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Farmers Weigh Cooperatives Against Private Firms

by

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Marketing cooperatives are voluntary organizations. Consequently, farmer attitudes determine whether they will use cooperatives. More important, the opinions of farmers will determine the degree of success cooperatives are likely to achieve.

Agriculture is changing rapidly. And so are cooperatives. Many of the attitudes farmers held about cooperatives a few short years ago may not apply today.

An Attitude Survey

To find out what they were thinking, we mailed a questionnaire to a random sample of 1,500 New York farmers. Responses were received from 31 percent of those sent surveys. The questions were designed to explore the competitive advantages and disadvantages of both cooperatives and proprietary firms.

What Farmers Are Thinking

Most farmers thought that cooperatives play a major role in keeping agricultural markets competitive. We would agree. A current example in the dairy industry is the effect of regional bargaining organizations. Surely, the current levels of premiums being paid would not be there today, were it not for these regional cooperatives. But naturally, not all farmers agreed. And

that may be one important reason why regional bargaining organizations have not been able to enlist all dairy farmers.

While farmers think cooperatives keep markets competitive, they also realize today's farmers are less loyal towards cooperatives than they were 10 years ago. As agricultural markets have become more competitive, farmers have needed to become more "business oriented." Just being a cooperative making contributions to its industry and markets is not enough. The response seems to suggest that cooperatives must also be an economically rewarding alternative as well.

To find out how cooperatives stack up on that score, we asked farmers whether proprietary or cooperative firms paid better prices. The results were almost a tie, with a slight edge to proprietary firms. Apparently, no one group of firms has a clear price advantage.

One very important advantage that proprietary firms have is that they do not require any equity. In addition to providing the risk capital, cooperative equity is meant to establish a commitment from members. Our survey suggests that an equity commitment is viewed as a major disadvantage by farmers. It also indicates that to become more attractive, cooperatives must explore new ways to overcome the equity barrier while still requiring a capital commitment by members.

We also wanted to know how well farmers thought directors and managers were performing. Most farmers felt directors were doing a good job in achieving maximum benefits for members. On the other hand, a slight majority of farmers felt proprietary firms are better managed than cooperatives. In a related matter, a large number of farmers thought proprietary firms react more quickly to changes in markets and the strategic moves of competitors than do cooperatives.

What All This Means

First, we found that all things being equal, most farmers would prefer to patronize a cooperative rather than a proprietary firm. This means that by just being as good as other firms, a cooperative has an important competitive advantage. However, proprietary firms have a competitive advantage in not requiring equity from farmers and some have developed a better price image. No doubt, the historical troubles of some organizations have had a negative impact on farmers' opinions towards cooperatives. If cooperatives can continue to improve their

economic performance, however, they could be the alternative of choice first in the eyes of many farmers.