profit or Loss.</i>
	<i>Society's Working Capital.</i>	<i>Outside Capital.</i>		
Under 6 ..	17.6	11.0	18.7	+1.3
6 to 7.9 ..	16.6	11.5	18.1	+0.75
8 and over ..	17.0	20.7	23.6	-0.7

The general correlation between profits made and expenses incurred is in accordance with expectation, although in individual societies low expenses are not always accompanied by big profits, nor low profits or losses with high expenditure. Still both this and the previous tables give support to the view that the smaller societies are handicapped in being unable to reduce costs in relation to turnover and consequently have to be content with lower profits. Management expenses depend largely on turnover, the district in which a society operates, and also the amount or nature of service given. Against the relatively heavy imposition of costs on the small societies must be placed the extra expense which larger societies incur in the maintenance and operation of depots. Societies with four to six depots have necessarily to tie up a large portion of their capital in buildings and have to incur considerable maintenance, interest, and depreciation charges and travelling expenses. Moreover, the larger societies are doing more delivery work, and the operation of this service naturally inflates actual expenditure; but the increase in turnover is normally sufficient to keep down costs in relation to sales.

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It will be seen that the proportion of management to total costs tends to fall as the burden of operation cost increases. Management costs do not include depreciation, losses through bad debts, trade interest or financial charges, and the difference between societies with low and high costs indicates fundamental differences in capitalisation and finance. This can be seen in the following tables.

III. CONDITION OF SOCIETIES AND TRADE CREDIT.  
(Grouping According to Proportion of Trade Credit Given.)

<i>Credit Given as per Cent. of Sales.</i>	<i>Number of Societies.</i>	<i>Average Sales per Society.</i>	<i>Debtors.</i>	<i>Total Capital.</i>	<i>Fixtures and Investments.</i>	<i>Trade Capital.</i>
			<i>Per Cent. of Sales.</i>			
Under 15 per cent.	13	£28,833	12·2	35·3	10·4	24·9
15 to 25 per cent.	10	24,136	20·7	42·4	10·8	30·6
Over 25 per cent.	8	13,221	32·6	51·5	7·7	43·9

The relationship between credit trading and borrowing by the societies *per se* is very clearly shown.

III.A. CREDIT AND BORROWED CAPITAL.

<i>Credit Given.</i>	<i>Working Capital Owned by Society.</i>	<i>Outside Capital Employed.</i>
	<i>Per Cent. of Sales.</i>	
Under 15 per cent.	17·5	7·3
15 to 25 per cent. ..	16·7	13·9
Over 25 per cent. ..	16·5	27·4

It is also plain that there is a tendency towards high working expenses and low profits or losses with a high proportion of credit trading.

IIIb. CREDIT AND PROFITS.

<i>Credit Given.</i>	<i>Total Debtors.</i>	<i>Cash in Hand.</i>	<i>Total Expenses.</i>	<i>Profit or Loss.</i>
		<i>Per Cent. of Sales.</i>		
Under 15 per cent.	12.4	4.5	6.4	+1.5
15 to 25 per cent.	20.7	2.1	7.5	+1.1
Over 15 per cent.	32.6	2.3	9.9	-1.7

The following table, showing the proportion of total capital held by members of societies in the various groupings, will focus attention on the salient feature of finance.

IV. PROPORTION OF MEMBERS' INTEREST TO TOTAL CAPITAL EMPLOYED.

	<i>Profit and Loss.</i> <i>(Grouping I.)</i>	<i>Expenses.</i> <i>(Grouping II.)</i>	<i>Trade Credit.</i> <i>(Grouping III.)</i>
Group 1 ..	88.4 per cent.	67.0 per cent.	70.7 per cent.
" 2 ..	63.0 " "	65.8 " "	56.3 " "
" 3 ..	61.2 " "	55.4 " "	50.8 " "
" 4 ..	35.8 " "	— " "	— " "

A close examination of these tables shows that whatever differences exist between societies in the scope of their activities and in the trade margins which they can secure, the influence of finance on trading results is fundamental and common to them all. Throughout, the relation between sound business and the amount of capital employed, the sources from which it is derived,

and the uses to which it is put is clearly demonstrated. It is significant that societies having little working capital, employing a large amount of outside capital, and giving long credits, are those with the highest handling costs and poorest financial results. All the societies which made a loss in 1926 are characterised by one or more of the following features: scarcity of working capital owned by the society, undue reliance on external capital, long credit, and slow capital turnover. Yet it is true that one or two societies are trading successfully with large amounts of outside capital, but in these cases management costs are low or high margins are secured. It must also be admitted that several societies giving long credit are trading profitably; but it should be realised that most of these are only able to do so because after years of profitable trading and paying out little, if any, dividends, they have been able to build up strong financial reserves, some of which, in ordinary business, would be invested in interest-bearing securities. It is possible that the keenness of competition in the requisite trade today will soon force such societies to adopt a less lenient attitude in the matter of credit.

The methods whereby societies have been capitalised in the past and the degree to which credit is being given at present, would suggest that those responsible for the control of such co-operative businesses have not realised the full effects of these factors on trading results. Working expenses are materially influenced by the amount of external capital which is employed; the economy in use of this capital will depend mainly on the rapidity of its turnover, and this in turn will be largely determined by the amount of credit given to customers.

In the majority of societies the share contribution of members has always been inadequate, and there is an extreme case of one society doing a trade of about £25,000 per annum with little over £100 share capital subscribed. Many societies have done well

on such slender resources by following the conservative policy of keeping all profits within the business. From the standpoint of limiting immediate working costs this policy is to be commended, since societies are thus enabled to gain control of capital for which no interest is immediately payable. Most of the societies now under review have been in business for periods varying between ten and twenty years, and during the profitable war years they were able to build up substantial reserves. Consequently, with some half-dozen exceptions, all these societies own sufficient capital, according to ordinary business standards, to finance their trade. Despite this fact, varying amounts of outside capital are employed, and this rather anomalous position demands elucidation.

The returns from the use of capital, and the total amount of capital which a trading business need employ will depend largely on the rapidity of capital turnover. Capital costs the same to its user whether it is employed intensively or infrequently. If £100 can be used to purchase £400 worth of goods in the course of a year, it will cost no more to its user than if turned over once only. Then charges for capital are lower when the turnover is rapid than otherwise. It is difficult to lay down definite standards for capital turnover in co-operative businesses of the type under consideration, but the society's working capital should be turned over about seven times, trade capital about four times, and the total capital employed at least three times in a year.

The rapidity of turnover of capital depends on the uses to which it is put. A certain amount will be tied up in buildings and fixtures, and possibly in investments, and this aggregate will represent the difference between total capital employed and trading capital. The capital used for the actual operation of the business will be absorbed in the purchase and storage of goods, the provision of cash, and the giving of varying amounts of credit.

If a society disposes of its capital in such a way that it is not immediately available to meet current demands in the business, it will have to carry more capital than if resources were kept in liquid form. In other words, the tying up of capital retards the rapidity of capital turnover.

From the standpoint of the fluidity of capital, the giving of long credits is tantamount to tying up capital in fixtures and investments, since the fund for meeting recurring requirements is reduced. Consequently it can be concluded that societies giving long credits are employing a very large amount of capital in relation to turnover, and with a reduction of credit such societies could reduce commitments on borrowed capital without impairing their trading activity. In the case of the stronger societies, the reduction of credit would not only dispense with the use of external capital, but would also release a certain amount for investment or business extension. As regards the weaker societies, a reduction of credit would materially reduce if not abolish the necessity for employing outside capital. In either case, interest charges would be reduced and the society would be better able to take advantage of the trade discounts offered.

The chief weakness of the Welsh requisite societies today arises from giving long credits, a system which is actually threatening the financial position of several co-operatives. It is true that agriculturists are now in a comparatively weak financial position, and longer credits than in years of prosperity must be given. But the position in this respect seems to have become more acute since the war, though farming in Wales was fairly profitable up to a year or so ago. At present there does not seem to be any clear connection between the credit demands of farmers and the type of farming in different districts; for example, societies serving districts where the flow of income is fairly regular do not seem to be in a better position than those in the store stock areas.



Nor is it wholly clear that there is any connection between policies of societies in fixing the terms of sale as regards discount for early cash, or charging interest on credit sales, and the amount of outstanding debts. It is difficult to escape the conclusion that there has been some slackness in this matter, and that the credit position depends more on the efficiency, tact and firmness of the local manager and on the policy of the committee than on anything else. Perhaps the position can be largely accounted for by the fact that those concerned have not realised how the results of "long credits" reverberate through the whole structure of the society, and affect working costs, profits, and ultimately the prices at which a society is able to offer goods or the services it can render.

#### CONCLUSION

The agricultural co-operative movement is now a real force in the agricultural life of the Principality, and the good service rendered by a number of societies is gradually dispelling the sceptical and somewhat hostile atmosphere which a few bad failures in the past have produced. The reorganisation of systems of marketing produce is at last being discussed generally and with purpose, and the co-operative movement will be called upon to take its share in the work of reconstruction. But a considerable modification of present outlook and practice will be necessary before the movement will render permanent service on a broader basis.

It may seem paradoxical, but the co-operative movement in Wales lacks co-operative spirit and enthusiasm, even more than financial resources and business ability. There is far too little co-operation within the confines of each society between the management and the rank and file of members. With a little guidance from members as to their future requirements, and a better understanding on such questions as credit and the value of

loyalty, managers could often pursue a bolder and more business-like trading policy. Judging from the attendance at general meetings, farmers take little real interest in their society, and merely regard it as one among a number of competitors. But the lack of co-operation, indeed the tendency towards competition between societies, is a far deeper *malaise*, and is sapping the energy of the movement as a whole. Without losing their independence, societies could with advantage consult with neighbours on such questions as territorial boundaries, the interchange of market intelligence, and possibly the arrangement of joint purchase. There are, of course, instances where these things are being done, but the principle of co-operation needs to be extended so that societies should present a united front to the array of competitors.

Propaganda can never be substituted for sound business, but it would seem that the expansion of the movement in Wales depends largely on the degree to which agriculturists can be educated on matters of co-operative principle and practice. This necessity will become the more urgent when the movement has to extend to the marketing and manufacture of farm produce, because in this work more loyalty and forbearance are demanded from the members than in the processes of joint purchase.

