Co-operation in marketing. Bulletin no. 44 May 1924

The Banker-Farmer News Bulletin

WISCONSIN BANKERS' ASSOCIATION

A Little Journal of Agricultural Information for the Farmer

BANKER-FARMER EXCHANGE

BULLETIN No. 44 — MAY, 1924

CO-OPERATION IN MARKETING

By L. G. FOSTER,

Deputy Commissioner, State Department of Markets, Madison, Wisconsin.

One of the local creameries in the future sales organization now being formed to standardize and merchandise Wisconsin butter.

Compliments of

College of Agriculture, University of Wisconsin

MADISON, WIS.

183

CO-OPERATION IN MARKETING

By L. G. FOSTER,

Deputy Commissioner, State Department of Markets, Madison, Wisconsin.

The present trend of agriculture from the standpoint of marketing is toward group selling. Farmers still maintain individualistic production and there seems to be little doubt that this form of production will continue for many years to come.

The reasons for the changes which are now taking place throughout the world are many, and a complete discussion of these changes would take more space than is permitted.

The history of civilization has consisted largely of attempts on the part of men to co-operate. When men find themselves without strength to carry out their plans, they turn to their neighbors for help. In spite of the fact that the individual farmers are more or less isolated in their manner of living, which has tended to produce an extreme type of individualism among them, it is a fact, nevertheless, that underneath this spirit of individualism the history of farming shows a high degree of helpfulness on the part of farmers, one toward the other. Few professions anywhere have been willing to assist others in the same line of business, in telling about their methods of production or other vital facts as have the farmers of America.

Co-operative societies in America date back to 1785 when organizations "for the improvement of agriculture" were formed in Philadelphia and Charleston. Ever since this early period several epochs of development have characterized the change in agriculture which in early periods was self-sufficing but in modern times has become almost wholly commercial.

Combined with the social aspects of some of these early organizations was the beginning of a study of not only the problem of agricultural production but also that of marketing. As a result of the continued development of the farm societies in these early days we now have over eight thousand co-operative organizations in America doing an annual business of over one and a half billion dollars.

The problem of the banker, the farmer and the business man in Wisconsin today is to sift the important fundamentals out of our past history and apply them to our present-day marketing problems.

Two distinct methods of organizing large scale commodity marketing organizations have been practised in this country during the past few years,—the highly centralized type with centralized control, and the federated type which is built from the federation of local co-operative units.

The principal distinction between these two forms of organization is in the method of contracting with the farmer for the sale of his products. The centralized form of organization usually has a direct contract with the grower and all dealings are made directly with the central organization. The federated form of organization is to have the grower sign a contract to deliver his product to the local association and a further contract between the local association and the central selling agency.

In Wisconsin we have good examples of both types of organization. The Northern Wisconsin Tobacco Pool has the centralized type of organization and the Wisconsin Cheese Producers' Federation the federated type.

To say that there is one best way to organize all commodities is an absurdity. Different commodities have different problems in storage, grading and financing. Some commodities, such as cheese, are made in local co-operative manufacturing units and when possible large scale organizations should come as the result of demand on the part of farmers to sell to better advantage the products that are manufactured or assembled in local organizations.

One of the main difficulties in the development of successful co-operative marketing associations is the prejudice on the part of some farmers—and not a few bankers—to co-operative marketing as fundamentally necessary in our agricultural program.

This is due to some extent to the many failures of such organizations in the past. The causes of these failures are too numerous to mention, but a few are worth discussing and may be summarized as follows:

(1) Professional promoters and organizers have promised farmers greater results than were possible of accomplishment;

(2) Inefficient management was the rule and not the exception;

(3) Lack of a sufficient volume of business which increased unit costs often led to failure;

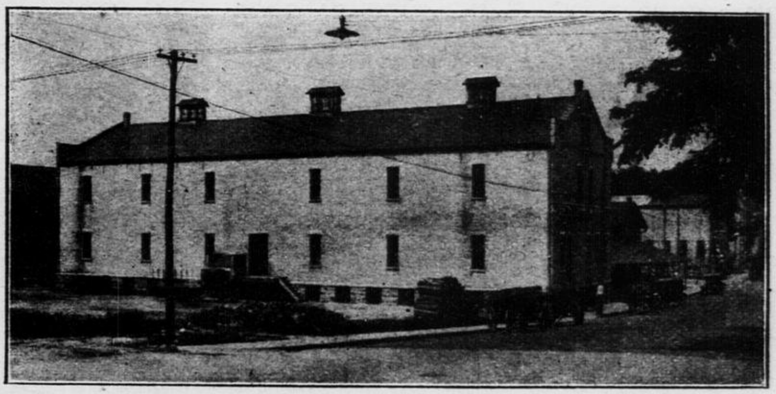
(4) Insufficient capital;

(5) Exorbitant promotional costs.

With a clear conception of the many weaknesses which Wisconsin co-operatives have shown in the past it should now be possible for the farmer, the banker, and the business man, to work out for agriculture a system of marketing which will get for the farmer all that the market will pay.

What can co-operative marketing accomplish for agriculture that needs to be done? Professor Theodore Macklin of the University of Wisconsin who has recently made a national study of co-operative marketing sums up his investigations in the following terms:

(1) Co-operation gives co-operating farmers the **net profits** of Marketing, if net profits are made by the co-operative company. Net profits are never more than a small



A local warehouse used by the Northern Wisconsin Tobacco Pool in receiving and packing tobacco.

part of the so-called gross profits, which consist of all middleman expenses and their net profits.

The net profit is the least important reason for co-operating. It amounted in the cheese business, for example, to one cent for each dollar's worth of cheese sold.

(2) Co-operation **reduces the cost of marketing** so far as this can be done. This is many times more important as reason for co-operating than is the middleman's net profit. In the cheese industry co-operative cheese marketing has reduced the costs by four cents on each dollar's worth of cheese sold. This suggests that lowering of marketing costs through co-operation is four times as important as trying to get the middleman's net profit. By competition this benefit is spread over all farmers in the competing territory. Co-operative companies have not obtained this benefit quickly. It has been slow work.

(3) Co-operation **improves old and creates new marketing services** for its members. This is one of the most important financial reasons for co-operating. The Tillamook farmers after 19 years of experience have built a system that gives them the kind of service needed. In comparison with Wisconsin cheese prices, Tillamook farmers receive a premium of 16 cents on each dollar's worth of cheese sold. This suggests that improved marketing service through co-operation is sixteen times as important as middle-

man profit and four times as important as the work of cutting down costs through co-operation. No short-lived co-operative companies have brought about this great benefit.

(4) Co-operation **readjusts standards of production.** It helps the farmers understand that products pay best. It takes time for this benefit to arrive, but it is of tremendous importance. No short-lived co-operative companies can bring about this result. Most of the old companies have given benefits of this kind.

(5) Co-operation **gives farmers confidence** in the marketing system that they patronize because they own it and control its policies. This conference grows stronger and stronger as farmers work together long enough and patiently enough (1) to understand each other; (2) to recognize their mutual problem; and (3) to see how their co-operative system and policies actually better conditions.

(6) Co-operation convinces farmers that their products are marketed as well as they can be, and therefore that their prices are as high as they can obtain. This is a great benefit. It has come to the members of the oldest co-operative systems, such as the Danes, Southern Californians, Eastern Shore Virginians, Tillamook Oregonians, and others. It is a benefit that will come to any experienced group of co-operators.

(7) Co-operation, and the experience it gives those who practise it, has taught co-operators the commercial point of view. It has made them know that success in agriculture depends upon having (1) marketing done efficiently; (2) farming conducted in a manner to be profitable; and (3) living made worthwhile. Money-making through the best marketing and farming are only stepping stones to life that people crave for its pleasures, experiences, and service. This is the great ultimate benefit that comes from successful co-operation.

While co-operative marketing will do much for agriculture it cannot solve the many complex problems surrounding agriculture. What is needed in Wisconsin today more than any other thing is for the business man to familiarize himself with the many economic difficulties now confronting the agricultural situation and through co-operative marketing to put sound business methods into the marketing of our farm products.

Look in your Geography and see where Key West, Florida, is—a little speck of land way down on the Gulf of Mexico. The Banker-Farmer Exchange recently received from there by wire, money and instructions to purchase and select a carload of high grade dairy cows, and ship at once. This indicates the confidence some people have in Wisconsin cattle and our organization. The cattle are now enroute. We trust Florida will be pleased with our service and not disappointed in our cows.

* * *

All bankers and many farmers know that among its various other duties, the Banker-Farmer Exchange offers its services in locating and ordering high quality farm seeds. This spring in particular we have received an unusually large number of seed orders from banks. Perhaps the service that a bank can render in this connection is well illustrated from the results achieved by the State Bank of Cazenovia. This bank sent out a circular letter to its farmers, emphasizing the importance of using good seed and its willingness to help them secure such. As a result, our office has received and filled during March and April seventeen different orders from this bank. These orders included 40 bushels seed oats, 15 bushels pedigree barley, 3 bushels seed corn, 2 bushels soy beans, 1 bushel spring wheat, 320 pounds sweet clover, 270 pounds medium red clover, 250 pounds timothy seed, 200 pounds Alsike clover and 100 pounds alfalfa seed. In addition 55 bottles of pure culture innoculation for alfalfa and clover seed were sent to this bank.

A similar activity, special of its kind, but of even larger proportions, was an order for 4,200 pounds of alfalfa seed sent by the Lumbermen's Bank of Shell Lake, direct to a western state noted for its alfalfa industry. This seed is being distributed and sold at cost to two hundred farmers in that vicinity.

Aren't activities of these kinds worth while to both the farmer and the bank?