

FINANCIAL OPERATIONS OF OHIO FARMER OWNED ELEVATORS
DURING THE FISCAL YEAR 1943-44

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Foreward

In the fall of 1929, the Department of Rural Economics of Ohio State University issued a bulletin summarizing the fiscal operations of 119 Ohio farmer owned elevator companies for the preceding fiscal year. Each year since that has been issued a bulletin summarizing the operations of 140-151 such companies for the preceding year. If the bulletin were to cover the data from the 60 percent of these companies which use the calendar year as a fiscal year, it should be assembled and issued each spring. But many companies use the end of January, February, April, and still more of them May or June as the end of the fiscal year; we must take the data for whatever happens to be their fiscal year. Hence it is not until early August that our data are all in hand and our work of analysis can begin. The reader should recognize that the data here presented do not all fall in any 12 month period.

The tables given below, in addition to comparative data from preceding years, are based on the following:

1. The main balance sheet and income and expense items from 138 companies, operating 181 plants.
2. Detailed analysis of expense items from 97 companies.
3. Commodity sales and gross profits on each commodity from 90 companies.

In view of the influence of volume of business on expense ratios and net profits, we have from the beginning divided our companies into groups on the basis of volume of business. The dividing lines have usually been at \$75,000, \$150,000, and \$225,000, for companies operating only one plant each, with all companies operating two or more plants each constituting a separate group, No. V. Just as the low volumes during the depth of the depression forced us to lower our dividing points to \$60,000, etc., so now the immensely larger volumes call for a sizable advance in breaking points; e.g., only three companies had volumes below \$100,000. Also the present large number of companies which operate two or more plants each suggested a division of that group. The resulting grouping is as follows:

Companies operating one plant each:

- Group I - All below \$150,000 in volume.
- Group II - Those between \$150,000 and \$250,000 in volume.
- Group III - Those between \$250,000 and \$350,000 in volume.
- Group IV - Those between \$350,000 and \$500,000 in volume.
- Group V - Those above \$500,000 in volume.

Companies operating two or more plants each:

- Group VI - Those below \$500,000 in volume.
- Group VII - Those above \$500,000 in volume.

Chapter I

A Preliminary Picture

Like the two years preceding, the past year has been one of unusual and sometimes inconsistent regulations, of increasing expense especially in wages, of difficulty in securing and keeping employees, of impossibility of securing supplies in sufficient quantity, and of necessity of curtailing services to customers. How then did the elevator companies of the state fare?

Of the 138 companies in our data, every company showed net savings. How the various groups fared as groups is shown in some detail in Table I below.

Table I

Gains and Losses by Groups - Farmers' Elevators of Ohio 1943-44.

Group	No. in Group	Showing Savings No.	Showing Savings Amount	Showing Losses No.	Showing Losses Amount	Net Savings of Group	Net Savings Per Company
I	12	12	\$ 61,035			\$ 61,035	\$ 5,086
II	29	29	227,132			227,132	7,832
III	20	20	240,396			240,396	12,020
IV	24	24	388,279			388,279	16,178
V	23	23	458,155			458,155	19,920
Total I to V	108	108	1,374,997			1,374,997	12,731
VI	13	13	151,352			151,352	11,642
VII	17	17	558,491			558,491	32,852
Total VI & VII	30	30	709,843			709,843	23,661
Grand Total	138	138	\$2,084,840			\$2,084,840	\$15,107

A comparison with the corresponding data from last year's study shows the companies operating one plant each with an average net savings of \$12,731 per company in comparison with \$10,240 for 1942-43. The companies operating multiple plants averaged net savings of \$23,661 per company in comparison with \$19,100 for 1942-43.

During the ten years 1928-38, the net savings per company ran most often between \$3,000 and \$4,000, with considerably lower figures 1931-34. Since 1939, savings have averaged consistently above \$5,000 per company (1939-40 - \$5,419; 1940-41 - \$5,304; 1941-42 - \$9,248; 1942-43 - \$11,855; and now 1943-44 - \$15,107.)

As in 1942-43 the increased net savings have been due mainly to increased dollar volume of business, for the margin of profit taken was slightly lower than in the preceding year and the total expenses were \$3,600 per company higher. Table II presents a picture of changes in several important items for selected years 1928 to 1944.

Table II

Comparative Data from Ohio Farmer Elevator Operations
Averages per Company, Selected Years 1928-44

	28-29:	30-31:	34-35:	38-39:	42-43:	43-44
Volume in Thousands of Dollars	170:	108:	176:	169:	333:	405
Gross Trading Margin (in dollars)	13,077:	10,386:	15,231:	16,284:	28,279:	33,931
Total Expenses in Percent of Sales	7.6:	10.9:	7.3:	9.8:	6.6:	6.3
Net Savings per Company (in dollars)	2,991:	1,143:	4,608:	3,319:	11,937:	15,107

The ratio of total expenses to volume of sales has again declined - this time from 6.6 percent of sales in 1942-43 to 6.3 percent of sales in 1943-44. The 22 percent increase in volume more than counterbalanced the 16.7 percent in total expenses.

The net savings of \$2,084,840 is 23 percent of the net worth of the companies included in the study, which compares very favorably with the ratios shown by "Big Business". This comparison made year by year has shown that there is no truth in the statement one hears that cooperatives are especially likely to fail - rather they have about the same ups and downs as business in general, with whatever advantage there is to either group over the other generally falling to the cooperative.

It should be noted too that in the larger number of these farmer companies the net earnings when at all considerable, are largely returned to the patrons in a patronage refund.

Chapter II

The Income of Ohio Farmer Owned Elevators

1. Principal Sources of Income

The two tables below present the general picture, the first giving the totals for the different groups, and the next presenting the same data in averages per company in each group.

"Trading Margin" as used in our tables means the gross profit made on the various grains and commodities handled, i.e., selling price less buying price of the goods. Whenever we find "discounts received" given as a separate source of income we have added that to trading margin; likewise wherever we have found "discounts allowed" as an item of expense, we have taken it out of expense and subtracted it from trading margins.

"Other Income" includes mainly receipts for trucking or delivery and receipts from central organizations in dividends on stock or patronage. Lesser but still substantial amounts are recoveries of debts written off in earlier years, interest on receivables and investments, and less frequently, rents received. It is likely that trucking receipts are not so high as in the preceding year, but increased patronage dividends and return from investments have more than compensated.

Table III

Total Incomes from each of the Major Sources by Groups
for the Ohio Farmer Elevators, 1943-44

Group	No. Companies	Sales	Trading Margin	Grinding Income	Other Income	Total Income
I	12	\$ 1,392,752	\$ 172,541	\$ 28,944	\$ 5,223	\$ 206,708
II	29	5,790,301	553,784	98,606	35,526	687,916
III	20	6,043,749	532,988	74,674	31,090	638,752
IV	24	9,610,928	829,843	120,400	41,796	992,039
V	23	13,566,803	995,590	135,946	64,777	1,196,313
Total I to V	108	36,404,533	3,084,746	458,570	178,412	3,721,728
VI	13	4,627,927	376,321	58,696	26,836	461,853
VII	17	14,938,948	1,221,428	142,292	73,886	1,437,606
Total VI & VII	30	19,566,875	1,597,749	200,988	100,722	1,899,459
Total All Groups	138	\$55,971,408	\$4,682,495	\$659,558	\$279,134	\$5,621,187

One who has last year's bulletin at hand will note an increase in volume over last year of \$8,090,000 or about 22 percent. The gross trading margins increased by \$610,000 or 15 percent. Grinding income shows about \$78,000 increase and miscellaneous income is \$54,000 higher.

The trend of grinding has been upward most of the 16-year period covered by the data at hand. The only exception of importance is in the early

30's when low prices of livestock and livestock products did not encourage feeding operations; also the traveling grinder took some business away from the elevators. The trends are seen in the following figures for every other year:

1930-31	\$342,000	1938-39	\$369,300
1932-33	234,000	1940-41	410,103
1934-35	171,000	1942-43	581,819
1936-37	302,600	1943-44	659,558

The figures presented in Table III give one a picture of the size and importance of the Farmer Elevator Movement of Ohio. Most of our readers, however, have thought of the figures in connection with a particular company. Table IV presents the data of Table III in averages per company in each of the groups. If the reader has the data for his own company in hand or in mind, he should select for comparison the figures of the group to which his company belongs.

Table IV

Major Sources of Incomes of Ohio Farmer Elevators in
Averages per Company in each Group, 1943-44

Group	Sales	Trading Margin	Grinding Income	Other Income	Total Income	What % of Total Income is from Trading Margin
I	\$116,062	\$14,378	\$2,412	\$ 435	\$17,225	83.5
II	199,666	19,096	3,400	1,225	23,721	80.5
III	302,187	26,649	3,734	1,555	31,938	83.4
IV	400,455	34,577	5,017	1,741	41,335	83.7
V	589,861	43,287	5,911	2,816	52,014	83.2
Ave. I to V	337,079	28,562	4,246	1,652	34,460	82.9
VI	335,994	28,948	4,515	2,064	35,527	81.5
VII	878,761	71,849	8,370	4,346	84,565	85.0
Ave. VI & VII	652,229	53,258	6,700	3,357	63,315	84.1
Ave. All 7 Groups	\$405,590	\$33,931	\$4,779	\$2,023	\$40,733	83.3

The change from the five group arrangement of other years prevents the comparison of groups by number.

The average volume per company advanced from \$332,500 for 1942-43 to \$405,600; gross trading profit on goods handled advanced from \$28,279 to \$33,931, though gross profit per dollar of sales was somewhat lower; total income per company advanced from \$33,880 to \$40,733, with trading margins constituting almost exactly the same share of total income in the two years.

Other comments which might be made are as heretofore, the small volume companies do more grinding in proportion to sales volume than do the larger companies.

The single plant companies had a gross income including grinding and miscellaneous income amounting to about 10 $\frac{1}{4}$ percent of sales, while the multiple plant companies had slightly below 10 percent.

Again, while exact comparison is impossible, one can say every group shared in both increased volume and increased income.

2. Comparisons with earlier years.

The rapid strides made by this movement in the years since 1932 are pictured in Table V below.

Table V

Income of Farmer Owned Elevators for several of the years 1932-44 as shown by the Totals for the Whole Number in each Year's Data

	1932-33	1937-38	1940-41	1943-44
No. Companies	146	149	146	138
Sales	\$12,282,453	\$30,990,376	\$28,693,685	\$55,973,749
Trading Margin	1,372,047	2,454,088	2,732,753	4,682,495
Grinding	234,206	323,515	410,103	659,558
Other Income	105,245	132,912	161,221	279,134
Total Income	\$ 1,711,498	\$ 2,910,515	\$ 3,304,077	\$ 5,621,187

One notes that the larger volumes of business (both in tonnage and in dollars) have made possible greater profits at lower profit margins; e.g., the trading margin in 1932-33 was about 11 percent while in the last four years it has been respectively 9.5, 8.9, 8.5, and now about 8.35 percent.

The growth in "Other Income" over the long pull has been due largely to greatly increased patronage dividends paid by the Ohio Farmers' two central organizations at Postoria and the Ohio Equity Exchange at Lima. The last two years have seen increased collections of accounts written off, and this year interest on bonds and savings accounts, both of which go into "Other Income".

3. Margins on the various commodities handled.

With margins on goods handled constituting more than four fifths of total income, it becomes of interest to know in what degree each contributes to volume of business and to gross profits. Table VI will throw some light on this question.

In the earlier years of these studies, we based this Table VI on data from 30 to 50 companies. Data from this number did not always prove to be typical of the whole group, so that in recent years we have used a larger sample. The data in Table VI below covers the operations of 90 companies, nearly two thirds of the whole number.

In examining this table the reader may read the margin ratios either as percents of sales, or as cents per dollar of sales. The column marked "No." shows the number of audits presenting data on the respective items.

Table VI

Commodity Sales and Trading Margin in Farmers' Elevators as shown by Data from 90 Companies

Commodity	No.	1943-44			Margin in Preceding Years			
		Sales	Margin	Percent of Margin	1942-43	1938-39	1933-34	
Wheat	87	\$ 6,396,716	\$ 258,419	4.0	4.1	4.2	5.7	
Corn	78	6,454,319	417,284	6.5	6.9	6.8	8.9	
Oats	71	1,206,756	99,653	8.2	7.1	12.5	11.6	
Other Grains	31	13,528	2,634	19.4	5.4	5.2	26.3	
All Grains		\$14,071,319	\$ 777,990	5.5	5.8	5.8	7.4	
Soybeans	75	8,937,451	256,002	2.8	2.6	6.9		
Hay & Straw	8	13,081	1,723	13.2	11.2	19.3	12.1	
Livestock	7	1,069,801	5,248	.5	.8	1.3	1.0	
Wool	8	54,608	2,192	4.0	3.1	8.3		
Total Sales of Farm Products		\$24,146,260	\$1,043,155	4.3	4.6	5.5		
Flour & Feed	57	5,423,064	686,106	12.6	13.0	13.8	12.5	
Seed	67	663,811	109,071	16.4	15.3	10.6	13.0	
Fertilizer	53	902,602	96,713	10.7	12.6	13.2	12.5	
Coal	73	2,031,085	389,201	19.2	17.8	17.6	18.8	
Bldg. Materials	22	160,030	29,167	18.2	20.0	17.1	25.5	
Farm Machinery	10	135,236	35,540	26.3	19.0	15.9	22.9	
Hardware	21	283,091	61,996	21.9	18.3	19.3		
Twine	22	23,419	3,839	16.4	12.3	10.2	11.6	
Fence & Posts	33	135,370	27,073	20.0	19.8	12.1	12.1	
Gas & Oil	20	337,900	48,207	14.2	13.1	11.2	16.5	
Lumber	4	333,661	69,889	20.9	18.2	19.4		
Salt	13	12,176	2,652	21.8	15.2			
Spray Materials	1	830	160	19.3				
Gen. Merchandise	75	3,327,611	465,508	14.0	15.1	14.3	15.0	
Total Sales of Farm Supplies		\$13,769,886	\$2,025,122	14.7	15.2	14.2	15.0	
Grand Total	90	\$37,916,146	\$3,068,277	8.1	8.46	9.7	10.6	

Any such table as Table VI must be examined with considerable allowance for variation. The share that any commodity constitutes of total business or contributes to total profit margins varies with every company; it varies with crop or farming conditions in each area and year by year; it varies between eastern and western Ohio; local competitive conditions are always an influence.

On the other hand, factors are present to create and maintain certain divergencies and some of them wide. On the one hand, 23 million dollars of grain and soybeans handled in large quantities and almost entirely by machinery was handled at a gross profit of not quite 4.5 percent; \$13,679,000 of farm supply items, handled in far smaller units, and largely by hand, and involving far more bookkeeping and office work and requiring more services such as delivery and charge to account, called out a margin of 14.7 percent or more than 3 times that of wheat.

Among more specific comments to be made are these:

a. Normally one expects about 40-45 percent of the total business to come from farm supplies. The large marketings of soybeans as a war necessity plus the impossibility of securing many of the farm supplies in sufficient quantity, reduces this ratio to about 35 percent. Yet farm supplies furnish nearly double the amount of gross profits arising from farm products.

b. Livestock is usually handled at about one percent or slightly above and largely as an accommodation or service to patrons. A loss of \$1,700 by one company is the occasion of the abnormally low ratio for 1943-44.

c. Corn and oats carry higher margins than wheat because in central and eastern Ohio they become "farm supplies" and as such are sold in small units and often with service costs of two or three kinds involved.

d. The increased margin on Farm Machinery is probably accounted for by an unusual call for repair parts and servicing of old machinery when new could not be gotten.

e. The reader should recognize that General Merchandise is not different from the items above, but almost entirely made up of various items in our list, but not segregated from merchandise in the data we receive. One company, e.g., divides its whole business into two items, coal and merchandise; some companies in western Ohio carry the grains separately, and the remainder of their business, merchandise, or coal and merchandise, or perhaps coal, feed, and merchandise.

4. How gross profit margins of 1943-44 compare with those of earlier years.

A picture of this year's margins is presented in Table VII below. Exact comparison with margins of other years is not possible because high dollar volumes forced a revision of points of separation of the groups. Group I now includes all volumes formerly included in Groups I and II, the new Group II has about the same volumes as the old Group III, while the remaining companies operating single plants each, the old Group IV, we now break into three groups - III (\$250,000 - \$350,000), IV (\$350,000 to \$500,000), and V (above \$500,000).

This gives us in Table VII the first three columns for this year's data, with the remaining columns representing earlier ratios and arranged for a nearly accurate comparison.

In examining any table of margins, one must recognize that margins are not entirely in control of the manager. Price fluctuations especially in grain may give him little margin or a "lucky break"; discounts for grade or dockage make for further uncertainty. We said a year ago, "Government ceilings and fixed prices make confusion worse confounded"; we do not know how to make this statement any stronger, but certainly conditions have been more confusing this year than last.

Table VII

Trading Margins of 1943-44
Compared with those of Earlier Years

Group	No. Companies	Sales	1943-44 Trading Margin	Percent of Margin, former years				
				1943-44	1940-1	1937-8	1932-3	1928-9
I	12	\$ 1,392,752	\$ 172,541	12.4	11.7	9.2	12.4	9.5
					10.8	8.2	11.6	9.7
II	29	5,790,301	553,784	9.6	9.8	7.7	11.0	9.1
III	20	6,043,749	532,989	8.8				
IV	24	9,610,928	829,843	8.6	8.2	7.3	10.5	7.2
V	23	13,566,803	995,589	7.3				
Groups								
I to V	108	\$36,404,533	\$3,084,746	8.5				
VI	13	4,627,927	376,321	8.1				
VII	17	14,938,948	1,221,428	8.2				
Groups								
VI & VII	30	\$19,566,875	\$1,597,749	8.2	9.6	8.2	10.2	8.2
Totals &								
Averages	138	\$55,971,408	\$4,682,495	8.4	9.5	7.9	11.2	8.7

Chapter III

Expenses of Operation

A general picture of the relation of total expense to gross income is presented in Table VIII below. The fact that Groups VI and VII are made up of companies operating more than one plant each makes worth while comparisons on the plant basis as well as on the company basis. The 13 companies in Group VI operate 28 plants and the 17 companies in VII operate 45 plants.

Table VIII

Income and Expense of Ohio Farmer Elevators 1943-44
Average per Company by Groups

Group	No. In: :Group :	Sales	Gross : Income :	Total : Expense :	Net : Savings :	Ratio *
I	: 12 :	\$116,062	: \$17,225 :	: \$12,139 :	: \$ 5,086 :	: 70.5
II	: 29 :	199,666	: 23,721 :	: 15,889 :	: 7,832 :	: 67.0
III	: 20 :	302,187	: 31,938 :	: 19,918 :	: 12,020 :	: 62.4
IV	: 24 :	400,455	: 41,335 :	: 25,157 :	: 16,178 :	: 60.9
V	: 23 :	589,861	: 52,014 :	: 32,094 :	: 19,920 :	: 61.7
I to V Ave.	: 108 :	337,101	: 34,460 :	: 21,729 :	: 12,731 :	: 63.0
VI	: 13 :	355,994	: 35,527 :	: 23,885 :	: 11,642 :	: 67.2
VII	: 17 :	878,761	: 84,565 :	: 51,713 :	: 32,852 :	: 61.2
VI & VII Ave.	: 30 :	652,229	: 63,315 :	: 39,654 :	: 23,661 :	: 62.6
Ave. per Co.	: 138 :	405,607	: 40,733 :	: 25,626 :	: 15,107 :	: 62.9
Ave. per Plant:	: 181 :	309,247	: 31,056 :	: 19,538 :	: 11,518 :	: 62.9
Ave. per Plant: in VI & VII	: 73 :	268,039	: 26,020 :	: 16,296 :	: 9,724 :	: 62.6

* The percent of gross income which was required to pay total expenses.

In comparing this table with the corresponding table for a year ago one notes --

1. An increase in volume of business per company from \$332,000 to \$405,000, or 22%.
2. An increase in gross income per company from \$33,880 to \$40,733, or 20%.
3. An increase in total expense from \$21,943 to \$25,626 or not quite 17%; i.e., the increase in expense though rapid is not as great as the relative increase in volume.
4. An increase in net savings per company from \$11,937 to \$15,107, or 26%.
5. The companies operating one plant each had a slightly higher increase in gross income per plant than did the multiple plant companies.

The changes in major items for 138 identical companies in the last three years are as follows:

	1941-42	1942-43	1943-44
Sales	\$38,503,463	\$47,244,613	\$55,973,749
Trading Margin	3,439,169	4,024,425	4,682,494
Percent of Margin	8.93	8.52	8.37
Total Income	4,068,636	4,820,778	5,621,186
Total Expense	2,742,460	3,106,734	3,536,347
Percent of Expense	7.12	6.57	6.32
Net Gain	1,327,290	1,714,044	2,084,839

This table brings out in more detail the statement made earlier that volume of business has grown so rapidly as to more than counterbalance growth of expenses. In spite of an increase in expenses by nearly \$800,000 for the group of 138 companies, total expenses constituted 6.32% of sales in 1943-44 as compared with 7.12 percent two years earlier, and even though margins declined by nearly .56 of 1 percent, still net savings increased materially.

The distribution of expense among its major items is presented in Tables IX and X. Table IX separates out the interest bill, which is a matter largely of how well or poorly the company is financed, and the depreciation and bad debt reserves, leaving the rest as operating expense.

Table IX

Major Expense -- Farmers Elevator Companies 1943-44
Averages for 138 Companies

	:No. In: :Group :	:Sales :	:Inter. :	:Deprec. :	:Bad :Debts:	:Oper. :Expense :	:Total :Expense :	:Exp. Ratio * :Oper. : Total
I	: 12	: \$116,062	: \$ 60	: \$1,052	: \$ 42	: \$10,985	: \$12,139	: 9.5 : 10.5
II	: 29	: 199,666	: 31	: 1,309	: 285	: 14,264	: 15,889	: 7.1 : 8.0
III	: 20	: 302,187	: 44	: 1,331	: 334	: 18,209	: 19,918	: 6.3 : 6.6
IV	: 24	: 400,455	: 87	: 1,918	: 287	: 22,865	: 25,157	: 5.5 : 6.3
V	: 23	: 589,861	: 95	: 2,056	: 491	: 29,452	: 32,094	: 5.0 : 5.4
I to V Ave.	: 108	: 337,101	: 63	: 1,579	: 311	: 19,776	: 21,729	: 5.9 : 6.4
VI	: 13	: 355,994	: 301	: 1,917	: 351	: 21,316	: 23,885	: 6.0 : 6.7
VII	: 17	: 878,761	: 140	: 3,583	: 955	: 47,035	: 51,713	: 5.4 : 5.9
VI & VII Ave.	: 30	: 652,229	: 210	: 2,861	: 693	: 35,890	: 39,654	: 5.5 : 6.1
Ave. per Co.	: 138	: 405,607	: 95	: 1,858	: 394	: 23,279	: 25,626	: 5.7 : 6.3
Ave. per Plant	: 181	: 309,247	: 72	: 1,416	: 301	: 17,749	: 19,538	: 5.7 : 6.3
Ave. per Plant in VI & VII	: 73	: 268,039	: 86	: 1,176	: 285	: 14,749	: 16,296	: 5.5 : 6.1

* Expense expressed in cents per dollar of sales.

Comparing this with last year's Table IX, we find as one would expect that the interest expense has declined -- a decrease from \$163 per company to \$95. The bad debt allowance -- either write off or reserve set up --

is substantially the same -- \$285 in place of \$273. The depreciation reserve set up for the year averaged \$1,176 which is \$25 more than last year. That is, the interest bill declined by more than enough to cover the small increases in the other two items.

Thus the entire net increase in total expense may be attributed to operating expense which advanced from \$19,603 per company to \$23,279 an increase of nearly 19 percent. This increase in operating costs was due mainly to increased labor costs, though increased delivery and trucking costs are also a factor.

The expenses increased by \$3,600. The increase in volume was proportionately somewhat greater, so that the ratio of expense to sales fell from 6.6 cents on the dollar to 6.3 cents. Larger dollar volume may have been a factor, though it was due mainly to price increase rather than to tonnage increase.

Another picture of the distribution of expense is given in Table X, with comparable data from other years.

In this Table X, labor includes manager and office salary and directors fees as well as plant labor; power includes light and water; insurance includes workmen's compensation as well as fire, tornado, burglary insurance; taxes include property tax, payroll tax (unemployment and old age), and franchise taxes, but not federal income tax; advertising includes costs of annual meeting and good will contributions; audit includes legal expense, auditor's making up of reports; truck includes charges to owned trucks and hire of trucks.

Table X

Percentage* which each Expense Item is of the Total Expense
Data from 90 Companies

Item	1943-44	1938-39	3 yrs. **	Item	1943-44	1938-39	3 yrs. **
Labor	58.4	50.2	49.6	Truck	6.1	5.3	2.8
Power	7.5	7.8	8.8	Off. Sup.	1.1	1.6	2.4
Insurance	4.1	4.4	4.9	Rent	.4	.5	
Taxes	3.9	5.4	4.7	Interest	.3	2.0	4.8
Sup. & Rep.	4.7	3.9	3.8	Depreciation	7.3	9.2	11.2
Advertising	1.0	1.4	1.1	Bad Debts	1.5	3.5	2.8
Tel. & Tel.	1.0	.9	1.0	Licenses	.2	.2	
Audit	.5	.8	.4	Miscellaneous	2.0	2.8	1.7

* This table can be read: "Labor expense constituted 58.4 percent of Total Expense"; or "Labor expense contributed 58.4 cents of the average dollar of Total Expense."

** The three years 1929-30, 1930-31, 1931-32.

In examining this table, one cannot pay much attention to minor variations, for they are often due to the fact that many audits reach us only in a condensed summary which may not mention certain of the items. Comment seems pertinent regarding certain items:

1. Our reference to growth of labor costs is vividly borne out by the increase from 50 cents of the expense dollar a few years back to 56.2 cents a year ago and now 58.4 cents. The decline in percents of other items is not always due to an absolute decline in dollars spent, but to the greater increase of labor, truck and repairs expense.

2. Supplies and repairs have cost more, due to forced use of machinery which would have been discarded and the problem of securing repair parts. This same factor is a large part of truck expense; one company e.g., reported that of its seven trucks, there was always at least one in the repair shop.

3. Interest expense has been on the decline every year but one for the last ten. Notes Payable are \$100,000 less than a year earlier, and some companies are enjoying lower rates of interest.

4. Reserves for Depreciation have shown a decline in the share they contribute to Total Expense from above 11 percent at one time to 8.0 percent for 1942-43 and to 7.3 percent for 1943-44. Yet the average yearly reserves were \$182,543 for the years 1928-33 and for 1938-43 average \$240,392 per year. This past year, these reserves totaled \$256,000 for the 138 companies.

5. Bad Debt Allowance includes both actual write offs and reserves set up for possible losses. Even though declining, this figure at present exaggerates the actual loss, for many audits show sizable collections of accounts once written off. (The data which we have gives the recoveries on accounts written off for 27 of the companies to a total of \$6,973 or more than \$250 each -- which does not show that all companies average \$250 of recoveries, but does mean sizable reduction in the losses on accounts once thought incollectible).

Chapter IV

The Financial Condition of the Farmers Elevators of Ohio

In Chapter II we examined from several viewpoints the sources and amounts of income of these organizations; in Chapter III we analyzed from several different approaches the expenses undergone in their operations. Chapter I had already given a general picture of the gains and losses as experienced by the different groups, and the average net gain per company.

The major question remaining is, What then was the financial condition of these companies as they ended the fiscal year 1943-44?

First, a word of explanation. In the early days of these companies the most common par value for the stock was \$100, though even then some were issuing \$50 and \$25 shares. As they reorganized on the cooperative basis, many of them reduced the par value to \$25, \$20, or \$10 per share. For the sake of uniformity in our study, we shall use the term "\$100 share" to mean \$100 par value of stock, whether that stock be in \$100, \$20, or \$10 or other par value per share.

When we began this series of studies in 1929, \$100 of par value of stock of the 119 companies whose data we then secured had a book value of \$138. Of the entire number, 21 percent had deficits, mostly a hangover from the depression of the early 20's. The period 1930-32 did not help matters much and while our 1935 study found book value per \$100 up to \$142.66, the number having deficits was still nearly 25 percent.

What has happened over the years in regard to these two measures of the situation is pictured in the table below:

	No. of Companies having surpluses	No. of Companies having deficits	Value of \$100 Share for whole group
1934-35	123	24	\$142.66
1935-36	127	23	146.53
1936-37	138	12	164.33
1937-38	134	15	157.14
1938-39	134	13	157.43
1939-40	136	10	165.06
1940-41	136	10	166.11
1941-42	139	5	180.30
1942-43	141	3	187.73
1943-44	136	2	194.12

Two comments should be made regarding this book value of \$194.12 per \$100 of stock (\$1.94 for each dollar of stock outstanding.)

1. The \$194.12 is the value at the time of the audit. Many companies did not declare stock and patronage dividends until after the auditors had left; hence, the book value would be lowered by and to the extent such dividends were paid. This fact applies throughout the last column of the table above, though in no case does it affect the numbers in the surplus and deficit columns.

2. This value of \$194 per \$100 of stock is far more conservatively stated than was the \$138 of fourteen years ago or even the \$142.66 of 1934. Plants have been depreciated, in some cases, to much below real value; receivables are far lower in proportion to volume, and are mostly current accounts, with reserves set up to cover probable losses; inventories are more likely to be undervalued than overvalued. Often no valuation is added for operating supplies on hand or prepaid items.

Another question of interest is how this surplus and book value are distributed among the different volume groups. Table XI answers this.

Table XI

Surplus and Deficit Status of Ohio Farmers' Elevators
by Groups--End of Fiscal Year 1943-44

Group	No. in Group	No. with Surplus	No. with Deficit	Net Surplus	Ave. per Company	Values per \$100 Share
	No.	No.	No.	Amount	Amount	Amount
I	12	12		\$ 145,027	\$ 145,027	\$12,086 : \$154.71
II	29	28	1	560,026	\$ 1,593	558,433 : 19,256 : 182.32
III	20	20		542,855		542,855 : 27,143 : 211.28
IV	24	24		986,150		986,150 : 41,089 : 242.31
V	23	23		776,918		776,918 : 33,779 : 183.32
Total	108	107	1	\$3,010,976	\$ 1,593	\$3,009,383 : \$27,865 : \$198.45
VI	13	12	1	300,125	11,060	289,065 : 22,236 : 161.73
VII	17	17		1,021,004		1,021,004 : 60,059 : 195.94
Total	30	29	1	1,321,129	11,060	1,310,069 : 43,669 : 185.49
Grand Total	138	136	2	\$4,332,105	\$12,653	\$4,319,452 : \$31,300 : \$194.12

The gain in book value is fairly well distributed though the largest part of it as one would expect, is in the larger volume groups. The total surplus increased about 14 percent; the increase in stock outstanding, mostly due to the taking in of new members, brings stock outstanding up to \$4,589,180. Thus arises a total net worth of \$8,908,634, which is about 10 percent above that of last year and 20 percent above that of two years ago for the companies in this year's data.

And now what are the major items making up the resources of these companies used by them in handling the \$55,900,000 of business? What liabilities are outstanding against them? Table XII answers this question. To make possible accurate comparison with preceding years' data, we have prepared this table for 138 identical companies for the three years.

In examining this table, the thing that probably strikes the reader first is the rapid growth in the resources used by these companies in handling their nearly \$56,000,000 volume of business (which incidentally is a turnover five times the total value of resources). The increase in total resources in the two years was nearly 20 percent.

Before we look at the items, the reader is entitled to know what is included under each item. Under Cash we include till money, bank checking accounts and savings accounts; Receivables includes customer and grain accounts receivable and notes receivable; Inventories includes grain and merchandise on hand, valued at the lower of cost or market; net plant is the value of land, buildings, machinery, office furniture, trucks, less reserves for depreciation; Investments include U. S. bonds, stock in central cooperatives, stock in the Louisville Bank for Cooperatives, and some minor items; other assets are mainly prepaid insurance, sales tax stamps on hand and operating supplies on hand.

On the liability side, Notes Payable includes all such notes whether or not secured by mortgage. Dividends payable includes dividends declared in past years and accumulating toward purchase of shares of stock, plus dividends for 1943-44 declared at time of audit, but unpaid at time of audit; one should note that many companies declared dividends after the audit was closed, whose later payment would reduce both cash and receivables, and also surplus.

Table XII

Resources and Liabilities of 138 Farmer Owned Elevators
of Ohio for the three years 1941 to 1944

Resources

	<u>1941-42</u>	<u>1942-43</u>	<u>1943-44</u>
Cash and Bank	\$1,337,253	\$2,189,748	\$ 2,728,882
Net Receivables	1,844,492	1,580,859	1,510,513
Inventory	2,735,110	2,660,829	2,971,181
Net Plant	3,033,721	3,064,801	3,044,412
Investments	216,274	348,838	694,294
Other Assets	49,589	55,566	69,439
Total Assets	<u>\$9,216,439</u>	<u>\$9,900,641</u>	<u>\$11,018,721</u>

Liabilities

	<u>1941-42</u>	<u>1942-43</u>	<u>1943-44</u>
Notes Payable	\$ 455,620	\$ 263,336	\$ 215,457
Dividends Payable	437,350	789,347	997,925
Income Tax Reserve	58,335	112,708	148,578
Other Payables	849,533	678,903	748,127
Net Worth	7,415,601	8,056,347	8,908,634
	<u>\$9,216,439</u>	<u>\$9,900,641</u>	<u>\$11,018,721</u>

Now attacking the Table itself, we note -

1. A doubling of Cash in the two years. In fact the increase in Cash alone accounts for three-fourths of the entire two-year increase in resources.

2. Receivables are continuing their decline. One can recognize that receivables were turning over on an average of every 25 days, and still feel that in times like these receivables could wisely be reduced still further. (This last is especially noticeable when one looks at the figures of about 20 particular companies.)

3. Inventory again shows an increase - about 12 percent.

4. Net Plant shows a slight decrease - less than one percent. The fact that these companies charged off \$256,000 to depreciation would indicate that some \$230,000 was added in improvements to plant and equipment, plus thousands of dollars of minor improvements charged directly to expense.

5. The near doubling of Investments was principally due to purchase of U. S. Bonds, the increase in stock held in central buying and sales agencies (through patronage dividends) is another sizable factor.

On the Liabilities side of the account, we find -

1. Notes payable continuing their decline, and now less than half the figure of two years ago.

2. Dividends payable increased by \$200,000 in addition to the fact that part of last years' \$789,000 was used with 1943-44 patronage dividends to bring in new members or increase their stock holdings.

3. Net Worth increased by another \$850,000, or more than ten percent. (Remembering that Dividends Payable are claims of present and prospective members, one can say that of the \$11,018,000 of total resources, \$9,900,000 or 90 percent, is represented by rights of present and prospective stockholders.)

How companies in the various groups compare in the distribution of these assets and liabilities is shown in Tables XIII and XIV below. To enable the manager or stockholder of a local company to compare his own company with these figures, they are here presented on a company basis.

Table XIII

Resources of Ohio Farmer Owned Elevators, 1943-44 in Average per Company in each Group

Group	Cash	Receivables	Inventory	Plant Value	Investments	Other Assets	Total Assets
I	\$ 7,912	\$ 4,482	\$13,925	\$12,792	\$ 815	\$ 115	\$ 40,041
II	12,552	6,415	13,212	12,847	2,438	242	47,706
III	17,611	9,239	15,547	15,755	4,782	385	63,319
IV	19,321	11,528	22,072	26,333	5,628	415	85,297
V	23,663	13,317	27,831	25,127	7,243	467	97,648
I to V Ave.	16,844	9,329	18,806	18,991	4,424	341	68,735
VI	18,052	12,766	20,363	21,756	1,925	471	75,333
VII	39,710	19,823	39,732	41,794	11,264	1,560	153,883
VI & VII Ave.	30,325	16,765	31,339	33,111	7,217	1,088	119,845
Ave. per Company	19,775	10,946	21,530	22,061	5,031	503	79,846
Ave. per Plant	15,077	8,345	16,415	16,820	3,836	384	60,877
Ave. per Plant in VI & VII	12,462	6,890	12,879	13,607	2,966	447	49,251

Table XIV

Liabilities of Ohio Farmer Owned Elevators, 1943-44
in Average per Company in each Group

Group	:Notes :Payable:	: Dividends: : Payable	: Other : Payables:	: Inc. Tax: : Reserve	: Net : Worth	:Total :Liabilities
I	:\$1,958	: \$ 1,522	: \$2,138	: \$ 245	: \$ 34,178	: \$ 40,041
II	: 735	: 1,534	: 2,464	: 326	: 42,647	: 47,706
III	: 453	: 5,921	: 3,691	: 1,719	: 51,535	: 63,319
IV	: 1,821	: 5,807	: 5,828	: 1,877	: 69,964	: 85,297
V	: 221	: 11,560	: 9,901	: 1,646	: 74,320	: 97,648
I to V Ave.	: 950	: 5,430	: 4,986	: 1,201	: 56,168	: 68,735
VI	: 5,675	: 7,619	: 3,172	: 611	: 58,256	: 75,333
VII	: 2,296	: 18,378	: 9,905	: 644	: 122,660	: 153,883
VI & VII Ave.	: 3,760	: 13,716	: 6,987	: 630	: 94,752	: 119,845
Ave. per Co.	: 1,561	: 7,232	: 5,421	: 1,077	: 64,555	: 79,846
Ave. per Plant	: 1,190	: 5,514	: 4,133	: 821	: 49,219	: 60,877
Ave. per Plant in VI & VII	: 1,545	: 5,637	: 2,871	: 259	: 38,939	: 49,251

These averages set up in Balance Sheet form give the following as the Balance Sheet of the "Average" Ohio Farmers' Elevator Company.

Resources	Percent	Liabilities	Percent		
Cash	\$19,775	24.8	Notes Payable	\$ 1,561	2.0
Receivable	10,946	13.7	Dividends Payable	7,232	9.1
Inventory	21,530	27.0	Inc. Tax Reserve	1,077	1.3
Plant Value	22,061	27.6	Other Payables	5,421	6.8
Investments	5,031	6.3			
Other Assets	503	.6	Net Worth	64,555	80.8
Total	\$79,846	100.0		\$79,846	100.0

Chapter V

What are the sources of the growth in Net Gain?

Net Gain per Company - 1942-43		\$11,937
Changes in Gross Income		
Increase in gross profit on goods	\$5,652	
Increase in grinding income	740	
Increase in other income	461	
Total increase in gross income	<u>6,853</u>	\$6,853
Changes in Expense		
Decrease in Interest Expense	- 68	
Increase in Depreciation Reserve	+ 90	
Decrease in Bad Debt Reserve	- 15	
Increase in Operating Expense	<u>+ 3,676</u>	
Total Increase in Expenses		<u>3,683</u>
Net Increase in Net Gain		<u>3,170</u>
Net Gain per Company 1943-44		\$15,107

Accounts Receivable

We present as we have for some years Table XV showing the ups and downs of monthly balances of customer accounts receivables. These figures are from the records of 19 companies selected to represent the various areas of the state and the various types of elevator operations.

Table XV

Trend of Month End Balances of Accounts Receivable*

	1929	1933	1936	1939	1942	1943
January	\$12,309	\$11,676	\$10,541	\$12,422	\$10,903	\$ 9,434
February	12,092	11,947	10,968	12,679	11,766	10,053
March	13,971	12,276	11,737	13,950	13,576	12,032
April	14,908	12,223	13,064	15,081	15,228	13,458
May	15,704	12,435	13,491	16,559	15,373	14,038
June	15,476	12,610	12,656	15,748	14,345	13,414
July	15,493	12,018	10,849	14,761	12,963	12,711
August	14,825	12,374	11,348	14,991	12,691	13,237
September	16,742	12,732	13,301	16,481	14,253	16,027
October	15,919	12,897	13,760	15,720	13,250	14,674
November	15,429	12,612	12,845	14,383	11,892	11,715
December	13,965	11,783	10,929	12,428	9,781	9,673

* Note that in this table the figures represent merely customer accounts while in Tables XI, XII, and XIV "Receivables" include Notes Receivable and Grain Accounts Receivable also.

Comments on this table and the accounts receivable problem generally might include the following:

1. The figures for 1943 are for a period in which these companies had 14% more volume than in 1942 and more than double that of 1939. Obviously receivables have been materially reduced in comparison with volume. Also the percentage of accounts more than six months old is declining.

2. Going back to the data presented in Table XII, we find receivables have in two years declined about 18 percent, in face of an increase of 47 percent in volume.

3. Averages, however, do not tell the full story. Some companies did much better than these figures indicate. Thirty companies made more than 30% reduction in outstanding accounts in 1943-44 as compared with 1942-43, with such outstanding examples as \$34,965 reduced to \$6,574, \$15,100, to \$5,560, and \$12,155, to \$3,800. On the other hand, ten companies let \$118,700 grow to \$179,700, or 51% increase.

4. We noticed above that only a small and declining percentage of these accounts are old accounts. Closely related to this fact is another important measure of this problem; e.g., one of the companies whose data are included in Table XV above had an average of \$4,420 in accounts outstanding throughout the year 1943; it collected on account during the year \$53,035, thus turning over its accounts on the average 11.3 times per year, or nearly once a month. The best record is still carried by Willard, with a turnover of 19.3 times yearly or about every 19 days. The general average of these 19 companies in Table XV was an average turnover of accounts every 40 days, which certainly in itself offers no dangers. Two questions remain - Why should some companies allow accounts to average 3 to 6 months on the books? and, What will an average turnover be, if and when farm markets and farm prices fall from their present levels?

Operation of several Plants by one Company

Groups VI and VII together contain 30 companies which operate a total of 73 plants. Has this any advantages over single plant operations?

It would seem that the operation of several plants under one management would have a volume which would certainly give some advantages in buying farm supplies and in marketing grain. The buyer of farm supplies who can more frequently buy in car lots or otherwise a larger total could at times buy on better terms. At other times shortage of supply at one plant could be remedied by trucking from another, thus enabling 3 plants under one management to be operated with less than 3 times the inventory if operated singly; plants can help each other in handling seasonal or slow moving goods. Such advantages while often real are not exactly measurable.

That there are economies in expense of operation can be shown - in fact every year's figures show it. We called attention last year to the fact that 117 companies operating one plant each had total expenses of 6.75% per dollar of sales, while the 66 plants under multiple plant management had expenses of 6.3% per dollar of sales.

One year the difference was nine-tenths of a cent, or \$900 on each \$100,000 of business.

In 1943-44 the 108 companies operating single plants had a total expense of 6.45 cents per dollar of sales, while the 73 plants operated by 30 companies had a ratio of 6.08 - a difference of .37 of a cent, and that too in spite of a \$60,000 lower volume per plant which normally should make the expense ratio higher instead of lower. Perhaps .37 percent does not seem great, but on the \$650,000 average volume of the multiple plant companies it amounts to \$2,400 in savings.

Expense Ratios

One of the problems that will be serious if price levels fall, or if volumes of business fall for other reasons, is that of expense.

Our tables throughout Chapters II and III are set up in recognition of the influence of volume. Without fail year after year, the large volume companies perform their services at a total expense of 4 cents to 6 cents less per dollar of sales. However, this is only one of the influences affecting expense.

Note how widely ratios vary within groups.

Single Plant Companies			Multiple Plant Companies		
	Range	Average		Range	Average
I.	8.1% to 15.8%	10.5%	VI.	4.2% to 12.8%	6.7%
II.	5.6% to 13.7%	8.0%	VII.	3.5% to 14.0%	5.9%
III.	3.4% to 11.4%	6.6%			
IV.	1.9% to 10.2%	6.3%			
V.	2.8% to 9.1%	5.4%			

Why such wide differences? - Among the influences are these:

1. Grain business vs. farm supplies; e.g., the company in Group IV with a 1.9 percent expense ratio serves its community in almost nothing but grain handling, while the one with a 10.2 percent ratio does grinding, hauling, and blacksmith work, plus offering a wide range of farm supplies including hand tools and repair parts.

2. City plant vs. country plant. Of two companies in Group I, one with city taxes, city power bills, and higher labor costs due to location has a ratio of 14.7 percent as compared with a country neighbor (with somewhat larger percentage of grain but only two-thirds as much volume) at 6.2 percent.

3. Some of the companies with low expense have seen hard times, have just recently "got out of the woods" and perhaps are not yet away from the shadows. Expenses are likely still to be kept low.

4. Another factor - a big one too - is the arrangement of the plant. An elevator built years ago for the handling of grain alone seldom leaves possible an arrangement later for grinder, mixer, cleaner, sheller, in relation to space, other machinery, delivery doors, which makes for efficiency. The problem is often solved by having a separate building for all feed handling. A fire has occasionally furnished the solution. Not infrequently is heard, "That fire was a hard wallop at the time, but we're better off now for having had it."

5. The efficiency of management is another factor, and often the determining factor.

To sum up, this whole problem of expense is important. The company which can operate on an expense ratio at 6.5 cents on the dollar while its competitor for whatever reason has an expense of 9.5 cents on the dollar, can offer better prices by 2 cents on the dollar, and still make \$3,000 more net on a \$300,000 volume. So divide your volume into your total expense and find what your own expense ratio is; compare it with that of your volume group. If too high, do not jump to the conclusion that "wages are too high"; they may or may not be. It is important - maybe fundamental - to find out what does make costs too high and then discover what to do about it.