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FARMER COOPERATIVES  
FOR  
THE FUTURE

A WORKSHOP  
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ST. LOUIS, MISSOURI

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## STRATEGIES FOR RESEARCH RELATED TO FARMER COOPERATIVES

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Developing strategy for cooperative research involves two processes. The first is to identify the most critical researchable questions facing cooperatives, and the second is to determine the organization and coordination of research resources from USDA, land-grant universities, and cooperatives.

The following assumptions provide the strategy framework:

1. Resources to do cooperative related research will shrink and become more difficult to obtain in the future.
2. Problems facing cooperatives will become increasingly complex and more of a survival nature.
3. Packaging of research will become more important to attract necessary resources and expertise to do cooperative related research.

These realities automatically point to the need for increased consolidation, communication, and coordination among those individuals and organizations interested in funding or doing cooperative research. Obviously, the question is how to get the job done.

We have already made significant progress in this direction. The formation of NCR-140 and holding this meeting are steps in the direction. NC-117 has also contributed significantly over the years in fostering communication among various institutions and industry groups.

However it would appear the real challenge is just on the horizon. During the next decade, the need will be greater than ever and competition for research dollars and researchers will increase. So, research must be challenging to the researcher, attractive to the financier, and of the highest priority to

potential benefactors. This is nothing new. The question is how do we get the job done, or more specifically who is going to do what?

As an aid in this process, figure 1 is a potential format for coordination and communication among researchers, those willing to support cooperative research, and cooperatives, and ultimate users of the information.

Briefly defined, the various types of research are:

- I. *Pedestrian*. Research to monitor and project trends from historical data or to find out something you know is available and there is little or no chance of failure. This research is useful for training and important as it is directly usable by cooperative management and is the basis for much future research and many policy decisions.
- II. *Operational*. Usually deals with operational efficiency (input-output), quality control, or new product development problems. These are the problems cooperative managers see as day-to-day operating and survival issues.
- III. *Cutting-Edge*. Explores new, potential, or developing problems facing cooperatives and has reasonable chance of failure. Research attempts to anticipate problems and provide guidance in their avoidance or solution.
- IV. *Imaginative*. Has high chance of failure but with potential of substantial payoff. This type of research is the most difficult to design and perform, and also the most difficult to fund.

Research on all these classifications of problems is important. The trick is to achieve an adequate balance among the various types. Researchers should develop a

**Figure 1--Types of Research**

Possible funding organizations	Pedestrian	Operational	Cutting Edge	Imaginative
ACS (USDA)				
Land-Grant Universities				
Cooperatives				
Other Agencies in USDA				
Cooperative Orgs.				
Foundations				
Other Government Agencies				
TVA				
State Departments of Agriculture				

comfortable mix of research for them or their institution. Those with cooperative research funds to allocate should develop how they could or would like to allocate their funds. An exchange of this information among interested parties would be valuable in providing direction and setting priorities among types of research that might be done. Increased use of existing lines of communication could probably get the job done.

Not everyone will agree on which are the most critical researchable questions facing cooperatives. Any listing, of course, would change, given the perspective of the individuals and/or groups. And, certainly, over time, priorities and issues will change. So, the following lists are a beginning in the coordination-communication process.

You can take this list, rearrange it, modify it, and certainly add to it, and then approach funders with your proposals. You may want to enlist support from the appropriate segment of the cooperative community along the way. This may be through supplemental funding or at a minimum verbal support.

If you are someone representing an agency or organization with cooperative research funds, the process may work in

reverse. But research activity certainly should not be dictated only by available funding.

### **Research One Liners**

1. How do you change people's attitudes toward cooperatives?
2. How does control change with increasing levels of nonallocated equity?
3. How do you educate people as to the benefits of cooperatives?
4. When does a cooperative lose its cooperative character?
5. How do cooperatives retrench to lower volumes and still become more efficient?
6. How and where should cooperatives become involved in the biotech arena (embryo transplants, etc.)?
7. Capital formation -- what are alternatives for co-op financing?
8. Structural changes in cooperatives. What changes are needed? What are the possibilities?
9. How do members keep control and benefits in "big" organizations?
10. What makes the "best" co-ops best?

11. What and where are opportunities for new cooperative starts?
  12. How do cooperatives increase the proportion of equity needed to finance present or increased future assets?
  13. How do cooperatives serve all farmers equitably? Example -- very large and part-time.
  14. Where can cooperatives improve on services they provide farmers?
  15. How and where are cooperative joint ventures most feasible?
  16. How can cooperatives best adjust to a deregulated transportation environment?
  17. What should be the posture of grain cooperatives regarding exports?
  18. What should be the "correct" involvement of cooperatives in public policy development?
  19. What is proper role for cooperatives where there is a reduction or elimination of farm programs?
  20. How do cooperatives assure energy supplies (gas, gasoline, diesel, etc.) for their members?
  21. How do cooperatives convince producers and directors that mergers or other linkages are the best alternatives?
  22. How do cooperatives establish and maintain committed market pooling systems?
  23. How can cooperatives keep financing and control in the hands of current members?
  24. How does the performance of cooperatives and noncooperative businesses compare in their service to farmers and the impact of their activities on other sectors of the food and fiber industry?
  25. A set of operational and financial performance standards are needed that could be used for assessing performance of cooperative and noncooperative firms.
  26. What should be the cooperative approach to the export market for livestock, fruits and vegetables, and other processed products?
  27. What are the potential scenarios for U.S. farm programs and their probable impacts on agriculture and cooperatives?
  28. What is the financial picture of U.S. agricultural cooperatives over the next ten years including scenarios that reflect both opportunities and risks?
- Following are cooperative research issues and ideas that have been developed somewhat further than the one liner ideas. There is some duplication, but that is to be expected and may indicate priority.
- Dr. Randall E. Torgerson's  
List - March 1985**
1. Structural change in cooperatives: Cooperatives of all types, including credit, grain, dairy, and farm supplies are experiencing major structural change. Research must address the comparative advantages of centralization versus federated structures. Holding companies must be examined also as an alternative structure, assessing their applicability for cooperatives.  
How can centralized marketing still look "federated"?  
How can cooperative character be retained in ventures with other entities?  
Grain cooperatives with excess capacity are selling off assets. This raises questions about how cooperatives can restructure now and for the future.
  2. Capital formation in cooperatives: ACS has only limited "how to" information available on finance. Analysis is needed on alternative capitalization methods including up-front investments, per-unit retains, leases, base capital plans, and nonqualified allocations. The analysis must consider the relationship of utilization and degree of ownership.  
Research needs to explore how to raise equity capital from members to finance expansion, new services, and forward integration, particularly in capital intensive operations.

3. Corporate versus cooperative organization: Corporate protagonists argue there is an economic advantage for farm operators to organize business extensions of their farm enterprises as corporations rather than cooperatives. Analysis of tax laws, alternative means of cooperative finance, and cooperative performance measure are needed. Emphasis is also needed on encouraging cooperatives to utilize returns to capital employed and other measures in operating decisions.

4. Overcapacity in the agricultural sector and the present farm crisis: The current situation demonstrates the need for an orderly transition toward a market based economy, as well as mechanisms that strengthen farmers' long-run position. What mechanisms or methods can be developed to control the adjustment to overcapacity, while at the same time maintaining farmers' share of cooperative marketing activity?

What is the role of cooperatives in selected agricultural sub-sectors in the absence of long-standing farm programs? For example, what would be the role of cooperatives in tobacco and peanuts if the traditional farm programs for these crops were eliminated?

Some cooperatives are facing bankruptcy. The result may be partial or total loss of members' investments.

The depressed agricultural situation is causing cooperatives to have problems with accounts receivable, memberships, and equity redemption.

How can cooperatives adjust to the structure of production agriculture that will emerge from the current farm chaos?

How can management adjust to overcapacity and investment with respect to the impact on earnings, capital structure, members, and potential members?

5. Biotechnology research: Developments in this field have profound implications for the structure of future markets. Cooperatives need to develop linkages with this process to perform services for their members that may not be feasible for them to provide on an individual

basis. Examples include embryo transplants, growth hormones, and various insect and drought resistant crop varieties. Cooperatives face the issue of what investments they should make in biotechnology and other research and development.

6. System benefits from coordinated cooperative marketing versus the trading bloc approach: System benefits from operations of organizations such as CF Industries and Universal and others outweigh "do it alone" approaches by regionals. The validity of this implication in risk sharing and achievement of scale economies needs documentation.

Cooperatives continue to compete with each other in areas where joint efforts appear highly feasible.

How can ruinous competition between cooperatives be minimized or eliminated?

How can producers be convinced that merger or other linkages will improve their bottom line?

7. In search of excellence: Analysis is needed to determine the characteristics of the best performing cooperatives. Observations suggest that those using brand names, pooling, marketing orders, and conservative approaches to finance are the leaders.

How can cooperatives become more market oriented--product rather than raw material marketing?

How can committed market pooling systems be established and maintained?

Cooperatives' market share at the first-handler has leveled off in the 80s. Where can cooperatives improve on the services they provide farmers?

8. Equitable versus equal treatment of cooperative members: A dormant issue since the 1950s, the continuing trend toward a dichotomy of agricultural production raises new questions regarding large and small patrons. Approaches to cost justified pricing need to be examined for their applicability to various situations facing cooperatives.

9. Member control mechanisms in cooperative organizations: A key element in

assuring proper distribution of cooperative benefits is the member control mechanism. Alternative structures for member governance need to be examined, including appropriate use of outside directors. Cooperatives need to maintain their member orientation, a means/goal attainment possibility, and avoid member alienation.

### **ACS Outside Program Review Committee Report, 1984-85**

In early 1984, cooperative leaders proposed that a study of the Agricultural Cooperative Service be conducted to review its work and make recommendations for its future. Here are the research recommendations of that committee:

1. A number of problems demanding study include: cooperative organization and structure, cooperative finance, impact of public policy on cooperatives, cooperative education and information, and the ability of cooperatives to respond to the needs of their members.
2. Provide a historical perspective of cooperatives that will be useful in understanding the basic need for cooperatives to exist, and the harmful consequences in earlier times when there were no cooperatives to provide services or countervailing forces in farmers' markets. The committee felt a more visible emphasis must be placed on the historical perspective and context of agricultural cooperatives in its education and information program.
3. Broaden role in public policy research to identify potential impacts of policy options, determine how cooperative operations may strengthen or reinforce a given policy, or how undesirable impacts can be minimized.

The review committee felt the focus of ACS research must be on (1) issues peculiar to cooperatives, (2) cooperative role and structure in the face of declining farm numbers and the changing structure of agriculture, and (3) maintenance of effective

member education and control related matters.

Following is a list of opportunities for joint strategic planning by major cooperatives prepared by Dr. Torgerson for presentation to the Cooperative Planning Meeting, San Antonio, Texas, January 1985.

### **Adjustments in Grain, Fertilizer, and Petroleum Subsectors**

1. What lessons can be learned from the dairy, soybean, and other industries in reducing or coping with overcapacity? What methods are available for systematically reducing overcapacity without having assets fall into competitors' hands?
2. In recent years, several noncooperative firms have successfully established themselves in the heart of cooperative country. What management strategies have made them successful competitors? Have they achieved economies of size that surpasses the cooperative system? What adjustments are needed by cooperatives to forestall further entry?
3. Cooperatives face the challenge of increasing their share of commodities handled at the first-handler level, and in value-added activities. Co-processing or entry into strategic areas on an interregional or cooperative joint venture basis appears to offer an opportunity in many cases. What are opportunities in various subsectors? What is the appropriate market position for these joint efforts and to what level should they be capitalized?
4. How can "grain only" regionals coordinate with supply regionals to take advantage of backhauls and other transportation/marketing economies in both domestic and foreign markets?
5. The cost, marketing, and cross subsidization advantages of those firms with access to both grain and fertilizer are becoming apparent. In addition to fertilizer, what other inputs, such as chemicals or petroleum products, are candidates for a grain partnership?



6. What is the potential for coordination in sharing transportation equipment and programs, fast load-out facilities, rate information, etc.?
7. In what other value-added areas or new industries should cooperatives consider entering on an individual or joint basis? Does the Ag Processing, Inc., approach provide a model for these extensions?
8. Present economic conditions in both the grain and livestock industries make further integration and coordination highly likely. The merging of farm supply (feed) cooperatives and live animal marketing cooperatives to contractually control the production and marketing of feeder pigs, slaughter hogs feeder and fed cattle would appear increasingly feasible. Should live animal marketing cooperatives be made subsidiaries of regional farm supply/grain cooperatives?
9. Cooperatives process and market a wide array of food products. Efficiencies in marketing, distribution, and advertising could be obtained from development and promotion of a standardized cooperative logo or brand identification. A similar standardized program should be considered on the farm inputs supplied producer members. What steps should be considered to put national brands or logos into place?
2. Beef feeding has declined precipitously in the Western Cornbelt, yet a number of firms have significant investment in new high volume plants. Deficiencies in fed cattle numbers could lead to contract feeding by these firms or to packer feeding. What cooperative system alternatives can enhance the farmer's continued role in production agriculture?
3. It has been suggested within 20 years, the grain system as we know it today will no longer exist and will be replaced by direct purchases from producers. These purchases will be based on contracts similar to those now used in barley and in fruit and vegetables. What planning is needed by cooperatives to adapt to this system?
4. Seed/chemical companies are pouring millions of dollars into biotech research with the hope of developing new product production systems and patented living organisms. How do cooperatives link with this intense scientific development?
5. Tax policy has had a major impact on entry of nonfarm resources into production agriculture for tax-shelter reasons. This has had a result of attracting unneeded supplies and by increasing elements not oriented toward cooperative marketing. Crops most affected to date are in the specialty areas such as grapes, nuts, apples, etc., and in livestock feeding. Cooperatives need to examine and formulate farm structures policy to address issues of a level playing field and providing an environment for a sound owner/operator agriculture upon which their future rests.

### **Structure of Production Agriculture**

Several recent initiatives potentially could have major impact on the economic organization of agriculture, particularly in the Midwest. A number of these are:

1. Contract feeding of hogs has increased significantly in the Midwest in the last two years. This has major consequences for local and regional cooperatives and live animal marketing associations. What cooperative system approaches to this enterprise should cooperatives develop to meet corporate integration? Prevent member owners from becoming piece-wage growers? Provide them with a viable marketing alternative?

### **Cooperative Coordination in International Trade**

Despite the rather bleak outlook for grain exports, cooperatives must continue to search for ways to be competitive in export markets.

Most successful exporters take advantage of regional and international differences in prices and costs that result from seasonal-

ity, comparative advantage, monetary conditions (exchange rates, interest rates, and inflation), and the protectionist and export subsidization policies of governments. Cooperative coordination would allow the development of a global information system, that in conjunction with centralized decision-making, would facilitate arbitrage.

From a strategic planning standpoint, is an international marketing-agency-in-common feasible and a workable cooperative alternative?

### **Response to Federal Program Changes**

Policy adjustments in recent years have reduced Federal commodity programs in cotton, peanuts, and tobacco, and may significantly affect other crops as government continues in an effort to reduce the Federal deficit. This presents an opportunity and a challenge to cooperatives.

1. The challenge is found in the shifts in production and the fact that marketing

infra-structure is not in place for handling alternative crops. Examples are fruit and vegetable production in the tobacco states, peanut shelling, rice marketing, and other cooperative initiatives.

2. With proper sanctions, cooperatives can respond to de-emphasis in Federal programs by taking on more market management functions themselves. What are cooperatives' opportunities in this regard through marketing orders, marketing boards, or other marketing mechanisms?

This rather sizable laundry list perhaps has sparked an idea or triggered a thought that may lead to improved coordination among the cooperative research community and also given you some food for thought in developing a more productive short- and long-term research program.