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# Possibilities and Limitations of Cooperative Marketing

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During the year 1926 the Department of Agricultural Economics of the Missouri College of Agriculture has been engaged in making a detailed survey of the problems of cooperative marketing as they apply in this state. The results of this study will be published as a bulletin. Meanwhile, and in answer to the many inquiries received, this summary of the possibilities and limitations of cooperative marketing is issued. It is a conservative statement based on the actual experience of cooperative associations in Missouri and other states which have encountered similar problems. It should be noted, however, that many people sincerely believe that the future accomplishments of cooperation will not be limited to the extent indicated in this discussion.

The development of efficient cooperative associations for the marketing of Missouri farm products should be encouraged. Experience has demonstrated that many worthwhile benefits are to be derived from the operation of these organizations. These benefits are:

1. Cooperative associations, when operated efficiently, obtain for their members the profits which usually go to private firms in the same line of business.
2. In many instances cooperative organizations have been able to effect additional savings by reducing the cost of marketing.
3. Cooperative marketing associations can in many ways favorably influence prices.
4. Cooperatives foster more efficient production methods.
5. Successful cooperation brings a number of non-financial benefits which lead to community progress along various lines.

Some of these benefits are covered up or diffused in such a way as to make them difficult to recognize. It is very important that all members and prospective members of cooperatives should fully realize what their organizations are doing or can do for them, since successful operation frequently depends upon proper support of an informed membership. For the same reason, it is equally desirable that misconceptions of the possibilities of cooperation be eliminated.

### 1. PROFITS

Cooperative associations, when operated with equal efficiency, retain for their members the profits which ordinarily go to private firms in the same line of business. These profits of private middlemen are not as large as many have believed. The size of the gross margin is no indication of what the net profit may be. Competition is usually an effective safeguard against exorbitant profits. Records show that the amount of profit made by different concerns varies widely, many firms, both cooperative and private, making none at all. However, these profits have been sufficiently large to satisfy private owners, and should prove equally worthwhile to the members of cooperatives, although each dollar is distributed among many more individuals.

### 2. SAVINGS DUE TO REDUCTIONS IN THE COST OF MARKETING

In many instances cooperative marketing organizations, in addition to obtaining the ordinary profits of the business in which they are engaged, have been able to effect additional savings by reducing the cost of marketing. This can be accomplished only by increasing efficiency of operation over that of the private marketing agencies which formerly handled the business. The management of the average cooperative firm is not likely to be better than that of the average private business; but, on the other hand, the cooperative often has certain other advantages over the private agency. These are: greater volume of business, a lower cost of procuring this volume, and cheaper financing. Cooperative livestock commission firms, for example, have been able to cut costs from 25 to 50 per cent, but this is very unusual.

It is true that the possibilities of reducing marketing costs by cooperative action have frequently been over-estimated. There are definite services to be rendered in connection with the marketing of any product, regardless of the type of marketing agency involved. The private middleman is usually not "eliminated", but only replaced by the cooperative, which automatically assumes all costs and duties of the private agency.

### 3. BETTER PRICES

Cooperatives bring better prices for farm products. It is now generally recognized that a cooperative association cannot arbitrarily "fix" prices, or guarantee "cost of production plus a reasonable profit" for its members. However, cooperatives can and do favorably influence prices in many ways, and often to a considerable extent.

The first step in obtaining better prices for farm products is "balanced" production. It is now recognized that in agriculture, as in other industries, economic as well as physical factors must be taken into con-

sideration in planning what and how much to produce. While the full importance of this to agriculture in the future is yet a matter of conjecture, it is believed that cooperatives can do much to stabilize production, and therefore prices, by gathering and supplying to members information on demand and supply, in order that they may plan their production programs more intelligently.

Cooperatives are able to influence favorably the quality as well as the kind and amount of production. This has been a very important factor in obtaining higher prices for products sold through these organizations. Careful grading, strict inspection, and payment by grade, which are characteristic features of cooperative marketing, have done much to raise the quality of products marketed in this way. The cooperatives have also been influential in bringing about reductions in the number of varieties, an important step in standardizing quality production.

The next step in obtaining better prices for the members of cooperative associations is intelligent merchandising of these graded, quality products. Merchandising means: controlling flow to market and distribution between markets so as to avoid alternate market gluts and famines; advertising and developing new markets through the use of brands, trademarks and modern salesmanship; and the rendering of better marketing service in general. The most successful cooperatives in the country have been built around the above closely related methods of "winning in competition".

By affording a different and uncompromising competition, cooperatives are frequently able to correct undesirable trade practices, and to eliminate partial monopolies enjoyed by private dealers. This is particularly true of local associations, as substantiated by price comparisons made by the College of Agriculture, which show that prices for farm products are generally higher in towns having cooperative associations.

Collective bargaining in the purchase of supplies, as well as in the selling of some commodities, such as milk and fruit, tends to place the farmer on an equal footing in bargaining with other groups.

The cooperative is frequently able to obtain more uniform, and hence more satisfactory prices for its members by spreading, through pooling, the risk of price changes which are beyond the control of individual producers.

#### 4. GREATER EFFICIENCY IN PRODUCTION

One of the most important benefits of cooperative associations, as indicated by actual experience, is their influence on production methods. This has been mentioned in connection with the kind and quality of commodities produced. But it extends also to efficiency in production. The cooperative acts as a medium through which other

agencies may work to improve production methods. Moreover, efficiency in one line begets efficiency in another. Members of a successful cooperative, satisfied that their products are being marketed to the best possible advantage, realize that a favorable price is not the sole objective. It becomes evident that this price can be converted into a profit only by efficient farming methods.

### 5. NON-FINANCIAL BENEFITS OF COOPERATION

Cooperative associations, in addition to obtaining these financial benefits for their members, are in several ways a source of good in the community. They develop leadership which carries on to other community endeavor. Community spirit and cooperation are usually fostered, bringing real progress and prosperity along many lines. These benefits are very intangible, and sometimes appear unimportant when compared with those of a strictly financial nature. The only way they can be really appreciated is through a visit to some section where cooperation has long been established on a successful basis. Here it is seen that the benefits of cooperative marketing extend to everyone in the community.

#### BENEFITS NOT A SURE RESULT OF COOPERATION

Of course, these benefits are not a sure result of cooperation. Certain conditions are necessary for the success of cooperative marketing, as for the success of any other business. The three most important factors which make for successful cooperation are:

1. Intelligent and loyal interest and activity on the part of members, frequently strengthened by contracts, which make definite the obligations of the respective parties.
2. Organized on a sound basis which the experience of other successful cooperatives indicates will prove most practicable.
3. Efficient management.

#### MARKETING SERVICE FOR COOPERATIVES

In order to further this desirable movement, members of the staff of the College of Agriculture are engaged in several lines of work with cooperative organizations. The functions of the College of Agriculture, in this connection, are believed to be as follows:

1. To teach, in the classroom, the principles of marketing and cooperation.
2. To conduct careful research to discover the truth about marketing conditions, and to make available the lessons which are contained in past and present experience with marketing cooperatively.
3. To carry this information to the farmers of the State.
4. To render assistance, so far as possible, in the technical problems of organization and management to such cooperatives and their members, present and prospective, as may request it.