

## Chapter 3. Cooperatives

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### U.S. Situation

The most complete data available on U.S. agricultural cooperatives are collected through an annual survey of marketing, farm supply and selected service cooperatives conducted by the Cooperative Service of RBS, USDA. Results of the most recent survey are summarized in Table 3-1.

Table 3-1. UNITED STATES AGRICULTURAL COOPERATIVE NUMBERS, BUSINESS VOLUME, AND NET INCOME 1996-97 <sup>1</sup>							
Major Business Activity	Number		Net Volume		Net Income		
	1996	1997	1996	1997	1996	1997	
			(\$ billion)		(\$ million)		
Marketing	2,012	1,943	79.3	77.6	1,181.0	1,313.3	
Farm Supply	1,403	1,386	23.6	24.9	941.5	834.6	
Related Service	469	464	3.1	3.6	125.0	166.5	
TOTAL	3,884	3,793	106.0	106.1	2,247.5	2,314.4	

<sup>1</sup> Totals may not add due to rounding.  
Source: Farmer Cooperative Statistics, 1996, Rural Business - Cooperative Service, USDA, RBS Service Report 53, Washington, D.C., October 1997 and 1998 preliminary release from Rural Business - Cooperative Service, USDA.

The number of cooperatives in the United States has continued to decline to a total of 3,793 in 1997, a net decrease of 91 associations. This is primarily due to ongoing consolidation and merger of local marketing and supply cooperatives in the Mid-west. However, there also were mergers of some very large regional cooperatives as well. The rate of decline has slowed over the past few years.

Total net business volume which excludes intercooperative business amounted to \$106 billion, equaling the record set in 1996. Total net income for 1997 was \$2.31 billion, up 3 percent from \$2.25 billion in 1996.

Combined assets in 1997 for all cooperatives totaled \$43.9 billion, a 3 percent increase from 1996. Total liabilities of \$25.5 billion increased 1 percent from the previous year. Net worth totaled \$18.5 billion, up nearly 6 percent. The estimated number of full-time employees in U.S. cooperatives for 1997 totaled 172,199, down 2 percent from 174,795 in 1996.

### New York State Situation

Data for agricultural cooperatives headquartered in New York State were obtained from the Cooperative Service survey cited previously. State level data are collected every other year. The most current statistics available are for 1995 and 1997. Table 3-2 summarizes cooperative numbers and business volume for New York State.

Table 3-2. NEW YORK STATE AGRICULTURAL COOPERATIVE NUMBERS AND NET BUSINESS VOLUME BY MAJOR BUSINESS ACTIVITY, 1995 and 1997 <sup>1</sup> .				
Major Business Activity	Number Headquartered in State		Net Volume	
	1995	1997	1995	1997
<u>Marketing:</u>				
Dairy	61	63		
Fruit & Vegetable	10	9	1,228.8	1,171.7
Other Products <sup>2</sup>	7	7	293.0	285.8
			81.2	353.5
TOTAL MARKETING	78	79	1,603.0	1,811.0
<u>Supply:</u>				
Crop Protectants				
Feed			13.4	36.1
Fertilizer			123.8	133.1
Petroleum			24.1	55.3
Seed			143.2	244.9
Other Supplies			7.6	23.3
			136.0	139.2
TOTAL SUPPLY	12	11	448.3	631.9
<u>Service</u> <sup>3</sup>	5	6	201.9	152.6
TOTAL	95	96	2,253.2	2,595.5

Source: Farmer Cooperative Statistics, 1995, RBS Service Report 52, USDA, RB-CS, Washington, DC, November 1996 and 1998 preliminary release, USDA, RB-CS, Washington, DC.

<sup>1</sup> Totals may not add due to rounding.

<sup>2</sup> Includes wool, poultry, dry bean, grains, livestock, maple syrup, and miscellaneous.

<sup>3</sup> Includes those cooperatives that provide services related to cooperative marketing and purchasing.

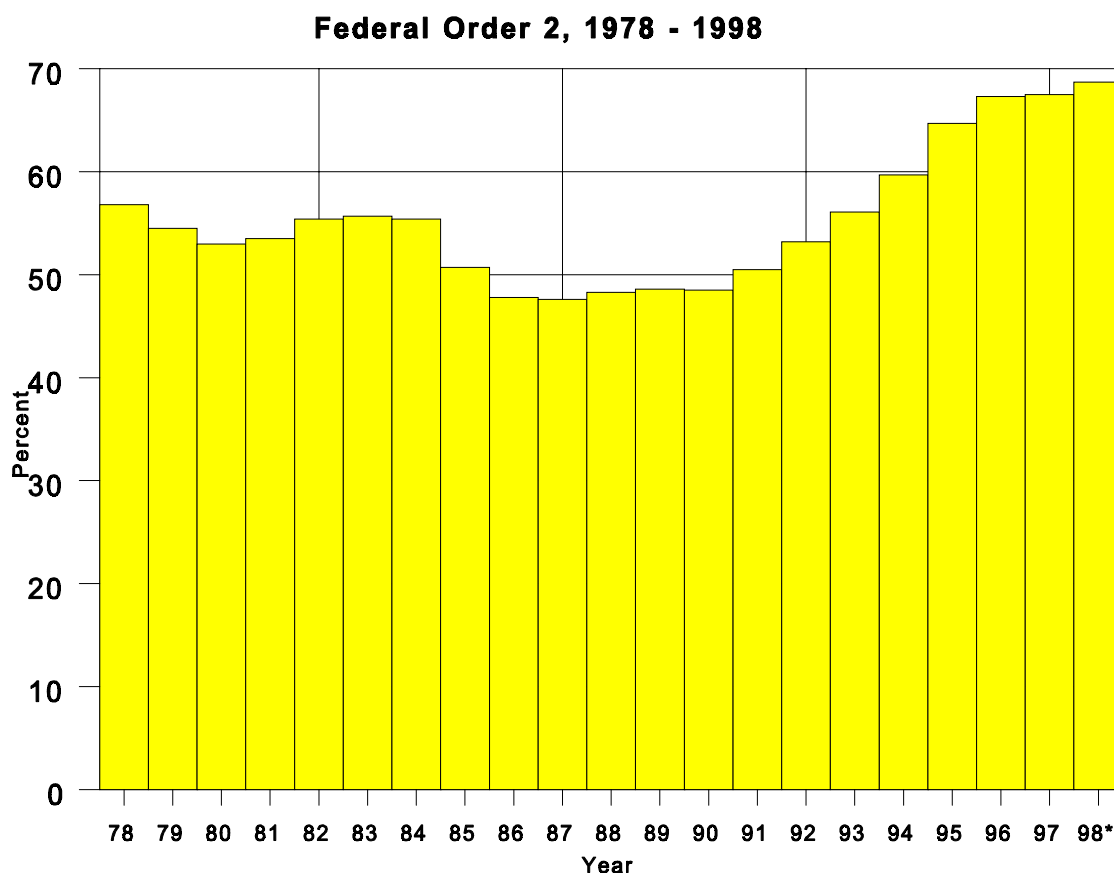
The number of agricultural cooperatives in New York State in 1997 showed a net increase of 1 cooperative from 1995 with an increase in dairy cooperatives and a decrease in the number of fruit and vegetable as well as supply cooperatives. Total net business volume increased by \$342 million, an increase of fifteen percent from 1995. Supply cooperative volume increased significantly by \$184 million while cooperative marketing volume increased by over \$208 million. Dairy and fruit & vegetable marketing cooperatives showed decreases in volume over the two year period. Total volume of other products marketed through cooperatives increased significantly. The increase for other products was primarily in manufactured products marketed through fruit and vegetable organizations as well as increases in livestock and maple syrup sales.

### New York Cooperative Performance

The major cooperatives operating in New York had improved financial performance in 1998. Due

to their significance in the state we will start by examining dairy cooperatives' share of producer milk receipts, review important developments in all types of cooperatives, and finally look at some major factors likely to influence cooperatives in the coming year.

As indicated by Figure 3-1, the proportion of milk receipts handled by Milk Marketing Order 2 dairy cooperatives again increased slightly in 1998. Over two-thirds of all milk produced in Order 2 is marketed through dairy cooperatives. This is the highest cooperative share in recent history, and is up over 20 percentage points from a decade ago.



\* 1998 based on first eight months

Source: Market Administrator's Office, NY-NJ Federal Milk Marketing Order.

As predicted last year, the structure of dairy marketing cooperatives continues to experience significant changes. On January 1, 1998 Dairy Farmers of America (DFA) was formed through the merger of four major dairy cooperatives. DFA now has members in over 35 states, and during the year continued to expand via mergers with other milk marketing cooperatives. DFA has moved quickly to re-engineer its organization, operations and downsize its workforce. In the northeast, Milk Marketing, Inc. was one of the four cooperatives joining DFA.

In 1997, Land O' Lakes (LOL) merged with Atlantic Dairy Cooperative, and also continues to expand its dairy and farm supply operations. During the year, a large volume California dairy cooperative also merged with LOL. The members of LOL and Countrymark Cooperative, the major supply cooperative

in Indiana, Michigan and Ohio, recently approved their merger scheduled for January 1, 1999. Clearly, it appears that two major blocks of dairy marketing (and supply) cooperatives are coalescing in the U.S. dairy industry. This trend is likely to continue in 1999. These structural changes have been promoted as a way to increase coordination of processing and marketing activities, improve returns to members, and better position the industry to enter global markets.

Despite the significant fluctuation in milk prices over the last year, the financial performance of northeast milk marketing cooperatives increased across the board in 1998. As the price of milk increased, the revenues of all milk marketing cooperatives increased. Also, all the major dairy cooperatives reported an increase in net income, with several reporting a significant increase in net income.

Dairy related cooperatives continue to experience the effects of a reduced number of dairy herds and the need to spread increased fixed costs over a greater volume. On January 1 1998, the major dairy herd improvement association formed an alliance with a dairy marketing cooperative. Over the last year the re-organization reduced costs, improved financial performance, and resulted in positive net income. The volume of business of the cooperative livestock marketing organization in the northeast, a subsidiary of a milk marketing cooperative, increased as did its financial performance.

The major artificial insemination cooperative in the northeast, which was the result of a merger of three organizations two years ago, increased sales and net income in 1998 primarily due to improved milk prices. However, because it markets semen internationally, uncertainty in global markets resulted in international sales falling by about 10 percent worldwide. It experienced much steeper decline in regions, such as South America, where domestic currencies have deteriorated with respect to the U.S. dollar. There are early signs that three artificial insemination organizations affiliated with a mid-western cooperative, including the northeast cooperative are likely to merge their operations as of April 1, 1999, pending member approval.

The major supply cooperative in the Northeast reported lower sales and somewhat higher net income from operations for 1998. The organization also had an accounting change which increase net income by over 200 percent after the cumulative effect of the accounting change. Most of its divisions showed continued improvement in financial performance. The cooperative has announced several new initiatives including the raising of replacement heifers, futures trading, a direct supply program for manufactured agricultural products, a new brand of fresh produce, nutritionally enriched branded food products, and new technologies to improve the quality and shelf-life of fruits and vegetables.

The major vegetable and fruit processing cooperative reported improved net proceeds and a reduction of its debt load assumed after it acquired a publicly traded food processor. The organization continued to out-source non-core business functions, and re-organize their internal structure. Also, it announced and completed the acquisition of a major branded vegetable processor. The acquisition could increase the cooperatives sales from 60-80 percent. Over the next few years, one should expect re-engineering efforts (selling non-core businesses, out-sourcing secondary business functions, consolidation of general management functions, etc.) similar to those after it's last acquisition.

The major grape cooperative in New York reported record volume sales, net sales and net proceeds to growers. Increased marketing efforts in terms of new product development, increased spending on advertising, and positive public reaction to health research concerning the consumption of grape juice. The 1998 grape harvest was light due to spring frosts, and the prices of competitive juices have increased in recent months. Consequently, grape prices will likely remain strong in 1999. Also, product quality of the 1998 harvest was very high.

The farm credit cooperatives had good financial performance during the year. Low grain prices have

had a positive result on northeast farm credit cooperatives, since grains are used as an input, rather than as a major source of income for dairy farmers in the regional.

### **Cooperative Outlook**

As a group, New York and northeast cooperatives are probably in the best financial condition in decades, if not ever. Also, they are well positioned for 1999 and beyond.

One major factor that could have a negative impact is a significant drop in milk prices which could depress the dairy economy. This could depress the performance of credit, farm supply, artificial insemination, and dairy herd improvement organizations.

The weak global economy has had only a minor impact on northeast cooperatives. If the financial crisis in Asia, as well as Latin and South America continues or worsens, it could have a negative impact on agricultural product demand. Up to this point, weak international markets have had a positive impact on northeast agriculture by reducing the cost of production inputs.

Fruit and vegetable marketing cooperatives could experience a significant growth in sales, earnings and returns to members in 1999. Between strong demand, improved economies of scale and increased marketing initiatives, there is the potential for a significant increase in performance.