



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

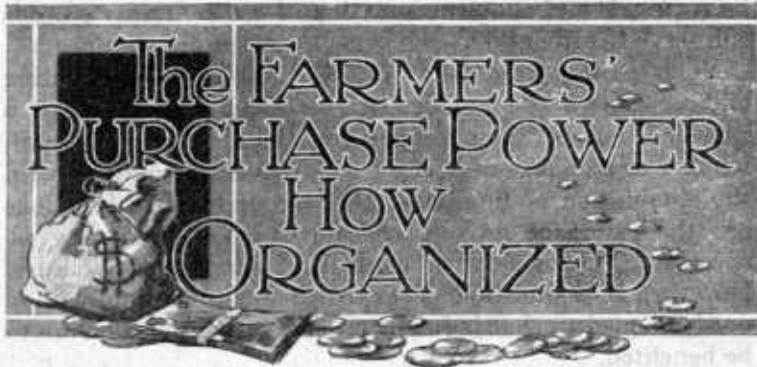
AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.



By J. M. MEHL,

Investigator in Cooperative Organization, Bureau of Markets.

THE success of certain large chain stores and similar organizations is a result partly of their ability to combine many small purchases into a single body of large volume. They are able to buy in large quantities articles of merchandise which the average dealer or single-store organization must buy in small quantities at higher prices. Concentration of buying power may enable an organization of this kind to take the entire output of a manufacturer, thus eliminating the manufacturer's selling expense and effecting a reduction in cost. With these organizations such purchase power is a thing to be created or developed, usually by competitive struggle.

Every agricultural community has an already existing purchase power which when brought under control may secure to the community the same benefits and savings which the large commercial organizations derive from their concentration of buying power. It only needs to be organized. Instead of being divided into a number of small streams, each running its separate course and contributing to the support of a number of weak and inefficient agencies, it may be organized and directed into a single channel and thereby develop a considerable power for saving. This does not mean necessarily that middlemen will be eliminated, although the effect may and should be to discontinue inefficient agencies. Agencies which facilitate distribution will always

be required, and the concentration of a community's needs will serve to strengthen such agencies as are actually needed.

Much useless argument on the question of eliminating middlemen will be avoided if discussion is limited to a consideration of their proper functions. A reduction in number or a change of character is frequently confused with the elimination of functions. Certain middleman functions are the result of growth and development and may be necessary. Ownership, or control, of middleman facilities, however, is a question of expediency and certainly may not be denied to that industry or class of persons who are to be benefited.

POSSIBILITIES AND LIMITATIONS OF COOPERATIVE PURCHASING.

ELIMINATION OF UNNECESSARY SERVICE.

Various forms of cooperative activity are found in the United States, a considerable number of which are organized for the cooperative purchase of farm supplies. Feeds, fertilizers, spraying material, containers, and certain kinds of farm machinery are among the items most frequently purchased cooperatively. The largest savings are possible on this class of supplies because much of the service ordinarily required of dealers can be dispensed with. It would not always be necessary for large stocks of this class of merchandise to be carried by local dealers in anticipation of farmers' needs, if the farmers would get together and estimate their requirements in advance. The warehousing of merchandise involves expense and also encourages a credit business which entails further cost. Much saving could be effected if farmers would relieve local merchants of burdensome credits and useless warehousing and sales expense. But farmers acting individually usually will not seek to reduce cost in this way. Indeed, the average dealer hesitates to offer any special inducements to individual cash purchasers and persons who are in a position to do their own warehousing and financing, because of the dissatisfaction which it tends to create among his less progressive patrons. It is difficult for a merchant to maintain successfully one scale of prices for one class of customers and another for a different class.

It seems necessary, therefore, for those farmers who are in a position to dispense with certain kinds of service first to form an organization of some kind through which they may voice their common desires. Having organized, it will not be difficult to secure the kind and amount of service required, and if the prices of local dealers then are reasonable with reference to the service which they are called upon to perform, the organization may wisely continue to patronize such dealers. If, on the other hand, local dealers assume an antagonistic attitude and refuse to recognize that the organization is entitled to a price reduction in proportion to its concentrated volume of business and lessened amount of service required, the organization is in a position to deal directly with wholesalers, jobbers, or manufacturers. No comparison of prices on any commodity is fair to the local dealer which does not take into consideration the service which is required in its handling, and the efforts of a cooperative organization first should be directed toward determining just how much service can be dispensed with and how much speculative and merchandising risk can be assumed by the members themselves.

The organization which can do the most effective work is the one which can eliminate all unnecessary service. Persons who prefer to buy goods in small quantities, who require the local merchants to carry large stocks to supply their varying needs, and who demand the extension of long-time credit must expect to pay for such service. Unfortunately, many persons who do not require the extra service and do not benefit by it are compelled also to contribute to its support. The effect is to place a premium upon slovenly and uneconomic practices. A cooperative organization has done much if it has merely furnished the opportunity for thrift to those who would be thrifty.

STANDARDIZING PURCHASES.

The greater the number of kinds and brands of supplies used for the same general purpose in a community, the less will be the volume of sales of any one kind or variety. Conversely, if a large number of persons using many different brands of the same kind of supplies can determine

upon one or two, the volume of business in those brands will thereby be increased and a greater purchase power can be brought to bear in bargaining for them with dealers or manufacturers. In the average community, a wide variety of brands and kinds of supplies are used for the same purpose. Differences of opinion exist as to the merits of some kinds compared with others, but usually one or two kinds may be found which are in general use and will prove quite as satisfactory to the community as the wider variety of supplies. A cooperative organization furnishes a convenient medium through which to determine by systematic study and observation the kind of supplies or machinery which is best suited for the needs of a community. In the case of feeds, fertilizer, and spraying materials, the organization will be able to secure chemical analyses and expert opinions the cost of which would be too great for the members to assume singly. These means assure the receiving of high-grade goods.

SCOPE OF ACTIVITY.

A cooperative purchasing association will function best when its activities are centered in the handling of a limited variety of such supplies as are staple and of general utility in the community. The service which it performs should be of a highly specialized order, and for this reason it should avoid as far as possible handling miscellaneous merchandise or shelf goods. Except in rare instances it will not be advisable to deal in any commodity which is not bought in carload lots and distributed from the car door. Contrary to the fear sometimes expressed by local merchants, it is a far cry from the simple cooperative purchasing association to the cooperative store. It is true that cooperative stores have followed the organization of purchasing associations in some instances, but usually they have followed as a result of antagonism on the part of merchants rather than as a consequence of the purchasing association. Cooperative stores require an entirely different form of organization and method of conduct, and when a cooperative purchasing association takes on the activities of a store many of the wasteful practices which the purchasing association was intended to eliminate frequently result.

A cooperative organization should strive to be different from a privately owned enterprise. Its conduct of business should be of a kind and character which make impossible the comparison of it with any noncooperative business. Every phase of its operation which can be compared with a like phase of the operation of a private business offers an opportunity for unfriendly interests to compete and discredit. Its purpose should be not so much to eliminate the net profits of dealers as to eliminate wasteful practice and unnecessary service. When this is fully understood and made known to the local dealers there will be little ground for objection on their part. In fact, dealers who are progressive and awake to their opportunity frequently will welcome such an arrangement, because it relieves them of much expense and inconvenience which brings them no profit, but on the other hand exposes them to criticism by those not understanding nor appreciating the distinction between gross profit and net profit. An article of merchandise may be handled upon what appears to be a very great profit but which, when the expense connected with its storage and sale has been deducted, is in fact a very nominal profit.

FORM OF ORGANIZATION.

INCORPORATED ASSOCIATIONS.

The form of organization which is adopted by a cooperative association will have much to do with its success or failure. Many persons look upon a cooperative purchasing association as a rather simple undertaking, which requires little or no detailed plan of operation and therefore no permanent form of organization.

Though relatively simple when compared with certain types of marketing associations, a cooperative purchasing association, nevertheless, requires a very firm and specific structure. It is not necessary that the organization plan should be elaborate, but whatever form is decided upon, whether the incorporated capital stock or nonstock form, or the voluntary association form, it must be suitable to local conditions and the particular kind of activity which is to be conducted.

A greater number of unincorporated associations perhaps exist among cooperative purchasing associations than among any other class of cooperative business organizations. This is due in part to the fact that many persons associate an incorporated company with the capital stock form of organization, which usually is not advisable for a simple purchasing organization. Again, in a number of States, it is not possible to incorporate business organizations of the nonstock form. In these States it is necessary either to form a capital stock company with the par value of stock placed at a nominal sum or to operate as a voluntary association. No capital stock is usually required in simple purchasing associations. In fact, it may offer a temptation for improper use.

UNINCORPORATED BUYING CLUBS.

Cooperative associations should be incorporated whenever possible and whenever the organization proposes to engage in any business involving the credit or liability of the members through the actions of an agent or manager. Sometimes the members of a farmers' club or other semi-business and social organization wish to avail themselves of the advantage of collective buying without the formality of incorporating by simply utilizing the existing organization machinery. In every such case there should be established a method of conduct which makes it impossible for any member or officer to constitute himself an agent for the purpose of binding the body of members except in a very special and restricted sense. The necessity for this arises from the fact that generally, subject to some exceptions, an unincorporated association has practically the same status in law as that given to a partnership. In many States the individual members will be held jointly and severally liable for the acts of the managing agent. An unincorporated organization should operate, therefore, along lines which make it unnecessary to clothe the agent or manager with any but the most limited and restricted powers. He must be shorn of every power to bind members except by special appointment for a special purpose. He should have absolutely no power to pledge the personal credit of members. Moreover, the business must be so conducted as to make it plainly evident to the trading public that he has no such power.

PLAN OF OPERATION.

CAPITAL REQUIREMENTS.

A clearly defined plan of operation should be worked out in detail and be embodied in a formally adopted set of by-laws,¹ whether the association intends to operate as an incorporated body or merely as a voluntary association.

If warehouses or permanent buildings are deemed necessary they may be provided for by the sale of capital stock in the case of a capital stock form of organization, or by membership fees in the case of nonstock organizations or voluntary associations. In but few cases is it advisable to provide a cash working fund in this way. Each member should be required to finance himself by advancing to the association an amount in cash or credit which will cover the amount of his purchases. Unless this is done, and money belonging to the association is available for the purpose, it will soon be found that a credit business with the members has been established. The worst feature of using association funds for the purchase of supplies lies in the fact that members will grow careless in estimating their requirements and when a shipment arrives may fail to call for the goods which they have ordered, thereby throwing a loss upon the association.

The amount of capital necessary to finance buying operations should be made available by each individual member in proportion to the use of capital required by his needs. It is not meant that each member should provide a sum in cash which will be always available and which will be placed entirely beyond his control. There must be provided, however, means whereby payment of goods ordered by him can be enforced legally and simply. Before any orders are collected, each member desiring to participate in the buying operations may make arrangements with his local bank to honor any orders signed by him up to an amount previously decided upon by the association's board of directors as being adequate to cover his purchases.

¹ U. S. Department of Agriculture Bulletin 541 contains a suggested form of by-laws for cooperative associations which is capable of being adapted to various forms of organizations.

When it has been determined that a certain member's maximum capital requirement at any one time is, say, \$100, that member will immediately furnish the association's secretary with a statement from the bank certifying that it will honor and pay any orders signed by the member, not exceeding in the aggregate \$100, which may be presented to it during a specified time. Arrangements with the bank may be made either by means of a loan, bearing interest only during the time actually in use, or by having a charge made against the member's checking account, as for a certified check.

METHOD OF CONDUCT.

The required capital having been provided, there must be established a convenient means for applying it to the purchase of supplies. For this purpose an order form may be provided which will authorize the bank to apply the available funds to the payment of goods upon their arrival.

A simple and practical method of applying funds to the payment of goods which are ordered would seem to be an order to purchase and an order to pay combined into one instrument which is signed by each member at the time orders are being collected. When sufficient orders are collected to make up a shipment they are placed with the bank and applied by the bank in payment for the shipment upon its arrival. The responsibility and powers of the business agent or secretary of the association in his relations with third parties are thus narrowed and limited to a point where his duties will consist chiefly in collecting and placing orders, notifying the members of the arrival of shipments, and effecting delivery thereof.

The following combination order and payment form is suggested:

Order No. (Date) 19....
 To

Please purchase for me and have delivered to station on the railroad, the following supplies, which I agree to receive upon arrival. Notify me of arrival by at

Quantity.	Description.	Estimated price.	Amount.
.....
.....
.....
.....

(Signed) (Purchaser.)

To the Bank, (Date) 19....

Pay to dollars (\$.....),
 the amount of my accompanying order No. for supplies on arrival at station but not to exceed dollars.

(Signed) (Purchaser.)

This order certified and payment guaranteed this day of 19....

..... BANK,
 By Cashier.

¹ Perforated.

This order form may be executed in duplicate or triplicate, except that the order upon the bank is signed on the original only.

In practical operation the plan here suggested will work about as follows: Orders will be assembled by the secretary of the association, or by some person appointed as purchasing agent, at prices estimated sufficiently high to cover all charges and handling costs. When a sufficient number of orders are had to make up a quantity shipment, the secretary or agent proceeds to bargain for its purchase. This may be done by advertising for sealed proposals or by a canvass of firms dealing in the supplies desired. When a satisfactory proposal has been received and accepted, all of the individual orders are placed with the bank selected to handle the funds of the association, and the bank certifies to the firm or dealer

whose bid has been accepted that the amount of the whole order is on deposit and will be paid upon arrival of the supplies in good order and up to the standard. After paying for the shipment the balance of the funds is placed by the bank to the credit of the secretary of the association or the person designated as agent, who, when delivery has been effected, computes and deducts all handling charges and his commission or salary apportionment, if upon a salary basis, and then refunds to the members the difference between the estimated cost and the actual cost of the supplies bought.

If desired the order may be executed in blanket form; that is, no estimated prices need be stated. The bank is authorized to pay the association agent the actual computed cost of the supplies specified up to and not exceeding a certain amount. When the goods have been delivered and the actual cost has been ascertained, the agent fills in the correct cost prices and net amount of order in the check form, which is then charged to the member's bank account. Thus adjustment is effected without the passing of any actual money.

POINTS TO REMEMBER.

The essential points in the plan here suggested are:

- (1) Elimination of all unnecessary service and warehouse expense.
- (2) Standardization of purchases.
- (3) Buying in carload lots only.
- (4) Buying only staple supplies.
- (5) Utilizing the machinery of local dealers whenever possible.
- (6) Securing the members' signed orders in advance of purchase.
- (7) Ordering no supplies for any member unless the order is accompanied by cash or its payment is guaranteed by a local bank.