COOPERATIVE MARKETING

COOPERATIVE CREAMERY, GROVE CITY, PENNSYLVANIA
Managed by United States Department of Agriculture

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THE PRESENT system of

MARKETING farm products

IS FOR THE farmer to sell

HIS PRODUCE to either a

LARGE COMPANY or a corporation

EXPERIENCE has shown that

ONE MAN, alone, can

NOT DEAL to advantage

WITH A LARGE organization

THE BUYERS have organized

THEMSELVES into large

CORPORATIONS because they

FIND THEY can in this

WAY BUY to better advantage

THE BIG IDEA in

COOPERATION is that it

WILL BE of equal advantage

FOR THE FARMERS to organize

IN SELLING their produce.
The Northwest Warehouse Company, a stock company composed of Kalispell farmers and business men, have built a modern potato warehouse costing $22,500 at Kalispell. This warehouse is operated by the Northwest Potato Exchange, a sales organization, at a total cost to the grower of 10 per cent of the selling price of his potatoes. This 10 per cent charge completely covers the cost of marketing the potatoes from delivery at warehouse to final sale, salary of manager, sales force and such field forces as are required during the growing and packing seasons. The advertised registered brand of the Exchange is placed on potatoes which come up to a specified standard.

The operator of the plan, the Northwest Potato Exchange, is a private commercial sales organization. Instead of employing a manager the farmers employ this organization. This is what might be called a semi-cooperative plan, and has some decided advantages as well as disadvantages from the standpoint of the grower.

CROP CONTRACTS PREVENT TEMPORARY OFFERS OF HIGHER PRICES BY OUTSIDE COMPETITION FROM TAKING THE BUSINESS AWAY FROM THE ASSOCIATION.
The Custer County Cooperative Shipping Association was organized August 13, 1919 with the aid of C. M. Yerrington, County Agent. Shipments of stock were unusually heavy that year due to drought conditions and 34 car loads of cattle, 3 car loads of hogs, and one of sheep were shipped. The estimated savings to the farmers on these cooperative shipments was $8500. One of the car loads of hogs shipped out consisted of 325 small feeder hogs for which there was absolutely no market among the local buyers. This car load was sold direct to farmers in North Dakota who finished them for market.

A local manager is employed on part time. He receives a commission on cattle of $1.25, on hogs of 2 per cent of net returns, and on sheep 10c a head.

Owing to the very heavy shipments from all points in 1919, the number of cars shipped in 1920 shows a decided decrease, due to shortage of stock in the county. The total was as follows: 17 cars of cattle, 2 cars of sheep and 1 of hogs. Some of these cars contained stock from as many as 12 consignors. The estimated saving to the farmers on the 1920 business is $4700.00.

A standard form of receipt is issued to all farmers delivering stock to the association and they receive their payment when final returns are received from the stockyards. Shipments are made from different points in the county in addition to those made direct from Miles City.
Big Cooperative Selling Agencies

Similar to the California Fruit Associations

Because of Their Large Business Volume

* * *

CAN EMPLOY EXPERT SALESMEN

CAN ESTABLISH OFFICES IN CONSUMING CENTERS

CAN GET MARKET INFORMATION FIRST HAND

CAN PREVENT GLUTTING OF MARKETS

CAN BUY SUPPLIES TO ADVANTAGE

* * *

An Isolated Cooperative Organization

No Matter How Well Organized

Is at a Great Disadvantage

Competing With Large Companies
The real history of this creamery began when John Howe, the present manager, was employed in the spring of 1908. The property then consisted of a creamery building which with its equipment had cost $5,600. Built by organized commercial creamery promoters the actual worth of the building and plant is said to have been less than half of this amount. Burdened by debt and poor management the creamery was on the verge of bankruptcy.

Today the old equipment has been entirely replaced by two concrete and brick buildings fully equipped with modern machinery. The plant sells every year 450,000 pounds of butter, 7,000 gallons of ice cream, 90,000 dozen of eggs. The original 22 patrons have increased to 1200. A first class dairying community with many herds of thoroughbred stock has been built up around Stevensville and the average running expenses have been reduced to 8 per cent of the value of the product.

Mr. Howe has summarized his success as follows: (1) Get the right man in charge, (2) establish the creamery in a good milk producing district, (3) get enough equipment and build so additions may be easily made, (4) teach the people cooperation, (5) get the product of every man in the district, (6) maintain a high standard of quality and service.
Officials of the Montana Grain Growers supplied the following information: "The Farmers' Elevator at Belgrade was built by the Gallatin County Farmers' Alliance, a cooperative association, composed of two hundred and seventy-five farmers, in 1910, at a cost of approximately $50,000.00. It is of steel and concrete construction, electrically operated and has a capacity of 135,000 bushels, which makes it the largest cooperative elevator in Montana. While this elevator under the ownership of the Farmers' Alliance was not operated on a basis which created profits and dividends, it was a direct benefit not only to the stockholders themselves but to other farmers in the Gallatin Valley, because of its competition tendency to compel the other buyers to more nearly pay the right prices and allow the right grades and dockages for the farmer's wheat.

"In August 1918 this elevator was acquired by the Montana Grain Growers, a farmer owned cooperative company, which company took this elevator over at an agreed price, giving their stock in payment. The elevator has been doing a good business since that time and the policy of its officers and instructions to its managers is to properly weigh and grade, as well as pay the highest market prices for grains received, which they probably would not have obtained without a competing marketing agency of their own."
MONTANA GRAIN GROWERS’ ELEVATOR, ROUNDUPT

This elevator was erected in 1915 independently under the cooperative laws of the State of Montana. The cost is estimated at $9,000.00. After several unsuccessful attempts to get local banks to finance them, the association finally made arrangements with a commission house. This arrangement required the elevator to deliver 90 per cent of its business to the commission house. The elevator was later financed by a joint note of the directors.

The amount of grain handled was as follows: 1915, 200,000 bushels (elevator not completed by beginning of crop movement); 1916, 200,000 bushels, approximate dividends to stockholders $6,000; 1917, 125,000 bushels, approximate dividends to stockholders $2,500; 1918, 100,000 bushels (part of crop hailed out); 1919, crop failure, feed and grain handled; 1920, 100,000 bushels (in prospect).

There are 350 stockholders, about one-half of whom market their grain at the elevator.

General price levels have been raised 10c to 20c per bushel.
Cooperative Marketing

PRESENT MARKETING SYSTEM

That the government interfere as little as possible with the exchanges between the producer and consumer is the basis of the present marketing system of the United States. There have been some notable exceptions to this rule, such as government regulation of railroad rates, fixing compensations of certain classes of labor, inspection of meats and grains and temporary war time price fixing.

The law of supply and demand is the main reliance of such a system in determining the prices; the theory being that when the demand is brisk for any article, such as wheat for example, prices will be high and the farmer will, therefore, produce large quantities of wheat. When the demand is slack and prices low, the production of wheat will be decreased by the same means. One of the essentials for the proper working out of the law of supply and demand is that there be free competition among the buyers and free competition among the sellers. In other words, that the buyers buy against each other and that the sellers sell against each other.

Recent years have seen the gradual combination of buyers of agricultural products in great companies, while the sellers or farmers still operate as individuals. The buyers or dealers have found that group buying is advantageous. The central thought of cooperation is that the sellers or farmers will also find group selling or cooperative selling to be to their advantage.

STOCK AND NON-STOCK COMPANIES

There are two methods of forming cooperative marketing associations (1) those formed with capital stock and (2) those formed under the non-profit, non-stock plan without capital stock. By far the larger number of cooperative marketing associations are formed with capital stock as this plan is better known and more generally favored by state laws.

Cooperative associations with capital stock have been found more suitable for some marketing activities—such as elevators and warehousing.

In this non-profit, non-stock form of organization, the member pays a fee and is issued a certificate generally non-transferable. This form of organization is becoming gradually more popular with many lines of cooperative business. Some examples of this are the

Montana at present has no law under which a non-stock, non-profit company can be organized. It is expected such a law will be introduced into the Legislature during the 1921 session. If this passes, cooperative marketing associations may be organized in Montana under either plan.

A certain immunity to prosecution under the Clayton Law of the Federal Statutes is provided in the non-stock, non-profit form of organization provided (1) "That it is a labor, agricultural or horticultural organization," (2) "That it is instituted for the purpose of mutual help," (3) "that it has no capital stock," (4) that "it is not conducted for profit." Associations to obtain immunity to possible prosecution must conform strictly in these particulars.

MONTANA COOPERATIVE ELEVATORS

The history of cooperative elevators in Montana is not particularly encouraging. The majority have either failed or been purchased by old line companies after operating a few years. Short crops and drouth conditions have, no doubt, played an important part in these failures.

Inadequate finance, failure of stockholders to patronize the elevators, poor management, unfair competition from old line elevators, disagreement among cooperators, poor bookkeeping, are among the causes of failure which are listed.

As a general rule, Montana cooperative elevators have operated as isolated units though there are some cooperative elevators in the state which have affiliated in management, ownership and marketing of their grain. A share of stock in such a case represents an interest not in any one particular elevator but in all the elevators the company owns. It is questionable whether these companies are operating in large enough units to get the full benefit of the plan. This plan of affiliated elevators as followed in Canada seems to promise more for the future than the organization of isolated units.

The total number of elevator companies operating in Montana as shown by the records of the Grain Grading, Inspection and Warehousing Commission is 568 with a capacity of 17,000,000 bushels. Of these 33 are listed as cooperative elevators with a capacity of 1,042,000 bushels.
LIVESTOCK SHIPPING ASSOCIATIONS

Livestock shipping associations should be formed under a non-profit, non-stock law in states where such laws exist. However, they may be successfully operated when incorporated under the stock plan of organization.

No capital is required to finance a shipping association as it acts as a selling agent only. Consequently, it takes no chances on the market fluctuations. It agrees to return to the shipper only what it receives for his stock, less the expense of the shipment. No complicated bookkeeping is necessary because when the money is received and prorated for each shipment that particular transaction is closed. The manager is also paid at the same time.

Stock buyers of former days generally made a wide margin of profit when purchasing stock from individual farmers to make up a carload. Frequently, the stock was purchased for as little as possible with no relation to its market value. This condition was caused by general lack of market knowledge among the farmers. These facts undoubtedly have had considerable influence in making for the generally uniform success of stock-shipping associations.

The average expense of marketing among 115 Minnesota livestock shipping associations was $.33 per 100 pounds including freight, salary of manager and a small sinking fund. Under the method of marketing stock through local buyers this expense ran from $.40 to $.75 per 100 pounds. It was estimated that for this particular year a net saving of $115,000 was effected by the Minnesota farmers.

Cooperative shipments have increased during the last few years at every leading market in the United States until it is stated that 70 per cent of the stock received at South St. Paul is shipped cooperatively. A large part of this stock is handled at the terminal markets through private commission firms many of which make a specialty of this business. Cooperative terminal concerns at the present time are also doing a very large volume of business at many markets, but owing to the strenuous opposition of private commission firms, have not been allowed to purchase seats on the various live stock exchanges.

MONTANA COOPERATIVE CREAMERIES

Only about 5% of the creameries in Montana are cooperative, but they are among the most successful. The best one is located
at Stevensville, where practically every farmer in that vicinity owns creamery stock and is a regular and loyal patron. Kalispell and Drummond also have good cooperative creameries. In addition there are several other parts of the state where cooperative creameries are in process of organization. The cooperative idea is growing rapidly among dairymen in this state.

The fact that cooperative creameries pay higher prices to the farmer is not the most important point in their favor. The best dairy stock and the most progressive farmers in the state are found in the localities tributary to cooperative creameries. At Stevensville are found associations of pure bred Holstein, Guernsey, and Jersey cattle. Kalispell has a real active pure bull association and several dairy calf clubs. At Drummond can be found a number of herds of pure bred Jersey and Holstein cattle.

**WHEAT MARKETING ORGANIZATIONS**

Attempts have been made to induce the farmers to hold their wheat under rather loosely drawn pooling agreements in certain states notably Kansas and Nebraska. These pools have had some success in keeping wheat off the market locally. Several temporary rises in the wheat market have been credited to this agency by the press. These organizations have not had any apparent influence on the general price of wheat.

The United Grain Growers of Canada have formed one of the largest and most successful cooperative associations in the world. They operate a very extensive line of elevators with terminal facilities and have an export selling organization at central markets. Their export department is organized as a subsidiary corporation. Briefly stated, their organization is a huge line elevator system with a sales department operated in the interests of the farmers, involving no radical change in present marketing methods.

In Montana, the Fergus County Wheat Marketing Association has been effected, and a state wheat marketing association is in process of organization. The general plan of this association is to sign up the wheat growers in a binding marketing agreement in which they appoint the association as their sales agent for a term of six years. Penalties are provided for violation of this contract. A pooling agreement is contemplated by which every farmer will
receive the average price paid during the selling season depending on the grade and quality of his wheat.

Agents of the association are now engaged in signing up the farmers in Fergus and adjoining counties. The association officers state that they expect to sign up 75% of wheat in these localities. When this is accomplished, it is planned to carry the campaign to other wheat growing counties.

Temporary organizations have been effected pending the signature of a stipulated acreage of wheat. The officers are D. R. Cresap, organization chairman, Lewistown, and C. M. Strawman, Moccasin, secretary and treasurer.

COOPERATIVE ENTERPRISES SHOULD BE LARGE

In all modern business, the tendency has been toward consolidation into very large companies and corporations. Even in those lines which have not been consolidated, there have very often been working agreements to maintain prices or limit production which have proved as effective as actual consolidation.

These large companies, in many cases, eliminate all the middlemen and act as producer, manufacturer, jobber and retailer. The large oil companies are good examples of this tendency. They own the producing wells, operate the refineries, distribute the products among their own retail stores who in turn sell the finished product to the consumer.

In contrast to such a system, let us follow the journey of wheat from the farmer to the consumer. It is raised by the farmer, sold to the local elevator, resold to a terminal elevator who sells it to the miller. The miller now grinds it into flour which is sold to a jobber who sells it to the grocer who in turn sells it to the consumer.

Wheat in such an event passes through six hands to reach the consumer while the oil is handled directly from producer to consumer. The marketing of oil is a highly developed consolidated enterprise while the marketing of wheat is in a comparatively primitive stage.

SALESMA SHIP NECESSARY

The market today is essentially a buyers' market. Efficient salesmanship is a decided advantage to any cooperative marketing association. Whether the agency of making sales be a manager, a commercial selling organization, or a cooperative selling agency
depends on the size and nature of the business. Other things being equal, the association with the best selling organization will sell its product at the most satisfactory price. In these days of over-supplied markets, warehousing must be added to selling.

A cooperative association is generally planned to take the place of some existing private organization. Such association will be subject to similar expenses, fluctuations in the markets, profits and losses as the private organizations. As an example, a cooperative livestock shipping association takes the place of the local livestock buyer. Such an association should make provision against losses of stock in transit, losses incident to a falling market and the usual expense of marketing livestock at the stock yards.

It would seem that the future successful cooperative enterprises should be organized in large units. Such organization generally proceeds from small local companies but these locals must plan on joining a large central organization. A small isolated cooperative enterprise cannot expect to permanently compete with well organized, large privately owned units, such as the line elevator companies which have a large number of country elevators, adequate terminal elevator capacity and a good selling organization in the large markets.

SUMMARY

MANY FARMERS' COOPERATIVE COMPANIES ORGANIZED IN MONTANA HAVE FAILED

* * *

THOSE WHICH HAVE SUCCEEDED HAVE HAD AN EFFICIENT MANAGER

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MOST ORGANIZATIONS HAVE BEEN FORMED AS ISOLATED UNITS WITH NO CENTRAL ORGANIZATION

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THE SUCCESS OF THE CALIFORNIA FRUIT MARKETING ASSOCIATIONS AND OF THE CANADIAN UNITED GRAIN GROWERS SHOWS THE ADVANTAGE OF A LARGE MARKETING ORGANIZATION

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THE MOST SUCCESSFUL COOPERATIVE MARKETING AGENCIES OF THE FUTURE MUST BE ORGANIZED AS LARGE UNITS.
This elevator company, a cooperative concern issuing patronage dividends, is composed of about 85 farmers. It was organized the sixth of June, 1916, and received its first load of wheat the latter part of August.

The capital stock of $20,000 is divided into 400 shares of $50.00 each. At the time of organization, it was not possible to get the local banks to finance the elevator.

In 1917 a statement of the elevator showed a net surplus of $12,300. No depreciation or sinking fund was included in this. In 1918 with a short crop, income and expenses just balanced. 1919 was a no crop year in this vicinity. The stockholders held a meeting and decided to keep the elevator open, handling feed, coal and such seed as might be needed. A net profit of $1300 was made.
The Yellowstone Valley Seed Growers' Association was organized in 1916 for the purpose of handling various seeds grown in Yellowstone Valley, especially alfalfa seed. Owing to the fact that alfalfa seed is a very uncertain crop, practically no alfalfa seed was purchased in sections tributary to this association in the seasons of 1918 and 1919. Therefore, business is not shown for those years.

1917-1918 Business.

Amount of alfalfa seed, 90,000 pounds.
Total number of orders sold, 48.
Average price all grades handled, 18c.
Average price uncleaned seed, 14c.
Net amount saved by selling cooperatively, $3000.
Operating expenses, cleaning and miscellaneous $1000.
Inquiries received for alfalfa seed, 227.
Total sales, $13,500.

At the end of the season the amount of seed on hand was 18,000 pounds. This seed was very rapidly disposed of in 1918 which as previously stated was a no crop year. Fifty per cent of the seed was sold to Farm Bureau organizations in other states, the balance being sold locally and to dealers.

The clerical work was handled through the County Agent's office. O. M. Yerrington, the County Agent, stated that this plan was very unsatisfactory in that it entailed too much work in addition to his regular duties.
THE HISTORY OF COOPERATIVE ENTERPRISES IN MONTANA SHOWS THAT THE ORGANIZATION IS IN MORE DANGER FROM DISSENSIONS WITHIN THAN FROM OUTSIDE ENEMIES

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IF THERE IS DISCORD IN YOUR ASSOCIATION DO NOT ENCOURAGE IT

* * *

REMEMBER, IT TAKES TWO TO MAKE A FIGHT AND ONE MAN ALONE CANNOT DO MUCH QUARRELING
The Equity Supply Company of Kalispell now operates an elevator, a general store, an implement business and a creamery. They have a total membership of 500 stockholders.

The net profits in five years have been $40,000, all of which has been used as additional capital to expand the business. Additional stock has been issued to the patrons to cover this amount. Dividends of 8 per cent have been paid regularly to all stockholders in cash.

One unusual feature of this organization is that non-stockholders and stockholders are paid the same patronage dividends. The manager, Mr. B. R. McAllister, states that this policy has resulted in much additional business from outsiders.

The original company was organized in 1915 with $1100 cash as its capital. No additional money has been put in except in profits which have been added to the working capital. Buildings and elevators were at first rented from the Farmers’ Protective Association, which was later consolidated with the Equity Supply Company.

THE FIRST THING TO DO TO FORM A COOPERATIVE ORGANIZATION IS TO GIVE THE PLAN PUBLICITY, INTEREST YOUR NEWSPAPERS, HOLD COMMUNITY MEETINGS, APPOINT AN ORGANIZATION COMMITTEE, ORGANIZE ON AN APPROVED PLAN, THEN INCREASE YOUR MEMBERSHIP.
A COMPETENT MANAGER IS ESSENTIAL TO SUCCESS

SELECT A MAN EXPERIENCED IN BUYING AND SELLING THE COMMODITIES YOU HANDLE

RATHER THAN ONE WHO HAS HAD EXPERIENCE ONLY IN GROWING THOSE COMMODITIES

PAY HIM A GOOD SALARY GIVE HIM AUTHORITY SUPPORT HIS WORK
This association was organized under the cooperative laws of Montana in the fall of 1919 to supply the farmers with feed and hay at a reasonable price. It was organized as a result of the general shortage of hay and feed in Montana at that time. The original capital of this association was $5.00 but a revolving fund of $14,000 was obtained by requiring a deposit of $1.00 per ton on all hay ordered by farmers. This association was organized under the auspices of the Farm Bureau of Cascade County. The original plan was to sell sufficient hay to force the local price down. During the operation of the association, wild hay was never sold higher than $24.00 per ton, and the highest price paid for alfalfa was $32.00. At outside points wild hay sold as high as $40.00 per ton, and the highest record price paid for alfalfa was $60.00.

Inability to secure a suitable manager induced the directors to sell the warehouse on April 1, 1920, to the Montana Grain Growers. On the same day, hay went up on the local market from $8.00 to $14.00 per ton and other feed in proportion. The books of the association show that $176,000 worth of business was done with a profit of only $35.00. Rough estimates place the saving effected by the association, through the keeping of the general price level at a reasonable figure to be $500,000.
WELL ORGANIZED SALESMANSHIP
IS NEEDED BY COOPERATIVE ASSOCIATIONS

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SUCH A SALES FORCE MAY BE
EITHER AN INDIVIDUAL OR
A PRIVATE SELLING AGENCY

* * *

OTHER THINGS BEING EQUAL
THE ORGANIZATION WITH THE
BEST SALES FORCE WILL
DISPOSE OF THEIR PRODUCTS
TO THE BEST ADVANTAGE.
A good example of how cooperation will win, is seen in the vicinity of Sedan in Gallatin County. Four years ago the farmers organized the Sedan Cheese Company, a cooperative association of about a dozen farmers. The factory was a success from the start and the cheese found ready sale. The factory has paid its patrons on an average of about 10c per pound more for butter fat than the market price at the local creameries. The returns for the last year, 1920, have not been compiled.

Average price
1917 48 3/4c.
1918 52 1/4c.
1919 59 2/11c.

Per cent increase in butter fat for each year has been
1917-1918 6 4/4 per cent.
1918-1919 16 per cent.

The most important result of the fine team work begun four years ago is not seen altogether in the financial returns but in the forward look which has developed in the community.

There may be found among the patrons four silos, one modern dairy barn, one milking machine, 5 pure bred Holstein bulls, 12 pure bred Holstein cows and over 125 head of grade Holsteins.

Among other things, a branch of the county Farm Bureau has been formed recently. The school children have their potato clubs, calf clubs and canning clubs, while their elders are planning a dairy cattle show next year.

BINDING CROP CONTRACTS WITH PENALTY CLauses FOR FAILURE TO LIVE UP TO THE CONTRACT HAVE BEEN FOUND ADVANTAGEOUS IN MANY COOPERATIVE ORGANIZATIONS.
CONFIDENCE in the other fellow
   * * *
IS THE basis of
   * * *
ALL SUCCESSFUL cooperation

EVEN IF HE differs with you
   * * *
THE CHANCES are
   * * *
HIS INTENTIONS are good
   * * *
AND HE is doing the
   * * *
VERY BEST he can
   * * *
ACCORDING to his own ideas

REMEMBER it is the
   * * *
DISHONEST MAN we talk about
   * * *
WHICH SHOWS that honesty
   * * *
IS THE RULE, not the exception

THINKING your neighbor
   * * *
A PRETTY good fellow
   * * *
WILL HELP you in
   * * *
COOPERATING with him.
HOW CAN WE ORGANIZE?
CONSULT YOUR COUNTY AGENT
OR WRITE TO THE EXTENSION SERVICE
AT BOZEMAN, MONTANA

* * *
THEY WILL

* * *
ADVISE AS TO THE
BEST KIND OF ORGANIZATION

* * *
FURNISH A LIMITED
NUMBER OF SPEAKERS

* * *
SUPPLY CROP CONTRACTS
BY-LAWS AND OTHER
COOPERATIVE INFORMATION.