Elements of Cooperative Marketing

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Certain economic and social conditions and certain business practices are frequently mentioned as essential to the successful operation of cooperative marketing organizations. In some instances, however, so-called essential principles are not always essential. In this outline an attempt is made to list as “essentials” only those conditions that must exist if an organization is to be permanently successful. Contributing causes of success or failure are grouped as factors.

In the past decade there have occurred in the United States, two cooperative-marketing “booms.” Ten years ago the ideas of commodity control, market control, and control of the grower through coercion were emphasized to the neglect of established principles. Today, we are witnessing another period of rapid cooperative development, in which new ideas may make the consideration of proved facts and principles seem old-fashioned. This publication, therefore, is issued with the idea that it may serve somewhat as a guide for producers in determining if their associations or proposed associations have in them the elements that make for permanent success. To those associations that are organized and operated along sound lines, based upon past cooperative business experience, boom periods offer opportunities.

ESSENTIAL PRINCIPLES IN COOPERATIVE MARKETING

1. An organization must furnish a definite service needed by producers. Organization is not an end in itself. Some marketing service must be performed that is not otherwise available or that is not being performed efficiently or economically by existing agencies. A cooperative association will neither receive
nor deserve success unless the growers get more satisfactory results through collective effort than through individual effort.

(2) An organization must have sufficient volume of business to enable it to operate efficiently and economically. It must have sufficient business to provide, at a reasonable per-unit cost, adequate handling facilities, to employ capable men, and to serve any special purposes for which it was formed. It must have "tonnage" enough to render marketing services at a cost comparable with that of competing agencies.

(3) An organization must have a loyal membership. Its activity and development depends on the attitude and understanding of the average of its members. It must have the support of a membership willing to do its part in establishing and maintaining the business.

(4) An organization must have good management. The management must be capable of formulating and carrying out the policies of the organization. Its problem is complicated by its relationship with many individual members. Undoubtedly wise management should be stressed more than any one requisite to success.

FACTORS CONTRIBUTING TO SUCCESS

(1) An organization should confine its marketing activities to a single commodity, or to a group of related commodities. The organization should handle only those commodities that require the same marketing machinery and similar handling methods, and that move through the same trade channels.

(2) An organization should be the outgrowth of economic necessity. Members are half-hearted cooperators and fail to support cooperative organizations unless they are convinced through experience that cooperation is necessary.

(3) A local organization should confine its membership in as restricted an area as possible. Cooperation is most readily obtained among men who know each other, meet often, and have common problems and common interests.

(4) A large-scale organization should encourage and develop group action in the localities it serves. In an organization covering considerable territory, units or locals should operate so as to develop or maintain community effort, pride, and individuality. These units should have business rather than social activities. Locally owned facilities strengthen both the local and the central associations.

(5) An organization should be incorporated and should have suitable by-laws. It should have a definite legal status, a suitable and definite organization structure, and provisions for self-perpetuation. Liability of members or stockholders should be limited as in most other business organizations.

(6) An organization should have a specially designed accounting system and regular audits. In a cooperative organization it is often necessary to keep more detailed and accurate records than in non-cooperative organizations. Audits should be made at regular intervals.

(7) An organization should provide, if possible, its own permanent capital. Needed capital to provide necessary facilities should come from a membership able and willing to furnish funds for the establishment of its own business. There is nothing that gives more assurance of stability than this. It means
that the members believe in the plans and principles of the organization and will work to protect their investment.

(8) An organization should maintain an adequate financial reserve. It needs to command confidence and credit among banking and trade agencies, and to be able to withstand losses when they occur, as well as to pro-rate profits.

(9) An organization should have contracts with its members. It needs assurance of a definite quantity of a product to market. Contracts lend stability to an organization. Contracts are important in negotiating loans from banking institutions.

(10) An organization should be controlled by its members as producers, rather than as shareholders or investors. The end in view in cooperative marketing is not to make profits on invested capital, but to market products advantageously. The savings should go to the members who provide the business.

FACTORS CONTRIBUTING TO FAILURE

(1) An organization should not admit as members men with conflicting business interests. It is difficult to maintain harmony and singleness of purpose when non-producers, buyers, and men of contrary or conflicting interests are grouped with bona-fide producers of identical interests.

(2) An organization should not conceal from its members facts regarding its operations. Misleading statements, juggling funds, secret contracts, and similar practices undermine confidence. The organization belongs to the membership, not the officials and employees. There cannot be proper cooperation where there is suspicion.

(3) An organization should not permit the engineering of elections and the appointment of officers by a self-perpetuating group. Democratic control must be more than a promise. Those elected to represent the members must represent them in fact, if the association is to be cooperative.

(4) An organization should not rely upon force to maintain member cooperation. Threats, lawsuits, and coercion break down rather than build up the support of the growers. Coercion is the opposite of cooperation.

(5) An organization should not sacrifice cooperative principles to obtain volume of business. Encouraging its members to purchase products for delivery, admitting buyers to membership, selling for non-members, and buying for its own account to increase volume tend to eliminate or minimize cooperative features.

(6) An organization should not maintain an overhead expense out of proportion with the service required. Salaries should be commensurate with service rendered. Jobs should not be provided as rewards to organizers or bribes to commercial interests.

(7) An organization should not attempt arbitrary price-fixing based on monopoly control. A price that does not reflect supply and demand conditions brings about an economic readjustment that reacts upon the organization. No cooperative association can "fix prices" successfully over a period of years unless the price fixed is the "right price."