



United States
Department of
Agriculture

Economics,
Statistics, and
Cooperatives Service

Cooperative
Information
Report No. 27

Small Fresh Fruit and Vegetable Cooperative Operations

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SMALL FRESH FRUIT AND VEGETABLE COOPERATIVE OPERATIONS. Fred E. Hulse, Gilbert W. Biggs, and Roger A. Wissman. Cooperatives Program; Economics, Statistics, and Cooperatives Service; U.S. Department of Agriculture. Cooperative Information Report No. 27.

ABSTRACT

Thirty-four small fruit and vegetable cooperatives using different sales methods-auctions, sales agencies, and their own sales staffs—varied importantly in number and type of services provided, production and marketing supplies handled, grower payment methods, grower marketing agreements, and financing methods used. Their operating problems and causes for the demise of four cooperative operations are reviewed. A set of guidelines directed to the organization and operation needs of small fruit and vegetable cooperatives is included.

Keywords: Organization, operation, sales methods, financing, guidelines, fruits, vegetables, cooperatives

This publication supersedes FCS Information 106, "Small Fresh Fruit and Vegetable Cooperative Operations," June 1977.

Issued in June 1980
Reviewed and Approved for Reprinting January 1990
By Agricultural Cooperative Service

PREFACE

This report supersedes FCS Information 106. Substantial modifications in the original report have been made to better fill current requests for information on small fruit and vegetable cooperatives. New emphasis is on the functions performed by the 34 cooperatives studied rather than on the commodities they handle. Guidelines have also been revised substantially to emphasize important requirements in organizing fruit and vegetable cooperatives for most efficient and effective operations.

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HIGHLIGHTS

This study provides fruit and vegetable growers with information on 34 small fruit and vegetable cooperatives, how they served their members, and how similar operations might provide other producers with marketing, supply purchasing, and other services.

Most had product sales of less than \$1 million annually. Membership averaged 262. Twenty-nine cooperatives had an average of three full-time employees. All 34 associations employed an average of 57 part-time workers. All but five employed full-time, year-round managers.

Thirteen handled primarily fruits and 21 handled mostly vegetables. Five handled some combination, although the primary emphasis was on fruits or vegetables.

Operations were influenced by the kind of products handled, kinds of marketing services provided, and particularly by the sales methods used. Seven used auction sales. Nineteen handled sales using their own staffs, and eight used sales agencies.

Cooperatives using auction sales primarily handled vegetables. The products were usually packed on the farm, but Federal-State inspectors were available to check grades at most auction markets. All auctions made sales for growers' accounts.

Cooperatives using their own sales staffs to market members' products assumed responsibility for the quality and condition of products sold to buyers often located many miles from the production area. Available marketing services enhanced the value of products marketed, but they also helped develop packs of consistent quality. Those services most widely used by these organizations included grading, cooling, storing, packing, washing, and arranging for transportation. About half of these cooperatives provided farm chemicals, fertilizer, seed, packaging, and other supplies.

Sales by cooperatives using their own staffs were made directly to buyers, through brokers, and on a consignment basis. Direct sales were most widely used and consignments were used sparingly. Buyers purchasing directly were mostly wholesalers and retail chains. Buying brokers and processors also made some direct purchases.

Payment for growers' individual accounts was the most important grower payment method used by about two-thirds of the cooperatives handling their own sales, and the other third used pooling. Marketing agreements were used by about half of the associations handling their own sales.

Cooperatives using sales agencies were primarily fruit handlers. All of these organizations provided washing, grading, cooling, packing, and storage services. Like the local cooperative, the associated sales agency enforced rigid standards of product quality to protect its reputation and that of any brands or trademarks used to identify products it marketed.

Pooling was the primary grower payment method of cooperatives using sales agencies. Also, marketing agreements were used by most of these cooperatives.

Financial assets of cooperatives using auctions were substantially less than those of the other associations. Equity capital equaled about two-thirds of assets for associations using auctions and sales agencies, but only a little more than one-third for associations handling their own sales. This low level of equity was influenced by three cooperatives which had been recipients of grant monies, and was not typical of operations generally.

Some of the associations borrowed from the banks for cooperatives and a few had loans guaranteed by the Farmers Home Administration. A commonly used method of obtaining equity capital was to retain part of the members' patronage refunds. Another method was to retain for each unit handled a specified amount as a per unit capital retain. Revolving funds were the most common method used to return members' equity.

Reported operating problems were mostly labor related or had to do with obtaining or maintaining sufficient product volume. Four cooperative cases are briefly reviewed to provide insight to reasons for termination.

Of the 34 cooperatives surveyed in 1974, 28 were active in 1979. Product sales data for 25 of these 28 cooperatives showed little change in operating volume when deflated to 1974 dollars. No major changes were noted in operations of these cooperatives since 1974.

A set of guidelines for organization and operation of a cooperative is presented. These guidelines are especially directed to the needs of small fruit and vegetable cooperatives.

Small Fresh Fruit and Vegetable Cooperative Operations

*Fred E. Hulse, Gilbert W. Biggs, and Roger A. Wissman**

INTRODUCTION

This report describes operations of 34 small fruit and vegetable cooperatives in the United States. It provides fruit and vegetable growers information on how these small yet diverse cooperatives served the needs of their members, and how other such operations might be formed to provide producers with marketing, supply purchasing, or other services.

Operations of all fruit and vegetable marketing cooperatives having annual product sales of \$1 million or less in 1974 and four cooperatives that failed in the early seventies are examined. Two of the 34 cooperatives studied had product sales of more than \$1 million and six had combined product and supply sales in excess of \$1 million. Guidelines are also presented for the organization and operation of small fruit or vegetable cooperatives.

The 34 small fresh fruit and vegetable marketing cooperatives examined in this report vary considerably in products handled, business volume, services provided, facilities used, location with respect to markets, and many other ways. Although these differences appear very pronounced, all operations had the common objective of providing efficient marketing services and used one of three basic sales patterns: auction sales, sales through a marketing agency, or sales by the cooperative's own staff. These associations provide examples of how small producers have worked together to build marketing organizations, meet problems, and seek solutions.

* The authors are agricultural economists in the Economics, Statistics, and Cooperatives Service; U.S. Department of Agriculture.

Five of the cooperatives included here handled both fruits and vegetables. One classified as a fruit association handled a small volume of vegetables and the others classified as vegetable associations handled small volumes of fruit. Two of the five operated as auction markets and three handled their own sales.

Fruit cooperatives provided more packing facilities, but fewer supply services than vegetable cooperatives. Eleven of the 13 fruit associations had packing facilities, and 13 of 21 vegetable associations packed produce. Seventeen of 21 vegetable associations, and 8 of 13 fruit associations offered supply services.

These cooperatives have realized varying degrees of success. Differences apparently stemmed from membership needs and area of operation. The degree of effectiveness depended on member commitment and management skills in handling operations.

Fruit cooperatives are generally more difficult to organize than vegetable cooperatives because of the nature of production. Fruit trees require several years to reach bearing age, while most vegetable crops are harvested in the year planted. Producers can do little in the short run to alter fruit production once it is underway. Initially, this may make grower commitment of the necessary tonnage for operations a difficult objective to attain. But, in the longer term, these production characteristics of fruit generate strong producer commitment to ongoing cooperatives and generally result in those associations having stronger financial positions than vegetable cooperatives.

ORGANIZATIONAL STRUCTURE

The organizational structure of these small fresh fruit and vegetable cooperatives varied in membership requirements, numbers and terms of officers, management responsibilities, and number of employees. Differences generally originated with the requirements of producer-members and economic conditions at the time of organization.

Membership

Membership of the 34 associations averaged 262. Since organization, the combined membership of these cooperatives has doubled.

Twenty-one vegetable associations averaged 359 members; 13 fruit associations averaged 106 members. Those associations with the largest memberships generally served smaller producers.

Membership in these cooperatives was open to all who qualified as producers and met the other conditions established by each cooperative.

Four citrus cooperatives required written application for membership, and approval by a majority vote of the board of directors. No entrance, organization, or membership fee was charged. However, new members were required to file an agreement to abide by all bylaws, rules, and regulations and to use the cooperative's facilities for packing and marketing their citrus. Marketing agreements were used by all four citrus cooperatives.

Membership in nine cooperatives handling deciduous fruit required board approval and the signing of an agreement accepting bylaws and other rules. Eight of these nine cooperatives required new members to have some type of financial interest in the cooperative. Five charged a nominal membership fee, while three others required an investment of one share of common stock. Four required members to sign a marketing agreement.

Bylaw and regulation compliance as a condition of membership in the vegetable cooperatives was similar to that of the fruit cooperatives. Sixteen of 21 vegetable cooperatives assessed a nominal entrance fee or small annual charge. Four of the remaining five required the purchase of one share of common stock. Seven of these cooperatives used marketing agreements.

One-member, one-vote was the general principle for exercising member control of these fruit and vegetable cooperatives. Five cooperatives allowed additional votes for some stipulated amount of member equity.

Management

Management responsibility in a cooperative is divided three ways: among the board of directors, hired management, and members. The board of directors is generally responsible for association policy, operational plans, operational evaluations, establishment of controls, and approval of distribution of net savings. Hired management is responsible for

implementing policy and plans, supervising operations, and assisting the board in its duties. Members have responsibilities for adopting and amending articles and bylaws, approving changes in the association's capital structure, facilities and services, electing or removing directors, and requiring officers and directors to be in compliance with incorporation and bylaw provisions.

Directors and Officers

The number of directors in the 34 cooperatives ranged from 5 to 20, with three-quarters of the boards numbering 7 to 9 directors. Term of office ranged from 1 to 4 years with more than half of the associations electing directors for 3-year staggered terms.

Boards usually elected officers at their first meeting after the annual meeting. Presidents and vice presidents were required to be directors but, in most cases, secretaries and treasurers were not required to be directors.

Boards had authority to appoint committees for studying and recommending action on various policies and operations. However, 18 of the 34 boards operated without committees. Seven boards had 1 committee, four had 2 committees, three had 3 committees, one had 7 committees and one had 11 committees.

Of those boards using committees, four had an annual meeting committee and three had an executive committee. Other committees were appointed to study and recommend action on facility, finance, marketing, and public relations matters.

Hired Management

Hired management of these 34 cooperatives ranged from part-time help to a full-time management team. Managers of 29 of these cooperatives were full-time, year-round employees. Three of the five part-time managers served auction associations.

Managers' most immediate concern depended on the services provided by the cooperative. If, for instance, the cooperative had packing facilities, a considerable part of the manager's time was given to supervision of grading and packaging, particularly if sales were made through a large marketing cooperative, joint sales agency, or other marketing organization. If the cooperative handled its own sales, a large part of the manager's time involved marketing.

Employees

All 34 of the cooperatives employed part-time workers and 29 employed full-time workers. Including workers employed in seasonal harvest operations, the number of part-time employees averaged 57. Full-time workers averaged three with little variation between types of operations. Part-time employees averaged 23 for auctions, 36 for associations handling their own sales, and 138 for cooperatives using sales agencies.

PRODUCTS

Operations of the 34 cooperatives have been influenced not only by the kinds of products marketed for their members, but by the kinds of marketing services provided to move those products into the channels of trade. Services performed provide a more revealing basis for analyzing operations than do products sold.

Fruit cooperatives handle fewer products than vegetable cooperatives. However, when number of products handled is considered on the basis of kind of sales operation, five of seven cooperatives operating auction sales handled three or more products, and three of those seven cooperatives handled six or more products (table 1). This is in sharp contrast with six of eight cooperatives using sales agencies that handled no more than two products. The 19 cooperatives making their own sales were more evenly divided, with 11 handling no more than three products and 8 handling four or more products.

Table 1-Products handled by the 34 cooperatives

Commodities handled	Cooperatives using—			Total
	Auction sales	Own sales staffs	Sales agencies	
	<i>Number</i>			
1	1	3	4	8
2	1	2	2	5
3	2	6	1	9
4	0	1	0	1
5	0	2	1	3
6 or more	3	5	0	8
Total	7	19	8	34

SALES METHODS

The seven auction cooperatives were, with one exception, vegetable associations. The cooperatives using sales agencies included all four citrus cooperatives, three deciduous fruit cooperatives, and one vegetable cooperative. Fourteen vegetable associations and five deciduous fruit associations handled their own sales.

Auctions

Product sales of the seven auction associations ranged from \$108,500 to **\$1,417,725** in the year studied. Five had production or marketing supply sales ranging from \$2,800 to an estimated \$510,500 during the same period.

Services included providing the auction facilities and making packaging supplies available to growers (table 2). Washing, grading, cooling, packing, and storage services were provided on a limited basis. Only one or two cooperatives were involved in offering each service. Two auction associations handled production supplies-one offering fertilizer, the other farm chemicals.

Auction associations have been concerned with having available the kind and quality of products that attract buyers. Buyers' wants have been generally well known. Auction managers pass this information on to growers in the market area. They also keep prospective buyers informed about auction opening dates, product availability, and condition. Prices and general product availability information is provided by Federal and State market news services and through managers' contacts with buyers. This information was relayed to growers mostly through the local media and in personal contacts.

Growers usually packed their products on the farm, but Federal-State inspectors have been available at many auctions to check grades, either as a requirement of growers doing business there, or when buyers requested that grading be checked.

All seven auctions made sales for growers' accounts. Auction costs were covered by block fees or package charges. Block fees ranged from 3 to 10 percent of sales for four associations. Package charges of 8 cents for each lug of tomatoes worked well for an auction that handled only this one product.

Table 2—Services and products supplied to members by the 34 cooperatives

Service or supply provided	Cooperatives using—			Total
	Auction sales	Own sales staffs	Sales agencies	
	<i>Number</i>			
Marketing services:				
Sales	7	19	8 ¹	34
Harvesting	0	1	5	6
Washing	1	14	8	23
Grading	2	18	8	28
Cooling	1	17	8	26
Packing	1	15	8	24
Icing	0	5	0	5
Trucking ²	0	13	5	18
Storage	2	16	8	26
Weighing	0	1	0	1
One or more services	7	19	8	34
Production and marketing supplies:				
Fertilizers	1	9	2	12
Seeds	0	9	0	9
Plants	0	6	0	6
Chemicals	1	11	2	14
Packaging materials	5	9	2	16
Tires and hardware	0	4	0	4
One or more supplies	5	16	4	25

¹ Eight associations depended on a cooperative sales agency or an exclusive sales agent to make their sales, but the local cooperative remains basically responsible for arranging for marketing members' products.

² Service generally consisted of arranging for transport, not supplying it.

Charges for other services provided and margins on supplies sold were sources of income for some associations, but some services such as the use of grading equipment were made available to growers at cost. Other sources of income for these auctions included the rental of facilities to firms engaged in associated agricultural enterprises such as an egg marketing operation.

The seven auctions sold primarily to local roadside market operations or to brokers. The brokers were actually buying brokers who pur-

chased produce for their own accounts and shipped to unidentified principals, a common practice in the produce business. Five of the seven auctions estimated that brokers purchased 70 percent or more of their volume.

Some auctions provided offices for buyers at no cost. Others provided special loading platforms or other facilities to attract buyers and expedite sales.

Using Own Sales Staffs

Produce receipts of the 19 cooperatives making their own sales ranged from \$70,000 to \$844,200 in 1974. Sixteen had production or marketing supply sales ranging from \$6,300 to \$621,500 during the same period. Fertilizers and farm chemicals accounted for the bulk of supply sales value by these 16 cooperatives.

In addition to sales and supplies, grading service was provided by 18 of these 19 cooperatives, cooling by 17, storage by 16, packing by 15, washing by 14, and some trucking services by 13 (table 2). Much of the trucking service provided was limited to arranging for transportation of purchased products. Other marketing services provided on a limited basis included icing, weighing, and harvesting.

About half of the 19 cooperatives handling their own sales provided supplies such as farm chemicals, fertilizer, seeds, or packaging materials. Some provided plants, tires, or hardware.

In contrast with the auction associations that provided essentially a place for growers to sell their produce and an auctioneer to conduct the sale, those cooperatives handling their own sales became the sellers and assumed responsibility for the quality and condition of the product sold to buyers often located many miles from the production area. Although many of the marketing services these cooperatives provided their members enhanced the value of the product marketed, they also helped develop packs of consistent product size and quality. Cooling was widely used for products requiring it. Most of the cooperatives providing grading services used Federal-State inspectors. Products thus serviced assured quality and protected both the cooperative and their buyers from the consequences of inferior or mislabeled packs.

Many fruit and vegetable cooperatives have used brands to identify their products. Following usual marketing strategy, they put their brand only on products of identified quality, such as one brand for products graded U.S. No. 1 and another for products graded U.S. No. 2. They then advertised those brands as representing those qualities.

Products packaged and branded by those cooperatives handling their own sales were distributed through the wholesale trade, and the value of their brands was limited to the impact on that trade. None of these organizations handled sufficient volume to efficiently package products in consumer-sized packs and none had advertising budgets substantial enough to reach consumers in a meaningful way.

Advertising budgets of these 19 cooperatives were small-mostly less than \$1,000, but a few ranged up to \$4,000 annually. Funds may have been allocated to a variety of uses, but half or more of the cooperatives' available monies were spent as follows: six used newspapers, five used trade papers, five used credit rating directories, two used radio or television, and one used a commodity program. This put the emphasis on trade advertising which is the logical choice considering the limitations of brand impact and market exposure.

Cooperatives using their own sales staffs sold directly to buyers, through brokers, or consigned products for sale on a commission basis. Only 5 of the 19 cooperatives used one method of sale exclusively. Two made all sales directly and three made all sales through brokers. However, 11 of these cooperatives used the direct method for most of their sales. Four used brokers for most of their sales, and only one used the consignment method for more than half its sales. Two divided their sales about equally between direct and broker methods and one divided its sales about equally between direct and consignment methods.

One particular method of sale can be as good or bad as another depending on the cost of using it, the integrity of the principals involved, and the availability of services. However, the use of a method probably provided the best measure of its worth for the 19 cooperatives. Direct sales were used most widely. Consignment sales were used only sparingly, and most times only as a last ditch measure.

These cooperatives sold primarily to wholesalers or retail chain stores. Six cooperatives made a major part of their sales to wholesalers and five shipped mostly to retail chains. Two sold only to brokers (buying

brokers), as did many of the auction associations, and three sold only to processors.

The type of buyer may not have been as important as individual buyer's requirements for particular products and services and their reliability as business people and credit risks. Prompt payment for the products and services provided has been extremely important for these small cooperatives and their members.

Methods of Grower Payment

Grower payment methods used by the 19 cooperatives handling their own sales included payment on growers' individual accounts or on a pooling basis. Twelve of these associations made payments on a grower's individual account basis exclusively. Five used pooling exclusively and two used a combination of payment for growers' individual accounts and pooling.

Pools set up by vegetable associations were of either daily or weekly duration. Seasonal pools were used by fruit associations. Differences in the length of pools often reflected crop perishability and price stability. Vegetable prices usually are more inclined to fluctuate than fruit prices, and lead to the use of shorter term pools.

The use of more than one payment method by one cooperative was related to end product uses. Pooling was used for processed product and an individual account basis used for fresh sales. For another association, short crops meant payment on an individual account basis and large crops meant pooling returns.

Operating costs were covered in a number of ways. Some associations handling their own sales covered costs with a percentage of gross sales charge. Some made a flat charge for each unit of product graded and packed. Some included selling costs in this unit charge. Others combined unit charges for handling with a percentage selling charge. Also, charges were made for other services provided growers. Margins on supplies sold provided additional income.

Marketing Agreements

Members are usually asked to make marketing commitments either as a condition of membership or in separate written contracts called marketing agreements. Provisions in some bylaws have been very specific about the obligations of growers and the cooperative with respect to such

things as delivering all products for marketing, assessment of costs for grading and packing, terms and conditions of payments to growers, and damages to be assessed for nonperformance. Marketing agreements may reinforce bylaw provisions, but in all cases they provide the opportunity to specify any cooperative rules or conditions with respect to marketing procedures.

Nine of the 19 cooperatives making their own sales used marketing agreements, in contrast to none being used by the seven auction associations. Where marketing agreements have been used, their main feature has been to commit all of the members' products to the cooperative for marketing. Three cooperatives had agreements allowing growers to deliver less than their total crop. One required at least 80 percent of the crop to be delivered if the cooperative helped the grower finance frost protection.

Using Sales Agencies

Produce receipts of the eight cooperatives using sales agencies to market their products ranged from \$209,406 to \$846,031 in 1974. Four had production or marketing supply sales ranging from \$700 to \$143,000 during the same period, with packaging materials accounting for the major part of these sales.

Four of these organizations were citrus cooperatives and Sunkist affiliates, and two were deciduous fruit cooperatives and Blue Anchor affiliates. An apple cooperative used an independent sales agent as did a tomato cooperative. These arrangements shift the day-to-day responsibility for sales from the local cooperative to a specialized staff with broad market contacts and more comprehensive market information. Such arrangements release local management to spend more time in supervising the performance of other services.

All eight cooperatives using sales agencies to market their products performed washing, grading, packing, cooling, and storage services (table 2). Five of these associations, including four citrus cooperatives, provided their growers harvesting services. Five associations arranged trucking services for their customers.

Four of the eight associations provided some kind of production or marketing supplies. Fertilizer, agricultural chemicals, and packaging materials were each provided by two of the eight cooperatives.

Like the cooperatives that provided their own sales services, those using sales agencies assumed responsibility for the quality and condition of the packed product. In addition to the local cooperative, the associated sales agency usually enforced rigid standards of product quality to protect its reputation and that of any brands or trademarks used to identify products it marketed.

The larger agencies have long provided growers and their local cooperatives the advantages of nationally advertised brands. Advertising and promotion of these products has been directed toward increasing consumer demand. Costs for these programs vary by kind or variety of product and are usually assessed on a package or container basis along with the cost of other marketing services provided by the sales agency. In addition to the sales agency expenditures, all eight local cooperatives earmarked some funds for trade advertising, mostly in the directories of produce firm credit ratings.

Sales methods were not of primary concern to the local cooperatives, since they were not directly involved in sales. Information available described methods used by the sales agency. Emphasis was generally on direct sales and a limited use of terminal fruit auctions.

Buyers represented a wide range of retail and wholesale outlets, including some export firms. Sales in export markets demonstrate one of the advantages to be gained from large volume sales operations, an impossibility for most small cooperatives operating independently.

Methods of Grower Payment

Pooling was the primary grower payment method for cooperatives marketing through sales agencies. Seven of the eight associations used pooling and six used pooling exclusively. One fruit cooperative used pooling but made payments on an individual account basis for local sales made at the packinghouse door. The one vegetable cooperative using a sales agent paid growers on an individual account basis. Pooling by the fruit associations was generally on a seasonal basis. One cooperative used 3-day pools for early plums but seasonal pools for all other plums. One citrus cooperative used 4-week pools for navel oranges and seasonal pools for valencias.

Operating costs for the cooperatives using sales agencies were covered in various ways as were those of the associations handling their own sales. Charges were made on a percentage or flat fee basis or by some

combination of percentage and flat fee. Where made, supply sales also produced income for these cooperatives. Charges for services performed by the associated sales agency were added to those of the cooperative when billed to members.

Marketing Agreements

Six of the eight cooperatives marketing through sales agencies used grower marketing agreements. In all but one case, these agreements provided that growers could sell no committed product except to the association.

FINANCING

Twenty-five of the 34 cooperatives studied supplied financial data on assets, equity capital, and net income (table 3). Average assets of the five cooperatives providing auction services were about two-fifths those of the other associations, reflecting substantially smaller investments in facilities and equipment. Substantial assets were required when cooperatives provided facilities for packing services such as those supplied by all 6 cooperatives using sales agencies and 11 of 14 cooperatives making their own sales.

Equity capital, or members' total ownership in the cooperative, equaled 64 percent of assets for the 5 auction associations, 67 percent for the 6 cooperatives using sales agencies, and 37 percent for the 14 cooperatives using their own staffs to market members' produce. Membership equity of cooperative auctions and cooperatives using sales agencies would be considered quite adequate. The 37-percent equity level of those cooperatives having their own sales staffs, although not considered extremely low, would have been considerably higher except for the impact of three associations, with assets averaging \$268,000 but with meager equities. None of the three had equities exceeding 4 percent. All were recipients of grant monies at some time and one showed negative equity capital. Although this cooperative's losses wiped out its equity, its principal lenders were private developmental funds that permitted continued operation.

These relatively low-equity associations were not typical of the 14 cooperatives using their own sales staffs. Four associations with assets averaging \$110,600 had equity capital exceeding 80 percent. Equity ranged from 57 to 79 percent of assets in three others.

Table 3-Financial data for 25 of the cooperatives studied'

Item	Cooperatives using—		
	Auction sales	Own sales staffs	Sales agencies
		Number	
Cooperatives	5	14	6
		Dollars	
Assets:			
Low	13,674	58,804	49,010
High	148,319	783,883	465,165
Average	98,129	234,242	262,423
Equity capital:			
Low	2,410	2	31,826
High	111,319	326,142	289,701
Average	62,438	86,491	175,241
Net income:			
Low	2,282	(11,206) ³	(4,257) ³
High	15,847	38,488	73,783
Average	9,154	14,467	30,720

¹ Nine of the 34 cooperatives provided only limited financial data including 2 using auctions, 2 using sales agencies, and 5 using their own sales staffs.

² One association had accumulated losses. Its accumulated losses wiped out its equity. Its principal lenders were private developmental funds that permitted continued operation.

³ Loss.

Average net income was highest for the cooperatives using sales agencies, and lowest for the auction associations. None of the five auctions showed a loss for the year. Of the six cooperatives using sales agencies, one had a loss. Among the 14 using their own sales staffs, 2 had losses.

Net income as a measure of performance is not totally satisfactory in the cases of cooperatives because they are organized primarily to provide services for member patrons rather than profits for investors. Growers might better evaluate performance on the basis of services performed and returns for products marketed. Maintaining and expanding markets could be the most significant benefit for members.

Sources of borrowed capital include individuals, banks for cooperatives, commercial banks, and other lending agencies. The banks for

cooperatives are part of the Farm Credit System. They specialize in loans to cooperatives.

USDA's Farmers Home Administration (**FmHA**) may provide for direct loans or guarantees of up to 90 percent of the amount of loans made to cooperatives by local banks or other approved credit institutions. This is essentially a loan guarantee program. The Small Business Administration (SBA), an independent Federal agency, can make loans, participate with other lenders, or guarantee loans to cooperatives. However, these activities have been very limited with cooperatives. Some of the cooperatives surveyed borrowed from the banks for cooperatives and a few had loans guaranteed by **FmHA**.

An important source of equity capital for these cooperatives has been the retention of some part of producers' patronage refunds. Patronage refunds are paid out of net savings and are allocated to patrons in proportion to the use made of the cooperative. Usually 20 percent or more producers' patronage refunds is paid in cash, and the remainder is credited to members' capital accounts.

Another method of obtaining equity capital is to retain a specified amount for each unit of product handled by the cooperative. These per unit capital retains represent members' equity in the cooperative. Capital formation through the use of per unit retains should be authorized in the cooperative's bylaws or in a grower marketing agreement. Cooperatives using unit capital retains are often those using the pool method of grower payment.

Equity capital can also be raised by members' cash investment. Direct cash investment was not a major source of funds among the 34 cooperatives, probably because growers' financial resources did not permit. In addition to growers' support, regulations concerning the sale of securities should also be considered when cash investment is involved.

The revolving fund method is commonly used to redeem growers' equity in their cooperatives. Under this method, equities are redeemed in the order invested, the oldest being redeemed first. Six cooperatives using sales agencies and four making their own sales used revolving funds. None of the cooperatives providing auction services used revolving funds.

The equities of the 34 cooperatives do not represent large business investments, yet the individual grower-member's share of those equities in many cases undoubtedly represented a major financial commitment.

Growers' understanding, financial condition, and support were major factors in the financing methods used by these cooperatives.

OPERATING PROBLEMS

Twenty-eight of the 34 cooperatives reported one or more operating problems covering nine different areas (table 4). Labor and insufficient or variable product volume were major problem areas.

Cooperatives reporting problems with labor cited difficulty in getting part-time workers, deteriorating quality of work, and turnover in the work force. Problems of insufficient volume were usually associated with declining production, or the need to have sufficient volume to cover rising marketing costs.

Operating problems can be difficult to categorize because one set of problems can be related to another and managers sometimes may be unable to distinguish clearly between them. For instance, the problem of

Table 4—Operating problems of the 34 cooperatives

Problems	Cooperatives using—			Total
	Auction sales	Own sales staffs	Sales agencies	
	Number			
Labor	2	5	5	12
Insufficient or variable product volume	2	2	5	9
Grower commitment and loyalty	1	3	0	4
Physical plant or equipment repair	1	1	2	4
Operating capital	0	3	0	3
Rising costs	0	0	1	1
Product quality variation	0	0	1	1
Farm supply inventories	0	1	0	1
Miscellaneous marketing problems ¹	0	3	0	3
No problems reported	1	4	1	6

¹ Includes general marketing problems, customer problems, and problems in gaining grower understanding of product maturity requirements for marketing.

grower commitment or loyalty could lead to insufficient or variable product volume. Similarly, physical plant or equipment repairs could arise because insufficient operating capital had been available for maintenance.

An **indepth** analysis of operating problems was not undertaken, but a review of four cooperatives that ceased operations in the early seventies gives some insight to the causes of termination.

Gloucester County

Gloucester County Agricultural Cooperative Association, Glassboro, N.J., closed down its operations in 1974. It was organized and incorporated in 1933 to hydrocool, store, and market fresh fruits for its members, and to furnish them with production and marketing supplies. Membership was open to persons producing agricultural products who patronized the association and paid the annual \$1 membership fee.

Farm product sales accounted for 57 percent of the association's total business volume from 1965 to 1971. Farm supply sales accounted for 37 percent and services accounted for 6 percent of total business volume over this same period. Total business volume averaged \$1,748,000 over this 7-year period. In the years just prior to the termination of operations, business volume was reduced substantially.

The major buildings used for the auction, farm supplies, storage, and offices were scattered enough to make efficient management of the operation difficult. Recognizing this problem, the manager recommended the purchase of a site to accommodate centralized operations. The board of directors approved and completed the purchase of the land. But, as plans proceeded for construction of facilities, members became concerned about costs and vetoed the proposed project. As a result, the admittedly competent manager resigned and the project was never completed.

From that time, the cooperative's operations began to show signs of **weakness**. Manager turnover became a problem as each new candidate proved either incompetent or failed to receive necessary membership support. As the cooperative terminated its operation, it was apparent the board of directors, members, and management had failed to reconcile their differences.

Atlantic County

Atlantic County Market Growers Association Cooperative, Inc., Egg Harbor, N.J., closed in 1970. It was organized in 1936 to market fresh vegetables, potatoes, and berries and to provide a limited selection of marketing supplies for grower-members. Closure was attributed to lack of member commitment which resulted in deterioration of support. Most members used the association when the price was right, but only five members fully supported the cooperative. It was also difficult to persuade growers to pack produce to buyers' specifications. Erosion of member participation and support caused a serious drop in the association's sales volume, reducing marketing effectiveness and necessary operating revenues.

Hanover County

Hanover County Vegetable Growers Association, Inc., Richmond, Va., closed in 1973. It was organized in 1957 to grade, pack, and market tomatoes, greens, and melons for its 168 members. The association never had the necessary member support. It operated with an annual volume of sales ranging from \$100,000 to \$200,000, a level inadequate for success. Closure actually resulted from a combination of factors including poor location within the central city, reduced volume, a decline in active membership, limited grower commitment, and a decline in vegetable farming.

Trent Farms

Trent Farms, Inc., New Bern, N.C., also closed in 1973 after 6 years of operation. It was organized in 1967 to help 125 small growers market strawberries and cucumbers and provide them with farm supplies. Among factors contributing to the closure were the termination of supporting grants, members' inexperience in vegetable and berry production, lack of volume, and too much hired help. In addition, the cooperative suffered because the board of directors, employees, and members lacked understanding of cooperative philosophy and operation. Many members used the cooperative only if its prices exceeded those they could expect to get on their own. Intrastaff rivalry and friction also resulted in useless bickering and inefficiency.

All Four Cooperatives

All of these terminated organizations shared a common problem: lack of member support. Although closure or failure was related to a combination of circumstances, lack of membership support contributed heavily in each case. In the Gloucester County case, membership support was lacking for building a more efficient plant. Members of the Atlantic County cooperative failed to support the marketing program on a price basis and in meeting buyers' specifications. The Hanover County organization suffered from lack of product and the Trent Farms cooperative demonstrated a lack of commitment, to cooperative methods generally and to the marketing program in particular.

CURRENT STATUS OF THE 34 COOPERATIVES

No further survey of the 34 cooperatives was undertaken as this report was revised in 1979, and no special attempt was made to enumerate or analyze the activities of associations organized since the original study was completed. However, examination of data reported to ESCS and information available in credit rating directories showed 28 of the 34 cooperatives to be active in 1979. Deflated to 1974 dollars, product sales for 25 of the 28 associations showed little change in recent years. No operating data were available on the other three cooperatives.

Cooperatives among the original 34 that have terminated operations all had 1974 product sales below the average of those using similar marketing methods. The three terminated cooperatives making their own sales were among the four associations with smallest sale volumes. However, the other terminated cooperatives, one auction and two using sales agencies, had 1974 sales volumes only slightly below average for their groups.

A continuation of operating methods was apparent from reports recently supplied by the 25 associations. In 1974, 17 of the 25 cooperatives provided supplies for members. Eleven of the 17 continued to provide supplies in succeeding years.

No major changes were noted in the operating of these small fruit and vegetable cooperatives since 1974. Cooperative discontinuances were few, and only 3 of the 25 associations exceeded the \$1-million product sales level (deflated to 1974 dollars).

GUIDELINES FOR ORGANIZATION AND OPERATION

Cooperatives are usually organized to provide a service where none exists or where existing services are inadequate. At first, there may be only a few close friends or neighbors who see the need for better marketing services for their produce, or a better source of production or marketing supplies. As they visit informally, they may begin to realize others in their area have similar needs.

Believing a cooperative might provide such services, these leaders may seek the advice of someone more familiar with cooperative organization such as a marketing specialist in the office of the county or State extension service, or an officer in an established cooperative, an employee of a district bank for cooperatives, the Farmers Home Administration, or a State cooperative council. With the help of an adviser, the leaders should gather facts and figures needed to present their ideas about a cooperative. They may discuss their ideas with community leaders during this period to test general interest.

If this work indicates enough interest to take further action, a meeting of potential members is arranged. Should this meeting generate a show of sufficient interest, the next step in forming a cooperative would be to appoint a survey committee to consider all the conditions under which the cooperative would operate.

Feasibility Study

A feasibility study addressing two questions should result from the survey committee's efforts. First, will the proposed cooperative be successful and beneficial to its members? Second, if success is probable for the proposed cooperative, what specific and detailed organizational pattern will the new organization take?

The committee will collect pertinent facts, weigh the merits of alternative courses of action, and set forth recommendations in a carefully prepared report. The committee may need the advice of experts in such fields as law, accounting, financing, marketing, and engineering. Most helpful to the committee would be the counsel of someone with a sound knowledge of the kind of fruit or vegetable business operation under consideration. The legal requirements and limitations affecting virtually every phase of the committee's work in planning the operation require careful attention and expert advice of an attorney.

The main areas for survey committee consideration include: need for the cooperative, potential membership, membership commitment, volume of business, necessary management skills, required facilities, operating costs, capitalization, and other related considerations.

Economic Need

The economics of the proposed business venture should be carefully considered. The kind and costs of services to be provided by the cooperative must be determined. If these services are currently available in the community or nearby, the committee must consider whether the cooperative can improve them or reduce their costs.

In determining which marketing services the proposed cooperative could provide, the committee should review sales alternatives outlined in the foregoing sections of this report: auction sales, establishing their own sales staff, or using the services of a sales agency. These and other marketing services, and the purchasing of production or marketing supplies should be recommended only after each has been considered carefully.

A cooperative is not needed unless its members will receive monetary or other benefits from it they would not receive otherwise. If there is no clear need for the cooperative, the committee need not proceed further.

Estimating Potential Business

Potential membership and business volume must be estimated. A necessary volume for efficient operation must be determined. This may require a survey of potential members to discover their service requirements. These estimates should be conservative. Not all persons interested will join. Not all who join will do so at the beginning. And not all members will make full use of the cooperative's services. Full consideration should be given to the extent of prospective members' experience in producing fruits or vegetables as these estimates are made.

Necessary Management Skills

A small fruit and vegetable cooperative may require only part-time or seasonal employees. A member of the board of directors could serve as a manager in some small operations, but probably directors would be involved in farming operations at the time their services were most needed by the cooperative.

In most cases, a full-time manager is needed to run an efficient business operation. Although the survey committee would not be hiring a manager, it should be sure that such a person competent to meet the proposed cooperative's needs is available. Without a good manager, the new cooperative will have much difficulty in operating satisfactorily no matter how urgently its services are needed.

Facilities Required

Facilities necessary for the kind of operation recommended by the survey committee must be outlined in the feasibility study. Expected business volume should be considered carefully with consideration for future expansion.

Costs of buying or leasing an existing plant or used equipment, as well as the costs of a new facility, should be investigated. If elaborate facilities are contemplated, the advice of skilled technicians should be obtained.

Estimating Operating Costs

Estimating cost of operation is one of the most important jobs of the study committee. Potential members should not be led to expect a better performance than the cooperative can achieve. These estimates can be compared with costs of services now provided, permitting growers to make their own evaluation of the worth of any projected savings. Estimates will provide an opportunity to compare costs at various levels of business volume. Such an analysis will help the committee determine an optimum business volume around which operations can be organized.

Capitalization

Attention must be given to the whole package of financing issues, including how the cooperative will raise capital, how much will be needed, and provision for reserves. Small fruit and vegetable cooperatives have taken a number of approaches to these issues. The foregoing section of this report summarizes financing methods used by the 34 cooperatives, and discusses the range of financing options commonly used.

The financing methods to be used by the cooperative should, as much as possible, be the ones most acceptable to the members who must make the capital contributions, or pay the cost of borrowed capital. Members should be capable of raising equity capital sufficient to assure adequate supplemental funding through borrowings. Plans should also be made for repaying growers' capital contributions through revolving fund

financing, or some other method of keeping members' investment related to use of the cooperative. Also, plans need to be made to meet unforeseen circumstances such as might occur in a poor business year.

In developing a financial plan for the cooperative, committee members can use specialized information available from the district banks for cooperatives, the ESCS cooperatives program, and other sources. If possible, a finance specialist should be consulted. Lacking this possibility, the proposed plan could be checked with a financial institution, such as the district bank for cooperatives, to assure its soundness.

Other Considerations

All matters of importance to organization and operation of the business should receive attention of the survey committee.

Membership

Membership qualifications need to be considered. Membership to be served by the cooperative should be located in an area no larger than will permit efficient service. Active participation may be a requirement of membership. Some evidence of membership support or commitment is desirable, such as a membership fee or the purchase of a share of common stock. The survey committee should recommend whether the cooperative will do business with nonmembers and, if so, to what extent and under what conditions. State laws covering cooperatives and State and Federal income tax laws have provisions to be taken into account when deciding the extent of nonmember business.

Representation on the Board of Directors

It may be desirable to elect directors by districts if membership will be widely scattered. If several commodities will be marketed, it may be desirable to have producers of each commodity represented on the board.

Grower Payment Methods

Payment methods include outright purchase, selling for the individual grower's account, and pooling. However, in the case of a newly formed cooperative, members' products are not usually purchased outright because the risk in covering costs in such transactions can be high. Instead, using either of the other two payment methods, the cooperative sells the products and returns to members the proceeds, minus selling expense and the cooperative's operating cost.

Pricing Supplies and Services

Usually, purchasing and service cooperatives charge members prevailing prices for supplies and services. Any savings at the end of the fiscal year are returned to members in the form of patronage dividends.

Quality

Good product quality control can enhance the cooperative's reputation in the marketplace. Such a program should be considered by the survey committee with recommendations for handling, grading, and inspecting the fruit and vegetable products to be marketed. For some products, marketing may be limited to only certain varieties produced under specific cultural practices. Controlled harvesting and central packing may be specified.

Marketing Agreement

The basic purpose of grower organization marketing agreements, or contracts, is to assure the cooperative a definite volume of business. Also, they may be used to specify other rights, duties, and obligations of the two parties entering into the agreement. It might, for instance, have provisions for controlling quality as outlined above, or it may spell out how costs are to be covered. The marketing agreement is an integrating device which transfers some decisionmaking from the individual grower to the organization. By relinquishing some control over their production or marketing, growers permit the association to coordinate the marketing activities of all members more effectively.

Other Matters

The committee should make recommendations on a number of other matters that must be settled before the articles of incorporation and the bylaws are drafted, such as the name of the organization, voting procedures, and rules for management of the association. These management issues would at least include rules for meetings; duties of directors, officers, and managers; appointment of committees; provisions for the allocation and distribution of savings; and other pertinent matters.

The Feasibility Report

The feasibility report will include the survey committee's findings and recommendations. It need not be lengthy, but it should be orderly and available when the committee reports to prospective members. At that time, the committee should be ready to answer questions and to present any additional facts and figures collected but not included in the report.

Presentation of the report will be made at the second general meeting of potential members. Enough time should be taken to discuss the report thoroughly even if the meeting has to be adjourned and reassembled at a later time to complete the deliberations. After the discussion, if enough people are interested to go ahead an organizing committee is appointed.

The Organizing Committee

The organizing committee has five main tasks: sign up the required number of members, obtain the subscribed capital, draft the legal organization papers, file the articles of incorporation, and arrange the first meeting of the original members.

Signup

Signing up members may proceed best if an organization agreement is used. By signing this document, the signer agrees to belong to and patronize the proposed cooperative and to furnish a specified amount of the initial capital-if a certain number of other prospective members also sign up within a given time period.

The committee may want to enlist others to help in making a canvass of all prospective members. However, all who solicit should thoroughly understand the way the cooperative is to operate and make no promises or assurances about the cooperative's operation that cannot be fulfilled.

Capital Subscriptions

Collection of capital subscriptions by the committee should be undertaken when enough members have signed up to insure the desired volume of business. This should be turned over to someone designated by the committee and complete records kept of all subscriptions.

Legal Papers

Drafting legal papers will require close cooperation with a legal adviser to insure that they provide for the kind of operation the incorporators want. These papers will include articles of incorporation, the bylaws, and (in many instances) a marketing agreement. Some marketing agreements can be drafted to also serve as an application for membership. Other legal documents usually needed include: Membership application, membership or stock certificate, other equity certificates, meeting

notice, and waivers of notice. All documents must be drawn to conform to applicable State statutes.

Incorporation

Filing the articles of incorporation in the proper State office brings about the legal birth of the cooperative corporation. The organizing committee does the filing.

The First Meeting

Under most State cooperative statutes, bylaws must be adopted by a majority of members or stockholders. The procedure for bylaw adoption may vary but, essentially, a limited number of persons named in the articles of incorporation attend the first meeting as charter members to adopt the bylaws. The charter members, or shareholders, convene the meeting and transact the essential business including the adoption of bylaws and the election of directors.

As soon as possible after the adoption of bylaws the directors should hold a meeting to make the cooperative ready for operations. If this meeting is held without notice, the directors must sign a waiver of notice.

This first meeting of the directors should:

- Elect the first officers of the cooperative.
- Adopt an application form for membership or stock subscription.
- Adopt the form of marketing agreement if one is to be used.
- Choose the cooperative's bank.
- Designate officers or employees to be authorized to handle funds and issue checks.
- Arrange for bookkeeping and auditing.
- Arrange for bonding officers and employees as required in the bylaws.
- Provide for necessary insurance.
- Arrange for securing facilities.
- Arrange for distribution of copies of the articles of incorporation and the bylaws.
- Select a manager.

Special Rules for Success

Know The Law

Know the law pertaining to cooperatives and to all business matters. Know the requirements, the limitations, and the actions required. Selling

of investment securities, tax consequences of issuing patronage refunds, and per unit retains should be examined.

Get Expert Help

Get expert help in meeting the special problems of law, accounting, engineering, and marketing. An experienced adviser can save directors and management much time and the cooperative much expense.

Separate Policy and Management Functions

Except in the smallest of cooperatives, boards of directors are concerned primarily with setting basic policies and objectives, employing a manager, and reviewing operations to assure conformance with policies and objectives. The manager is responsible for day-to-day management of the association, hiring employees, and planning a program to carry out the policies and objectives established by the directors. Although the directors and the manager should work as a team, one should not interfere with the functions and responsibilities of the other.

A competent manager must be a good supervisor of the cooperative's employees and he should be capable of developing and executing operating plans. The manager should also be prepared to develop and advise the board of directors on policy alternatives and organization objectives. The manager's qualifications should include experience in the marketing of fruits and vegetables and an understanding of the requirements of the food industry. This person must be alert to improved methods. In addition, the manager should be sympathetic to cooperative principles and able to develop membership confidence and loyalty.

Keep Board Flexible

A flexible board assures regular changes in directors and a continuing benefit of new ideas and fresh approaches. To assure flexibility, the bylaws should provide for directors' terms of office to be staggered so some experienced directors remain on the board after each election. Also helpful would be bylaws requiring at least two nominees for each board vacancy, provisions for a nominating committee on which no director would serve, nominations from the floor, and voting by secret ballot.

Encourage Member Participation

A good member relations program could encourage active member participation. Members need to be informed of developments in operations, market outlook, new developments in production, and numerous other matters. Membership meetings, both annual and special, can be a

means for getting this information to growers. But, perhaps more effective are management's visits to members' farms where specific problems can be discussed and the use of newsletters to keep growers informed of current developments.

Be Realistic

"Be realistic" is an especially good general rule. Ask hard questions and insist on factual answers. Establish reasonable goals, but avoid overly ambitious undertakings. Encourage grower participation and membership, but never oversell potential benefits or underestimate any risks. Be realistic about the economic need for the cooperative and members' support and ability to finance the undertaking. Emphasis must be given to establishing a cooperative in the highly competitive environment of the real world.

OTHER PUBLICATIONS AVAILABLE

Farmer Cooperative Publications, CIR-4.

Fruit, Vegetable and Nut Cooperatives, CIR-1, Section 13.

Cooperative Development in Rural Areas, CIR-1, Section 4.

Mr. Chairman, CIR8.

"Sample Legal Documents," ***Legal Phases of Farmer Cooperatives,***
Inf. 100, Part 1.

Handling Net Margins Under Federal Tax Laws, CIR-23.

For copies, write the Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, Room 550, 500-12th St. S.W., Washington, D.C. 20250.

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Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, marital status, handicap, or national origin.