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Make Sure Your Cooperative Is Working for You

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One of the keys to successful marketing is having viable alternatives. Cooperatives provide such an alternative. Unfortunately, cooperatives have obtained a bad name due to the failure of a few organizations.

Agriculture cooperatives can and should earn you returns equal to or higher than returns available elsewhere. The primary purpose of this article is to encourage members to increase their expectations for cooperative performance. Specific objectives include: 1) to suggest what returns you should expect from your cooperatives, 2) to indicate what you should do if your cooperatives are not performing satisfactorily, and 3) to describe the type of strategies and programs required to generate substantial returns.

Returns Come Several Ways

Judging the performance of cooperatives is difficult. This is because cooperatives have several ways to return benefits to members. However, the following are minimum general standards that members should expect from their cooperatives:

- 1) to pay prices equal to that paid by other firms,
- 2) to provide competitive services,
- 3) to pay a competitive return (say 6-10 percent) on the equity members have invested in the cooperative,

- 4) to return equity in a timely manner,
- 5) to provide a competitive market presence for long-term success,
- 6) and more (i.e., patronage refunds).

These are general standards because every cooperative uses different ways to return benefits to members. For example, several cooperatives pay no dividend on member equity. Instead, any return on equity is paid through higher patronage refunds.

These are minimum standards because points 1) through 5) are merely saying your cooperative should be at least as good as the competition. The purpose of point 6) is to suggest that members should expect the highest standards of performance from their cooperatives and an annual patronage refund. All too often, however, members do not have these expectations. In fact, some members are happy merely if their cooperative is not costing them money. But there are several outstanding exceptions. One New York marketing cooperative recently analyzed its performance over the last 15 years and concluded that over that period it had been able to pay its members an average of 16 percent more than competitive alternatives had paid, even after equity was appropriately discounted. Over the last 10 years another organization has paid prices about 18 percent higher than has the competition, while also paying a competitive dividend on equity (10 percent last year). In its last fiscal year, a Northeast dairy cooperative paid a patron refund equal to about 7.0 percent of the price of milk. These examples are meant to suggest outstanding cooperative performance is possible and should be expected by members.

Encourage Better Performance

Is it possible that cooperatives have not performed as well as they could because members have not been demanding enough?

If so, the first thing members should do is to establish high, but realistic, levels of expectations. Second, members should continually remind directors and management that the primary goal of a cooperative is to obtain the highest possible return on your products. Cooperatives are democratic organizations. In many ways democracy is the cooperative's substitute for a stock price. Although voting is important, the most essential element of this democracy is the ability of members to voice their opinions about their cooperatives. Thereafter, it is up to directors and management to listen to members and incorporate the worthwhile suggestions. There is one problem with this approach. It is difficult to really know whether or

not directors and management are listening when members are expressing their opinions. So responsive leadership is also essential.

Third, members should make sure their organization has directors and managers who are doing their utmost to assure that the cooperative is making money for members. In other words, members should be assured their leaders also have high expectations for the cooperative, and they are willing to make the decisions that ensure financial success. In some cases, this may require cooperatives to change operations or consider merger and consolidation. It is essential that the leaders are willing to consider such strategies, even if they are left without jobs as a result. The best way to ensure this is to nominate and elect the most competent directors from among the membership.

Expected Results

Now that you know what to expect and how to convey your expectations, how do you know if your cooperative is on the right track to increasing member returns?

First, although organizations can not change overnight, two or three years are usually more than enough time for any firm to adopt and implement the strategies necessary to improve cooperative performance.

Second, members should expect their cooperatives to be the most efficient firm in the industry. Handling your product at low cost and employing the best people and equipment available are important signs of being efficient. They are particularly important when temporary downturns in the market occur. The low-cost processor is the most likely to survive and benefit members in difficult times.

Third, you should expect your cooperative to have an aggressive marketing program that provides customers the value-added products they want. Only by providing customers with the goods and services they want will the cooperative be able to generate the revenue to pay patronage refunds. An aggressive marketing program also implies expanding the long-run demand for your product.

Finally, you should expect your cooperative to pay returns higher than what the competition is paying, while maintaining a sound financial structure built on sufficient equity.

Summary

Cooperatives are an alternative way to market your products. Their primary concern should be earning the highest possible return for members. To do that, however, members must establish challenging but realistic expectations for their organization, and continue urging directors and management to achieve the highest economic performance possible. Thereafter, all that is needed is to keep endorsing those checks as they come rolling in from your cooperative.