

## HELPING MEMBERS UNDERSTAND BUSINESS OPERATIONS

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Helping members understand the business operations of their cooperative is basic to maintaining good member relations. Having good member relations, in turn, is essential to the association's long-time success. Thus, it is important that cooperative leaders seek continuously to keep their members abreast of the trends and developments within their organization.

### What is Meant by Business Operations?

By business operations we mean the sum total of all the activities associated with organizing, financing, managing, staffing, and running the day-to-day services of the organization. These operations lie at the very heart of the cooperative. They merit a high priority in our cooperative endeavors.

Do your members know the basic differences between a cooperative corporation and an ordinary corporation? Are they familiar with the basic principles governing farmer cooperatives? How well do they understand their responsibilities as members? Are they conscious of their cooperative's need for member capital? Do they know the credit costs associated with accounts receivable? Do they appreciate that there is a limit to which management can respond to individual requests?

Are they aware that bookkeeping costs, collection expense, and other services can greatly increase the cooperative's overhead? Do they know that these extra costs will reduce the amount of patronage refund that will be possible? Do they understand the pricing policies of their association? Do they know the factors involved in providing equitable treatment to all members?

Do not minimize the importance of members knowing the answers to these questions. It can make a world of difference towards retaining their patronage and loyalty when the chips are down.

It is not within the scope of this talk to discuss all these questions in detail. In the short time available, we shall confine our remarks mainly to two general topics: (1) What do members need to know about their cooperative, and (2) How can these facts be communicated?

### What Members Need to Know

Under this heading let us consider a few selected questions such as: What is a cooperative? How does a cooperative corporation differ from a non-cooperative corporation? Why is member investment important? How does a revolving fund operate? Why keep a lid on accounts receivable? How assure equitable treatment for large and small users? Which is the preferable term-quantity discount or service-at-cost?

### What is a Cooperative?

A great many folks still have a very hazy idea as to what constitutes a cooperative. Definitions vary, naturally, according to the backgrounds and viewpoints of those making them. The following seems fairly well suited for our present discussion.

A cooperative is a business organization that is developed, owned and controlled by its member-patrons and designed to perform needed services for them.

Various lists of cooperative principles have been espoused depending on the viewpoint of cooperative leaders. The three basic principles common to most lists are these: (1) Democratic control, (2) Limited returns on capital, and (3) Distribution of savings on the basis of patronage.

### How Does a Cooperative Corporation Differ From a Non-Cooperative Corporation?

This question can best be answered by subdividing it into smaller parts, namely:

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|-----------------------------|--|
| 1. Who owns the business?   | 5. Who provides ownership capital?           |
| 2. Who uses the services?   | 6. Are returns on ownership capital limited? |
| 3. How is voting done?      | 7. Who gets the operating proceeds?          |
| 4. Who determines policies? |  |

### Why is Member Investment Important?

Operating a business requires capital. Obtaining adequate capital is one of the principal problems confronting cooperative leaders. Where is the required capital to come from? Until the members have an adequate equity in the organization, it is not likely that any leader will be interested in providing the remainder. Generally speaking, most lending agencies will require that members subscribe at least 50 percent of the capital needed.

Requesting members to invest savings in their cooperative is good business. There is no better indicator of a member's readiness to support his association. This is not only good financing procedure; it is good cooperative procedure. It helps to insure a core of members who have a financial stake in making the cooperative succeed.

Desirable as member investments may be, the amount of money that members have invested in their cooperatives is relatively small. Often we speak of cooperatives as being economic tools to help farmers make the business of farming pay better. However, when the farmer's investments in his cooperative are compared with his investments in land, farm buildings, and equipment, the contrast is sharp.

Recent studies have shown that for the United States as a whole, only about 2 percent of farmers' total investment is in their cooperatives.

Somehow, cooperative leaders need to do a better job of leading farmers to invest more adequately in their marketing and farm supply associations. Growth

and expansion depend directly on additional capital, much of which must be in the form of members' investments.

Cooperative leaders have been amazed at times at the amounts members have subscribed towards purchasing cooperative stock when asked. Two years ago Joseph Thompson of Central Cooperatives, Inc., Superior, Wisconsin, reported to a similar conference the success which his cooperative had in selling stock to its members. Other cooperatives can tell equally enthusiastic stories regarding member investment programs which have yielded much-needed capital.

Cooperatives are not alone in this endeavor. Many large corporations make a special effort to have a large number of small investors. They spend huge sums to create the public image that their stock is owned to a large extent by Mr. & Mrs. Average Citizen.

#### How Does a Revolving Fund Operate?

A major method of financing farmer cooperatives is through revolving funds. Under this procedure, all or a part of the patronage savings is set aside temporarily for the cooperative's use. The association retains this money for an indefinite period, perhaps 5 or more years. Later, as other current capital becomes available, and the older capital is no longer needed, it is revolved out to the members, to whom it has been allocated.

Thus, the members, in essence, loan their savings or earnings to the cooperative for an indefinite period sometimes with interest, sometimes without. This flexibility in cooperative financing can be a tremendous advantage, particularly when other sources of credit become tight and interest costs are high.

The old-fashioned water wheel is a handy visual aid to help members understand the revolving fund and how it operates. It depicts cooperatives as economic mills grinding out marketing, purchasing, and other services for their members. It takes power to run this mill. In earlier days falling water provided that energy. In today's cooperative, members' savings from their cooperative capital helps to power the mill. What better source of capital can be found than that which comes from the savings members have realized from their cooperative during the past year?

Yet, occasionally, members not fully informed are unhappy to see patronage refunds retained for this purpose. This is a natural reaction unless the members understand the business operations and the cooperative's need for members' capital. Actually, the revolving fund is one of the least painful methods of financing yet conceived. In truth, it is almost too easy in that cooperative managers and directors sometimes rely too heavily on such capital and fail to revolve the funds with sufficient regularity and promptness.

In summary, the revolving capital plan offers at least three advantages:

- (1) The capital is furnished by the active members or recent users,
- (2) Each member's capital contributions proportionate to his use or patronage, and
- (3) Each member's capital is returned periodically.

## How Assure Equitable Treatment for Large Users and Small Users?

Another challenging area in which cooperative leaders need to do some real soul searching is that of treating all their members equitably. This should not be confused with "equal treatment," or a flat price per unit irrespective of quantity and the cost to the cooperative.

When farmers first began using cooperatives extensively in the United States, most of the farms were comparably small and relatively equal in size. Thus, the quantity of supplies they purchased and the volume of products they marketed jointly were comparably similar. The cooperative's costs of serving its members were reasonably uniform.

Today much of this has changed. Recent technological changes, such as the increased use of machinery and the combination of farms into larger operating units, have led to greater disparity in the size of farming operations. This has led to a whole new set of problems.

For farm supply cooperatives it may require a re-examination of their entire pricing policy. Plant efficiency, as measured in per unit operating costs, is directly related to the volume processed and the rate of plant use. This means that the greater the volume processed or handled within the operating capacity the lower the per unit costs. Thus, we see how very much cooperatives need volume and they need both large and small users. Pricing to patrons should reflect the cost of serving those patrons.

A program of "service at cost" or "service cost adjustments" is needed to reflect as accurately as possible the economics which result when larger volumes are taken. These differences are frequently reflected in such services as harvesting, assembling, and delivering.

Harvesting Costs--A leading fruit marketing cooperative has met this problem by developing harvesting charges based on the man-hours required per unit of picking, or what it costs the cooperative to provide the service. The rate per box paid the picker and charged to the grower depends on the size of the tree, the size of the fruit, and the quantity of fruit per tree. Under this plan the picker is able to earn substantially the same hourly wage under various conditions of picking. These cost variations are passed on to the grower.

Assembling Costs--Transportation provides another example where the cost of providing the service varies by patrons. A number of egg marketing cooperatives have adopted varying rates for assembling eggs similar to the following program:

A sliding scale of trucking charges has been put into operation, based on the number of cases collected at each farm. This is justified on the basis of time consumed per case loaded at one step. It aims to reflect more accurately the actual cost to the cooperative. It helps the cooperatives to retain a fair share of the egg business.

Delivery Costs--An important factor in determining whether a cooperative can pay a patronage refund is how much it has had to spend for delivery costs and other overhead expense. Size of delivery is thus an important factor.

For example, it costs a petroleum cooperative almost as much to deliver 100 gallons to a member as it does to deliver 500 gallons. The additional loading and unloading time and the difference in hauling costs are minor. Many of the indirect costs, such as record keeping, are almost identical.

Does it not follow, therefore, that the patrons who order larger quantities are entitled to some price differential? If through failure to grant such a service-at-cost adjustment, the cooperative loses some of its larger users to competitors, does not the whole association suffer, including the smaller users?

The problem of determining at what point price adjustments should begin and beyond what point they should level off, is largely one of internal accounting and administrative decision.

Business machines are available by which management can quickly ascertain cost data on which to base decisions. Once a pricing program has been formulated, automatic data processing can be utilized to carry out many of the computations involved.

#### Which is the Preferable Term--"Quantity Discounts" or "Service-at-Cost"

The terms used in describing an activity or concept can greatly affect the readiness with which others will accept or reject it.

Thus, the term "quantity discount," may be perfectly understandable and acceptable to the larger users in position to avail themselves of it. By the same token, it can quickly spark a disquieting note among small users who must pay the undiscounted price. Without careful explanation, the whole matter can readily be misinterpreted as price favoritism.

A much more acceptable term is "service-at-cost." This term has the advantage of explaining the basis of the pricing system without raising the bug-a-boo of price favoritism.

How can prices be keyed more nearly to the actual cost of providing the services? Obviously, one of the first steps is for a cooperative to know what these costs are. With this background information, some logical grouping by size of transaction could follow. Cooperatives have always relied considerably on the pooling process. Broad groupings can still be used to a considerable degree in any program of service-at-cost prices.

The manager of a successful marketing cooperative recently wrote, "Our association has taken the view that all members are treated equally when asked to share their proportion of the association's costs. Consequently, our pricing structure reflects savings per volume where such savings can be supported on an actual cost basis."

Cooperatives are organized to provide services for their members. To provide those services at cost is easily defensible. A major step, however, is that whatever the system of pricing, it be openly stated to all members and uniformly adhered to in actual practice.

#### How Can We Communicate Essential Information to Members?

A major responsibility of every cooperative leader is to see that the

members are kept informed concerning the cooperative's progress. Strangely enough, many cooperatives are at a loss to know how to do this economically. In the final analysis many media need to be used to reach the members. Following are a few that have proved effective:

- (1) Cooperative Meetings--Make your annual business meeting a major educational event. Build up its importance. Obtain wide participation. Let the members know the facts. Tell them the problems as well as the accomplishments. Keep the meeting democratic, purposeful, and enjoyable.
- (2) Membership Publication--Issue a periodic membership publication. Keep your members informed regarding association activities. Reach those who fail to come to the meetings. The membership publication is the best single medium available for reaching every member with a uniform message.
- (3) Cooperative Employees--Develop every cooperative employee to be a cooperative salesman. Satisfactory personal experiences are a cooperative's best asset. People prefer to do business with folks they like and respect. Orient these employees for this responsibility.
- (4) Audio-Visual Aids--Present your information through audio-visual aids, such as charts, pictures, films, and flannel boards. Boil down your information to where every member can easily grasp it. It takes work to develop good visual aids; but they can be used again and again.
- (5) Special Leaflets--Prepare occasional special leaflets covering frequently asked questions and their answers. Have a special leaflet that can be used in acquainting new members with the cooperative's background, its objectives, and accomplishments. Supply each member with an up-to-date copy of the association's bylaws.
- (6) Other Cooperative Literature--Avail yourself of selected educational materials obtainable from the Farmer Cooperative Service of the U.S. Department of Agriculture, the Cooperative League of the U.S.A., the American Institute of Cooperation, your State agricultural college, and other sources. You can also obtain films, slides, and other special aids from various sources.
- (7) Cooperative Image--Strive to give the members a clear picture of the organizational structure of their cooperative. Help them to see the respective responsibilities of the manager, the employees, the directors, and the members.
- (8) Suggestions and Complaints--Encourage members to submit their suggestions and constructive criticisms. Show that you mean it by giving them an opportunity to ask questions at annual meetings and on other occasions. Keep the channels of communication functioning the year around.

### SUMMARY

We have sought in this discussion to show the importance of helping members to understand the business operations of their association. We began by outlining numerous related questions. Then we emphasized two general topics, (1) What do members need to know? and (2) How can these facts be communicated effectively? While our discussion has necessarily been limited, we hope that it will spark renewed interest in the educational job that confronts all cooperatives.

A true cooperative functions as an economic democracy. For a democracy to flourish and survive, literacy and understanding must prevail. Cooperative educational leaders are in an enviable position to make a notable contribution to the Free World.....if they apply themselves diligently to this task.

It is a well known fact that the human mind is capable of storing a vast amount of information. This information is stored in the form of memories, which are organized in a hierarchical manner. The memories are organized into a series of levels, starting from the most basic level of sensory input, and moving up to the most complex level of abstract thought. This organization allows the mind to store and retrieve information in a systematic and efficient manner.

The human mind is also capable of learning from experience. This learning process is known as conditioning, and it involves the association of a stimulus with a response. Through conditioning, the mind can learn to respond to a stimulus in a specific way, based on past experiences. This process is essential for the development of new skills and the acquisition of new knowledge.