

Marketing Cooperatives

No. 41  
7/17/71  
75155

Martin A. Abrahamsen  
Deputy Administrator, Farmer Cooperative Service  
United States Department of Agriculture

In this paper, I am using the term "Marketing" to apply both to agricultural commodity markets and to production supply markets. Thus, it includes markets for the various products that farmers sell as well as markets for the necessary production supplies and services farmers use. Emphasis is on commercial agriculture and the role of cooperatives in helping farmers produce and market the products that move through established distribution channels.

By trial and error, experimentation, and growth from informal small local organizations, cooperatives have developed over the years into large-scale integrated business organizations. Their basic objective is to help members increase net returns from their farm operations. Cooperatives achieve this objective by returning higher prices for the products they sell and by providing production supplies and services at lower cost.

This basic objective of improving members' economic position is one of many features cooperatives around the world have in common. This is true regardless of a nation's stage in development, its customs and traditions, products cooperatives handle, or the legal and institutional framework in which they operate.

When cooperatives are successful, they make important contributions toward teaching members how to improve production practices, develop a more responsive marketing system, and work together on problems of mutual and community concern.

---

Agricultural Policy Course, Washington D. C., August 2-27, 1971.

Farmers rely upon their cooperatives to sell the grain, fruits and vegetables, dairy products, poultry, and livestock they produce. They use their cooperatives to buy feed, fertilizer, petroleum products, and other needed farm supplies. They also turn to their cooperatives for credit, insurance, irrigation water, electricity, and many other services necessary for day-to-day farm operations.

The many types of cooperatives existing around the world are becoming increasingly difficult to adequately identify. To effectively work with each, it will be helpful to discover the forces that motivate organization and operation. Take the simple cooperative flour mill, for example. Such a mill may be:

1. Organized by farmers to perform the additional services of grinding grain and merchandising flour. In this case, it functions as a marketing cooperative for the basic objective we have identified -- namely, to increase members' net income.

2. Organized by consumers. In this case consumers purchase grains and other ingredients for milling flour at the lowest prices possible. In this way the cooperative obtains for the consumer -- its members -- flour of the type and quality desired.

3. Organized by laborers who build and operate a flour mill to assure employment for themselves through a cooperative business venture. This is a workers' cooperative in which all benefits accrue to those carrying on the business operation.

## Forces That Build Cooperatives

What are some of the forces that have contributed to cooperative development? While there are many, I will identify six as especially important.

### The Initiative and Ambition of Farmers

The self-help characteristics of farmers have been and are important in building cooperatives. When farmers become dissatisfied with the economic conditions that confront them, they often are inclined to take steps to do something about it. They know the benefits of cooperative effort come directly to them as members. Therefore, they have found it to their advantage to devote the necessary time, energy, and financial resources to set up and operate their own business cooperatives.

Cooperatives also serve as an important educational force in helping farmers understand how business is carried on, and in developing ways of working together to get better solutions to the many economic and social problems that confront them. In this way, they receive practical training in the techniques of democracy.

### A Favorable Governmental Climate

A favorable climate for cooperatives depends upon:

1. Responsible government officials who understand basic cooperative objectives, and what can and cannot be accomplished through cooperative effort.
2. Sound cooperative legislation that provides broad guidelines, spells out government and member responsibility, and is in tune with national customs and legal structure.

3. Broad general support, to include government trading through cooperatives; creation of the right psychological climate, recognizing the advantages of group action over individual action; provisions for financial assistance; and realistic support in licensing, inspection, and leadership during formative periods.

4. The degree of encouragement and support by government. The initial success of cooperatives will depend upon this factor. Once cooperatives are established, however, the skill and dedication of members will be all important. Ideally, the extent of government support should be in direct proportion to the need.

#### The Impacts of Research and Technology

Improvements in plant and animal breeding have contributed to a highly developed commercial agriculture. Developments such as refrigeration, electricity, improved transportation -- highway network, railroads, and water services, and effective communication are important in determining the nature and scope of cooperative activity in developing countries. Well recognized grades and standards facilitate marketing programs.

All of these developments contribute to market stability that assures farmers they will be able to operate their businesses on a continuing basis.

#### Developing Realistic Educational Programs

It has become axiomatic that cooperatives can go no further than the educational level of their members and leaders permits them to go. This was well put by our former United States President, James Madison, who said:

"To put the affairs of the people in the hands of the people without first educating the people is a prelude to either a tragedy or a farce." Helping members realize that cooperatives can assist them in dealing with their unmet needs is important. To develop such understanding, printed and audio-visual materials are needed on the nature of cooperatives and the necessity of member support.

Cooperative education, however, does not end here. In developing countries it is important that the various local, state or provincial, and central government officials receive training for their specific responsibilities. The general public, too, needs to be informed on cooperative potentials.

As cooperatives become stronger and organize on a national basis, many of them can assume increasing responsibilities for developing their own educational programs.

Another requirement for these developing cooperative information programs is to make certain that cooperative leaders in various countries know the sources of assistance -- local, national, and international -- that are available and in what ways and to what extent these can be helpful.

### Cooperative Financial Features

A distinct feature of cooperative organization is that members concurrently patronize it, determine broad business policies, and finance its operations. In short, those who use it benefit. It generally is agreed that members with a financial stake in their cooperatives have a much greater interest in its success and in seeing that it provides required services.

The financial position of cooperatives can be strengthened in at least three ways. First of all, they can help develop specialized banking and credit facilities. Second, they can encourage government to provide low-interest loans for special types of cooperatives. Third, through a program of outright grants and subsidies, they can help initiate and support cooperative activity.

### The Role of Management

By management in a cooperative, I mean the contributions that members, directors, and the paid managerial staff can make toward running a cooperative business.

If we look at the total experience of cooperatives -- and I suspect it differs only in degree from country to country -- I think we would agree each country has made most of the mistakes possible. Cooperatives have hired incompetent and poorly trained employees. They have hired relatives of directors and other influential people. Because of poor accounting and auditing practices, there has been occasional fraud and misappropriation of funds. Managers and cooperative directors, because they lacked necessary training for business, had little or no understanding of the economic and political forces that were influencing their cooperatives. Some cooperatives suffered losses because their managers carried large inventories or speculated in commodity markets.

As a result, cooperatives have not always been the leaders in adjusting to change. Finally, they have often failed to consistently train and educate farmer members, directors, and the manager and other key employees.

These mistakes have brought about such things as poor location of facilities, failure to market the grades and quality of products consumers desire, and inability to provide the range of production supplies and services farmers need to operate efficiently.

It would be less than realistic, however, to give you only this picture of poor or inadequate performance. First of all, cooperative competitors usually made the same mistakes -- sometimes to a greater extent.

In a number of countries, cooperatives have learned from mistakes in management and are now developing strong and substantial business organizations -- businesses that operate over several states or provinces and in some instances handle most of the products that farmers have to sell.

Cooperatives gear their operations to sound performance largely by following basic rules of good management. Important ones are:

1. Recognizing the Need for Sound Planning. The successful cooperative today knows how to plan its operations. It takes a hard look at the services it is providing farmers. It determines what proportion of the business it has in its trading area and what proportion is realistic to expect. It takes into account what kinds of services its members want, and it gives attention to changes and adjustments necessary in facilities and in methods of operation, if it is to be a leader in the business affairs of its community. In other words, successful cooperatives do a good job of planning their operations.

2. Developing Effective Controls. Successful cooperatives emphasize the use of important business control techniques. As an example, they make

certain there is only reasonable loss from shrinkage in handling their products. Other control features are found in good accounting systems that determine costs of performing different services and net margins or savings that result from providing such services.

Effective controls can tell cooperative management not only where it is successful and where it is not, but also the extent and degree to which it may or may not be doing the job. Such controls also can identify places for corrective action. The successful cooperative is alert to the importance of maintaining adequate controls. It makes certain that members receive the most effective service possible.

3. Following Sound Business Policies. Careful thought to developing sound business practices enables cooperatives to:

- Make reasonable advances to farmers or not pay more than current market prices for farm products.
- Sell supplies at current market prices.
- Carry and conservatively manage necessary supplies.
- Provide related services.
- Use good merchandising practices.

4. Developing Strong Information Programs. Through experience, cooperatives are finding that well-planned information programs:

- Give members a better understanding of advantages and limitations of cooperatives.
- Obtain better patronage or loyalty.
- Gain greater financial support from members.
- Develop more competent directors and employees.

### Concluding Observations

I believe the following general observations are important as they relate to the opportunity to build strong cooperatives in developing countries:

\* It has been my good fortune to see cooperatives in operation in many foreign countries -- Brazil and Paraguay in South America, in India, and in the Scandinavian countries. I have concluded that given good and effective management, cooperatives can be an important economic tool for farm people.

I also have concluded that such differences as exist in cooperatives between countries are, to a considerable extent, only matters of degree. If attention is given to basic factors of management, factors which take into account the necessity for operating on a business basis, then cooperatives have demonstrated that they can substantially benefit members.

\* We no longer need to accept as inevitable the unplanned working out of economic and political forces. Rather, by taking purposeful action, it is possible to change and modify economic and political environments in which cooperatives find themselves. This emphasizes the importance of having leaders who know when cooperatives can be helpful in meeting basic needs and in initiating the actions necessary to cope with them.

\* Agencies of government -- local, state or provincial, and national -- through programs of cooperative research, technical assistance, and education -- can help guide and shape cooperative development. To be most effective, such programs must be coordinated and taken directly to operating

cooperatives. This means taking research findings from publications and pamphlets and transforming them into action programs by individuals competent and willing to work directly with cooperative members and leaders.

\* The basic objective of a cooperative is to benefit its members. To realize this objective, it is necessary for it to maintain its cooperative features and achieve success as a cooperative organization. This requires an informed membership that actively participates in management. It requires competent directors and employees plus adequate financial support by members. At the same time, the cooperative must achieve success as a business organization. This involves achieving a sound record of business performance through the use of planning procedures; establishing effective operative controls; using research techniques; establishing a sound financial position; and initiating progressive programs of employee selection, training, and development.

\* The unique and distinct nature of cooperatives must be recognized, for it is this uniqueness that makes cooperatives effective self-help tools. An awareness must develop that persons who belong and use the cooperative benefit; that they have a voice in its direction and operations.

\* If a successful cooperative business is to be developed, the following is essential:

1. There must be a basic need for the functions and services a cooperative can perform.

2. Educational and training programs must be developed to achieve basic understanding on the part of members, directors, and managers; government officials working in cooperative departments or agencies; and the general public.

3. A sound system of cooperative finance must be developed. Such a system may combine grants, subsidies, and a traditional financial and credit system providing funds on a business basis with provisions for their repayment as members develop equity in their own associations.

4. Competent government direction and encouragement is a key ingredient for cooperative success. This means guiding, developing, and sustaining but never usurping leadership as cooperatives develop. There is no substitute for the selection and development of competent local officials, achieving support of agencies of government, and building a practical program centered on sound finance, competent management, and realistic information and then taking such a program directly to members and potential members.