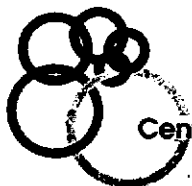


**AGRICULTURAL COOPERATIVE ISSUES
FOR THE 1990s**

Randall E. Torgerson, Administrator
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USDA



Center for Cooperatives • University of California, Davis

The Center For Cooperatives

WORKING PAPER SERIES

The Working Paper Series is designed to fulfill part of the less formal communications objectives of the Center for Cooperatives. The series presents papers dealing with cooperative issues or topics of interest to cooperative members, employees, elected officials, and others having an interest in cooperatives. Papers in this series express viewpoints and opinions about a fairly broad spectrum of cooperative topics, but are not intended to be finished reports of formalized research by the authors. Some papers are informative only, while others are, in addition, provocative. We intend for them to be educational.

Working Papers are published at irregular intervals, reflecting the financial position of the Center, as well as the interests of authors and availability of papers. They are intended to be brief in nature, because they most frequently will not be exhaustive of their subject, but no editorial limit is imposed. Likewise, because the papers reflect opinions and viewpoints of the authors, there is only minor editing involved.

We hope the papers contribute to a better understanding of cooperatives and lead readers to other more comprehensive publications on topics where further information is desired.

Because the mandate from the California Legislature, when it established the Center, intended that research and educational activities include both agricultural and mutual benefit cooperatives, the Working Paper Series may include papers of interest to both sectors. However, at times the emphasis may be stronger with only one of the two cooperative audiences. To help readers to identify the intended orientation, we follow a numbering system that distinguishes the intended audience by major orientation. Though papers are numbered consecutively during each year, those with primarily an agricultural orientation have the suffix "A," with the number, and those primarily oriented to mutual benefit cooperatives are suffixed by "MB."

Leon Garoyan
Director

Agricultural Cooperative Issues for the 1990s

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July 1990

Agricultural Cooperative Issues for the 1990s*

Randall E. Torgerson, Administrator
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Changes within production agriculture and the changing makeup of market channel participants are each exerting major influences on the direction cooperative strategies take for growth and survival. Evidence continues to accumulate that these influences have not abated. As examples, we have seen a continuing debate over increased contracting in hogs. Concern about major restructuring among white and red meat firms is the subject of new Senate hearings. And media attention is increasing on food firm concentration, symbolized by the \$1.3 billion acquisition of Beatrice Foods by ConAgra. These portend even larger power blocs among investor-oriented firms (IOFs) in the food products industry.

While a tremendous amount of repositioning took place during the 1980s among IOFs, cooperatives by and large were fighting their own battles simply trying to survive. Relatively few mergers and acquisitions took place. A number of joint working relationships were consummated, however, that have improved coordination, market penetration, and plant utilization.

Early evidence in the 1990s suggests this docile period for cooperatives may have ended, or that a new phase is being entered. Chief among these are a number of studies of proposed mergers or consolidations among regional cooperatives, including Union Equity with Farmland Industries, MFC with Southern Farmers Association, Alabama Farmers Cooperative and Tennessee Farmers Cooperative, and Countrymark and Indiana Farm Bureau Cooperative Association. These horizontal combinations would appear to carry out some of the conclusions of the 1987 ACS Senate Report on "Positioning Cooperatives for the Fu-

* Talk to the Cooperative Planners and Economists Conference, Sacramento, CA, on June 20, 1990.

ture.”¹ The report said that because the balance of market power in the 1980s had shifted to the detriment of producers, cooperatives had to do a better job of coordinating among themselves. As we look to the remainder of the decade, more will be undoubtedly necessary. In fact, the decade could be a period of the most restructuring in the cooperative sector since the mid-1960s, when the dairy industry embarked upon a major reshuffling in part due to the NFO threat. The threat today does not appear to be coming so much from within the farm family as it does from corporate forces in agriculture that seek to displace conventional growers and their cooperatively owned businesses.

The forces being dealt with are succinctly identified by Gerry Mueller of the Colorado Cooperative Council. He reports that Cargill has made a big move into the grain and fertilizer industries in the State. Until now conglomerate takeovers were primarily in the meat business, with ConAgra’s acquisition of Monfort beef and lamb operations and Cargill’s (Excel) acquisition of beef packing plants at Sterling and Fort Morgan. The takeover by Cargill of five additional independent grain marketing/fertilizer sales and service companies in Eastern Colorado marked continued IOF entry into new territory. It was reported that only two independent unit-train shippers in Colorado remain outside of Cargill control.² This type of IOF incursion into production agriculture and the food system has the potential of extensively changing the face of rural America, let alone the future existence of cooperatives in very short order.

Basic questions that flow from this development are as follows:

- Are farmers losing control of their own industry?
- What kind of production agriculture do we want in this country?

¹ ACS-USDA, “Positioning Farmer Cooperatives for the Future,” Report to Congress, October 1987

² “Cargill Invades Colorado,” The Colorado Cooperator, May 1990, p. 1.

- What measures are necessary to forestall encroachment of IOFs into production agriculture?
- If cooperatives owned and controlled by farmers are the best mechanism for retaining independent producers and a dispersed ownership structure in agriculture, what steps are being taken to strengthen them?

These are the basic questions that cooperatives need to address. They have been ignored too long, both as gut issues concerning the future economic organization of agriculture, as well as in public policy prescriptions. Dealing with structural issues among university agricultural economists appears to have been out of fashion the past 10 years.

A further observation is that cooperatives and farmers in Canada are dealing increasingly with the same forces. Sooner—hopefully than later—cooperative leaders will recognize their mutual interests and develop strategies and institutions to deal with some of these root issues.

There are several ways to deal with this situation. They include: (1) renewed educational efforts in cooperative economics; (2) a “vision 2000” initiative that identifies issues confronting farm operators and steps cooperatives must take to deal with them; (3) development of new structure to better position cooperatives for dealing with the global economy; and (4) new market mechanisms that augment group action with rules favorable to producer interests rather than IOFs.

Crisis in Education in Cooperative Economics

One of the prime concerns is the continued diminution of educational programs and resources in cooperation. The oft-repeated statement of a Danish cooperative pioneer—Bishop Grundvig—that the life of a cooperative without continual education is one and one-half generations has merit. During difficult budgetary times in cooperatives, four areas are and have been prone to substantial cutbacks: advertising, education, member relations, and economic analysis. Each has had its

casualties in the past decade. What compounds this problem is the tremendous attrition in public sector expertise that has occurred simultaneously. Examples are found in the number of university and extension positions going unfilled when cooperative specialists retired. Similarly, USDA cooperative programs in extension and the Agricultural Cooperative Service took a hit during the 1980s, the latter amounting to a 30-percent cut in personnel and loss of budget in real terms. Further, cooperatives' university without a campus, known as the American Institute of Cooperation (AIC), is being terminated after 65 years of existence. Formed with the assistance of E.G. Nourse in 1925, AIC has served as an active forum for cooperative leaders to discuss issues and topics of mutual concern. Plans are for the educational program to be continued as a division of the National Council of Farmer Cooperatives.

To counter these developments, some very bold and imaginative steps are necessary. Educational needs can best be addressed through a building block approach to curriculum development. In addition, a number of universities can be encouraged to establish a distinguished professorship or an endowed chair in cooperation. The further development of centers of excellence in cooperatives can be encouraged as another step for building the critical mass and synergism necessary in effective program delivery. As an example., California producer and other mutual benefit cooperatives were instrumental in obtaining \$350,000 in State funding for a Cooperative Center at the University of California-Davis. The University of Missouri established the Partridge Chair in Cooperative Leadership as an endowment. And similar efforts are ongoing at the University of Wisconsin-Madison and at North Dakota State University. But efforts must simply be redoubled. Otherwise, we will continue to have the lack of understanding and appreciation for the cooperative as an alternative dimension of market structure and way of doing business among policymakers, cooperative employees, and prospective members themselves. The ideal situation from a

national perspective would appear as follows:

- Each Department of Agricultural Economics or Economics at colleges and universities would have at least one person qualified to teach cooperation.
- Outreach programs on group action would be revitalized in Extension staffing and programs.
- Somewhere between six and 10 centers of excellence on cooperatives would be established throughout the country with each having a critical mass of at least three professionals.
- A pool of Federal funds for research on cooperatives would be administered on a competitive bid basis by USDA's Agricultural Cooperative Service.
- Agriculture Cooperative Service would have field offices integrated with Centers for Cooperative Excellence to assure solid State/Federal collaboration.

Efforts to see that public institutions such as the universities, Extension Service, and ACS are properly funded falls to regional cooperatives, State and national cooperative trade associations, and farm organizations through their contacts with Congress and the Administration.

The need for cooperative education was really driven home recently when a cooperative manager called and indicated that his cooperative was considering selling out to an IOF. He was chagrined to learn in board deliberations that three of his directors said they were simply using their cooperative as a leverage to get a better deal from other suppliers. If our state of understanding of the cooperative's role and business acumen by directors has deteriorated to this extent, then surely we must all recognize the educational vacuum that has occurred and the need for corrective action by cooperatives themselves and by supporting institutions. I reminded the local manager that one of the key educational responsibilities for the board and members in this regard fell to him as general manager. Do we have CEO's and key staff members trained for this responsibility? It is even

recognized?

In short, there is abundant evidence that cooperatives in this country are suffering from the paucity of basic cooperative business understanding. At the same time, outside cooperative educational support mechanisms are crumbling. To stand by and passively watch this development without cogent response is simply irresponsible and is aiding in deterioration of the cooperative method of doing business.

Vision 2000 Initiative

The Agricultural Cooperative Service is in the beginning stages of proposing an initiative that would identify the precise problems that are confronting cooperatives through a self-examination by participants. We would then look ahead and develop strategies to begin building for the 21st Century today.

The method in this approach would draw on some of the thinking of economists and planners, managements and boards of individual regional cooperatives. From this undertaking we would try to identify some overall flagship initiatives that have applicability to a broad range of cooperative activities. Does such an effort have merit from your perspective? Would you or others in your organization be willing to participate?

New Structural Approaches

Basic questions are whether cooperatives have their act together structurally to address the myriad issues brought on by the changing makeup of production agriculture? How are cooperatives dealing with the new threat by integrated IOFs that are buying market shares through aggressive acquisition strategies and are trying to wrap up the whole input and marketing package?

First of all, we have to recognize basic strengths in the cooperative system due to grower orientation and ownership. When an organization is designed to serve the needs of its owners as users, it should be the first to know of changing wants

and desires for new products and services, or of changes in the old. It's an unbeatable combination. The challenge is to assure that cooperatives have the least cost system in meeting those needs. Inevitably, the bimodal distribution of production agriculture is dictating changes in the delivery system at all levels. Again, we need to take a systems perspective in addressing these adjustments from the owners' perspective.

We have nothing less than a quiet revolution taking place in restructuring among farm supply cooperatives in the heartland that involves this very issue. How roles are redefined between locals, super locals, and regionals is at the core of the matter. Many centralized systems are also finding their local distributing outlets are not a least-cost delivery mechanism for large-scale operators. Fundamental questions, therefore, continue as to just what delivery system will optimize service and product delivery on a cost-effective basis.

Another issue is product sourcing. Some believe that cooperatives—to compete globally—have to acquire products from other countries, perhaps even through direct membership of foreign producers. This is tough ground for membership to accept in terms of the “mutual interest” concept that is so critical to cooperatives' success. Farm organizations have been particularly critical of external sourcing moves. Nevertheless, a number of cooperatives in the apple and citrus juice business have found it necessary to blend foreign-sourced concentrates to stay competitive with their IOF counterparts.

Much can be accomplished if regional organizations close ranks and develop stronger linkages. Such linkages provide advantages in further economies of scale, and purchasing and marketing power and voice in behalf of members. When regionals engage in hard, often destructive competition among themselves, they reduce margins, dissipate grower equity, and often offer an avenue for cherry picking of key accounts by IOFs. The issue here is one of statesmanship and owner leadership that helps unify producer interests. Is a cultural change necessary to bring

this about?

New Market Mechanisms

A natural extension of our foregoing discussion concerns the institution building and coordination necessary to develop new approaches and mechanisms for solving marketing problems. I have often used the “cooperative systems approach” or “school” to describe a conceptual and structural approach to organization.³

Several interrelated levels of cooperatives function to achieve economies of size, unity of purpose, and market power through coordination rather than cooperative against cooperative competition. Furthermore, the concept—following Barnard—encompasses not only cooperatives, but other forms of group action by producers such as commodity and professional associations.⁴ This examination of the bundle of organized activity by producers provides a more holistic picture of organized activity and the interrelationships and coordination necessary to make them maximizers of influence in producers’ behalf.

Implicit in this approach is a positive encouragement for coordination in organizational development. Implicit, also, is not apologizing for the existence of cooperatives or for the effective coordination necessary for making them successful. This school views the total bundle of activity with the aim of cost-effective use of organizational resources and recognition that cooperatives alone, like professional farmers’ associations, cannot be all things to all people. There are structural and functional attributes of each that complement the other forms. Among others, it

³ Randall Torgerson, “The Cooperative Systems Approach to Improving Farm Incomes,” Graduate Institute of Cooperative Leadership, Columbia, MO, July 19, 1982. See also Producer Power at the Bargaining Table, University of Missouri Press, 1970.

⁴ Chester Barnard, Functions of the Executive (Cambridge: Harvard University Press, 1938).

brings the bargaining and operating issues into play as it relates to structure and functions of organization.

Many examples can be identified throughout the Western world where producers are free to organize. Some of the best examples are found on the Pacific Coast where we find a number of producers holding dual memberships in both bargaining associations and marketing cooperatives. The best case for such an approach can be found where cooperatives are heavily engaged in processing (apricots, pears, peaches, raisins, potatoes, tomatoes, olives, etc.) and are engaged in vigorous competition with IOFs in final product markets (where price pressure often tends to be downward). It is often less palatable where marketing cooperatives are simply trading commodities in a buy/sell market, where only limited processing is done (like nuts and citrus, or livestock and grain in other parts of the country), or where growers have integrated forward through packing and are attempting to market individually.

Probably the best example of the cooperative systems approach found recently is in the catfish industry where the largest processor is a cooperative. Pond-bank prices for catfish climbed to an all time high of 80 cents per pound in August 1988 but fell steadily to 64 cents in November 1989, representing a 20-percent drop. This drop was attributed to the entry of 12 processing plants to the industry in 2 years as well as to increased production. Recognizing their pricing dilemma, growers, with ACS help, organized the Catfish Bargaining Association to negotiate contract prices and terms of sale between growers and processors. More than 80 percent of all acres were initially signed up. The association negotiated a stabilized pond-bank price of 75 cents for the period of November 1989 to July 1990, which translates into about \$36 million in additional income for growers.

Recognition of this complementary role between organization types provides important lessons to understanding the rules that help define the systems process. More legislation is un-

doubtedly necessary to assure that producers' interests are best represented through development of new structure and supporting mechanisms that augment the process.

In summary, there are many issues on the platter that demand attention for cooperative leaders. A broader systems perspective and a "cooperative systems" approach may lead to the best outcome for maintaining an independent owner/operator production agriculture in this country and stabilize cooperatives' role in the industry.

The Center For Cooperatives

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For information about the Center or its programs or copies of working papers, call (916) 752-2408 (FAX (916) 752-5451) or write: The Center for Cooperatives, UC Davis, Davis, CA 95616.

ABOUT THE CENTER FOR COOPERATIVES

The Center for Cooperatives was established by the California Legislature in 1987 as a center in support of research, education and extension activities to advance the body of knowledge concerning cooperatives in general and address the needs of California's agricultural and nonagricultural cooperatives.

The Center's objectives are to promote:

EDUCATION. The Center offers formal and informal educational programs to those involved in cooperative management and develops teaching materials for all levels of interest.

RESEARCH. To help the state's cooperatives reach their objectives, research is conducted on economic, social, and technical developments. A practical aspect of this research is the provision of competitive research grants, and studies for government agencies on how cooperatives can help achieve public policy objectives.

OUTREACH. The Center is prepared to inform the public on cooperatives and their significance to the economy of California.

Located on the University of California Davis campus, the Center is a University-wide academic unit. Its teaching and research resources are drawn from interested professionals from all University of California and state university campuses, other colleges and universities, as well as sources indigenous to the cooperative business community.

The Center is prepared to receive gifts and contributions from the public, foundations, cooperatives and other like sources and is establishing an Endowment Fund.