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Looseleaf Tobacco Cooperative Auctions In The United States

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7a by Bruce L. Swanson
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Farmer Cooperative Service,
U. S. Department of Agriculture

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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Highlights

This report examines organizational and operational features of cooperatives operating looseleaf tobacco auction warehouses. Information from 15 cooperatives located in Kentucky, North Carolina, Tennessee, and Virginia is included.

Twelve of the associations are local cooperatives, operating one or more warehouses in a single local market. The three remaining associations, classified as central cooperatives, operate warehouses in two or more local markets and have a headquarters to coordinate and control administrative and operating functions. Together, their total membership included over 50,000 tobacco growers.

During the period, 1952-53 to 1961-62, patrons furnished a seasonal average of some 83 million pounds of tobacco for sale through these cooperative facilities. This volume represented over 20 percent of that handled by the local markets in which cooperatives operate warehouses and had a sale value exceeding \$44 million.

The associations were organized to market tobacco through grower-controlled auction warehouses. This remains their primary purpose and results in 99 percent of the dollar volume of business handled annually.

Some cooperatives also market small amounts of other locally-produced commodities and a few engage in service activities such as operating redrying and storage facilities. Only one association purchases supplies for its membership.

Each local tobacco market has regulations providing standard sale charges that must be deducted by all auction warehouses operating in the market. Savings earned during the marketing season by the cooperative warehouse can, after necessary deductions, be returned to patrons on the basis of proportion of business furnished. This, in effect, reduces the established sale charge which growers must pay when selling their tobacco. Savings which would be earned and returned to patrons was the major factor responsible for organizing most associations.

Cooperatives were also organized to acquire facilities in order to help maintain or improve the position of the tobacco grower in influencing local market policy and procedure. In some markets, cooperatives were instrumental in stabilizing sale charges when a movement was underway to increase the amount of commission charged. In other cases, cooperatives adopted practices to develop improved marketing conditions for the resale of tobacco.

Since establishment, the major problem with which cooperatives must contend is that of obtaining an adequate quantity and quality of tobacco. They attempt to acquire patronage necessary to furnish quantities of tobacco which utilize to capacity the sale allocations made to association-operated warehouses. Promotional activity and personal contact attract the business of potential patrons.

Rules and regulations in effect in the local tobacco market determine flexibility of the sale system. In most cases the system is fairly rigid, and the individual warehouse must abide by directives allocating time and rate of sales. This constitutes a sales quota, and quantity handled by the cooperative facility must be directed toward the maximum allowance of the allotment. Volume marketed determines the efficiency with which warehouse facilities and equipment are utilized and the amount of cost assigned per unit of sale tobacco.

Patrons pay a flat rate based on weight when their tobacco is auctioned. In addition, they also pay a commission representing a proportion of the sale value of the crop.

Thus, the general quality of offerings during the season has a substantial influence on the average charge obtained per hundredweight auctioned through the organization.

Most associations have concentrated on obtaining quantity. The importance of delivering quality tobacco for sale has not been stressed to the same extent. By attempting to obtain a better balance between quantity and quality, some organizations may find a means of enhancing their financial position. Such a program might include changes in operating practices designed to reward the grower marketing higher quality tobacco.

In addition to directly benefiting the association by increasing commissions earned per sale lot, upgrading the quality of offerings on the auction floor also affords side benefits. Among these are encouragement of buyer interest and strengthening of the cooperative's reputation among patrons by means of increased sale prices received. Both foster continued and growing patronage.

A secondary problem which has confronted many of the cooperatives is that of obtaining sufficient finances, both for capital acquisition and for operating purposes. At the outset each organization should develop a financial plan which provides for (1) organizational expenses, (2) investment in permanent facilities, (3) operating expenses, and (4) reserve requirements.

LOOSELEAF TOBACCO COOPERATIVE AUCTIONS
IN THE UNITED STATES

By Bruce L. Swanson
Special Crops Branch
Marketing Division

More than 90 percent of the tobacco produced in the United States sells through looseleaf auction markets.

Growers interested in improving these markets have formed organizations of their own to operate warehouses in various local markets throughout the major tobacco belts. Fifteen farmer associations in Kentucky, North Carolina, Tennessee, and Virginia now operate 45 looseleaf auction warehouses in 23 local markets.

This study provides information on the organization and operation of these cooperative warehouses. Study findings can help patrons, directors, and employees better understand the contributions and functions of their associations. In addition, findings can be beneficial to these cooperatives in comparing their operations, and to growers considering the formation of similar organizations.

Interviews with cooperative management or other key personnel provided data on certain organizational and operational characteristics. The associations' annual financial statements, published research findings on tobacco production and marketing, and information from others in the tobacco trade, supplemented these data.

The report is divided into three main sections. The first section, Development of Cooperative Auction Warehouses, presents background material on the establishment of these associations, including the preliminary steps taken before their organizations, sources of assistance, and method of financing.

Organizational features of existing looseleaf tobacco auction cooperatives are considered in the second section. Trends in membership, composition and functions of the boards of directors, characteristics and duties of managers, and number of employees, are among the items discussed.

The concluding section of the report summarizes the associations' tobacco marketing activities. Attention is first given to the warehouse facilities and equipment operated by the associations. Next is considered characteristics of the markets in which the cooperatives operate. This is followed by a discussion of cooperative marketing activities during a 10-year period 1952-53 to 1961-62.

DEVELOPMENT OF COOPERATIVE AUCTION WAREHOUSES

Auction selling by cooperatively-owned and operated tobacco warehouses is a comparatively recent development. The method has evolved through many years' experience with other systems of marketing.

A brief discussion of some factors related to their development will serve as background for succeeding sections of the report. It will also provide an improved understanding of the preliminary steps involved in establishing looseleaf tobacco marketing cooperatives.

Reasons for Organizing

The hogshead market was the first distinctive tobacco marketing system. Growers pressed their tobacco into cylindrical wooden hogsheads that held from 800 to 1,000 pounds of tobacco. These were rolled to market and sold at auction.

This system flourished up to the end of the Civil War, and then disappeared because of difficulties individual producers encountered in raising sufficient volumes of uniform quality tobacco to pack into hogsheads and lack of satisfactory transportation facilities for moving hogsheads to market.

Following the Civil War, a system of country or barn buying developed and became widespread. Local buyers and speculators visited the farms and purchased tobacco while it was still growing or after it was in the curing barn.

In 1873 growers in Kentucky built cooperative warehouses in which they stored their tobacco while waiting for better prices. Later came packing associations, sales agencies, and local pools.

The period 1890 to 1900 was characterized by a few extremely large manufacturing companies, commonly known as "tobacco trusts" due to the complex of subsidiary firms which each controlled. The consolidated purchasing power of each of these organizations was substantial and competition among buyers limited.

These conditions, and lack of a system to make price information available to growers, led to the development of two new methods of marketing: (1) The looseleaf auction system, and (2) the regional pooling of tobacco through cooperatives. Of these, farmers' pools were much more prevalent at the outset. After a few years the proportion of the crop pooled declined, and growers' effectiveness in bargaining successfully with manufacturing companies was reduced considerably.

Looseleaf auctions then assumed a more active role. Some grower associations in Kentucky, Tennessee, Maryland, Virginia, and North Carolina organized on a pool basis turned to the looseleaf auction as the best means of receiving satisfactory prices.

During World War I and immediately thereafter, improved tobacco prices encouraged increased production. The average price received by farmers increased from 14.8 cents a pound in 1914 to 31.2 cents a pound in 1919. However, in 1920 prices declined drastically and farmers received only an average price of 17.2 cents.

Such conditions led to the formation of several large tobacco marketing cooperatives during the years 1920-23. Most adopted pooling methods in an attempt to receive reasonable prices for their members' crops. This revived interest in pools continued until about 1925, and then faded due to the inability of the associations to sustain interest among grower-members in this method of marketing. Some of these cooperatives established looseleaf auction sale facilities when the volume of tobacco obtained by pooling methods began to wane.

This transition is typified by the Burley Tobacco Growers Cooperative Association, Lexington, Ky. Organized in 1920 following the disastrous decline in tobacco prices, this association was comprised of six district warehousing companies which operated sale, redrying, and storage facilities in various areas of the burley tobacco belt. Most of the burley crop in 1921 through 1924 and nearly half of the 1925 crop was handled by the association on a pool basis, but the entire 1926 crop was sold at auction.

Since the first contracts between growers and the burley cooperative ended with the 1926 crop, and because less than 75 percent of the growers accepted the new contract which was to begin with the 1927 crop, the Burley Tobacco Growers Cooperative Association became inactive.

Two of the district warehousing corporations survived, however, and are among the largest and most successful of cooperatives operating looseleaf auction warehouse facilities at the present time.

After World War II, renewed interest in the auction selling of tobacco through cooperatives developed. With the exception of one organized in 1928 and another in 1932, all existing associations were organized from 1945 through 1955 as shown in the accompanying tabulation.

Year operations began	Number of associations
1928	1
1932	1
1945	1
1946	1
1948	2
1949	2
1951	1
1953	1
1954	3
1955	2

As of 1961-62, auction selling of tobacco by producer cooperatives was an important activity. These associations handled about 20 percent of the total volume of tobacco auctioned in markets where they operated in that season. During the 10 marketing seasons, 1952-53 through 1961-62, they handled an average annual volume of 83.3 million pounds. The markets in which cooperative warehouses operated and the principal type of tobacco handled are shown in figure 1.

Procedures Followed

The specific steps followed in planning and developing each auction association varied considerably. Some cooperatives were the offspring of previously existing associations. Others were an initial attempt on the part of growers to develop improved marketing conditions. Attention will be focused only on those factors common to the organization of all associations.

When considering the establishment of a typical grower-owned and operated looseleaf tobacco auction, the organizers first evaluated: (1) The quantity and quality of tobacco available from potential members and nonmembers, (2) the extent to which buyers were willing to patronize the association's facilities, (3) the availability of capable management and an adequate labor force, and (4) required capital and possible sources.

If the initial survey suggested that cooperative warehouse facilities be established, a formal plan of organization was adopted. Potential members held meetings and appointed organization committees to consider various problem areas associated with initiating the new enterprise.

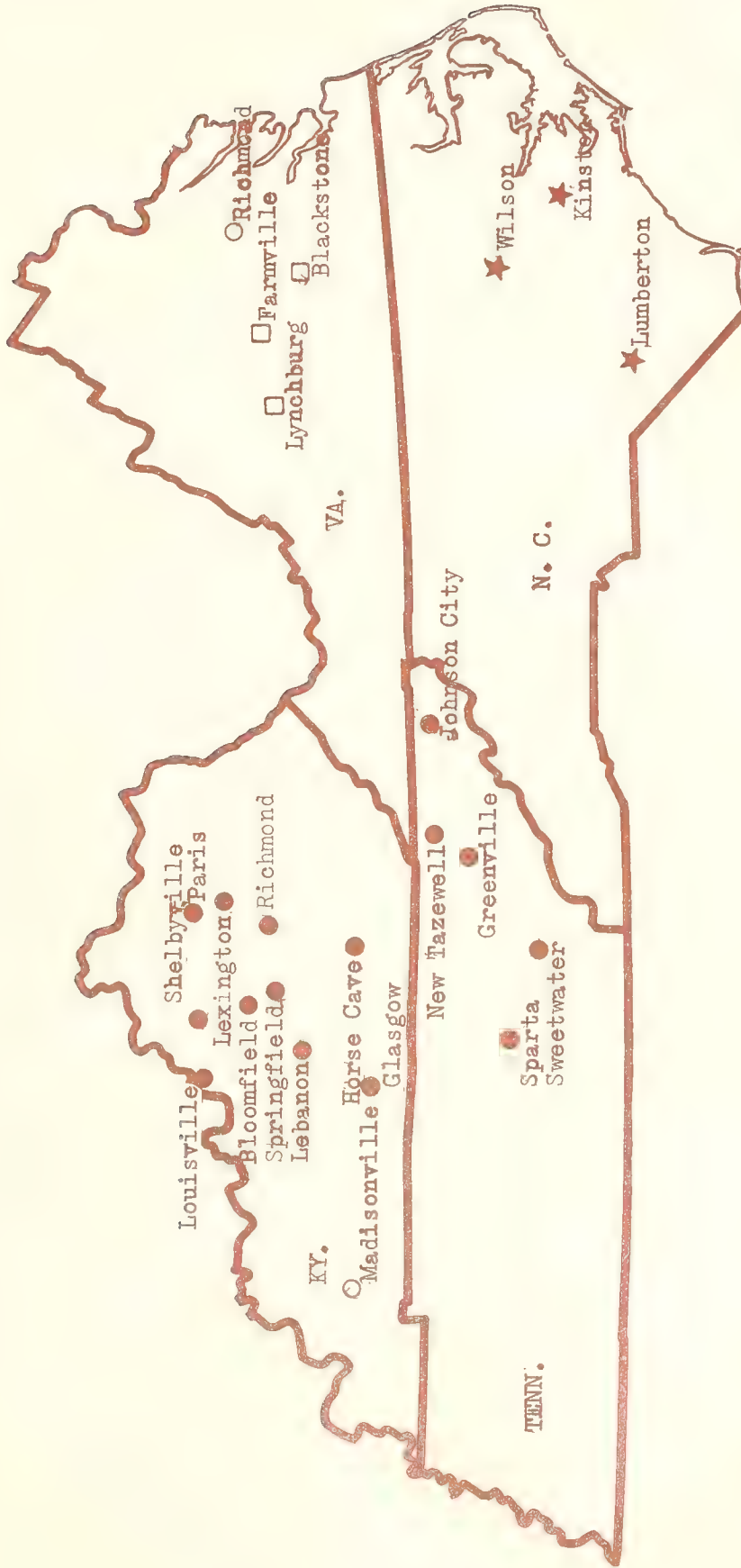


Figure 1: Location of markets having cooperative tobacco auction warehouses and primary type of tobacco handled:

● Burley

★ Flue-cured

□ Dark fire-cured

○ Dark air-cured

After the committees decided all organizational features, they retained a legal firm to help prepare articles of incorporation and other necessary papers. This material was filed with State authorities, and conformed to the cooperative marketing statutes of the State in which the association was to be headquartered.

When phases concerning organizational policy and procedure were completed, directors, and officers elected, and a manager appointed, attention was directed toward finances.

Consideration of financial sources was on the basis of amount and cost of funds needed and growers' willingness to invest in the new organization. It had to be determined if a new warehouse was to be constructed, or if an existing facility could be purchased, leased, or rented. Cost and availability of funds were two determining factors.

The average seasonal volume of tobacco expected to be handled, floor space required to serve the estimated number of patrons, and size and type of existing facilities in the local market were also important considerations. Tobacco volume and number of patrons were estimated both on a seasonal basis and on the basis of maximum daily activity during the height of the marketing season. Acquisition of facilities and equipment, hiring of employees, and development of a sales policy conformed to the best interests of the association's grower members, taking into consideration the quasi-legal structure of the local tobacco market, and State statutes on tobacco marketing.

At some time during the planning and development stage, a public relations program was outlined. Such a program was to inform members and potential patrons of the benefits offered by the organization. It also stressed that benefits were, in large part, dependent upon membership loyalty and support.

During their formative period several associations requested assistance from farm organizations, local businessmen, banks for cooperatives, and others. Support offered consisted of furnishing information on organizational matters, encouraging public support, lending financial aid, and furnishing personnel (table 1). Farmer Cooperative Service advised some associations confronted with various organizational and operational problems during their initial and later periods of operation.

Table 1.--Type of assistance offered newly formed tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia

Source of assistance	Type of assistance furnished <u>1/</u>			
	Organization information	Public support	Financial aid	Personnel
	<u>Number of cooperatives reporting</u>			
General farm organizations <u>2/</u>	7	10	4	3
Local businessmen	4	5	8	1
Bank for cooperatives	1	1	9	1
Other cooperatives	3	2	1	3
Land-grant colleges	2	4	-	1
County agents	2	5	-	-
State departments of agriculture	2	3	-	1
Civic groups	2	1	1	-
Associations reporting	13	14	11	5

1/ Some cooperatives were assisted by more than one source.

2/ Includes Farm Bureau, Grange, and Farmers' Union.

ORGANIZATION CHARACTERISTICS

The 15 cooperatives can be classified into two groups on the basis of the number of tobacco markets in which they operated warehouses.

Twelve of the cooperatives, classified as locals, operate in a single market. A locally elected board of directors appoints a manager to supervise the business activities of the association.

The remaining three cooperatives, classified as centrals, operate in two or more markets, and have a single board of directors elected by producer-members over a regional rather than a local area.

The board selects a general manager, and a manager for each of the individual warehouses. In one central, the general manager is also an officer of the association. The general manager usually delegates control of normal business operations to the individual warehouse managers.

Operational differences between locals and centrals are, for the most part, minor. The major difference involves administrative functions. In the centrals, recordkeeping, budgeting, financing, and similar activities are performed at the main office. In the locals, operating and administrative functions often are handled by the same personnel.

The degree of difference between a local and a central becomes less apparent when the local operates more than one warehouse. One local operates three warehouse facilities, and three others each operate two auction warehouses. One central has 16 auction warehouses dispersed in 3 local markets, a second operates 8 warehouses located in 6 markets, while the third operates 4 warehouses located in 3 markets. Because the differences are relatively minor, a distinction will usually not be made between locals and centrals in this report.

The elements comprising the organizational structure are the same for all associations, namely, members, a board of directors, manager, and employees.

Membership

This part of the report discusses trends in membership size of tobacco auction warehouse associations, means by which the tobacco grower became an association member, methods of maintaining and expanding membership, and exercise of membership control.

Number of Members

During the first year of operation, membership size of the associations ranged from about 100 for the smallest to well over 20,000 members for the largest. Nine associations, of those replying, had an initial membership of less than 1,000 each, while 2 associations started with more than 5,000 members apiece (table 2).

Cooperatives beginning with the smallest number of members were usually those attempting to establish initial grower-owned facilities in local tobacco markets. Larger associations, on the other hand, followed earlier cooperative organizations that had gone out of business.

By 1955, all auction warehouse associations had been organized. In that year, 10 of 13 associations providing information reported that they each had more than 1,000 members. In 1962, all 15 associations reported at least this number of members, with 10 reporting more than 2,000 members each.

The total number of memberships of auction warehouse cooperatives averaged nearly 52,000 during the 10-year period, 1953-62. An average of some 33,000, or almost 64 percent, of the members sold their tobacco through cooperative warehouses each year during this period. The latter figure suggests that while the associations were concerned with growth in membership, emphasis was also placed on retaining or encouraging continued patronage.

Table 3 presents information on total number of members and member-patrons during 1953-62.

According to these data, cooperative auction warehouses have been quite successful in maintaining and, in some cases, expanding membership during recent years.

The decline in membership experienced by a few associations during certain years was usually temporary. Periodic elimination of non-patrons was the primary cause of lower membership rather than any long-term trend leading to eventual dissolution of the organizations.

Table 2.--Membership of tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia, first year of operation and period 1953-62

Calendar year	Total number of associations reporting	Number of members			
		Less than 1,000	1,000-4,999	5,000-9,999	10,000 and over
First year of operation	13	9	2	1	1
1953	9	-	7	2	-
1954	9	-	7	1	1
1955	13	3	7	2	1
1956	14	3	8	2	1
1957	15	2	10	2	1
1958	15	2	10	2	1
1959	15	2	10	2	1
1960	15	1	11	2	1
1961	15	-	12	2	1
1962	15	-	12	2	1

Table 3.--Members and member-patrons of tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia, 1953-62

Year	Total number of members	Members patronizing associations	
		Number	Percent
1953	34,924	23,098	66
1954	42,595	29,292	69
1955	46,703	31,805	68
1956	58,019	39,844	69
1957	57,379	39,114	68
1958	58,366	36,993	63
1959	54,996	32,941	60
1960	53,135	32,551	61
1961	54,611	32,492	60
1962	55,689	31,968	57
Average	51,642	33,010	64

Acquiring Membership

Several methods were used by the cooperatives to acquire membership (table 4). Nine of the 14 reporting required growers to buy a share of the associations' common stock. The price per share was usually \$1, but one association charged \$5 and another \$10.

Three associations required a membership fee. It commonly amounted to \$1. One association required a membership contract be signed, which assured that the grower delivered his tobacco to one of the cooperative's warehouses for sale. A share of stock did not have to be purchased or fee paid in this case. Another association required only that the grower patronize its facilities to acquire membership.

Eleven associations, of 12 replying, stated that bylaw provisions allowed the cost of the membership share or fee to be deducted from patronage refunds due the grower.

Table 4.--Methods used by 14 tobacco auction warehouse cooperatives to allow growers to acquire membership

Method growers acquired membership in association	Associations reporting method used
	<u>Number</u>
Buy share of association's stock	9
Pay membership fee	3
Sign membership contract	1
Patronize association's facilities	<u>1</u>
Total	14

Maintaining and Expanding Membership

Attracting growers to join an association and maintaining present membership were accomplished not only by operating success but by methods of communication used to inform members and potential members (table 5).

Table 5.--Methods used to maintain and expand membership by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia

Methods used by associations to inform members and promote membership	Associations reporting method used
Hold annual meeting	15
Sponsor radio programs	15
Advertise in newspapers	13
Representative visits members on their farms	13
Agricultural classes and clubs invited to visit	12
Distribute copies of annual report to membership prior to annual meeting	7
Newsletters distributed	5
Membership meetings held in addition to annual meeting	4
Sponsor television programs	2

Members had an opportunity at the annual meeting to discuss operation of the cooperative with directors and officers. Seven of the associations reported that they mailed a copy of the annual report to their membership before the annual meeting.

Membership meetings, in addition to the annual meeting, were held by four of the associations. A few also distributed newsletters. Three associations reported the number distributed. This was, respectively, two, three, and four newsletters annually.

Advertising media were used quite extensively. All associations sponsored radio programs sometime during the year. Most sponsored daily programs throughout the marketing season. Some utilized 1-minute spot advertising announcements, while others used market information programs 3 to 15 minutes in length. The latter programs consisted primarily of market news and advertisements.

Newspaper advertising was also widely used. Thirteen associations, of 14 replying, ran advertisements in daily or weekly newspapers throughout the marketing season. Only two associations reported sponsoring television programs.

Two other methods of improving public relations were reported by a large number of the cooperatives. Thirteen associations stated that a representative of the cooperative visited members on their farms, and 12 associations invited agricultural classes and clubs to visit cooperative facilities.

Membership Control

Members of the associations nominate and elect directors who are charged with maintaining the business affairs of the organization in a satisfactory state. Membership voting power is allocated, in most cases, on the basis of one vote per member regardless of the number of common stock shares held or amounts of patronage provided. A few associations authorize that a member be given one vote for each share of common voting stock held.

Some of these also distribute patronage refunds in the form of voting stock. Voting power in the latter case is thus apportioned among members on two bases: (1) Number of common stock shares held, and (2) Amount of patronage furnished.

When members of an association are in a large geographical area, districts are usually provided, the members of a district nominating and electing a director from their area. In some cases where districting is used, directors at large also sit on the board, having been nominated and elected by the membership as a whole at the annual meeting.

The one vote per member provision helps to assure that a cooperative will not be controlled by a few members. It also encourages support of an association, since each member feels that his role is equal to that of others in determining its control.

On the other hand, voting rights based on the amount of common stock held, and in some cases patronage, aid in the election of directors reflecting the views of those members having the greatest interest in the association, both from an investment and use standpoint.

Districting helps to prevent heavily member-populated regions from dominating representation on the board. Election of directors at large tends to balance the composition of the board, and lessens the chance of discord developing among regional factions.

Board of Directors

Composition, regulation, functions, and compensation of the associations' boards of directors will be discussed in this part of the report.

Composition

The number of directors serving on association boards ranged from 7 to 21, with 11 being found most frequently. Larger associations generally had a greater number of directors on the board. The major factor responsible seemed to be the size of the territory in which the membership was located. A distribution of the number of directors composing the board of each association is shown in the accompanying tabulation.

<u>Board members</u>	<u>Associations reporting</u>
<u>Number</u>	<u>Number</u>
7	2
8	1
9	1
11	6
12	2
15	1
21	2

There were 12 boards composed of an odd number of directors and 3 of an even number. The odd number composition was usually favored in order that ties would not occur when policies and issues were voted upon.

The majority of directors were from 35 to 65 years of age, with the 50 to 65 year group comprising a substantial proportion of the makeup of each association board. Directors older than 65 were more numerous than those less than 35 years old. The over-65 group constituted about 10 percent of all directors reporting.

Regulation

Provisions for normal regulation of the board of directors are contained in the corporate bylaws of each association. The term of office of directors, proportion of board members elected annually, and the number of successive terms which can be served are set forth.

Fourteen of the 15 cooperatives established a 3-year term of office for directors. Of these seven elected one-third of their directors annually, one elected 100 percent of the directors every third year, and six elected a variable number of directors yearly. A variable number were elected because the number of directors composing the board was such that it was not equally divisible by three. The variation allowed all members of the board to be elected within a 3-year period. The remaining association elected all directors each year.

The boards of some associations administered certain personnel procedures, such as approving the appointment, promotion, and compensation of the manager and other key employees. The manager of every association was appointed by the board of directors, and the boards of 80 percent of the associations also appointed key employees. Less than half of the associations' boards promoted or set the salary paid to key personnel. Key employees, as a designation, differed among associations but generally referred to supervisory personnel in sales, office, and warehouse floor forces.

Of the associations reporting the number of successive terms a director served, three stated that a director could serve two successive terms only. Two other associations replied that while only two successive terms might be served, if a year of absence elapsed after each two, the number which could be served was not limited.

The boards of most of the cooperatives were regulated to assure reasonable stability and allow use of accumulated directorial experience, yet provide for turnover of board members through regular elections and successive term restrictions.

The bylaws of most associations also provided for other than normal regulation of the board. Means were made available for the membership, and sometimes fellow directors, to remove during tenure a director or directors for cause.

Functions

The functions of association boards were concentrated primarily in the areas of policy-making and policy-supervision.

The boards of some of the cooperatives appointed an executive (or management) committee. This committee, composed of a designated number of board members, was delegated certain powers and duties by the board of directors. The executive committee might be required to meet more often than the board of directors.

It considered specific problems which would be difficult for a meeting of the entire board to handle, especially if it was composed of a large number of directors. Such problems might concern management of the business, guidance of manager and employees, acquisition of employee bonds and various types of insurance, composition of audit reports, handling of funds and selection of a depository, or preparation of reports for Federal and State authorities.

Seven association boards held quarterly meetings and four met semi-annually. Two others held monthly meetings, and a similar number met only when warranted. Of the seven cooperatives reporting quarterly board meetings, two held additional meetings when required.

All cooperatives reported that board meetings were open to the manager, and 13 reported that they were also open to members of the association. However, only 2 of the 13 associations reported that members actually attended the meetings.

Compensation

Nine of the 15 associations paid directors for attending board meetings. Five of these, whose meetings were sometimes expected to last more than 1 day, paid on a per diem basis. In addition, one also paid for all living expenses board members incurred while attending the meeting. The four remaining associations paid their directors a fixed amount for attending each meeting.

Seven associations paid for automobile expenses which were computed on the basis of round-trip mileage to the meeting location.

One cooperative reported that a director was a full-time employee of the organization, and four reported that directors were employed on a part-time basis. The director employed full time was manager of the cooperative, while part-time employment was concentrated in the field of office work.

Manager

The manager has charge of the business under direction of the board. The board designates his compensation and has the power to dismiss him at will. This part of the report will consider characteristics of managers of auction warehouses, functions performed, and computation of payment received for services rendered.

Characteristics

Most auction warehouse managers had been employed by the association for more than 5 years, and several had been employed for more than 10 years. The majority were hired initially in that capacity or worked for the association a relatively short period of time before assuming the role.

Most managers were not employed by the associations during the entire year. When not working for the tobacco auction warehouse cooperative, managers were employed in various other capacities: Farmer, private businessman, Government employee, or manager of another cooperative organization. Managers of 12 of the cooperatives reported that they were presently growing tobacco, in addition to any other employment which they might have.

Duties

Managers of cooperative auction warehouses are responsible for ordinary business operations, including purchasing, marketing, and handling all products and supplies in which the association deals. Warehouse managers employed by most associations have the power to employ, supervise, and dismiss all agents and employees of the organization not specifically employed by the board of directors.

Since auction warehouse associations deal primarily or exclusively with tobacco marketing, the manager is most directly involved with supervising and controlling office, sales, and warehouse floor forces. Through such direction, he endeavors to conduct the business in such a manner that patrons and buyers will receive just and fair treatment.

Payment

Ten associations of 14 replying paid managers a straight salary. Three associations reported paying a commission in addition to a salary. The remaining association paid only a commission. None of the warehouse managers received fringe benefits, such as life insurance, a medical payment plan, a retirement plan, or a bonus. A retirement plan was provided, however, for the general manager of one central association.

Of the three associations paying a commission in addition to a salary, two computed the commission as a percent of gross savings. One paid 7.5 percent, the other 2 percent. The third association paid the manager 10 percent of net savings as a commission.

In general, salary was directly related to the seasonal volume of tobacco handled by the warehouse managed. Volume handled determined in large part the scope of responsibilities and duties of the manager.

Managers were hired on a seasonal or year-round basis. Of 11 associations reporting, 5 hired the manager for 3 months, 1 for 6 months, and 5 for the entire year. There seemed to be no tendency for managers employed seasonally to be paid more per month than managers employed on an annual basis.

Employees

Tobacco auction warehouse employees can be classified into three groups: (1) A warehouse floor force, (2) a sales force, and (3) an office force. The floor force is responsible for all operations involving the physical handling of the tobacco. The sales force attends to activities concerning the auction sale. Accounting and controlling procedures are handled by the office force. A miscellaneous group is sometimes designated which includes such employees as janitors and night watchmen.

Number

Many factors determine the number of personnel employed by the individual associations, among them number of warehouses and size of individual warehouses. Another is the number of patrons and average volume of tobacco delivered per patron.

Local market rules and regulations on the amount of tobacco that can be sold during the sale time allocated to each association warehouse influence the number of employees hired. The number of sets of buyers assigned to a local market may also be of considerable importance in determining employees required. 1/ Assignment of an additional set of buyers to a

1/ Each set of buyers is comprised of representatives of organizations purchasing tobacco in the market. The number of persons in a set and the number of sets assigned usually depend on the volume handled in the market.

market, for example, may require a larger labor force if the volume handled by a cooperative warehouse is greater or if the same volume is handled in a shorter period of time.

Management efficiency, physical layout of the warehouse, incorporation of work-saving procedures, and utilization of labor-saving equipment are some additional determinants of work force size.

The number of employees per warehouse ranged from 20 to 75 for the associations replying. There was more variation in the number of non-supervisory personnel than of supervisors. Although the warehouse manager sometimes acted as sales manager or floor manager, a separate supervisor was usually assigned to oversee each type of work force. The number of nonsupervisory personnel comprising office, floor, and sale forces differed among association-operated warehouses on the basis of such factors as set forth in the preceding paragraphs.

Most personnel were employed only during the tobacco marketing season. A few supervisors and office personnel, however, were employed year-round.

Classification

Figure 2 shows the organization of a typical local tobacco auction warehouse cooperative. Operation of one warehouse is shown in this diagram, although by duplication of operating personnel it can be expanded to include a greater number. Employees are responsible to one of three supervisors, and the supervisors are responsible to the manager.

Cooperatives operating more than one warehouse frequently appoint a general manager. This is generally true when warehouses are operated in more than one local tobacco market. Managers of the individual warehouses are responsible to the general manager, who in turn is responsible to the officers and to the board of directors of the association.

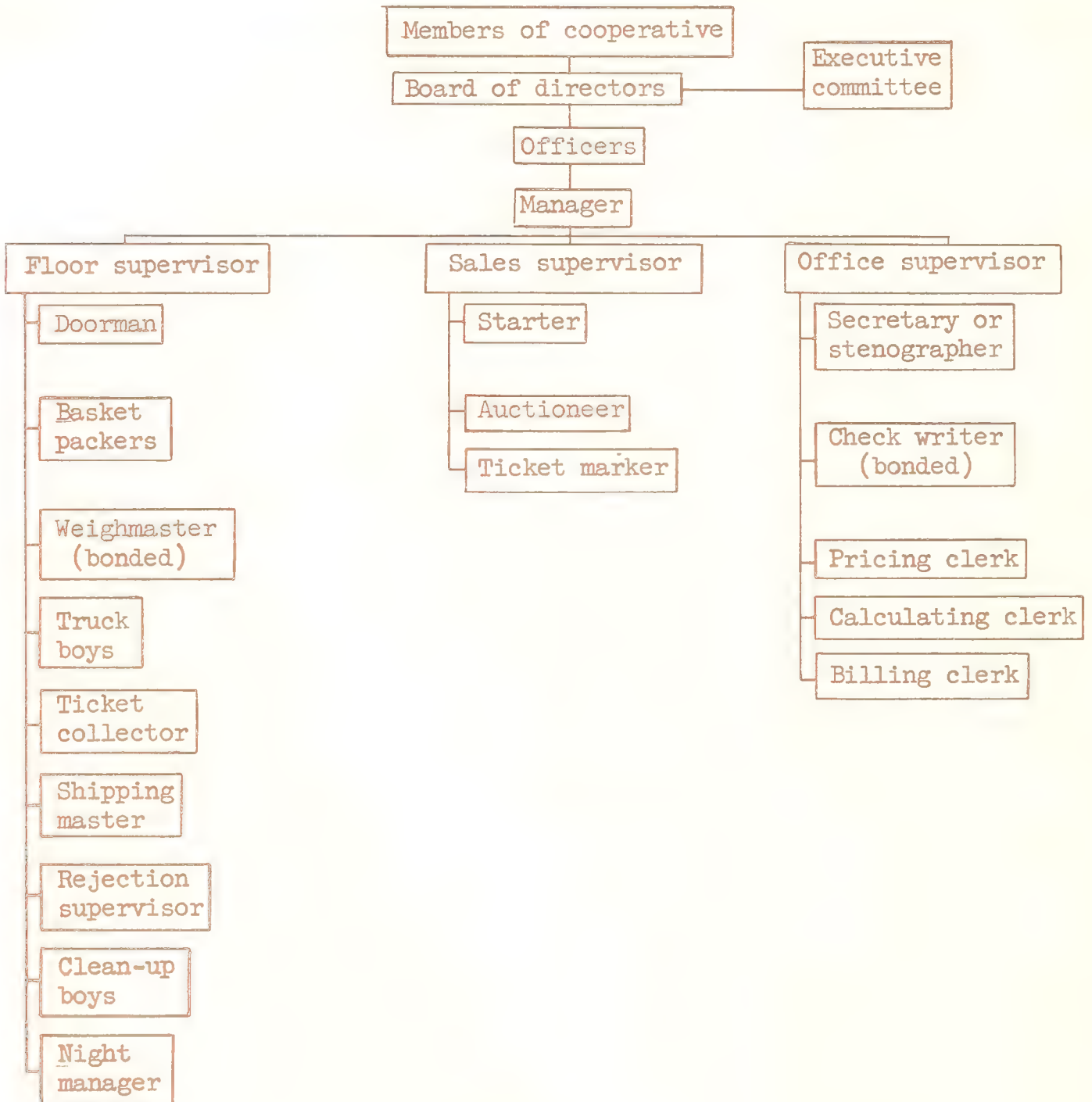
OPERATIONAL FEATURES

This section of the report discusses the associations' tobacco marketing activities. Characteristics of auction warehouse facilities and related equipment operated by the cooperatives are examined initially. Later, features of the marketing system are presented, and costs and benefits resulting for patrons of the associations summarized. Financial requirements for capital improvements and annual operating expenses are also discussed.

Facilities

The number of auction warehouses operated by the individual associations ranged from 1 to 16 (table 6).

Figure 2. - Organization of a tobacco auction warehouse cooperative



Total warehouse space operated by the individual cooperatives ranged from 24,000 to slightly over 1 million square feet, averaging approximately 210,000 square feet. Floor space of individual cooperative warehouses ranged from 24,000 to over 400,000 square feet. Ninety percent or more of the space, as an average, was utilized as sale floor area.

Table 6.--Number of warehouses operated by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia

Associations reporting	Warehouses operated	Local markets in which warehouses are located
<u>Number</u>	<u>Number</u>	<u>Number</u>
8	1	1
3	2	1
1	3	1
1	4	4
1	8	6
1	16	3

Warehouse basket capacity, or the number of baskets of tobacco which can be displayed, is determined both by sale floor area available and spacing arrangements designated by local market regulations or individual warehouse rules. Individual associations' total basket capacity ranged from 800 to about 25,000 baskets. Basket capacity of individual warehouses operated by the associations ranged from 800 to 10,000 baskets. A smaller range of 1,000 to 3,000 baskets encompassed the capacity of most warehouses.

A distribution of total warehouse space and basket capacity operated by the associations in 1957 is presented in table 7. Table 8 shows average space and capacity for individual warehouses.

Warehouse and Office Equipment

The principal items of warehouse equipment acquired were baskets, scales, and basket transportation devices, such as manually or power-operated warehouse trucks and dollies. The major item of expense, both initially and on a continuing basis, involved the purchase of tobacco baskets.

The number of baskets carried in inventory is usually determined by basket capacity of the warehouse, sale time allotted to the warehouse, rate of sale, and basket turnover rate at the redrying plant. The average annual volume handled per basket in inventory varied widely for the associations reporting, ranging from about 150 to 1,000 pounds of tobacco.

Table 7.--Total warehouse space and basket capacity operated in 1957 by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia

Warehouse space		Basket capacity	
Total	Associations reporting	Total	Associations reporting
<u>Square feet</u>	<u>Number</u>	<u>Baskets</u>	<u>Number</u>
Less than 50,000	2	Less than 2,500	4
50,000 - 149,000	4	2,500 - 7,499	2
150,000 - 249,000	5	7,500 -12,499	4
250,000 - 349,000	2	12,500 -17,499	-
350,000 or more	2	17,500 or more	2
Total	15	Total	12

The number of scales required is determined by the desired rate of flow of loaded baskets from the delivery area onto the auction floor. The number and type of devices necessary to transport baskets within the warehouse depend on the rate of basket movement both onto and off the sale floor. Acquisition of both types of equipment was usually calculated on the basis of rate requirements during periods of maximum sale activity.

Office equipment purchased by the associations consisted of furniture and office machinery. Most auction warehouse cooperatives acquired one or more typewriters, calculators, adding machines, and checkwriters.

Cost of Facilities and Equipment

Analysis of costs to the associations for auction warehouse facilities is most easily made by relating such costs to a common basis. The basis selected is the square foot, a measurement commonly used to describe tobacco auction warehouses.

Several factors causing differences in cost among associations should be recognized. Some of these are as follows:

1. The time period elapsing between the dates the first and last associations were organized covers approximately 27 years. The cost of comparable warehouse buildings and land has fluctuated considerably during this period, with the general trend upward.
2. The large geographical area in which warehouses operated by the associations are located affects costs. Costs for comparable facilities and land differ among local tobacco markets during any specific time period due to the particular complex of economic factors existing in each market area.

Table 8. -- Average space and basket capacity of individual warehouses operated by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia, 1957

Average	Individual warehouse space			Basket capacity		
	Associations reporting	Warehouses represented by reporting associations	Average basket capacity/warehouse	Associations reporting	Warehouses represented by reporting associations	
<u>Square feet</u>	<u>Number</u>	<u>Number</u>	<u>Baskets</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
Less than 50,000	4	9	Less than 2,000	6	26	
50,000 - 99,000	6	30	2,000 - 3,900	1	8	
100,000 -149,000	1	2	4,000 - 5,900	3	6	
150,000 -199,000	2	2	6,000 - 7,900	1	1	
200,000 or more	<u>2</u>	<u>2</u>	8,000 or more	<u>1</u>	<u>1</u>	
Total	15	45	Total	12	42	

3. Type of construction affects cost of warehouse space. For example, warehouses of equal size, but constructed for different lengths of life, can vary quite markedly in original or purchase cost. The skylighting technique used for illumination of the display floor has a similar effect on cost of warehouse space.
4. The size or geometric layout of the warehouse or warehouses acquired by an association may have resulted in construction economies. Costs will be affected when measured on a per unit basis. This factor becomes of considerable importance in determining average cost per square foot of total facility, for the association which operates warehouses of varying size. It is necessary to weigh costs with the warehouse space from which they were derived in arriving at a meaningful average.
5. Type of acquisition. Some associations operated only warehouses that they planned and constructed. Others acquired facilities of previous owners. Still other associations operated combinations, varying in proportion, of built and purchased warehouses. Unit costs may differ between the two types of acquisition and should be considered in evaluating the cost of associations' warehouse facilities.

Although not entering into figures for annual depreciation, the cost of land is included in the following presentation of facility cost. Land cost, in most cases, is relatively small in relation to warehouse cost but is an integral part of the figure which must be considered by associations when acquiring plant.

Associations' costs for facilities and the land on which they are situated ranged from 94 cents to \$2.44 per square foot of warehouse space. The average figure was \$1.48 per square foot, and the median figure \$1.34 per square foot.

One central-type association, which operated a relatively large number of warehouses, furnished rather complete data on the cost of its individual facilities. Warehouses were not of uniform size or type and were located in several local tobacco markets. Cost of individual warehouses and land ranged from 78 cents to \$1.98 a square foot of warehouse space.

The average cost was \$1.25 a square foot, and the median cost \$1.18 a square foot. Average weighted cost was \$1.35, the per unit cost of individual warehouses being weighted by the warehouse space represented in arriving at an average.

No consistent relationship existed between size of warehouse and cost per square foot due to other factors also affecting cost, which have been noted in preceding paragraphs.

Cost of warehouse and office equipment can also be viewed in relation to the square foot measure, the amount of warehouse space operated by an association usually indicating the relative volume of tobacco handled.

The amount invested in warehouse equipment by the associations reporting ranged from 6 to 21 cents a square foot of warehouse space operated, with the average cost amounting to 12 cents a square foot. Cost of office equipment ranged from 2 to 12 cents a square foot of warehouse space and averaged 4 cents a square foot.

Cost of warehouse and office equipment together ranged from 4 to 24 percent of the investment in auction warehouse facilities, averaging almost 12 percent. That is, for every dollar invested in auction warehouses and the land on which they were situated, associations spent from 4 to 24 cents for office and warehouse equipment, with the average cost amounting to approximately 12 cents.

Insurance

Most of the associations carried insurance on warehouse facilities and equipment. Several were also covered for fire damage occurring to tobacco displayed on the auction floor.

Insurance coverage on warehouses and equipment was generally separable into three groups, based on the amount of insurance kept in force. Some associations carried coverage approximately equivalent to original cost, or if price levels had risen substantially since acquisition, to replacement cost. Other associations reduced coverage as the assets depreciated in value. The third group carried an amount of insurance which approximated average life-time value of facilities and equipment.

Insurance for tobacco displayed on warehouse floors was usually calculated to cover partial or entire amounts of loss which might be incurred by fire.

Information on premium rates paid for insurance coverage was limited. That which was available indicated annual premiums for insurance on warehouses and equipment ranged from about \$15 to \$25 per \$1,000 of coverage. For tobacco in the auction warehouse, the premium ranged from \$1 to \$1.27 for \$1,000 coverage.

The wide disparity between the rates charged for facilities and equipment and those for displayed tobacco was due to the time period involved. Facilities and equipment had to be covered during the entire year, while sale tobacco had to be insured only during the relatively short marketing season, or that portion of the season during which the association was operating.

Capital Improvements

Eight associations incurred additional indebtedness to improve existing facilities or to diversify services offered to patrons. The capital additions acquired are presented in table 9. The cost to the associations for these additions ranged from \$10,000 to \$340,000 and averaged \$98,000.

Table 9.--Acquisition of capital improvements by tobacco auction warehouse cooperatives in Kentucky, North Carolina Tennessee, and Virginia

Reasons additional indebtedness incurred	Associations reporting
	Number
1. For storage warehouse	1
2. To increase warehouse floor space	2
3. To repair warehouse	2
4. To buy land for future expansion	
5. To buy equipment for diversifying operations	
Combination of 1 and 2	1
Combination of 1 and 5	1
Combination of 2 and 4	1
Total	8

Table 10 shows that banks for cooperatives were the most important source of funds for capital improvements while associations' savings played the most prominent role in retirement of the indebtedness.

Table 10.--Source of funds for capital improvements and for retirement of debt on improvements, tobacco auction warehouse cooperatives

Capital improvements		Debt retirement	
Source of funds	Associations reporting	Source of funds	Associations reporting
	Number		Number
1. Bank for cooperatives	4	1. Association's savings	3
2. Other bank		2. Sale of stock	
3. Association's savings		3. Sale of asset	
4. Sale of stock			
5. Depreciation reserve			
Combination of 1 & 3	1	Combination of 1 & 2	1
Combination of 1 & 4	2	Combination of 2 & 3	1
Combination of 1, 2, 4, & 5	1		
Total	8		5

Markets

This section examines local markets in which cooperatives operate auction warehouse facilities. Market characteristics, allocation of sale volume, organizations providing regulative and service-type activities, and sale and price features are included.

Characteristics of Local Markets

The associations operated tobacco auction warehouses in 23 local tobacco markets. Eleven markets were located in Kentucky, 5 in Tennessee, 4 in Virginia, and 3 in North Carolina. Table 11 presents some features of these markets during the 1962-63 marketing season, including ranges in number of sale days, number of warehouses, and number of sets of buyers.

The marketing season varies according to the type of tobacco handled. Markets in the burley area normally held auction sales sometime between the latter part of November and the middle of February. The flue-cured area is divided into five tobacco belts. Cooperative auction warehouses are operated in two.

Sales in the Border Belt are usually held sometime between the last of July and last of September, those in the Eastern North Carolina Belt between the middle of August and the middle of November. Dark fire-cured markets hold sales between the first of December and the middle of February, and those of the dark air-cured markets occur in December and January.

Table 11.--Features of Kentucky, North Carolina, Tennessee, and Virginia markets having cooperative tobacco auction warehouses, 1962-63 marketing season

Type of tobacco handled and location of markets	Number of sale days during marketing season	Number of warehouses in market	Number of sets of buyers in market
	<u>Range</u>	<u>Range</u>	<u>Range</u>
Burley			
Kentucky	23-40	5-38	1-5
Tennessee	19-27	1-20	1-2
Flue-cured			
North Carolina	42-50	8-12	3-5
Dark air-cured			
Kentucky	<u>1/8</u>	<u>1/2</u>	<u>1/1</u>
Virginia	<u>1/20</u>	<u>1/1</u>	<u>1/1</u>
Dark fire-cured			
Virginia	<u>1/31-32</u>	<u>1/2-3</u>	<u>1/1-2</u>

1/ 1961-62 marketing season.

Associations handling burley and flue-cured tobacco generally established auction warehouses in the markets which handle comparatively large volumes. Of 61 local burley tobacco markets in the United States, cooperatives operated auction warehouses in 15. Twelve of the 15 markets are ranked in the upper half of all burley markets, based on sale volume handled. While cooperatives operated auction warehouse facilities in only 3 of 94 local flue-cured tobacco markets, all 3 were among the 10 markets handling the largest volume of this type.

Three types of tobacco comprise the dark air-cured crop: Green River, Virginia Sun-Cured, and One Sucker. Cooperatives operate warehouse facilities in markets handling the first two types. Of eight dark air-cured tobacco markets, the two with cooperative warehouses rank fifth and eighth on the basis of volume handled. The market handling Green River tobacco ranks lowest among three markets handling this type, while the market handling Virginia Sun-Cured ranks first among one major and several minor markets in which this type is sold.

The dark fire-cured tobacco crop is also comprised of three types: Eastern District, Western District, and Virginia. One cooperative handles this type of tobacco. It operates warehouses in all three markets handling Virginia Dark-Fired tobacco.

Allocation of Market Sale Volume

Several factors influence the volume of tobacco handled by a cooperative or private warehouse organization in a local market. These include the number of the market's sale days allocated to the organization, the number of hours per day during which tobacco may be auctioned, rate of sales per hour, basket weight regulations, and number of sets of buyers assigned to a market.

The proportion of market warehouse sale floor space or market basket capacity operated by an association normally determines the number of sale days allocated to it.

In the flue-cured area, markets usually observe a 5.5 hour sales day which represents 2,200 baskets a day per set of buyers. A maximum sales rate of 400 baskets an hour is maintained, and basket weight is limited to 300 pounds. In the burley area, warehouses have the option of selling on either a basket basis or a poundage basis. Those selling on a basket basis hold sales for 3.5 hours daily at a rate of 360 baskets an hour. Warehouses operating on a poundage basis are limited to sales of 302,400 pounds of tobacco a day per set of buyers, with the provision that sales cannot exceed 1,800 baskets daily.

The number of sets of buyers assigned to a market affect the amount of sale time which can be assigned to each warehouse in the market. For example, a market with one set of buyers has to rotate the set among all warehouses in the market. Assignment of an additional set effectively doubles the amount of sale time which can be allocated to each market warehouse.

Type of Market Sales

Total sale volume handled in a local market consists of first sale and resale tobacco. First sale tobacco, as the name implies, is purchased the first time it is offered for sale on the auction warehouse floor. It is processed (redried and packed into hogsheads), stored for aging, and ultimately moves into manufacturing channels. Resale tobacco, on the other hand, is that on which bids have been rejected by farmers during a first sale or that which has been purchased by warehousemen or speculators to resell. It is reoffered at a later sale.

Volume Handled by Local Markets

For the 1961-62 marketing season, total sales for the local markets in which cooperative warehouses operate ranged from less than 2.5 million pounds to over 75 million pounds of tobacco, with the majority of markets handling less than 10 million pounds. First sale tobacco comprised over 90 percent of total sales on all markets and over 95 percent on most.

Floor sweepings and pick-up tobacco are included in the total sales volume (first sales plus second sales) handled on a market, since almost all of it is displaced from baskets after they have been weighed, either through movement on and off the auction floor or during buyer inspection as the auction sale proceeds.

The cost of this type of tobacco is borne by buyers twice -- once when they pay for baskets on which it was originally placed and again when they buy the pick-up tobacco itself. Revenue derived from the sale of this type of tobacco accrues to the warehouse organization. Any margin obtained may be reduced considerably, however, if buyers have to be reimbursed for a substantial number of baskets whose loss in weight exceeds the tolerance that has been agreed upon between the warehouse and the purchasing firms.

Resales on burley markets ranged from 1 to 10 percent of total sales during the 1961-62 marketing season. On 80 percent of these markets, however, 5 percent or less of the sales volume was resale tobacco.

Resales on flue-cured markets are generally greater than on those handling other types of tobacco. This is due to the relatively fast pace of the auction sale which increases the number of bid rejections by growers and leads to greater purchase activity by speculators and warehouse operators. Warehouse operators usually set up a warehouse leaf account to control the purchase and sale of this type of tobacco. Two of the three flue-cured markets with cooperative warehouses handled a volume composed of some 7 percent resales during the 1961-62 marketing season. The other flue-cured market handled slightly more than 5 percent resales.

The dark air-cured and dark fire-cured markets generally handle a very small proportion of resale tobacco in comparison to the flue-cured and burley markets. The auction sale in these markets, results in fewer rejections by sellers and offers less opportunity for the speculative purchaser. Both of the dark air-cured and two of the three dark fire-cured tobacco markets of concern to this study handled less than 1 percent resales during the 1961-62 marketing season. The remaining dark fire-cured tobacco market handled some 4 percent resales during the same period.

A distribution of first sale, resale, and total volume handled by the 23 markets in which cooperatives operate tobacco auction warehouses is shown in table 12 for the 1961-62 marketing season. Table 13 presents a distribution of the proportion of resale tobacco sold during the 1961-62 marketing season by markets handling particular types.

Market Prices

During the period of the study, growers received highest prices for burley tobacco, followed by flue-cured, with considerably lower prices being obtained for both dark fire-cured and dark air-cured leaf.

For burley, flue-cured, and dark fire-cured market areas, average seasonal first sale prices, as compared to resale prices, varied less among markets handling a particular type.

The two dark air-cured markets are separated widely geographically and each handles a different type of tobacco. For each market, the average resale price was less than the average first sale price, although the difference was much greater in the case of the market handling Green River tobacco.

Table 12.--First sale, resale, and total tobacco sale volume of Kentucky, North Carolina, Tennessee, and Virginia markets in which cooperative tobacco auction warehouses are operated, 1961-62 marketing season

First sales		Resales		Total	
Quantity	Number of markets	Quantity	Number of markets	Quantity	Number of markets
Million pounds	Number	Million pounds	Number	Million pounds	Number
Less than 10	13	Less than 0.5	13	Less than 10	13
10 to 20	5	0.5 to 1.0	6	10 to 20	5
More than 20	5	More than 1.0	4	More than 20	5
Total	23		23		23

Table 13.--Proportion of total volume marketed as resale tobacco by Kentucky, North Carolina, Tennessee, and Virginia markets having cooperative tobacco auction warehouses, 1961-62 marketing season

Resales as a percentage of total volume	Number of markets by type of tobacco handled				
	Burley tobacco	Flue-cured tobacco	Dark-fire cured tobacco	Dark-air cured tobacco	Total
<u>Percent</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
Less than 2.0	3	-	2	2	7
2.0 - 3.9	7	-	-	-	7
4.0 - 5.9	3	1	1	-	5
6.0 - 7.9	1	2	-	-	3
8.0 or more	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	15	3	3	2	23

Cooperative Operations

This section presents information on operating features of tobacco auction warehouse cooperatives. Included are sale volume handled, prices received, operating costs and returns, and patron charges and benefits. Other activities engaged in by the associations are also briefly discussed.

Sale Volume Handled

During the 10 marketing seasons, 1952-53 through 1961-62, the total seasonal volume of tobacco marketed by cooperative looseleaf tobacco auction warehouses averaged over 83 million pounds. During this same period, the volume marketed cooperatively averaged 21.5 percent of the total seasonal volume handled by all looseleaf tobacco markets in which cooperative facilities are operated (table 14).

Associations marketing burley tobacco accounted for over three-fifths of the average seasonal volume of tobacco marketed through cooperative warehouses during the period. Associations handling flue-cured tobacco marketed slightly over one-fourth of the total cooperative volume, while the associations marketing the dark types of tobacco accounted for approximately 10 percent of the cooperative total.

Table 14.--Total volume of tobacco handled by Kentucky, North Carolina, Tennessee, and Virginia tobacco auction warehouse cooperatives, 1952-53 to 1961-62

Marketing season <u>1/</u>	Quantity of tobacco marketed cooperatively, by type					Tobacco volume handled by markets in which associations operate	Proportion handled cooperatively
	Burley	Flue-cured	Dark fire-cured	Dark air-cured	Total		
	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Percent
1952-53	58.6	22.9	7.3	1.9	90.7	413.9	21.9
1953-54	50.7	24.9	5.3	2.5	83.4	386.2	21.6
1954-55	66.9	26.5	6.7	3.3	103.5	472.9	21.9
1955-56	48.9	25.5	6.3	2.9	83.6	397.7	21.0
1956-57	50.9	24.1	6.4	3.5	84.9	404.2	21.0
1957-58	49.8	20.9	5.3	2.4	78.3	341.6	22.9
1958-59	45.0	16.0	5.0	2.2	68.3	346.6	19.7
1959-60	50.3	18.8	5.7	2.8	77.6	348.0	22.3
1960-61	46.5	20.8	5.1	2.3	74.7	366.7	20.4
1961-62	59.0	21.0	5.4	2.8	88.1	400.0	22.0
Average	52.7	22.1	5.8	2.7	83.3	387.8	21.5
Proportion of cooperative volume	63.2	26.6	7.0	3.2	100.0	-	-

1/ Marketing season varies for different types of tobacco. During seasons listed, 1952 through 1961 crops of tobacco were sold.

The total value of all tobacco marketed by the auction warehouse associations is shown in the following tabulation for the marketing seasons, 1952-53 through 1961-62. The figures presented pertain to the value of the patrons' crops before sale charges are deducted.

Marketing season	Value of tobacco marketed by tobacco auction warehouse cooperatives
	<u>Million dollars</u>
1952-53	44.8
1953-54	32.7
1954-55	40.5
1955-56	43.5
1956-57	47.5
1957-58	43.0
1958-59	41.9
1959-60	44.6
1960-61	45.6
1961-62	56.2
Average	44.0

Volume Marketed by Individual Associations and Warehouses

The average volume of sale tobacco handled during a marketing season by associations, and by individual warehouses operated by the associations, is presented in tables 15 and 16.

Two-thirds of the associations, all locals, handled seasonal volumes ranging between 1 and 5 million pounds. Seven of nine associations marketing burley tobacco handled seasonal volumes ranging from 1 to 4 million pounds. The two remaining burley associations, both centrals, together handled a volume approaching three times that handled in total by the seven smaller, local cooperatives.

Two of three associations handling flue-cured tobacco and the single dark-fired tobacco association, a central-type organization, marketed volumes in the 4 to 7 million pound range. The other flue-cured tobacco association handled between 10 and 11 million pounds of tobacco during a marketing season.

The two cooperatives selling dark air-cured tobacco handled seasonal volumes similar in size to those handled by the smallest burley tobacco auction warehouse associations.

Individual cooperative warehouses marketing flue-cured tobacco handled larger volumes than warehouses marketing other types. Approximately two-thirds of the cooperative warehouses marketing burley, dark fire-cured, and dark air-cured tobacco handled seasonal volumes of less than 2 million pounds. The remaining third handled amounts of tobacco ranging from over 2 million up to about 3.5 million pounds which was considerably less than that handled by the smallest cooperative flue-cured tobacco auction warehouse.

Table 15.--Tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia classified by type of tobacco and average seasonal volume handled, 1952-53 to 1961-62

Average seasonal volume of tobacco handled	Associations handling				
	Burley	Flue-cured	Dark fire-cured	Dark air-cured	Total
<u>Million pounds</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
Less than 5.0	7	1	-	2	10
5.0 - 9.9	-	1	1	-	2
10.0 - 14.9	-	1	-	-	1
15.0 - 19.9	1	-	-	-	1
20.0 or more	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	9	3	1	2	15

Table 16.--Warehouses operated by tobacco auction cooperatives in Kentucky, North Carolina, Tennessee, and Virginia classified by type of tobacco and average seasonal volume handled, 1952-53 to 1961-62

Average seasonal volume per warehouse	Warehouses handling				
	Burley	Flue-cured	Dark fire-cured	Dark air-cured	Total
<u>Million pounds</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
Less than 2.0	20	-	4	2	26
2.0 - 3.9	12	-	-	-	12
4.0 - 5.9	-	3	-	-	3
6.0 or more	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	32	4	4	2	42 <u>1/</u>

1/ Information for three additional cooperative warehouses was not available.

Cooperative warehouses marketing burley and the dark tobaccos normally handle, in total, a volume which averages between 20 and 25 percent of the volume handled by the markets in which they operate. Flue-cured tobacco cooperatives handle a somewhat smaller proportion of their markets' volume, usually between 15 and 20 percent.

Patron Business

The number of tobacco growers patronizing cooperative auction warehouse facilities averaged over 46,000 seasonally during the 10-year period 1952-53 to 1961-62.

While many associations handle tobacco furnished almost exclusively by member patrons, others market a substantial volume for non-member patrons. The associations handling large amounts of tobacco for non-members must control such business carefully in order to maintain their exempt status, and thus qualify for Federal tax benefits. Federal statutes require that an association's business with member patrons equal or exceed 50 percent of its total business for a letter of "exemption" to be granted.

Of all cooperative member and nonmember patrons, an average of 44 percent sold their crops in burley tobacco auction warehouses operated by two central associations. Local associations operating burley and flue-cured tobacco auction facilities served 40 percent of all cooperative patrons. The remaining cooperative patrons, almost 16 percent of the total, sold their dark tobaccos through association facilities handling these types. However, the central association handling dark-fired tobacco served an average of over twice as many patrons as the two locals marketing dark air-cured crops.

The average sale value of tobacco marketed per patron during the 10 marketing seasons, 1952-53 to 1961-62, is shown in table 17 for associations marketing the various tobacco types.

The sale value of the patron's tobacco crop is determined both by sale price received on the auction floor and by quantity of tobacco marketed. The difference existing between the average sale value of tobacco marketed by patrons of local and central associations handling burley tobacco was due primarily to the larger quantities of tobacco marketed by individual patrons of the central-type associations.

While flue-cured tobacco generally sold at a somewhat lower price than burley, the quantity marketed per patron was substantially higher than that for associations marketing any other type. This resulted in flue-cured tobacco marketing associations handling highest dollar sale volumes per patron. Associations marketing dark tobaccos handle patron volumes which are small and which sell at a relatively low price. Thus, the average sale value of tobacco furnished by individual patrons of these organizations is considerably lower than that for those handling other types.

Sale and Price Features

In a previous section of the report, a pattern of first sales and resales was established for markets handling different types of tobacco. This pattern also applies to cooperative auction warehouses operating in these markets. Association warehouses handling burley and the dark tobaccos market a higher proportion of their total sales as first sales than do cooperative facilities handling flue-cured tobacco.

Table 17.--Average sale value of patrons' tobacco handled by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia, 1952-53 to 1961-62

Marketing season	Average value of tobacco marketed per patron					Average
	Central associations handling burley tobacco	Local associations handling burley tobacco	Associations handling flue-cured tobacco	Associations handling dark fire-cured tobacco	Associations handling dark air-cured tobacco	
	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>	<u>Dollars</u>
1952-53	1,760	509	2,058	420	284	1,263
1953-54	841	349	1,881	307	220	813
1954-55	1,018	483	1,851	209	449	892
1955-56	813	582	1,836	351	268	827
1956-57	974	659	1,498	499	561	905
1957-58	985	625	1,948	466	386	919
1958-59	1,027	690	1,552	463	382	929
1959-60	1,038	639	1,896	344	256	889
1960-61	1,028	667	2,172	496	291	966
1961-62	1,508	702	2,347	499	342	1,177
Average	1,072	611	1,879	393	341	951

In the burley markets, upwards of 97 percent of total sale volume for the cooperatives was first sale tobacco. This compares with 93 to 95 percent for organizations not cooperatively owned and operated. In the flue-cured tobacco markets, over 95 percent of total sale volume handled by the associations normally consists of first sale tobacco compared to between 90 and 92 percent for other warehouses. The volume of resale tobacco handled by all warehouses in the dark tobacco markets is comparatively light, usually comprising less than 1 percent of total sale volume.

The economic benefits associations offer to patrons are determined in large part by the commissions earned on the sale of tobacco. Tobacco offered for resale by patrons must be sold during the sale time allocated to the association and does not earn commissions until disposed of. Resale tobacco thus may influence the volume of first sale tobacco handled and the total commissions earned during the marketing season. The association is required, therefore, to use a certain amount of discretion when recommending bid rejections.

Information on market prices received by growers selling burley and flue-cured tobacco through cooperative and other warehouses was obtained for the 5-year period, 1953-57. It must be emphasized that the data presented only permit a comparison to be made of prices received at the first handler level. They do not permit a comparison to be made of final prices received since amounts returned to cooperative patrons in the form of patronage dividends have not been taken into consideration.

During the overall period, 1953-57, average market price received by growers selling first sale burley tobacco through cooperative auction warehouses was slightly less than that received by growers selling through private warehouses. Cooperative patrons received an average price of \$51.88 per hundredweight for first sale tobacco, compared to \$52.77 for non-patrons.

In 1953 and 1954, 2 years of the period during which relatively low prices were received on markets handling burley tobacco, cooperative patrons received an average of \$4 more per hundredweight than other growers. Cooperative patrons received a lower average price for their burley tobacco during each of the years of higher prices, 1955-57. The greatest difference was in 1956, when private warehouse patrons received \$3.90 more per hundredweight for first sale burley tobacco.

The difference in average first sale price received by growers selling burley tobacco in cooperative and other auction warehouses was usually small. Some variation in price was frequently due to cooperative members selling their better grades of tobacco on private warehouse floors during years of relatively high prices. During years when lower prices prevailed, members felt that the difference in price received in the two types of auction warehouses was not significant, and thus delivered better tobacco grades to cooperative warehouses for sale.

During each of the 5 years, 1953-57, the average first sale price received by cooperative patrons selling flue-cured tobacco was higher than that received by growers selling this type through privately-owned facilities. Cooperative patrons received \$52.06 per hundredweight compared to \$50.31 per hundredweight for patrons of other warehouses, a difference of \$1.75.

The greatest difference existed in 1953 when cooperative patrons received an average of \$3.00 more per hundredweight. The difference was smallest in 1957 when they received an average of \$1.05 above that received by non-patrons. For the period 1953-57, lowest average first sale prices were received in flue-cured tobacco markets during 1956. In 1956, the average first sale received by growers selling through cooperative facilities amounted to \$50.33 compared to \$48.66 for growers selling in other market warehouses.

Operating Costs and Returns

Operating costs were classified into six groups to simplify computation and to effectively analyze the several methods of cost breakdown presented in the annual reports of the different associations.

The six cost groups were: (1) Salaries, wages, and commissions; (2) facility and equipment charges; (3) general administrative expenses; (4) financing costs; (5) taxes, licenses, and bonds; and (6) leaf account and adjustment cost.

Cost of salaries, wages, and commissions generally comprised over 50 percent of the total operating costs of the associations, in some cases ranging over 60 percent during certain years. The cost of salaries and wages did not vary directly with the amount of tobacco handled, but rather was semi-fixed, a set number of warehouse employees being able to handle volumes which could range quite widely in size.

Facility and equipment charges, including depreciation, repairs, and insurance, were, for the most part, fixed costs. Annual depreciation rates on warehouse facilities were typically set at 2 or 3 percent.

Annual depreciation rates on equipment generally averaged about 10 percent. The depreciation rates on baskets were generally high compared to those for more substantial types of equipment such as scales and office machinery. Facility and equipment operating costs averaged about 20 percent of total operating costs for associations marketing burley and flue-cured tobacco and about 15 percent for those handling the dark tobaccos.

General administrative expenses include charges for such items as office supplies, postage, professional fees and dues, utilities, telephone and telegraph, public relations, travel, and advertising. This type of expense generally ranged between 15 and 20 percent of total operating costs, averaging highest for the associations marketing the dark tobaccos.

Cost of financing, or interest charges on loans obtained to acquire facilities and equipment or for operating purposes, averaged approximately 5 percent of total operating costs for the associations. Charges for taxes, licenses, and bonds averaged 5 percent for associations handling burley tobacco and 2 to 3 percent for the associations handling other types. Losses on the leaf account and adjustments made to buyers for underweight baskets comprised an average of only 1 or 2 percent of total operating costs for all associations.

Operating costs were somewhat higher for the burley associations. The variation was due mainly to differences in cost of salaries and wages. In some cases, higher wage or salary rates prevailed in certain burley markets in which associations operated auction warehouses. In others, burley associations maintained larger warehouse work forces to handle comparable volumes of tobacco.

Most associations maintained sizable lines of credit during the marketing season, primarily to pay patrons promptly for tobacco sold on the auction floor but, in certain instances, to cover major operating expenses as well.

Table 18 summarizes the sources from which such funds were obtained.

Annual operating returns of the cooperatives marketing flue-cured and dark air-cured tobacco averaged over 125 percent of their operating costs. Returns averaged over 110 percent of costs for the burley associations, but less than this figure for the association handling dark fire-cured tobacco.

An average of over 90 percent of operating returns was derived from commissions on the sale of tobacco for associations marketing dark and burley types. Remaining returns were obtained mainly from rents on facilities and equipment and from the sale of other agricultural products. The average proportion of returns derived from sale commissions dropped slightly below 90 percent for the flue-cured associations. In the case of these organizations, proportionately larger amounts of total returns were obtained from the warehouse leaf account and from the rental of warehouse facilities for storage or other purposes.

Table 18.--Source of operating funds required during the marketing season by tobacco auction warehouse cooperatives in Kentucky, North Carolina, Tennessee, and Virginia

Source of operating funds	Number of asso- ciations reporting
Loan from:	
Bank for cooperatives	6
Other banks	5
Bank for cooperatives and other banks	1
Bank for cooperatives and association savings	1
Other banks and subsidiary organization	<u>1</u>
Total	14

Patron Charges and Benefits

A standard procedure was used in each local market to compute charges to warehouse patrons for the sale of their tobacco. All auction warehouses charged an auction fee plus a commission on gross sale receipts. The auction fee was usually based on the weight of the tobacco furnished by the patron for sale. The commission on gross sale receipts was a percentage of the amount offered by the buyer for the patrons' tobacco. In addition, warehouses in some markets set a minimum charge. In other markets a weighing and handling fee was charged. All charges were deducted before patrons received payment for their tobacco.

The annual savings earned by a typical tobacco auction warehouse cooperative was allocated by the board of directors in the following order and manner: (1) Establishment of reserves or surpluses necessary for the maintenance or expansion of the business; (2) payment of dividends on outstanding preferred stock shares; (3) payment of a reasonable return on common stock shares, when declared by the board, but not to exceed a specified level; (4) allocations to patrons in proportion to amounts of tobacco or other commodities marketed or supplies purchased for patrons.

Patronage allocations were normally distributed and paid as cash, as shares of common or preferred stock, or as credits on common or preferred stock shares, such as ad interim certificates representing fractional shares. For non-member patrons eligible for association membership, patronage allocations were usually applied first to the payment of the purchase price of at least one share of common stock. At the discretion of the board of directors, provision was often made for applying patronage allocations or returns on capital stock to pay any indebtedness of the patron to the association.

Other Activities

Tobacco marketing constituted the major activity of all associations. Sale of tobacco comprised over 99 percent of the annual dollar volume of business done by Louisiana auction warehouse associations during the 5-year period, 1958 to 1962. Some associations also marketed small amounts of other locally produced products during certain years. These products included sweetpotatoes, pecans, wool, and hay.

A few cooperatives offered other services. These activities included operating redrying facilities and storage warehouses and selling hail insurance.

One association purchased supplies for its members. This association handled a dark type of tobacco which has been in less demand during recent years. As its grower-members shifted to the production of other types of tobacco or to the production of other agricultural commodities, the association has attempted to enlarge its purchasing activities to offset its declining role in the sale of tobacco.

A summary of the dollar volume of business represented by purchasing, service, and marketing for all cooperatives is shown in table 19.

Table 19.--Dollar volume of cooperative looseleaf tobacco auctions in Kentucky, North Carolina, Tennessee, and Virginia by activity, 1958-62

Year	Purchasing activity	Service activity	Purchasing and service activity	Marketing activity
			Total business	Total business
	<u>Dollars</u>	<u>Dollars</u>	<u>Percent</u>	<u>Percent</u>
1958	101,197	224,955	0.7	99.3
1959	115,399	186,857	0.7	99.3
1960	104,764	150,901	0.6	99.4
1961	120,270	122,087	0.5	99.5
1962	154,970	175,956	0.6	99.4
Average	119,320	172,151	0.6	99.4

BENEFITS AND PROBLEMS

The operating experience of cooperative looseleaf auctions suggests that these organizations play an important role in the auction system of tobacco marketing. Their experience also points out some of the problems involved in organizing and operating these facilities.

Benefits

The contribution of cooperative looseleaf auction warehouses can be gauged in terms of two factors primarily responsible for their establishment. These were (1) growers' concern over rising costs of selling at auction, and (2) growers' desire to obtain improved services.

Over the years the auction selling of tobacco through cooperative warehouses has resulted in substantial savings to members. Some associations reported that they had, in effect, reduced auction sale charges to patrons by more than 20 percent during their period of operation. For all associations, patronage refunds averaged 10 percent.

Producers have also obtained a variety of services from their warehouses comparable to, and sometimes exceeding, those offered by other market facilities. These services usually include receiving, displaying, and selling tobacco. Additional services may include processing, storing, obtaining advice on harvesting and handling practices best adapted to their specific needs, and purchasing farm supplies.

Cooperative facilities provide a place where many small-scale farmers can assemble their product and thereby enhance their marketing opportunities. In turn, the facilities simplify buying operations since tobacco companies can obtain their supplies from a centralized source and at a minimum of cost.

As a group, cooperative auctions have stimulated competition on the markets in which they are located and have made it possible for growers to save in selling their tobacco.

Problems

The auction selling of tobacco by cooperative warehouses has not been without problems. Ranking among the most critical experienced by these associations were (1) an insufficient volume of business, and (2) inadequate finances.

Volume

The most common difficulty reported by these cooperatives was that the volume of tobacco handled was too small. This problem confronted not only some grower groups in their initial year of operation but also in succeeding years.

A small volume of business usually limited the number of services provided. It also resulted in high operating expenses for each hundredweight of tobacco handled.

Growers considering organizing a cooperative auction warehouse should therefore give careful consideration to the adequacy of existing facilities in the market. To compete effectively, the volume handled must be large enough to provide the services needed at a unit cost in line with those of existing warehouses.

In addition to emphasis on acquiring sufficient volume, cooperative auction warehouses should stress to growers the benefits which can accrue if high quality tobacco is delivered for sale. Not only will higher prices usually be received on the auction floor, but the increased commissions earned can, in effect, reduce average charges per sale lot during the season for cooperative patrons.

Finances

Inadequate financing, particularly during the organizational phase, also presented difficulties to some associations. This problem stemmed in part from underestimating the amount required to acquire a warehouse and to purchase equipment and other facilities needed for an efficient operation. Failure to require all members to invest in the fixed assets of the association was also a contributing factor.

The financial plans for organizing and operating cooperative loose-leaf tobacco auctions need to be carefully developed in order to assure continued operations. At a minimum, any plan should take into consideration (1) organizational expenses, (2) investment in permanent facilities, (3) operating expenses, and (4) reserve requirements.

As a general rule, members should share in the association's capital requirements in proportion to their patronage. The revolving fund method of financing should be considered by auction warehouse associations attempting to limit capital contributions to those from current patrons. Contributions are computed on the basis of patronage. This type of financing assures that ownership of cooperative facilities is retained in control of members. It also helps maintain membership loyalty and support.

