

UNIVERSITY OF MISSOURI | COLLEGE OF AGRICULTURE
AGRICULTURAL EXPERIMENT STATION
BULLETIN 311

Operating Practices of Missouri Cooperative Elevators

COLUMBIA, MISSOURI
MAY, 1932

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In 1925 there were approximately 170 so-called farmers' elevators in Missouri, most of which are still operating. Many of these elevators were organized and are operated strictly as private enterprises, with the single exception that some of the stock is owned by farmers. However, it is probable that at least 100 farmers' elevators are now operated as cooperatives.

Missouri is not an important commercial grain state, and less importance is attached to the local cooperative elevator than in some other sections. For this reason some of the possible benefits of cooperative elevators have not been realized by farmers. The most important of these possible benefits are:

(1) With efficiency in operation equal to that of privately owned local elevators, the profits ordinarily accruing to the latter are distributed among the farmer members of the cooperative as patronage and stock dividends. In addition, the profits usually going to private grain dealers in the terminal markets may be retained for producers through the operations of the national and regional cooperative grain marketing agencies, which refund their earnings through the local elevators. These combined profits in some cases may amount to several cents per bushel, but generally have been less because full efficiency has not been attained.

(2) The cooperative elevator sometimes furnishes the local competition necessary to keep prices paid for grain and charged for supplies in line with prices at the central market and other local points. At the same time, competition from private agencies may be so strong that only the more efficient cooperative elevator can survive, particularly during years of falling prices and inventory values.

(3) The cooperative elevators can aid in raising the local price level for grain by improving quality, through encouraging a one variety community production program, furnishing pure seed free from weeds, and paying a premium for quality. The general tendency is for local elevators to neglect these important factors affecting grain prices. In many cases cars of mixed hard and soft wheat are shipped, and varieties and grades are mixed in handling. Producers frequently are not paid according to grade. Seed wheat handled by local elevators is selected more on milling than on seed qualities. Opportunities to guide community production as to varieties and the like are neglected

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because managers are not familiar with production problems. Perhaps no other type of cooperative marketing organization has so little connection with or influence on local production conditions. The cooperative, being more directly concerned with the producers' welfare, should be expected to accomplish more along these lines than private elevators. This cannot be done without full support of the cooperative by producers and other elements in the community.

Necessity of Operating Standards.—Few cooperative elevators are obtaining all of the possible benefits outlined above. To do so, at least two things are necessary:

(1) Check up on present financial condition and operating practices to discover weaknesses which may be remedied. This, of course, is the constant aim of managers and directors, but it is rather easy to overlook important points because of the lack of any standard by which to judge the operations of a particular elevator. For example, some directors may realize that a too easy credit policy has resulted in unnecessary losses, while others may feel that their losses are no greater than those incurred by other elevators, and that a restrictive policy would do more harm than good because of its effect on patronage. If the credit experiences of other cooperative elevators are known the management is able to form a more satisfactory judgment of the condition of the particular elevator concerned. Standards in regard to all phases of management are highly desirable.

(2) The second requirement is appropriate action to remedy the defects. Frequently the desirability of a change in dividend policy, buying practice, etc., is quite evident, but action is delayed or prevented because of objections or lack of support from the members or some directors. This sometimes may be overcome by pointing to the experiences of other cooperative elevators.

The following analysis of the business operations of thirty Missouri cooperative elevators is designed to furnish some standards for the guidance of individual elevators*, and to point to certain weaknesses in operation which seem to apply to most local grain marketing agencies in the State. It should be recognized, however, that local conditions may necessitate deviations from the standards having general application, and that not all elevators can be expected to comply with the standards here set forth.

Financial Operations

The average gross sales, gross profits, operating expense, and net gain or loss for the thirty elevators reporting for the year 1930 are

*Individual summaries have been sent to each elevator cooperating.

TABLE 1.—SALES, EXPENSES AND PROFITS OF THIRTY MISSOURI COOPERATIVE ELEVATORS, 1930

	Your Assn.* Average	
	\$	\$
Gross Sales		
Grain.....		77,925
Sidelines.....		46,666
Total (includes livestock, etc.).....		143,425
Gross Profits		
Grain.....		3,753
Sidelines.....		4,828
Total.....		8,529
Operating Expense.....		7,484
Net Gain.....		1,045

*To be filled in and compared with average

shown in Table 1. In an adjoining column space is provided for recording the same items for any particular elevator of which the reader may be a member, and which should be available to him at the end of the fiscal year. Comparison of these items will show the general financial standing of the elevator, the significance of each item being quite obvious.

Totals or averages of particular items entering into the financial statement, however, do not mean much in themselves. For example, expenses are significant only in relation to sales and other items. These relationships are best shown by means of ratios, as given in Table 2, to be found on page 2. This table really summarizes "in a nutshell" the financial experiences of these organizations. The ratios for the individual elevators have been so arranged that their position in the column indicates the ranking of any particular elevator: i.e., if high in the column it shows a desirable standing with respect to that particular item, and if low it indicates an undesirable condition which should be remedied if possible.

The figures between the two lines drawn through the middle of the table are arbitrary standards based upon the experiences of cooperative and private elevators in a number of middle-western states, as observed by marketing specialists. They merely represent desirable standards above which it is desirable for any individual elevator to place. However, peculiar local conditions may make it impossible for some organizations to attain these standards, while others favorably situated should not be satisfied with attaining them.

The jagged line running across the table and underlining one figure in each column represents the average of the thirty elevators included in the survey. If it is high it shows that these Missouri elevators have a good standing relative to those in other areas; if low, it indicates that

Missouri elevators are inclined to be weak in respect to that particular condition. For example, the Missouri elevators have comparatively large quick assets relative to current liabilities (columns 1 and 2), indicating a comparatively liquid financial condition, but their turnover (column 13) is low, indicating less efficient use of capital and equipment.

Most of these ratios are self-explanatory to anyone acquainted with the elevator business, and for lack of space cannot be discussed in more detail. The management of any particular elevator can calculate ratios for its organization, insert in the table, and draw in a red line connecting up the different items. This has been done for each elevator participating in this survey, and an individual report submitted to each association.

Membership Relations.—Close inspection of the items in Table 2 will show that many of the financial troubles encountered are the result of inadequate volume. While of course all managers and boards of directors endeavor to maintain or increase volume, it is frequently true that these efforts are rather hit-or-miss. Cooperative elevators usually have been established for so many years that the enthusiasm necessary for membership drives and other means employed by co-operatives to promote volume is lacking.

It is desirable that elevators maintain a continuous and systematic check on members and patrons in order to prevent declines in volume of business. In the course of time some members move from the vicinity, cease farming, and otherwise become undesirable as members. Interest paid on inactive shares increases the liabilities of the association without increasing the income. Constant efforts should be made to keep the stock in the hands of active producer members who will support the organization both with their own business and among their neighbors.

TABLE 3.—MEMBERSHIP ANALYSIS OF THIRTY MISSOURI COOPERATIVE ELEVATORS.

	Your Assn.*	Average	
Total members-----		109	
Members giving assn. most or all of their business-----		86	
Members giving assn. little or none of their business-----		23	
Total number of local producers-----		89	
Local non-producers-----		10	
Non-resident members-----		10	
	No.	% No.	%
Total farmer members-----	89	92	
Members who are not farming locally-----	20	18	

*To be filled in and compared with average.

In this regard it is helpful to make a membership analysis each year, as shown in Table 3.

Grain Handling Practices

Buying on a Grade Basis.—Buying grain according to its grade and the market value thereof has several advantages. It encourages the production of better quality grain. It is the only system which is fair to individual producers. There is less risk for the elevator, since any average grade used as a basis of payment may not correspond with the average price. Accurate grading makes possible increased profits from mixing. These advantages permit the elevator to buy on a closer margin and make it easier to meet competition.

Buying practices among Missouri elevators, both private and cooperative, are rather superficial. Twenty seven of the 29 elevators furnishing information on handling practices reported that each purchase was carefully graded; yet the lack of necessary equipment indicates that the word "carefully" has different meanings to different managers.

Out of 29 elevators reporting, only two had moisture testers and only nine had sieves for determining dockage. In some seasons the use of a moisture tester in grading is unnecessary, but this inexpensive equipment should be available for use when casual inspection is inadequate. Eighteen out of 26 elevators said that dockage or foreign material was determined on each load, apparently by inspection in most cases, and two reported a flat rate deduction for dockage. All reported that the price was affected by dockage, in most cases, apparently, only when it is excessive. Seven out of 23 reporting on this point observed a tendency for dockage to increase.

All elevators reported ownership of kettle and scales. Only one elevator had a trier for sampling the grain in a wagon.

Of 28 elevators reporting on this point, 19 bought grain on the basis of an average grade; i.e., made little effort to pay according to quality except under unusual circumstances. Only one elevator reported disputes arising as a result of this practice. Most elevators report that only a few farmers bring samples of grain to be graded before actual sale or delivery.

Cleaning.—The dockage in grain has some value locally as feed, but when shipped to market is nothing but a liability, on which freight must be paid without any return. In sections where the volume of grain handled and the percentage of dockage is sufficient to justify cleaning, the local elevator is able to make an appreciable saving by this process. In Missouri this is not always true. Of the 29 elevators reporting, only 15 had cleaners, with an average capacity of approximately 800 bushels. Some of these elevators seldom used their cleaners, most of them cleaned their wheat, very few used them for other grains. All of the elevators

reporting on this point stated that cleaning resulted in higher prices for the grain sold. None of the elevators have their grain cleaned for their account at the terminal markets. The practice of cleaning seed grain for farmers was reported by only eight elevators, and relatively few members use this service. Six reported that the practice was increasing. A majority of the managers reporting believed that it was not a profitable sideline. The average charge made by those elevators charging for this service was 3.7 cents per bushel.

Mixing.—Every elevator mixes its grain, but in many cases this is quite involuntary, due to leaky bins, inadequate binning facilities, the necessity of finishing out a carload with grain of a different grade, carelessness in binning, and other factors. That kind of mixing is unprofitable and should be abolished where possible. Voluntary mixing, i.e. combining quantities of different grades in such manner as to raise the average grade of all grain shipped, or dilute the dockage or moisture, is a legitimate and usually profitable practice for local cooperative elevators. Damp grain may be mixed with dry grain to prevent heat damage, or may be conditioned by running from bin to bin. Of 26 elevators reporting on this point, only 15 did any mixing. Only three were equipped for mixing more than one kind of grain when loading out.

Storing.—The amount of grain stored for the account of farmers and others by the cooperative elevators is rather small. A number do no storing at all, and wheat is practically the only grain stored. Of the elevators doing storing and reporting on this point, about 32 per cent of the wheat handled was for storage account. The average charge per bushel was 1.2 cents per month. Some elevators do not charge for the first month. The grain was stored for an average of five months. Only one elevator out of 17 reporting made advances to farmers on storage tickets. Only six reported storing the grain in special bins, and the lack of binning facilities possibly accounts for the small amount of storage done. About a third of the elevators reporting do not bin their grain according to class or grade.

Hedging.—It is not customary for Missouri elevators to practice hedging. Only 4 of the 19 elevators reporting on this point attempted to hedge their grain purchases closely during the 1930-31 season. The tendency is to hedge only on a falling market. Grain owned by the elevator and stored for a considerable period was hedged by only six of the elevators reporting. In only one case did an elevator have grain stored at the terminal market, and then without hedging. Nearly all of the managers hedging left it to the terminal commission firms. The hedging is nearly always done on the same market to which the grain is shipped. Half of the elevators reporting stated that the spread between cash and futures seriously interfered with hedging, and three out of four believed that this spread resulted in losses to the elevator.