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A Comment on Sapiro's "True Farmer Coöperation"

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I wish someday I shall write a piece on cooperative marketing that will have such foresight and wisdom that much of it will be relevant seventy years hence. Aaron Sapiro did that in his article on cooperative marketing.

Sapiro's first premise was that in an industrial economy involving the factory system or group production, marketing and production logically can be carried on by the corporate entity. However, farming involves individual production units so that commercial marketing of farm products must be a group activity through organized effort. The cooperative is the organization best suited for such group marketing effort by farmers.

Sapiro's second premise was that U.S. farmers transferred Great Britain's consumer cooperatives model to the United States and tried to emulate the practices for consumer purchasing to farmer supply and marketing associations. Each cooperative "stands as a separate unit" and sells against other associations. The British model for consumer cooperatives was inappropriate for farmers' marketing cooperatives, and the results were "egregious blunders," according to Sapiro.

California fruit growers, however, developed a system unique to the conditions in California. First, their emphasis was on improving commodity marketing, not purchasing production inputs.

The marketing of products in excess of local markets' needs depressed California fruit prices and encouraged farmers to search for markets in populated eastern cities. Marketing was their main problem. In contrast, midwestern and eastern farmers often had elevators and cheese plants at each township—their "markets" were local, and their main problem was to obtain a steady supply of fuel and production inputs at reasonable cost. Thus, their emphasis was on developing supply cooperatives.

Sapiro recognized that although California marketing cooperatives were different, their emphasis on marketing by developing a strong commodity orientation made economic sense. He believed all marketing cooperatives could benefit from following the characteristics found in successful California marketing cooperatives. The main features he advocated included the following:

- The cooperatives should be organized along commodity lines instead of locality of production.
- Associations must comprise farmers to maintain a community of interest among members. No local merchant, for example, could be a member unless he was also a producer of the commodity being sold.

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- The association must be organized for business functions only; no partisan political activities were permitted.
- Long-term membership contracts were required to provide permanence, with provisions for liquidated damages and injunction of members' breached contracts. Sapiro believed enforceable, long-term contracts provided stability to cooperatives and sent a signal to buyers.
- There must be sufficient volume to have a market influence—at least 50 percent of industry output.
- Pooling of like grades and products was the cornerstone for fair treatment of farmers.
- There was a preference for title to accrue to the cooperative so that it would have control over supplies, in contrast to an agency agreement.
- To be effective, cooperatives needed professional management—the best qualified management they could afford.

Was Sapiro a visionary? Not in the context of being a dreamer. Sapiro was a pragmatist—an attorney who worked with the California Department of Agriculture to bring order out of chaos for marketing by farmers. He was convincing—he had a reputation as a spell-binding speaker as he traveled to Canada and the breadth of the United States espousing his observations on what he called "true" cooperation.

His distinctions of marketing versus farmers' "consumer" cooperatives were realistic for many commodities. Improving marketing terms and conditions could mean the difference between profit or loss for the farmers' production cycle. If a farmer had to make a choice, marketing cooperatives were of a longer run significance than buying fuel or production inputs at reduced prices. Exceptions may have been where input costs were the major cost component in producing a commodity, such as animal feeding and poultry production. During the 1970s, many farm supply cooperatives were forced into marketing to protect their farm input activities.

What of his emphasis on commodity marketing to influence market terms and prices? That stood the test of time for more than sixty years and did so very effectively. Single commodity cooperatives proliferated the types of products marketed from single commodity lines—for example, Blue Diamond marketed more than 1,800 forms or package lines of almonds. Industrial organizational changes during the 1980s resulted in many new entrants into commodity marketing that were multicommodity conglomerates. When they marketed a wide spectrum of products under a common label, they achieved advantages in distribution, wholesaling, and retail shelf control over most single commodity marketers. Thus, some single commodity cooperatives in California are now diversifying into multiple commodity lines. Sun Diamond (walnuts, prunes, raisins, dried figs, and hazelnuts) performs some distribution and related functions for its constituent cooperatives, but it hasn't done the equivalent of marketing products from them under a single label. More recently, Sunkist began to market pistachios and almonds for a large citrus grower-packer who also farms these commodities. Others may follow these leaders.

The long-term marketing contracts proposed by Sapiro are now very common, not only for reasons of control, but also for coordination of production, processing, and marketing to ensure full utilization of resources and facilities. So-called "evergreen" contracts are "perpetual" contracts subject to cancellation by either party during one month annually, after a basic noncancelable period, often of three years. Investor-financed companies also use long-term marketing contracts.

What Sapiro did not envision is the development of the commodity cooperative that specializes in only part of the marketing functions—the cooperative organized to negotiate for price and other contract terms that affect grower returns. These cooperatives still adhere to the basic characteristics of Sapiro's "California model," but most use agency contracts rather than taking title. An exception is the California Canning Peach Association, which does take title to the growers' fruit.

Both types of marketing cooperatives try to attain commodity market influence by high market share, as proposed by Sapiro. Over time, many marketing coops have not been able to retain the high market shares advocated by Sapiro because of the increase in industry production. Processing cooperatives are measured in terms of their share of industry production. However, bargaining cooperatives think in terms of noncoop production since their coop members typically are not members of operating cooperatives.

Sapiro's concept of pooling has stood the test of time and is still the basis for determining value of raw products delivered by members.

His concepts of financing have become outdated for present conditions facing operating cooperatives. Although Sapiro favored nonstock cooperatives, many cooperatives have innovated in ways to make grower investments more equitable. For example, Tri Valley Growers pioneered in the base-equity plan to allow growers' investments in the cooperative to change proportionately with changes in volume supplied by individual growers. During the next decade, other financial systems are certain to be devised as cooperative memberships become younger and competing capital needs exist for farmers and cooperatives.

Sapiro's article is silent on the advantage of federated cooperatives versus centralized marketing associations. My understanding is he accepted either form of organization, so long as it gave commodity control. Many California cooperatives started as federations but later became centralized. Given the market organizations of the 1990s, those cooperatives that still remain as federations will wish they were centralized.