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THE UNIVERSITY OF TENNESSEE AGRICULTURAL EXPERIMENT STATION

BULLETIN No. 177

SEPTEMBER, 1941

FARMERS' MARKETING AND PURCHASING ASSOCIATIONS IN TENNESSEE

By

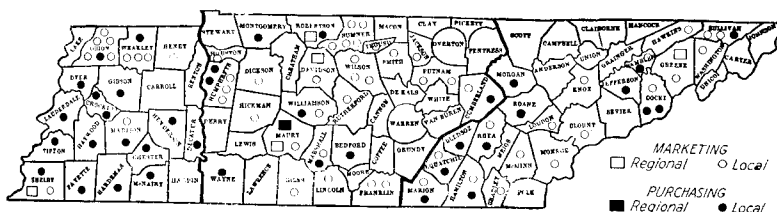
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Location of rural cooperatives studied.

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FARMERS' MARKETING AND PURCHASING ASSOCIATIONS IN TENNESSEE

INTRODUCTION

PURPOSE OF THE STUDY

This bulletin is a joint undertaking between the Tennessee Agricultural Experiment Station and the Tennessee Valley Authority. It is part of a coordinated study of cooperatives in the Tennessee River drainage basin, conducted by the Tennessee Valley Authority and the respective land-grant agricultural colleges of the Valley states.

The experience of cooperatives in this region, their success or failure, and factors contributing to either, may serve as a guide in present and future relationships. By such studies additional information may be obtained that can be used as a basis for cooperative business, technical, and educational advisory services for farmers' associations.

The purposes of this study may be outlined as follows:

Ascertain lines of endeavor in which farmers' cooperatives have been attempted in Tennessee, and analyze the various forms of farmers' cooperatives in the State as to purpose and function, organizational and financial structure, and difficulties encountered by particular types of cooperatives.

Summarize the lessons which may be learned from analysis of past experiences of active and inactive associations.

Discuss the possibilities of cooperatives' overcoming the difficulties that are hindering their development.

Devise methods of bringing to the individual associations information that will help them to conduct their affairs more efficiently and effectively.

Study types of cooperatives that may be expected to be developed successfully in the State.

Make recommendations that will be helpful to Tennessee cooperatives.

SCOPE AND PROCEDURE

Included in the study are the larger Tennessee farmers' cooperatives that engaged in the business of marketing and purchasing during 1938.

Because of the special nature of such cooperatives as mutual fire insurance companies, cooperative telephones, crop and livestock improvement associations, soil conservation associations, and certain forms of farmers' service organizations, these are not included in this report.

Field data relative to each organization were obtained directly from association managers and from records of the associations. County agricultural agents assisted materially in providing general information relative to the development of farmer cooperatives in their respective counties. Schedules were secured from 101 farmers' marketing and purchasing cooperatives (see map on title page).

The study is divided into two parts: "Marketing Cooperatives" and "Purchasing Cooperatives." Regional and local associations are treated separately.

IMPORTANCE OF COOPERATIVES IN TENNESSEE

There were 921 farmers' marketing and purchasing cooperatives reported to have been organized in Tennessee from 1874 to 1938, of which 101 were active in 1938. There was a general increase in the number organized after 1874, the peak being reached during the period 1918 to 1927, when over 60 percent were formed (9). In 1927, 395 marketing and purchasing cooperatives were reported in the State. From 1924 to 1938 there was considerable decline in the number organized and an increase in the number of inactive associations (3).

The volume of business reported by marketing and purchasing cooperatives in the State was \$363,938 in 1913, \$1,646,923 in 1915, \$9,560,000 in 1925, and \$14,890,000 in 1935 (1, 4, 11). These figures include the business of several cooperatives which secured considerable patronage outside the State and do not show accurately the trend of volume of cooperative sales and purchases by Tennessee farmers.



Fig. 1—The Chattanooga Milk Area Producers' Association, organized in 1931, is among the cooperatives having adequate buildings and equipment.

In 1938, 41,000 Tennessee farmer members of the 101 marketing and purchasing cooperatives did a business of \$7,681,600. Of this

amount, \$6,774,800, or over 88 percent, was handled by marketing cooperatives and \$906,800 by purchasing cooperatives.

The 62 marketing associations purchased over \$60,000 worth of supplies for members; and the 39 purchasing associations sold \$77,000 worth of products.

ACKNOWLEDGMENTS

The authors wish to express their appreciation to Mr. C. E. Allred, Agricultural Economist of the Tennessee Agricultural Experiment Station, and Mr. L. C. Salter, Chief, Rural Cooperative Research Division, Tennessee Valley Authority, under whose joint supervision this investigation was carried out; to Mr. E. L. Morgan, who assisted in the field work; to Mr. B. H. Luebke and Dr. W. P. Ranney, who offered helpful suggestions; and especially to the managers and other officials of the associations, without whose cooperation the study would not have been possible.

PART 1—MARKETING COOPERATIVES

In 1938 there were 56 marketing cooperatives, and 6 warehousing cooperatives which performed some marketing service. Of these 62 associations, 5 were regional and 57 local. For the purpose of this study a regional association is considered as one operating in an extensive territory, such as several states, in a large portion of the state, or in several counties not necessarily contiguous. A local association is considered as one which confines its activities primarily within one county or one county and some adjacent territory.

REGIONAL MARKETING COOPERATIVES

HISTORY

The 5 regional marketing associations in Tennessee, in the order of their organization, are cotton, tobacco, livestock, wool, and poultry.

The beginning of cooperative cotton marketing in Tennessee was in 1874, when the Grange advocated restriction of cotton acreage and better marketing. In 1879 the Farmers' Alliance favored selling cotton direct to mills. The Farmers' Union in 1904 sponsored cotton acreage control, fixing of minimum prices, establishment of cooperative warehouses, and diversified farming.

The Southern Cotton Association, active in Tennessee in 1904, promoted the establishment of cooperative warehouses, and advocated minimum prices and acreage control. The National Cotton Association in Tennessee in 1908 had many objectives, such as price fixing, cooperative warehousing, cotton classification, use of cotton bagging, insect and disease control, and establishment of bureaus of information.

The American Cotton Association, originating in 1919, had for its chief objectives controlled production, opening of new markets, large-scale cooperatives, local cooperative warehousing, and growers' contract. After the American Cotton Association ceased to function, in 1920, the American Cotton Growers' Exchange was organized, with headquarters at Memphis. There was little active participation in this organization by Tennessee growers.



Fig. 2—From this headquarters building, the Mid-South Cotton Growers' Association, organized in 1930, directs its classing and marketing activities.

This cooperative has an outstanding educational membership program. It performs field service, cotton classing, purchasing of farm supplies, and other marketing activities for its members.

The Tennessee Cotton Growers' Association was organized in 1923, and first marketed through the Arkansas Cotton Growers' Association. In 1923 about 8,300 Tennessee members of this Association marketed 14,318 bales (6.8 percent of the State production), valued at \$2,220,669. This Association handled from 4 to 7 percent of the State crop from 1923 to 1930. The Mid-South Cotton Growers' Association was organized in 1930 and has functioned continuously since that time (figure 2).

Cooperative tobacco marketing had its first development in Tennessee in 1904, when cooperative warehouses were first established by the Grange and the American Society of Equity. After a bitter but successful struggle to increase the price of tobacco, the early associations ceased to exist. Following the World War and the decline of tobacco prices, growers in Kentucky and Tennessee again attempted to organize for marketing tobacco. During the period 1917 to 1927 there were 22 locals organized, in 14 counties in Tennessee, and 1932 noted the formation of the Eastern Dark-Fired Tobacco Growers' Association, at Springfield, which has operated continuously.

Although shipments of livestock from Tennessee to a cooperative terminal marketing association were reported as early as 1922, it was not until 1932, with the organization of the Tennessee Producers' Livestock Marketing Association, at Nashville, that a regional livestock marketing association was established in the State.

The Tennessee Wool Growers' Association, with headquarters at Nashville, is the only regional wool-marketing association in Tennessee. Its organization was the result of a demand of the local wool pools for a more satisfactory method of selling. It has functioned continuously since it was organized, in 1928.

Cooperative poultry-marketing activities previous to 1931 were confined to local periodic car-lot shipments of poultry to terminal markets, or small-lot independent sales. The Tennessee Turkey Producers' Association was organized in 1931. Two years later the Tennessee Poultry Producers' Association was organized at Greeneville, and absorbed the former association. At that time it was hoped that the Poultry Association would become active in all sections of the State.

AREA SERVED

The 5 regional marketing associations are well located in the trade centers of the production areas of their respective commodities. The Mid-South, in Memphis, draws cotton from the 21 counties of West Tennessee, from 4 southern counties of Middle Tennessee, and from Missouri and Arkansas.

The Dark-Fired Tobacco Growers' Association, at Springfield, obtains patronage from 8 counties of north-central Tennessee and 6 counties of southwestern Kentucky, the bulk of the patronage coming from areas north of the Cumberland River.

The Tennessee Livestock Producers' Association, at Nashville, obtains the greater part of its volume from the Central Basin area of Middle Tennessee, but draws generally from a 200-mile radius.

The Tennessee Wool Growers' Association, with headquarters at Columbia, operates through about 40 widely scattered county wool pools. Most of the county wool pools are on a fairly permanent basis, and would probably continue to function regardless of any change that might occur in the regional organization.

The Tennessee Poultry Producers' Association, with headquarters at Greeneville, ships poultry from about 22 counties, mainly from 12 counties in northeastern Tennessee; Marion, Sequatchie and Bledsoe in southeastern Tennessee; 6 counties in the northeastern portion of Middle Tennessee; and Obion County in West Tennessee.

ORGANIZATIONAL STRUCTURE

Differences in organizational structure of the 5 regional marketing associations are shown in table 1. All are incorporated under the

1923 Cooperative Law of Tennessee as nonstock associations. The total Tennessee membership in the 5 associations is 30,154.

Membership Relations.—Members' financial contributions vary from nothing to \$10 per member. All members must be producers of the commodity marketed or have a producer's interest. Three of the associations require membership contracts; one requires that members patronize the association; and one has no marketing agreement.

Voting is on the one-member-one-vote basis, and proxy voting is not permitted. Memberships are nontransferable.

All associations have at least one general annual membership meeting. Quorum requirements for transacting business at annual meetings vary from 25 members to a number satisfactory to the directors.

Membership participation in control of these associations appears to be lacking. Attendance of members at annual meetings ranges from less than 1 percent to 12 percent. Only 2 of the associations hold district meetings. The proportion of members who are active patrons ranges from 38 to 100 percent.

Management.—Generally, directors control important policies of the associations. In one association, however, the manager exerts considerable influence on the board in policy-making procedures.

Table 1—*Membership relations and management control of five regional marketing cooperatives in Tennessee, 1938.*

Pertaining to members	Associa- tions having—	Pertaining to directors	Associa- tions having
Membership requirements:		Number on board: 7	1
Membership fee 25c	1	11	1
\$1	2	12	2
\$10	1	15	1
none	1	Elected annually	5
Must produce commodity	4	Serve: indefinitely	1
Must have producer's interest	1	1 year	4
Sign marketing agreement	3	Must be members	5
Membership control:		Meet: annually	2
One member-one vote	5	bimonthly	1
Proxy voting prohibited	5	on call of president	2
Membership nontransferable	5	Determine policy	4
Membership interest:		Determine policy with manager	1
One annual meeting required	5	Receive no compensation	3
Quorum:		Receive compensation for travel	2
Not specified	2	Elect officers annually	5
25 members	1	Elect executive committee an- nually	1
Determined by directors	2	Elect executive committee on call of president	1
District meetings: held	2	No executive committee	3
not held	3		
Members active patrons:			
100 percent	2		
65 percent	1		
60 percent	1		
38 percent	1		

Number of directors, by associations, varies from 7 to 15. They must be members of the association or, in 2 instances, representatives of state agencies. Directors are elected annually and serve for

1 year, except in 1 association, in which they serve for an indefinite period. Directors in 2 associations meet irregularly, subject to call by the president; in 1 association, bimonthly; and in 2 associations, only once each year. In all instances officers and executive committees are elected annually. In all cases directors serve without compensation, but in 2 associations they are reimbursed for travel expenses.

FINANCIAL ANALYSIS

Because of variation in size, and differences in methods of handling the specific commodities, a detailed analysis of the 5 regional marketing cooperatives would have limited value. But some comparisons may be made which reveal weaknesses in financial structure, in operating policies, and in membership relations.

Financial stability of cooperative enterprises may be classified under two heads: (a) current and ultimate solvency, and (b) present ability to meet all shortly maturing debts and ability eventually to liquidate all liabilities. To provide assurance that current liabilities will be met, the ratio of current assets to liabilities must be considerably more than 1 to 1, because assets cannot always be turned into cash at the time current liabilities become due, and in many cases losses are incurred in the process of conversion. Under unusual circumstances a cooperative might be in difficulties with a large current ratio (25 to 1), or might be soundly financed with a smaller ratio (table 2), but a ratio of 2 to 1 is generally accepted by financial authorities as indication of a good current position (13). It must be observed that this ratio shows the financial situation of the cooperative at a definite time, and does not give any indication as to whether the business is in a more, or less, sound condition than in previous years.

Low net worth per member, and high ratios of net worth and sales to fixed assets, in the case of some cooperatives (table 2) give an indication of the small equity, either paid in or earned, which members have in their associations. Little attempt has been made by these associations to build up permanent capital from earnings. Small reserves have been established in 3 of the associations. This situation is partly due to the fact that some of them are conducted on a cost or near-cost basis, and that in some instances the small surpluses which accumulate are carried over as running balances into the next year's operations.

It appears that membership of regional cooperatives in Tennessee is made up largely of average or small farmers. This conclusion is arrived at by the small amount marketed per patron. Volume of sales per patron ranges from \$32 to \$413. Analysis indicates that in proportion to the total volume of the State production of each commodity the associations are not receiving the patronage of larger producers, or possibly all of the patronage of present members.

Ratio of operating expenses to sales varies considerably with associations. While some cooperatives pay relatively high salaries for efficient management, the percent that salaries are of total sales is low, and sales per patron high.

Table 2—*Financial analysis of five regional marketing cooperatives, Tennessee, 1938.*

Item	Each column represents one association				
	Ratio 25 to 1 11 to 1 1438 to 1	Ratio .1 to 1 4 to 1 71 to 1	Ratio 1.1 to 1 115 to 1 231 to 1	Ratio 3 to 1 99 to 1	Ratio
Current assets to current liabilities					
Net worth to fixed assets					
Sales to fixed assets					
	Percent	Percent	Percent	Percent	Percent
Receivables are of current assets	38	76	8		
Salaries and wages are of sales	1.2	1.5	.8	1.3	
Operating expenses are of sales	1.7	2.1	4.7	2.2	
Net worth per member	\$10.53	\$8.17	\$62.33	\$0.71	\$0.12
Sales per patron	\$275.00	\$413.00	\$156.00	\$53.00	\$32.00

Operating Statement.—The consolidated operating statement of these 5 regional marketing associations for 1938 shows total sales \$12,673,000. Of this amount, 64 percent originated in Arkansas, Missouri, and Kentucky, and \$90,000 of the sales is reported by both regional and local associations. After elimination of out-of-state volume and duplication it is estimated that Tennessee farmers marketed \$4,508,000 worth of cotton, tobacco, livestock, wool, and poultry through these 5 regional cooperatives.

Generally these associations endeavor to operate as nearly as possible on a net-cost-of-service basis, and do not try to show net earnings. During the year 1938, 1 reported a slight deficit, 2 reported no income, and 2 reported nominal earnings. On a consolidated basis these regionals show a gross income of 4.92 percent of sales; operating expenses of 2.42 percent; and after adjustments of other income and expense, a net income of 2.40 percent of total sales (table 3).

Table 3—*Consolidated operating statement of five regional marketing cooperatives, actual and percentage of sales, Tennessee, 1938.¹*

	Dollars	Percent
Net sales	12,673,600	100.00
Less: Cost of goods sold	12,049,500	95.08
Gross income	624,100	4.92
Less: Operating expenses	306,800	2.42
Net operating income	317,300	2.50
Add: Other income	8,300	.06
	325,600	2.56
Less: Other expenses	19,700	.16
Net income	305,900	2.40

¹Total sales include \$8,165,600 of business done for farmers of adjoining states.

Assets, Liabilities, and Net Worth.—The consolidated balance sheet of these 5 cooperatives for 1938 shows assets of \$7,342,300, of which \$6,050,300 are current and \$143,000 are fixed assets. Investments and other assets amount to \$1,149,000.

Current liabilities, not including members' equities in unsold inventories, is \$5,906,300. The ratio of current assets to current liabilities is approximately \$1.02 to \$1.00. The current asset-liability position of those cooperatives appears to be low. If the claims of members in unsold inventories were included in current liabilities, the current liquidation position would be reduced to 90¢ of current assets for each \$1 of current liabilities. Apparently the current asset to current liability ratio of these 5 cooperatives is below that of many similar organizations in other states.

Although these organizations are nonstock cooperatives, membership fees amount to \$25,000, which constitutes members' contribution to permanent capital. Other net-worth items total \$584,300 (table 4). Of this amount, \$576,600 is reserves subject to allocation to

Table 4—*Consolidated assets, liabilities, and net worth of five regional marketing cooperatives, Tennessee, 1938.*

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	\$ 91,500	Accounts payable	\$ 28,500
Receivables	523,200	Notes payable	5,642,600
Inventories	5,249,100	Accrued items	210,600
Other	186,500	Other	24,600
	\$6,050,300		\$5,906,300
Fixed assets:		Contingent current liabilities:	
Land, buildings, and equipment	\$ 143,000	Members' equities in inventories ¹	\$ 826,700
Other assets:		Net worth:	
Investments	\$1,119,500	Membership fees	\$ 25,000
Prepaid expenses	26,400	Book credits	7,700
Other	3,100	Surplus and reserves	576,600
	\$1,149,000		\$ 609,300
Total assets	\$7,342,300	Total liabilities and net worth	\$7,342,300

¹To be considered a current liability when the inventories are sold.

members. Net worth of these associations may be considered adequate, from the standpoint of needs for fixed assets, but apparently net worth is inadequate from the standpoint of volume of business transacted, value of inventory on hand, amount carried as investments, and other assets. The consolidated balance sheet discloses the fact that investments and other non-current assets are high when considered in relation to total net worth. The current financial condition of these associations might be improved by conversion of investments into cash, or, in the event this could not be done, by raising additional capital either by sale of memberships or preferred stock or by setting aside part of earnings.

PROBLEMS AND PROGRAMS

As with other businesses, an outstanding problem of these 5 regional cooperatives is adequate volume for efficient operation.

Regional commodity marketing cooperatives usually are effective in performing needed services for farmers to the extent of their ability to obtain a substantial proportion of the commodity to be marketed. In Tennessee, such organizations are encountering 5 important problems which deal with securing and maintaining of adequate volume. The following discussion is devoted to procedures being followed by the associations in dealing with these difficulties, and to programs which may be developed to overcome them. Reference is made also to experiences of similar cooperatives in other states.

What Additional Lines of Activity Can Regional Marketing Cooperatives Profitably Assume?

Trucking.—Most of the regional marketing cooperatives perform some assembling services, but none of them have transportation equipment. Changes in methods of transportation, from rail to truck, have reacted unfavorably on cooperative livestock marketing associations located at local shipping points in Tennessee.

Apparently there is a possibility that terminal livestock-marketing associations can revive interest in local shipping associations by assisting them in financing the purchase of trucks for hauling to the terminal market. Such trucks could pick up feed, seed, fertilizer, and other supplies on the return trip, thereby reducing transportation costs. Some trucking of this nature already is being done by other types of cooperatives in Tennessee.

Grading.—All of the 5 regional marketing cooperatives employ grading methods. The tobacco association establishes pools on a Federal grade basis, grading being done by licensed graders. Local buyers of the cotton association are Federal licensed classers, and cotton is purchased on a quality basis. Grading of wool is performed by marketing specialists of the Agricultural Extension Service, with the assistance of county agents. Usually livestock and poultry also are graded prior to sale.

Storing.—The tobacco association controls subsidiary corporations, which operate warehouses for handling and storing tobacco. Possibly this activity could be extended profitably to other associations.

During the past few years, cold-storage locker plants were started in the State, and there are now 29 such units. An opportunity may exist for increasing the income of livestock producers by establishing local cooperatives in areas where these cold-storage locker plants have proper facilities. These associations could dress poultry during periods of low prices and store it in the locker plants, to be sold during periods of higher prices. In areas where the price of eggs declines

during the summer months to 12 cents a dozen or less these associations could store eggs or break and freeze them for future sale to the commercial trade.

In some areas of Tennessee, cotton storage rates per month range from 15 cents to 50 cents per bale (7). It might be profitable for the cotton-marketing cooperatives to establish warehouses in some areas. For example, this type of activity is successful in Georgia, where the Cotton Producers' Association, organized in 1937, has made an annual return on the investment of over 20 percent (15).

The Tennessee Wool Growers' Association has an arrangement for storing pooled wool, but because of favorable prices has not found it necessary to use warehouse facilities. Wool-marketing cooperatives in Texas are studying warehousing plans with a view to utilizing this service (19).

Financing.—The cotton and tobacco associations operate on a regional pool basis. Products are purchased according to quality, and at prices determined by the associations. The cooperatives make an effort to sell all or part of each pool on hand at the best possible price. Should the Association sell the member's commodity above the loan price or the amount advanced, the patron would receive his pro-rata share after deductions were made for handling and reserves. This method of financing begins at the time the crop is harvested, but does not include production credit.

It might be desirable for the cotton cooperatives to organize a crop-financing corporation, to furnish growers with funds for production. Some other associations, notably the Staple Cotton Cooperative Association, have organized discount corporations for providing such loans. This service of the Staple Cooperative has been an important factor in its success (17).

One reason that some wool growers do not market through the regional association is that they have immediate need for cash and are unable to wait until the wool is sold through the pool. This situation might be remedied by the Association's making, or guaranteeing, advances to growers. This would necessitate the Association's setting aside a greater reserve deduction or using borrowed funds.

A problem facing the poultry cooperative is that of financing the production of members' poultry through cash loans or through credit on feed purchases. Production credit may not be a proper function of the poultry association, but if credit is extended to the farmer by private agencies these agencies may market his product, and the cooperative thereby lose the business.

Financial assistance, for furnishing production credit through marketing cooperatives, is available from the Federal Intermediate Credit Bank and the Bank for Cooperatives.

Processing.—One of the regional marketing cooperatives engages in the additional service of processing. This activity might prove profitable to some of the other associations.

In 1938 about 500 cooperative gins were operating in the Cotton Belt, one of which was in Tennessee. In two areas of the Southwest where there are cooperative gins, cooperative cottonseed oil mills have been organized (18).

There is the possibility of poultry marketing associations' selling dressed poultry and eggs on a graded basis, and merchandising frozen poultry and eggs.

Purchasing by Marketing Associations.—One of the marketing cooperatives handles supplies for its members. Such service might prove profitable for the other regional cooperatives.

In other states some of the regional livestock-marketing cooperatives handle supplies for their patrons, sales being made at prevailing prices and patronage returns being paid on the basis of volume of purchases.

Lack of Membership Consciousness and Loyalty.—This problem is brought about mainly by three conditions: (a) From time of organization to this date, members have not adequately participated in financing their associations; (b) because of the long distances that most members live from headquarters of the associations, and the absence of field offices, they have little direct contact with the management; and (c) the seasonal nature of the business which the regional associations do is such that the members normally make but one or two contacts each year.

The associations have developed various programs for educating members to a sense of individual responsibility for and ownership of their organization. These programs are summarized below, so that each cooperative may benefit by the programs of others.

Members' Contribution to Capital.—Some associations have membership fees of several dollars, and are building up membership equities by retaining a small percentage of the returns from each member's business. These cooperatives have found that a member's interest and loyalty is best assured if his participation is in the form of financial support through a reasonable lump-sum subscription to the original capital, and deductions to build up cash reserves of the association. These deductions are credited to the account of the grower, and may later be the basis of patronage distribution of savings.

Membership Meetings.—Two of the cooperatives have numerous unit membership meetings, and hold marketing schools for members. Branch managers secure the assistance of county agents and agricultural teachers in promoting the association's program among members.

Publications and Publicity.—All of the associations contact their members frequently through circular letters, publish annual financial statements and reports, and keep their books open to all members—in 1 case to nonmembers also. Three associations have free distribution of agricultural publications to members and 1 publishes a monthly periodical.

Field Service.—Two associations employ field men who spend a considerable portion of their time working with the producers, aiding them with their production and marketing problems. Apparently there is considerable need for field work among producers, since a large proportion of them are not familiar with the purposes and advantages of their marketing cooperatives.

Assistance from Outside Agencies.—The associations generally have taken advantage of the services available to them through the University of Tennessee College of Agriculture and other public agencies.

Some of the cooperatives have members of the Agricultural Extension Service as directors representing the public, and all of them are aided by the Extension Service in their educational programs.

Overcoming Economic Conditions That Hinder Cooperative Marketing.—Several economic factors affect the use farmers make of cooperative marketing associations, such as tenancy and type-of-farming.

Tenancy.—The fact that some tenants, especially in the cotton and dark-tobacco areas, move often makes them hesitant to sign contracts to deliver their produce to a particular organization for a number of years. Leasing arrangements between landlord and tenant sometimes require settlement at the time of harvesting or marketing. The 1925 Census of Agriculture shows that in Tennessee a greater proportion of owners than tenants participate in cooperative marketing and that the dollar volume of business is greater per owner than per tenant (figure 3).

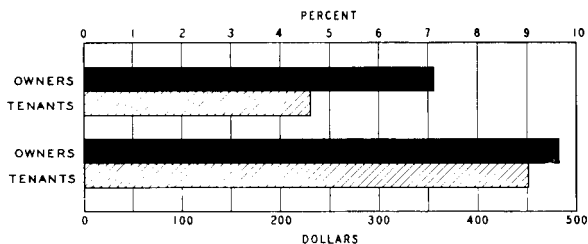


Fig. 3.—Percentage of owners and tenants reporting cooperative sales, and amount of cooperative sales per owner and tenant, Tennessee, 1925.

In heavy cotton- and tobacco-producing areas the percentage of tenants who engage in cooperative marketing activities is lower than the percentage of owners.

To make it possible for a greater proportion of tenants to participate in cooperative marketing activity some of the associations are encouraging changes in leasing arrangements between landlords and tenants; are sponsoring Plant-to-Prosper programs, which tend to reduce migration; and are promoting improved methods of financing.

Type of Farming.—Specialized crop production appears to be a factor in limiting cooperative marketing participation. Livestock farmers and farmers who follow diversification report the largest cooperative sales. This is probably because farmers who diversify and thus have numerous sources of income distributed throughout the season, have increased bargaining power. Their need for a complete cash settlement at marketing time is not so great as is the case with one-crop farmers.

Three of the regional associations have recognized this problem and are sponsoring crop diversification and livestock farming. While considerable educational work is being done, there is need for additional work of this kind.

Coordination of Centralized and Local Cooperatives.—The small percentage of members' business handled by two of the regional cooperatives is attributed to the fact that the basis of organization is directly with and through individual producers, rather than through groups of producers locally organized. There are several local associations in the State that the regionals can conveniently serve. It is likely that greater coordination between locals and the regional would be beneficial to both groups. The cooperation of the Tennessee Wool Growers' Association and the local wool pools is an example of what may be accomplished through coordinated activities.

Control of Marketing Abuses at Terminal Markets.—At the terminal markets, in the past, certain abuses have existed in unloading, yarding, weighing, and selling practices. While cooperatives generally have accomplished much to correct this situation, some unsatisfactory conditions still exist. Managers of some of the associations indicate that, in their opinion, excessive charges and other abuses still prevail.

Where such abuses exist, there may be grounds for complaint under the Packers and Stockyards Act, which became a law in 1921. This Act is designed primarily to regulate interstate and foreign commerce in livestock and poultry and their products (10).

LOCAL MARKETING COOPERATIVES

Fifty-seven local marketing associations are included in this study. In 1938 these associations report a total membership of 8,539,

with a total volume of business of \$2,266,800. Nine of these associations are dairy, 16 fruit and vegetable, 31 livestock and wool, and 1 grain.

DAIRY COOPERATIVES

HISTORY

Dairy associations are divided into 3 groups—milk-bargaining, creamery, and cheese.

Of the 6 milk-bargaining associations organized in Tennessee between 1918 and 1935, 2 were active in 1938 (table 5). These associations were formed for the following reasons: To reduce costs, secure the higher prices made possible through assembling and handling, obtain greater volume of business, provide better grading and distribution, and increase the bargaining power of the members.

From 1904 to 1929, 35 cooperative creameries were organized. Five remain active. These associations were formed because there were no convenient or satisfactory places to sell butterfat in the area; and because farmers wished to protect themselves from abuses existing in the local markets, to purchase feed and supplies at a saving, and, in some instances, as a subsidiary function, to buy cows for members or provide cold-storage facilities.

Between 1916 and 1935, 22 cooperative cheese factories were formed, 2 of which were active in 1938, 1 at Palmersville and 1 at Piney Flats (figure 4).



Fig. 4—Weaver Branch Cheese Company, at Piney Flats, has operated since 1920. One reason this association has continued to function is its low investment in buildings and its low operating cost.

AREA SERVED

The 2 active milk-bargaining associations serve the milksheds of Knoxville and Chattanooga. One of the 5 cooperative creameries covers its county, 1 serves its community, and 3 serve their counties and portions of adjoining counties. Patronage areas included by the cooperative cheese factories are small, being limited to the immediate community (table 5).

Table 5—Names, locations, areas served, and years organized, nine local dairy marketing cooperatives, Tennessee, 1938.

Name	Location	Area served	Year organized
Knoxville Milk Producers' Association	Knoxville	Knoxville milkshed	1933
Chattanooga Area Milk Producers' Association	Chattanooga	Chattanooga milkshed	1931
Sumner County Cooperative Creamery Association	Gallatin	Sumner and part of Wilson County	1919
Bradley County Cooperative Creamery Association	Cleveland	Bradley, McMinn, and Meigs Counties	1921
Rutherford County Cooperative Creamery	Murfreesboro	Rutherford and adjoining counties	1913
Franklin County Cooperative Creamery Association	Winchester	Franklin County	1904
Nolensville Cooperative Creamery	Nolensville	Nolensville, radius 15 miles	1904
Palmersville Cooperative Cheese Factory	Palmersville	Palmersville community	1923
Weaver Branch Cheese Company	Piney Flats	Piney Flats community	1920

ORGANIZATIONAL STRUCTURE

Differences in membership relations and management control of the 9 local dairy-marketing associations are shown in table 6. Of the 9 associations, 8 are incorporated under the 1923 Cooperative Law of Tennessee, and 1 is incorporated under the General Corporation Law.

Membership Relations.—The 9 associations have a total membership of 2,366. The 3,210 nonmember patrons outnumber the members. Financial contribution of members in 7 associations is from \$5 to \$25 per share of common stock, and in 2 associations, \$1 fee or \$1 share of stock per cow. In 1 case patronage is accepted in lieu of purchase of shares. In all cases the member must be a farmer, and must sign a marketing agreement. One cooperative requires that members patronize the association. Proportion of members reported as producers in 1938 varies from 65 to 100 percent.

There is considerable difference among the associations in membership control. The shares which may be held by a member vary from 1 to an unlimited number. Voting, in 8 associations, is on the basis of one-member-one-vote, and in 1, on a share basis. While shares of stock are transferable in 8 associations, transfer is limited to members or producers. Proxy voting is permitted in 5 associations. Number of proxies is unlimited in 1 association, limited to 5 in 1 case, and to 1 in another.

One annual membership meeting is required by all associations. Quorum requirements for transacting business at meetings vary from a majority to a number satisfactory to directors. Although district meetings are not held, there appears to be considerable interest among

Table 6--*Membership relations and management control of nine local dairy marketing cooperatives in Tennessee, 1938.*

Pertaining to members	Milk bargain- ing	Cream- ery	Cheese
Membership requirements:			
\$ 1 share of stock per cow	1	---	---
\$ 1 per year membership fee	1	2	---
\$ 5 share common stock	---	1	---
\$10 share common stock after 9 months patronage	---	1	---
\$10 share common stock or patronage	---	1	2
\$25 share common stock	2	5	2
Sign marketing agreement	2	5	2
Must be farmers	---	1	---
Must patronize association	---	---	---
Membership control:			
Shares that may be held:			
No limit	1	1	---
One member, 1 share	1	1	---
One member, 4 shares	---	1	---
Shares limited to 5 percent of common stock	---	1	1
Shares limited to 20 percent of common stock	---	---	1
Shares limited to 50 percent of common stock	1	5	2
Shares: transferable	1	---	---
nontransferable	2	5	1
One member-one vote	---	---	1
One share-one vote	2	2	---
Proxy voting: Prohibited	---	3	2
Permitted	---	---	---
Membership interest:	2	5	2
One annual meeting required	2	1	---
Quorum: 10 percent of members	---	1	---
25 percent of members	---	2	1
Majority	---	1	1
Not specified	2	5	2
District meetings not held	1	2	---
Members active patrons: 100 percent	---	2	---
90 percent	---	1	---
60 percent	---	---	1
50 percent	---	1	---
15 percent	---	---	1
Elect officers annually	---	---	---
Pertaining to directors			
Number on board: 5	1	4	2
7	1	1	---
9	2	2	2
Elected annually	1	4	2
Must be members	1	1	---
Must be patronizing members	---	2	1
Meet: monthly	2	3	1
on call of president	2	2	2
Determine policy	---	3	---
Determine policy with manager	---	3	1
Receive no compensation	2	2	1
Receive compensation for travel	2	5	1
Elect officers annually	1	---	---
Elect executive committee	1	---	---
Executive committee appointed by president	---	5	2
No executive committee	---	---	---
Total number associations	2	5	2

members in their respective associations. Percent of attendance at annual meetings ranges from 20 to 66. Percent of members who are active patrons is more than 50 in all cases except one.

Management.—Policy-making procedures of the dairy associations generally are controlled by the directors, but in 3 cases the managers are reported to exert considerable influence. Number of directors varies from 5 to 9. Directors in 6 associations are elected annually, and in 3 they serve for more than one year. Directors must be members or patronizing members, and in 4 cases receive no compensation for travel. In 3 associations directors meet monthly; in 6 they meet subject to call of the president. Directors elect officers annually in 8 associations; in 1 association the officers are elected annually by the members.

Managers of dairy associations appear to be of high caliber. With the exception of regional marketing associations, they are the highest-paid association managers in the State. Their tenure of office has been long, 15 years in 1 case and over 8 years in 5 cases. Managers have tried to keep abreast of changing developments, and have increased the volume of side-line activities. Seven managers have given considerable attention to standardization of products, production of higher-quality products, reduction of plant costs, and improving of records.

FINANCIAL ANALYSIS

Operating Statement.—The 9 dairy associations did a gross business of \$1,684,800. Approximately \$50,000 of this volume originated in Georgia, the Chattanooga milkshed extending into that state.

Because of methods of handling, bargaining associations are able to operate on a lower gross margin than processing organizations. Operating expenses of bargaining associations are 2 percent of sales, compared with 17 percent and 22 percent, respectively, for creameries and cheese factories (table 7). Net income of the 9 associations varies from $\frac{1}{2}$ of 1 percent to 1.4 percent. In all cases it is very small. Average net income of milk-bargaining associations is \$5,500; of creameries, \$920; and of cheese factories, \$100.

Table 7—Consolidated operating statement of nine local dairy marketing co-operatives, actual and percentage of sales, Tennessee, 1938.¹

	Creamery		Milk bargaining		Cheese	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	872,600	100.0	795,100	100.0	17,000	100.0
Less: Cost of sales	717,500	82.2	769,000	96.7	13,000	76.5
Gross income	155,100	17.8	26,100	3.3	4,000	23.5
Less: Operating expenses	149,800	17.2	15,900	2.0	3,800	22.3
Net operating income	5,300	.6	10,200	1.3	200	1.2
Add: Other income	2,400	.3	1,000	.1	—	—
	7,700	.9	11,200	1.4	200	1.2
Less: Other expenses	3,100	.4	200	²	—	—
Net income	4,600	.5	11,000	1.4	200	1.2

¹Total sales include \$49,500 made by farmers of Georgia.

²Less than 0.1 percent.

In most instances it appears that the members are more interested in immediate than long-time objectives of their cooperatives. In 1938 1 association set aside \$2,400 from earnings for reserves, the others distributing all income, except necessary allowances for depreciation, to members and patrons. This distribution is made through payments for milk or cream received. Only 1 association made distribution through patronage dividends, the amount so distributed being \$7,725.

For 2 associations, with practically the same methods of procurement and distribution, an effort was made to compare the net prices paid farmers for milk. One association paid 7 cents per 100 pounds, or 1/7 cent per quart, more than the other. Although this difference may appear small on the volume handled, it would mean \$9,000 to members.

Assets, Liabilities, and Net Worth.—The dairy associations, as a group, are in a satisfactory financial position to handle present volume and present activities. But if any of the associations plan to engage in additional activities, such as handling a more complete line of supplies for their members, or operating freezer-locker plants, additional capital will be required.

Total assets of the 9 dairy cooperatives exceed \$300,000, of which about 51 percent are current assets and 49 percent fixed. Members' equities and preferred stock total almost twice the investment in land, buildings, and equipment. Current assets of \$155,800 are about twice current liabilities of \$78,500. Dairy cooperatives are among the most soundly organized and permanently financed cooperatives in the State (table 8).

Table 8—*Consolidated assets, liabilities, and net worth of nine local milk bargaining, creamery, and cheese marketing cooperatives, Tennessee, 1938.*

Assets		Liabilities	
Current assets		Current liabilities	
Cash	\$ 49,700	Accounts and notes payable	\$ 74,800
Receivables	71,500	Accrued items	2,900
Inventories	32,300	Other	800
Other	2,300		\$ 78,500
	\$155,800		
Fixed assets		Fixed liabilities	
Land, buildings, and equipment	\$147,700	Mortgages payable	\$ 2,000
		Net worth:	
Other assets		Common stock or memberships	\$ 44,600
Prepaid expenses	\$ 200	Preferred stock	26,500
Other	700	Book credits	58,900
	\$ 900	Surplus and reserves	93,900
			\$223,900
Total assets	\$304,400	Total liabilities and net worth	\$304,400

PROBLEMS AND PROGRAMS

Managers indicated that they are confronted with several problems, the more important of which are summarized below.

Local Competition.—Competition with dairy cooperatives comes largely from the rapidly expanding fluid-milk market. Privately owned creameries, ice-cream plants, and condenseries also compete in some territories. Cooperatives sometimes have difficulties in meeting this competition, especially from fluid-milk and ice-cream plants, which are able to offer higher prices. Overlapping of cream routes, with resultant higher cost, commands additional attention.

Shipment of high-producing animals, and their calves, for foundation stock, to dairymen outside the territory, has been a factor in reducing potential volume of the associations.

As an aid in meeting present-day competition, the managers made the following suggestions:

1. Revision of articles of incorporation and by-laws, to provide for keeping membership in the hands of active patrons and making membership easily acquired.
2. Dropping nonactive members.
3. Arousing interest of nonmember patrons in the association. (All nonmember patrons are eligible for membership.)
4. Revamping trade areas to eliminate overlapping truck routes.
5. Changes in dairy-plant operation to include the manufacture and sale of ice cream, sweet cream, and butter.
6. Addition of subsidiary enterprises, such as freezer-lockers, handling of feed and dairy supplies, trucking, and a varied line of dairy products.
7. Sponsoring quality-improvement programs.



Fig. 5—Sumner County Cooperative Creamery, formed in 1919, has found it profitable to assume several side lines, such as selling ice-cream mix, purchasing supplies for patrons, and operating a freezer-locker plant.

Five of the dairy cooperatives already handle dairy supplies and feeds; 5 manufacture ice-cream mix. One association is operating a frozen-food locker (figure 5).

Need for New Capital to Expand Business.—Seven of the associations indicated a need for additional capital to pay off indebtedness and adjust operations to new developments. While some associations have built up reserves, these are inadequate. Managers feel that one of the best methods of obtaining additional capital is through a system of capital retains.

Differences in Price Policies.—Two cooperatives have had difficulty with their pricing policy. These cases were satisfactorily settled by an arbitration committee.

Two managers voiced the opinion that there is need for local associations to affiliate with some type of overhead organization, to develop a more effective sales program.

FRUIT AND VEGETABLE COOPERATIVES

STRAWBERRY COOPERATIVES

HISTORY

Of 107 strawberry-marketing cooperatives organized between 1893 and 1937, 9 have remained active (table 9). These associations were among the first organized, their average length of operation to 1938 being 22 years.

Table 9—Names, locations, areas served, and years organized, nine local strawberry marketing cooperatives, Tennessee, 1938.

Name	Location	Area served	Year organized
Sharon Fruit Growers' Association	Sharon	Sharon community	1893
Greenfield Fruit Growers' Association	Greenfield	Greenfield community	1900
Kenton Fruit Growers' Association	Kenton	Kenton community	1900
Portland Strawberry Growers' Association	Portland	Portland community	1905
Madison County Strawberry Association	Jackson	Madison and parts of Crockett and Haywood Counties	1924
Cooperative Marketing Association, Inc.	Portland	Portland community	1927
Spring City Farmers' Cooperative Association	Spring City	Spring City community	1929
Maryville Strawberry Growers' Association	Maryville	Blount, Knox, Loudon, Monroe	1932
Independent Strawberry Growers' Association	Mitchellville	Mitchellville community	1933

Principal objectives of the strawberry associations have been to assemble and market the crop; promote and increase production; control disease; improve varieties through purchasing and selling certified plants; and improve grading, packing, and labeling.

AREA SERVED

Most of the associations serve one community. Some overlapping of the trade areas occurs when associations are located near each other. Sumner County has 3 associations¹; Weakley has 2; and Obion, Madison, Rhea, and Blount have 1 each. Crockett, Gibson, Hamilton, Meigs, and some other heavy strawberry-producing counties have none.

ORGANIZATIONAL STRUCTURE

The 9 associations active in 1938 reported a total of 1,500 members, of whom 1,364 are active.

Membership Relations.—The strawberry associations, compared with some other marketing cooperatives, are rather loosely organized. Four of them are not incorporated, and the majority have no requirements for membership except patronage of the association (table 10). Two require payment of \$1 membership fee, 3 require signing a marketing agreement, and 4 require that members be producers and market all berries through the association.

Voting is on the basis of one-member-one-vote, and proxy voting is prohibited in all cases.

Table 10—*Membership relations and management control of nine local strawberry marketing cooperatives in Tennessee, 1938.*

Pertaining to members	Associations having—	Pertaining to directors	Associations having—
Membership requirements:		Number on board: 5.....	2
No financial contribution.....	7	7.....	3
\$1 fee.....	2	8.....	1
Sign marketing agreement.....	3	9.....	2
Oral marketing agreement.....	1	10.....	1
Marketing agreement not required.....	5	Elected: annually.....	7
Must be producers.....	4	when term expires.....	2
Must market all strawberries through association.....	4	Serve: 1 year.....	7
Membership control:		2 years.....	1
One member-one vote.....	9	3 years.....	1
Proxy voting prohibited.....	9	Must be members.....	2
Membership interest:		Must be patronizing members.....	7
Meetings required annually: 1.....	7	Meet: on call of president.....	7
4.....	1	every four months.....	1
0.....	1	semi-annually.....	1
Quorum: 7 or more.....	1	Determine policy.....	6
10 percent of members.....	1	Determine policy with manager.....	3
Majority.....	7	Receive no compensation.....	8
Members active patrons:		Receive compensation for travel.....	1
100 percent.....	7	Directors elect officers annually.....	3
90 percent.....	1	Elect executive committee.....	1
32 percent.....	1	Executive committee appointed by president.....	1
Elect officers annually.....	6	No executive committee.....	4

Membership interest is lacking in some of the organizations. One association does not require an annual membership meeting. At the last annual meetings, 6 of the associations had less than 60 percent of the members in attendance. The percentage of members who are active patrons is only 32 in one case.

¹Other strawberry cooperatives have been organized in Sumner County since 1938.

Management.—The number of directors varies from 5 to 10. In 7 associations, directors are elected annually and serve 1 year; in 1 association they are elected when terms expire, which is 2 years in one case and 3 in another. Directors in 2 associations are required to be members, while in 7 cases they must be both patrons and members.

In 7 associations the directors meet on call of the president; in 2 cases they meet quarterly or semi-annually. In only 1 association are directors compensated for travel.

Although directors determine important policies in most associations, the manager generally assumes control after he is chosen by the directors or elected by the members. After the marketing season, if members and directors are dissatisfied with results of the year's operation, a new manager is employed; if they are satisfied, the manager is retained. In several instances the same manager has been employed since organization, and in only 2 cases have changes in management taken place within the last 5 years.

Managers in all instances are employed on a commission basis, being paid according to number of crates handled, dollar volume of sales, or a combination of the two. Commission varies from 7 to 9 cents per crate, or from 3 to 6 percent of sales. In 2 instances a combination of number of crates and dollar volume is used.

FINANCIAL ANALYSIS

These associations assemble fruit from members and sell locally to buyers or ship in car or truck lots to central markets. Truck and rail shipments are about equally divided. Trucking is more important to markets within 300 to 400 miles of producing areas. Beyond these limits rail shipments are most important.

Sales policy is to sell as much of the fruit as possible f.o.b. shipping point; but often it is necessary to consign shipments to established commission brokers with whom previous selling arrangements have been made. Daily pooling by grade and variety is the general practice. Settlements are made with members after returns are received and after local handling charges are paid.

Keeping records of transactions is always the responsibility of the manager and his assistant. Accounting systems vary from check and notebook records, showing simply receipts and disbursements, to a complete record system. A committee of directors audits the records at the end of the season, and reports to members at the annual meeting.

Operating Statement.—These 9 associations report handling 137,000 crates of strawberries in 1938. This is an average of 100 crates per active member.

Dollar sales amount to \$360,900, of which \$352,000 is for fruit and the remainder for supplies purchased for members. Supplies purchased were crates and straw for mulching.

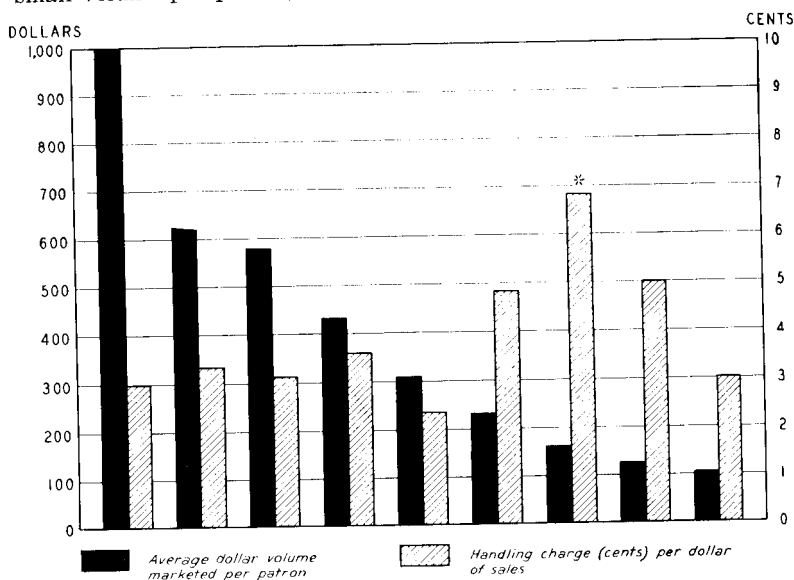
Operating expenses comprise but a small proportion (3.8 percent) of total volume of sales. Average local handling costs for the 9 associations vary from 7 to 17 cents per crate (table 11).

Table 11—Consolidated operating statement of nine local strawberry marketing cooperatives, actual and percentage of sales, Tennessee, 1938.

	Dollars	Percent
Total sales	360,900	100.00
Less: Cost of goods sold	347,100	96.18
Gross income	13,800	3.82
Less: Operating expenses	13,700	3.80
Net operating income	100	.02
Add: Other income	600	.17
Net income	700	.19

Number of crates handled per association varies from 4,000 to over 21,000, and value of sales from \$8,200 to \$50,000.

There is considerable difference in efficiency between associations, generally in proportion to volume of business. Average dollar volume marketed per patron ranges from \$109 to \$1,000, associations with small volume per patron, with one exception, having the highest local



* Charges include precooling of fruit, prior to shipment

Fig. 6—Average dollar sales per patron, and local handling charges in cents per dollar sales, nine local strawberry marketing cooperatives, Tennessee, 1938. (Associations are not charted in order listed in table 9).

handling charges per dollar of sales (figure 6). Handling charges range from 2.4 cents to 6.9 cents per dollar of sales. High handling charge in the latter case is due to precooling before shipment. By precooling, this association is able to ship to more distant markets.

Assets, Liabilities, and Net Worth.—The financial condition of most of the associations is not entirely satisfactory. Only 3 have more than \$100 cash on hand, and with the exception of 1 association which has precooling facilities and 3 which own loading sheds, they have little equipment or other assets (table 12). In some instances the associations have a leasehold interest in a loading platform, usually located on railroad property.

Table 12.—*Consolidated assets, liabilities, and net worth of nine local strawberry marketing cooperatives, Tennessee, 1938.*

Assets		Liabilities	
Cash	\$1,859.36	Fixed liabilities.....	\$ 700.00
Receivables	18.00	Reserves unallocated.....	3,077.36
Fixed assets	1,900.00		
Total assets	\$3,777.36	Total liabilities and net worth	\$3,777.36

PROBLEMS AND PROGRAMS

Difficulties encountered by associations, and plans for overcoming them, may be summarized as follows:

Management.—Under present methods of operation, little capital is required by the associations. When operating capital is needed, it is necessary that directors or managers personally endorse notes for the association. This method of financing has limited the selection of directors and managers to men willing and able to furnish security for money borrowed. If financing is assumed by the manager, this gives him a vested interest in the association, and prevents the association from acting in the best interests of all the members.

Some managers expressed the opinion that a different method of financing is needed. Associations could set aside a few cents per crate handled and thus build up a reserve. Another method suggested is to assess an annual membership fee sufficient to yield the capital needed. One association now has a considerable reserve, which was accumulated from earnings.

Members Do Not Continuously Patronize Associations.—Because of high prices paid by truckers and brokers during certain periods of the season, some members fail to market all berries through the association. Lack of volume results in higher cost of operation. This difficulty has been overcome in some associations by use of membership agreements (table 10).

Unsatisfactory Method of Delivering Berries.—Many growers formerly brought their berries in late, and in poor condition, but these

difficulties to a large extent are being overcome through education. Some associations issue circulars giving instructions for producing, picking, packing, and grading. The annual meeting and personal contacts of managers with members also provide opportunity for educational work.

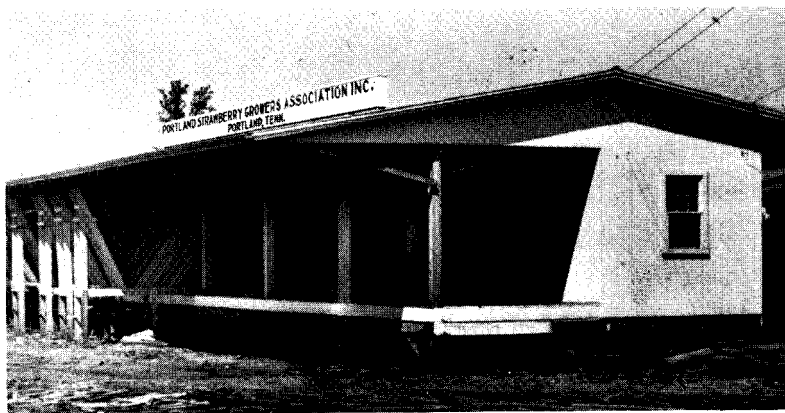


Fig. 7—Successful strawberry cooperatives in Tennessee usually have their own loading platforms.

The Portland Strawberry Growers' Association, organized in 1905, is the fourth oldest strawberry cooperative in the State. It also handles supplies for its patrons.

Overlapping of Trade Areas.—In two instances different associations operate in the same area. Producers feel that this difficulty may be overcome through consolidation, or by increasing production enough to provide adequate volume for competing cooperatives.

SWEETPOTATO COOPERATIVES

HISTORY

From 1903 to 1937 there were 95 sweetpotato marketing cooperatives organized. Thirty-eight of these were cooperative warehouses, of which 6 were active in 1938 (table 13).

Principal objectives of these associations were to promote potato culture where little or no commercial production existed prior to organization; improve varieties through purchasing and selling certified seed; improve packing and grading; advertise local production; and provide adequate storage facilities to control disease and prevent glutting of market.

AREA SERVED

Three of the associations serve their local communities. Trade areas of 3 include one county and parts of adjoining counties. All associations except one are located in Middle Tennessee.

ORGANIZATIONAL STRUCTURE

All sweetpotato associations are incorporated under the Tennessee Cooperative Law. While the total membership of the associations is only 228, they have nonmember patronage of 1,160. Most of the nonmember patrons are eligible to membership.

Membership Relations.—Financial contribution per member required by the associations varies from \$12.50 to \$100. Only one association requires that members be producers.

Table 13—Names, locations, areas served, and years organized, six local sweet-potato marketing cooperatives, Tennessee, 1938.

Name	Location	Area served	Year organized
McEwen Fruit and Truck Association	McEwen	McEwen community.....	1921
Franklin County Sweet Potato Association.....	Winchester	Winchester community..	1924
Marion County Sweet Potato Growers' Association	Jasper	Jasper community.....	1926
Mt. Airy Sweet Potato Association	Mt. Airy	Parts of Bledsoe and Sequatchie Counties.....	1926
Maple Hill Cooperative Sweet Potato Association	Lebanon	Wilson and parts of Davidson, Smith, and DeKalb Counties	1928
Algood Sweet Potato Association Incorporated	Algood	Putnam and parts of White, Jackson, Overton, and Cumberland Counties	1931

There are several differences between associations in membership control. In 3 the number of shares held per member is not limited; in 1 the limit is 2 shares; in 1 it is 3 shares; and in another 1/20 of the stock. Voting is on the basis of one-member-one-vote in 4 cases, and one-share-one-vote in the others. Two of the cooperatives permit proxy voting. With the approval of the directors, shares are transferable in 5 associations. In 1 case shares cannot be transferred (table 14).

There is evidence of lack of membership interest. While all associations require annual or semi-annual meetings, membership attendance at the last meeting ranged from 20 to 90 percent. The percentage of members who are active patrons is below 80 in 2 cases.

Management.—Number of directors per association varies from 5 to 11. In 4 associations, directors are elected annually, in 1 they serve an indefinite period, and in 1 all shareholders are directors. In all cases directors must be members. Associations require that directors hold one or more meetings annually, at which policies are determined.

No travel expense or other compensation is paid to directors. The directors elect officers annually in 4 associations; in 2, officers are elected by members. Only 1 association reports election of an executive committee by the board of directors.

Tenure of managers is long, 4 having served more than 5 years. Because associations usually do not operate the entire year, managers are employed on a part-time basis. Two managers are hired by the day, 1 by the month, 2 by the year, and 1 for a set commission. As a rule the rate of compensation of managers is below the average paid by other Tennessee cooperatives.

Table 14—*Membership relations and management control of six local sweet-potato marketing cooperatives in Tennessee, 1938.*

Pertaining to members	Associa- tions having—	Pertaining to directors	Associa- tions having—
Membership requirements:		Number on board: 5.....	1
\$12.50 or ¼ share of stock.....	1	7.....	2
\$25.00 one share of stock.....	1	9.....	2
\$50.00 one share of stock.....	1	11.....	1
\$80.00 one share of stock.....	1	Elected annually.....	4
\$100.00 one share of stock.....	2	Serve indefinitely.....	1
Members must be producers.....	1	All stockholders are directors.....	1
Membership control:		Must be members.....	6
Shares that may be held:		Meet: annually.....	3
No limit.....	3	semi-annually.....	2
2.....	1	on call of president.....	1
3.....	1	Determine policy.....	6
5 percent of stock.....	1	Receive no compensation.....	6
Shares: transferable.....	5	Elect officers annually.....	4
nontransferable.....	1	Elect executive committee.....	
One member-one vote.....	4	annually.....	1
One share-one vote.....	2	No executive committee.....	5
Proxy voting: prohibited.....	4		
permitted.....	2		
Membership interest:			
Meetings required annually: 1.....	5		
2.....	1		
Quorum: 10 percent of members.....	1		
7 members.....	1		
Majority shares.....	1		
Not specified.....	1		
Attendance last meeting:			
20 percent.....	1		
25 percent.....	3		
60 percent.....	1		
90 percent.....	1		
Members active patrons:			
50 percent.....	1		
60 percent.....	1		
80 percent.....	2		
90 percent.....	1		
100 percent.....	1		
Elect officers annually.....	2		

FINANCIAL ANALYSIS

Total storage income of the 6 associations is \$4,993. Three of them also carry on marketing and purchasing activities of approximately \$3,400 volume. Income from seed-cleaning and grading is less than \$100. After all deductions, net income of the group amounts to \$1,040, or less than \$175 per association. Five associations had a small net income, and 1 operated at a loss.

The group as a whole shows less than a 4-percent return on investment in warehouse facilities. Only 1 association makes an allowance for depreciation. The associations have a combined total of \$31,000 in current and fixed assets (table 15).

If 1938 is an average year, the associations should endeavor to increase their volume of business in order to remain effective organizations.

Table 15—*Consolidated assets, liabilities, and net worth of six sweetpotato cooperatives, Tennessee, 1938.*

Assets		Liabilities	
Cash and receivables	\$ 3,500	Mortgage payable	\$ 1,200
Fixed assets	27,500	Common stock	24,800
		Surplus unallocated	5,000
Total assets	<u>\$31,000</u>	Total liabilities and net worth	<u>\$31,000</u>

PROBLEMS AND PROGRAMS

Utilization of Surplus Warehouse Space.—In recent years the acreage of sweetpotatoes has decreased in the area where cooperative associations have been operating. Since the warehouses were designed to handle a certain volume of business, decreased production in some cases has resulted in high operating costs. Also, in some years a large proportion of the crop is trucked direct to market or disposed of immediately, and the warehouse is idle most of the year.

Many of the associations have found it desirable to undertake additional activities, along with potato warehousing. Three associations handle hampers for packing, and one stores fertilizer for farmers. Two associations have undertaken the selling of potatoes for patrons.

One association, in addition to handling and storing sweetpotatoes, recleans and stores field seeds (figure 8).



Fig. 8.—McEwen Fruit and Truck Association, operating since 1921, has found it profitable to add to sweetpotato warehousing such activities as the storage and handling of other commodities and the recleaning of field seeds.

Two management problems reported were large credit losses and irresponsibility of directors. In one case directors voted to establish certain policies and then violated the regulations themselves.

One association holds the manager responsible for credit losses. In cases where credit losses are serious it may be necessary for associations to collect storage charges before a product is released.

SHELBY COUNTY GROWERS' ASSOCIATION

HISTORY

Not including strawberry and sweetpotato cooperatives, 120 fruit and vegetable marketing associations were formed in Tennessee from 1905 to 1935. Of these, the Shelby County Growers' Association, organized in 1935, remains active. This association, with headquarters at Memphis, was organized to market vegetables in wholesale quantities.

AREA SERVED

The organization serves Shelby County and adjacent territory. Its surplus is disposed of by association trucks going to other cities.

ORGANIZATIONAL STRUCTURE

This association is unique in that almost its entire membership is composed of truck farmers of Italian ancestry, and its facilities are owned by the membership group without stock or other evidences of individual interest. Its membership is reported as 135, with many nonmember patrons. It is organized under the Tennessee Cooperative Law.

Membership Relations.—Financial contribution of each member is \$60 per year, which includes all services except for the usual expenses in connection with the sale of vegetables and buying of supplies. Supplies are sold to the members at cost plus handling expenses. Other requirements are that members sign an agreement, and that they be producers of fruits and vegetables.

Voting is on the basis of one-member-one-vote, and proxy voting is prohibited. One membership meeting is required annually, and 75 percent of the members is necessary for a quorum. Less than 70 percent attendance at the last membership meeting is reported. All members are active patrons.

Management.—The association is controlled by a board of 5 directors, who are elected annually and serve for one year. Directors must be patronizing members; they meet monthly, and determine the policies of the association. Officers are elected by the board of directors and receive small salaries.

Considerable stress is laid by the management on the importance of quality improvement, standardization of pack, and uniform grading.

The present accounting system was installed by a certified public accountant, and operating statements of the association are made quarterly to the directors.

The management is charged with renting sales stalls for fixed rentals. Each member sells his own produce during open hours of the market, 3 to 10 a. m. After the market is closed, unsold commodities are pooled and sold at the best local price obtainable, or trucked to other cities where favorable markets exist.

FINANCIAL ANALYSIS

This cooperative owns its facilities, and its earnings during 1938 were sufficient to retire the balance of its indebtedness.

Total volume of commodities handled, either on a tonnage or dollar basis, is not available, but income from stall rentals is in excess of \$21,000, and the volume of surplus commodities sold through the pool in 1938 was approximately \$25,000. Supplies purchased for growers amounted to about \$9,800.

Total value of buildings and equipment owned by the association is about \$90,000; total assets, \$95,766. Current and fixed liabilities are less than \$18,000. This gives the organization a net worth of about \$77,000, which is held as a reserve. Present net worth per member is \$578, which is the highest equity per member of all cooperatives studied.

PROBLEMS AND PROGRAMS

This association reports no serious membership or management problems. A minor difficulty has been that a few members violated some of the regulations. The management has recognized the association's need for well-regulated marketing activities, and to accomplish this has employed attorneys as arbitrators, who have compromised membership problems.

LIVESTOCK, WOOL, AND POULTRY COOPERATIVES

HISTORY

From 1877 to 1938, 314 local associations were formed to market livestock, wool, or poultry cooperatively. Of 104 livestock breeders' associations, 4 remain active; of 107 poultry associations, 2 are active; and of 67 livestock shipping and wool associations, 25 are active (table 16).

The oldest active livestock cooperative in Tennessee, and the oldest in the United States, is the Goodlettsville Lamb and Wool Club, organized in Davidson County in 1877 (5). Livestock cooperatives were formed mainly for the following purposes: pool shipments to provide full cars of livestock; reduce the spread between price received by farmers and price at terminal markets; secure a large volume of livestock of uniform quality; improve the quality of livestock;

promote the interests of purebred breeders by securing high-quality foundation stock and providing market outlets for purebred animals; purchase equipment and supplies at a saving; reduce marketing costs through standardized marketing practices; correct abuses in terminal markets.

AREA SERVED

Three associations serve local communities, 22 are countywide, and 3 serve their respective counties and portions of adjoining counties. Three of the livestock breeders' associations cover a large number of counties, but because they are similar in organizational structure and function to local livestock cooperatives, they are included in this group.

Of the 31 associations, 17 are located in Middle Tennessee, 9 in East Tennessee, and 5 in West Tennessee.

Table 16—Names, locations, areas served, and years organized, thirty-one livestock, wool, and poultry marketing cooperatives, Tennessee, 1938.

Name	Location	Area served	Year organized
Goodlettsville Lamb and Wool Club	Goodlettsville	Goodlettsville community	1877
Mt. Juliet Wool and Lamb Club	Mt. Juliet	Mt. Juliet community	1894
Giles County Farm Bureau ¹	Pulaski	Giles County	1910
McMinn County Livestock Association	Athens	McMinn and adjoining counties	1919
West Tennessee Sheep Breeders' Association ²	Union City	West Tennessee	1920
Maury County Wool Pool	Columbia	Columbia community	1924
Dickson County Wool Pool	Dickson	Dickson County	1924
Henry County Farm Bureau ¹	Paris	Henry County	1924
Lincoln County Farm Bureau ¹	Fayetteville	Lincoln County	1924
Sumner County Farm Bureau ¹	Gallatin	Sumner County	1924
Loudon County Lamb and Wool Club	Loudon	Loudon County	1925
Monroe County Lamb and Wool Club	Sweetwater	Monroe County	1925
Humphreys County Wool Growers' Association	Waverly	Humphreys County	1926
Obion County Farm Bureau	Union City	Obion County	1927
Hickman County Farm Bureau	Centerville	Hickman County	1929
Hamblen County Sheep Growers' Association	Morristown	Hamblen and adjoining counties	1929
Sullivan County Lamb and Wool Club	Bristol	Sullivan County	1930
Hawkins County Livestock Shipping Association	Rogersville	Hawkins County	1930
Washington County Livestock Association	Jonesboro	Washington County	1931
Houston County Poultry Association	Erin	Houston County	1932
Cocke County Lamb Club	Newport	Cocke and adjoining counties	1932
Trousdale County Farm Bureau	Hartsville	Trousdale County	1932
Greene County Livestock Shipping Association	Greeneville	Greene County	1933
Smith County Farm Bureau	Carthage	Smith County	1933
Obion County Poultry Producers' Association ²	Union City	Obion County	1935
Marshall County Jack and Jennet Breeders' Association ²	Lewisburg	Middle Tennessee	1935
Cumberland County Wool Pool	Crossville	Cumberland County	1935
West Tennessee Purebred Swine Breeders' Association ²	Union City	West Tennessee	1936
Putnam County Farm Bureau	Cookeville	Putnam County	1936
Jackson County Sheep Growers' Association	Gainesboro	Jackson County	1937
Wilson County Hereford Breeders' Association	Lebanon	Wilson County	1938

¹First organized as County Council of Agriculture.

²This association serves several counties. It is included in this group of local associations because of its similar organization.

ORGANIZATIONAL STRUCTURE

Twenty-four of the organizations are affiliated with the Tennessee Wool Growers' Association, and market wool at cooperative wool pool sales. One is affiliated with the Tennessee Poultry Producers' Association. Nine are farm bureaus, members of the Tennessee Farm Bureau Federation.

Three of the 31 associations are incorporated under the Tennessee Cooperative Law. Total membership is 4,255. Ten associations report 479 nonmember patrons.

Membership Relations.—Twenty-two associations require no financial contribution. Membership fee in the others ranges from 25 cents to \$1 per member per year. In 9 organizations it is required that patrons be members of the Farm Bureau. In these cases Farm Bureau dues are \$10, payment of which entitles a member to the services and privileges of the Bureau. Membership requirements of the associations are shown in table 17.

Membership control in all associations is exercised by voting on a one-man-one-vote basis. Two-thirds of the organizations prohibit proxy voting; the others limit the number of proxies to one. Memberships are not transferable. In the farm bureaus, one membership includes the entire family.

In several of the organizations, it appears that membership interest is small. Eight associations require no annual membership meetings. Attendance at the last meetings is reported as under 30 percent in 9 organizations. In 2, only 20 percent of members are active patrons (table 17).

Management.—Boards of directors exercise control in 21 organizations, executive committees in 7, and managers in 3. The number of directors in the Farm Bureau organizations varies from 11 to 35. In these associations livestock marketing is handled through committees appointed by the directors.

In 21 associations directors are elected annually; in 16 they must be members; and in 5 they must be patronizing members. Directors receive no salary, but in 11 cases they are compensated for certain expenses.

In 13 associations the directors elect officers annually. In the others officers are chosen by members or by the executive committee. In 3, no officers are elected, except the manager, who handles all activities.

Eight of the managers have served their associations from 7 to 20 years, and 18 have served over 1 year. Two are employed on the basis of sales commission, 7 receive small monthly or annual salaries, and 10 are paid by the day during the period of marketing. In 12 associations managers serve without pay, such persons usually having other employment.

FINANCIAL ANALYSIS

The wool associations operate through annual or seasonal pools, function on a cost or near-cost basis, and have made little or no effort to build up operating capital. Expenses are prorated on the basis of number of pounds sold. Livestock associations deduct expenses and settle with the farmers on the basis of cash received, less deductions, for each shipment or sale.

Table 17—*Membership relations and management control of thirty-one livestock, wool, and poultry cooperative marketing organizations in Tennessee, 1938.*

Pertaining to members	Associa- tions having—	Pertaining to directors	Associa- tions having—
Membership requirements:		Number on board: 0	10
No financial contribution	22	3	4
25c life membership	2	4	1
25c annually	1	5	5
50c annually	1	7	2
\$1 life membership	2	11	2
\$1 annually	2	13	1
Fee decided at annual meeting	1	17	2
Sign marketing agreement	11	22	1
Must be farmers	14	23	1
Must be farm bureau members	9	25	1
Must patronize association	6	35	1
Must dock and castrate and produce purebred lambs	1	Elected annually	21
Must be producers	1	Serve: one year	20
Membership control:		indefinite period	1
One member-one vote	31	Must be members	16
Proxy voting: prohibited	20	Must be patronizing members	5
permitted	11	Meet: annually	3
Membership not transferable	31	quarterly	2
Membership interest:		monthly	10
Meetings required annually: 0	8	on call of president	6
1	21	Determine policy	21
2	1	Determine policy with manager	3
4	1	Executive committee de- termines policy	7
Quorum: 5 or more	1	Receive no compensation	20
15 or more	1	Receive compensation for travel	11
5 percent	1	Elect executive committee	4
Majority	5	Executive committee meets:	
Not specified	23	annually	6
Attendance last meeting:		semi-annually	1
100 percent	3	monthly	1
90 percent	2	on call of president	3
80 percent	3	Elect officers annually	13
70 percent	3	Executive committee elects officers	2
60 percent	3	No officers elected	3
50 percent	4		
40 percent	1		
30 percent	3		
under 30 percent	9		
Members active patrons:			
100 percent	22		
90 percent	2		
80 percent	1		
60 percent	2		
50 percent	1		
30 percent	1		
20 percent	2		
Elect executive committee	6		
Elect officers	13		

Twenty-five organizations handled 314,709 pounds of wool; 14 pooled 14,170 lambs and a few calves; and 2 shipped 62,948 chickens.

The breeders' associations sold 29 purebred rams, 58 jacks and jennets, 54 purebred swine, and 128 purebred cattle. Seventeen of the organizations handle supplies, such as sprays, dips, salt, lime and fertilizer, twine, coal, wool bags, seed-potato bags, cottonseed, and various kinds of feed.

Total sales of these 31 local associations are \$225,000, of which over \$220,000 has been returned to farmers. The \$5,000 deduction represents approximately 2¼ percent of sales for all local expenses. This low ratio is explained by the fact that only local handling charges are included, actual selling commissions and other terminal charges having been deducted. In many instances these associations have little equipment except scales, and no full-time employees. Often much of the work is done by local agricultural workers. Only 8 of the organizations had sales in excess of \$10,000, and 9 had sales less than \$3,000 (figure 9). Average sales per patron are over \$100 in 8 associations, \$50 to \$100 in 7, and under \$50 in 15.²

²Information unavailable for one association.

DOLLARS

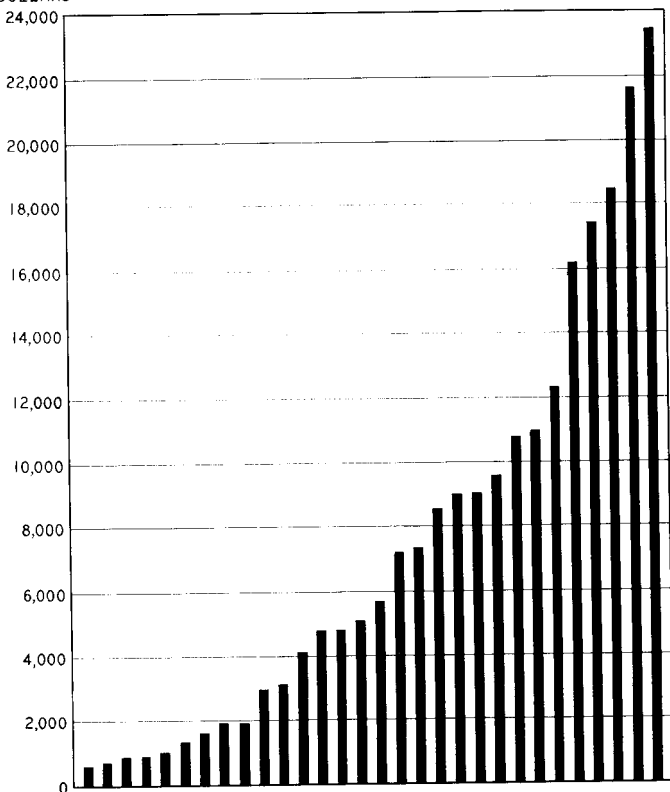


Fig. 9—Dollar sales, 30 local livestock marketing cooperatives, Tennessee, 1938.

These associations, despite the small volume of business, are in a satisfactory financial position. About 70 percent of their assets are in cash and less than 22 percent in fixed assets. There is no indebtedness outstanding against any of them, and as all are nonstock there are no holders of claims for interest or dividends on invested capital. Free surplus accounts constitute net-worth items (table 18).

Table 18—*Consolidated assets, liabilities, and net worth of thirty-one livestock, wool, and poultry marketing cooperatives, Tennessee, 1938.*

Assets		Liabilities	
Current assets:		(No current or fixed liabilities)	
Cash	\$5,500		
Receivables	200		
Inventories	300		
	\$6,000		
Fixed assets	\$1,700	Net worth:	
Other assets:			
Prepaid expenses	\$ 100	Surplus	\$7,900
Other	100		
	\$ 200		
Total assets	\$7,900	Total liabilities and net worth	\$7,900

PROBLEMS AND PROGRAMS

Private Sales to Truckers and Auctions.—Several associations have found it difficult to prevent members from selling livestock and wool prior to pooling or sale. To meet this situation, many associations hold public auctions and seasonal pools, and ship to a considerable extent by truck. In 23 associations, livestock is marketed wholly or partially by truck.

Inferior Livestock.—Difficulty in preventing members and non-members from marketing livestock and wool of poor quality is reported by 12 associations.

The Agricultural Extension Service assists associations in grading wool and lambs prior to sale. Farm bureaus and county agents aid cooperatives through better-sire campaigns, educational meetings, and circular letters.

Considerable livestock-improvement work has been done by vocational agricultural teachers and 4-H Club leaders.

Examples of work being done by associations to promote livestock improvement are: the better-livestock programs conducted by the Sullivan County Lamb and Wool Club; the breeding program and colt show of the Marshall County Jack and Jennet Breeders' Association; annual sale of purebred Herefords by the Wilson County Hereford Breeders' Association; and the annual sale of the West Tennessee Sheep and Swine Breeders' Association.

Insufficient Volume for Sales.—When there has been insufficient volume to attract buyers to association sales, it has been necessary

for organizations to combine their selling. In some cases the situation has been improved through increased production.

Need for Coordination.—At present there is no coordination between the locals and the terminal market. Many associations consign rail shipments to distant markets, and withhold final settlements to farmers for several days after payments are received.

Several of the managers stated that if their cooperatives are to survive they must form trucking associations for the purpose of assembling and transporting members' livestock to terminal markets. The trucks might reduce transportation costs by hauling, on their return trip, supplies for the cooperatives or for individual farmers.

GRAIN COOPERATIVES

HISTORY

Of the 27 grain-marketing cooperatives organized in Tennessee, one remained active at the time of this survey. This association buys outright, processes, and resells grain and feeds. It also does some feed and flour milling for farmers.

AREA SERVED

The mill serves a town of 600 population and the surrounding territory. About 95 percent of its products are sold locally.

ORGANIZATIONAL STRUCTURE

The association is organized under the Tennessee Cooperative Law. It has a membership of 55 and nonmember patronage of about 100. The financial contribution of members is \$12 per share of common stock, with no limit on the number of shares which may be held by one member. The by-laws call for voting according to number of shares owned, and voting by proxy is permitted. The president's signature is required to transfer shares.

There appears to be considerable membership interest in the association. No annual meeting is required, but attendance at the last meeting is reported as 40 percent. About 80 percent of the members are active patrons and 90 percent are producers. Quorum requirement is a majority of members.

The association is controlled by a board of 6 directors, who serve indefinitely, and usually meet monthly. Directors must be members. They are compensated for expenses incurred in travel. Officers are chosen by the shareholders and must be directors. The manager is hired by the directors. The present manager has served for many years.

FINANCIAL ANALYSIS

This association did a business of slightly less than \$8,000 during the year of study. Its sales per patron average about \$55.

The organization appears to be in sound financial condition. Its net worth per member is about \$105, and its ratio of net worth to fixed assets is almost 1½ to 1. At the time of study, the association reported no fixed liabilities, and for the year paid some return on the stock.

The cooperative has made no special effort to expand, partly because the mill is small and was designed to handle only the business of the local community.

PROBLEMS AND PROGRAMS

This association has experienced some management difficulties, but these have been overcome, and at the time of the survey it reported no particular problems.

PART 2—PURCHASING COOPERATIVES

The State has 1 regional and 38 local purchasing cooperatives. The locals may be divided into 2 groups: 3 independent units, and 35 county farm bureaus and affiliates. Membership of the 39 purchasing cooperatives is estimated at 5,972, and nonmember patrons at 5,402.

REGIONAL PURCHASING COOPERATIVES

HISTORY

The Tennessee Cooperative Supply Association was organized in 1923. It is in reality a subsidiary of the Tennessee Farm Bureau Federation. It first functioned as a fertilizer-purchasing pool, but in recent years has served as a brokerage and service organization for the Farm Bureau membership, handling several farm supply items.

AREA SERVED

All county units of the Tennessee Farm Bureau are eligible to membership. Its total member and nonmember patrons are included in the discussion of local units.

ORGANIZATIONAL STRUCTURE

This organization is a non-capital stock association and is incorporated under the 1923 Tennessee Cooperative Law.

Any member of the Tennessee Farm Bureau is eligible to membership, and payment of annual dues to the local farm bureau entitles a member to the privileges offered by the association. Membership requirements, therefore, are the same as those of the county locals.

Control of the organization is vested in a board of directors, composed of the president, vice-president, and directors of the Tennessee Farm Bureau and 4 other members selected from each of the 4 Agricultural Extension divisions of the State. The 4 members are selected by the voting delegates at the annual convention of the Tennessee Farm Bureau Federation. Directors meet at least once a year and are reimbursed for travel expense. Directors serve until their suc-

cessors are elected and qualified. The board of directors of the Tennessee Farm Bureau Federation serves as the executive committee of the association.

Officers of the association consist of the president and a secretary-treasurer, who is also general manager. Under the by-laws the general manager is authorized to make contracts for supplies, and to conduct the business of the association under the powers granted by the charter and subject to the approval of the board of directors or the executive committee.

FINANCIAL ANALYSIS

About 94 percent of this association's volume of sales in 1938 is reported as fertilizer; 3 percent, spray materials; 2 percent, seeds; and 1 percent, miscellaneous items. Its policy is to handle these goods on a brokerage basis and to carry little or no inventory. In 1938 this association handled approximately 2 percent of all fertilizer sold in the State. It is the only cooperative wholesale organization in Tennessee, and through its brokerage accounts handles about 8 percent of the total cooperative purchasing done by all Tennessee associations, including 3 independents. Farm bureau units operate in 73 counties of the State, and this organization performs some purchasing for most of them. However, about 35 of the farm bureau units do considerable purchasing through this organization, and it handles about 16 percent of their purchases.³ The association's business in 1938 was \$71,600.

The policy of the organization is to accumulate only a nominal surplus from its annual operations. Most years it works on practically a cost-of-service basis and refunds part of its brokerage allowances to local associations by reducing the charges made. With an allowance of 6 percent for operation, it often divides the allowance equally with local associations. In 1938 it operated on approximately 3 percent of gross sales.

Over 86 percent of its total assets are in cash, 8 percent in accounts receivable, and 6 percent in inventory and miscellaneous items. Apparently its entire capital is accumulated out of earnings, as its annual statement shows no paid-in stock or individual membership credits. Ninety-seven percent of its net worth is carried as undivided surplus. Three percent of its current liabilities are accounts payable.

Volume of purchases of fertilizer, feeds, seeds, and equipment by Tennessee farmers has been increasing since 1932 (2, 8). This association, however, has not increased its sales materially; and to date, although it is performing a satisfactory service to farm bureau units, its growth has been slow as a regional purchasing association.

³The association also serves 9 of the livestock marketing associations discussed in this bulletin.

PROBLEMS AND PROGRAMS

Lack of Capital.—This cooperative has made an effort to build its capital from earnings rather than from investments by the local organizations. Although some reserves have been accumulated, its capital may be inadequate to serve all cooperatives of the State efficiently. Successful organizations in other areas have recognized the principle that members should invest in their cooperative an amount sufficient to make them realize that they have a financial stake which it is to their interest to protect (6).

Lack of Support from Locals.—Since expansion of the regional agency is dependent upon business from local cooperatives, it is important to consider why the locals are not giving greater support. Views expressed by the managers of local units include the following reasons: (a) The regional organization does not handle all commodi-

Table 19—Names, locations, areas served, and years organized, thirty-five local farm bureau purchasing organizations, Tennessee, 1938.

Name	Location	County served	Year organized
Chester County Supply Association	Henderson	Chester	1922
Humphreys County Farm Bureau	Waverly	Humphreys	1924
Jefferson County Farm Bureau	Dandridge	Jefferson	1924
Hamilton County Farm Bureau ¹	Chattanooga	Hamilton	1924
Shelby County Farm Bureau	Millington	Shelby	1924
Marshall County Farm Bureau ¹	Lewisburg	Marshall	1924
Montgomery County Farm Bureau ¹	Clarksville	Montgomery	1924
Marion County Farm Bureau	Jasper	Marion	1924
Crockett County Farm Bureau	Alamo	Crockett	1924
Weakley County Farm Bureau	Dresden	Weakley	1925
Fayette County Farm Bureau ¹	Somerville	Fayette	1925
Bledsoe County Farm Bureau			
Supply Association	Pikeville	Bledsoe	1926
Gibson County Farm Bureau ¹	Trenton	Gibson	1926
Rhea County Farm Bureau	Dayton	Rhea	1927
Hardeman County Farm Bureau ¹	Bolivar	Hardeman	1927
Roane County Farm Bureau	Kingston	Roane	1927
Farm Bureau Supplies Association	Bristol	Sullivan	1928
Lauderdale County Farm Bureau ¹	Ripley	Lauderdale	1929
Williamson Supply and Shipping Association	Franklin	Williamson	1929
Hamblen County Farm Bureau Supply Association			
Decatur County Farm Bureau	Morristown	Hamblen	1929
Robertson County Supply Association	Decaturville	Decatur	1929
Farm Bureau Store, Incorporated	Springfield	Robertson	1931
Sequatchie Farm Bureau Supply Association	Shelbyville	Bedford	1932
Madison County Bureau Marketing Association	Dunlap	Sequatchie	1932
Cocke County Farmers' Supplies Association	Jackson	Madison	1932
McNairy County Farm Bureau Supplies Association ¹	Newport	Cocke	1933
Dyer County Farmers' Cooperative Association	Selmer	McNairy	1934
Henderson County Supply Association	Dyersburg	Dyer	1935
Tipton County Supply Association	Lexington	Henderson	1935
Cumberland County Farm Bureau	Covington	Tipton	1935
Morgan County Supply Association	Crossville	Cumberland	1936
Haywood Bureau Supplies Association	Wartburg	Morgan	1936
Obion Bureau Supply Association	Brownsville	Haywood	1936
Wayne County Supply Association	Union City	Obion	1937
	Waynesboro	Wayne	1937

¹First organized as County Council of Agriculture.

ties sold by the locals. Fertilizer comprises about 50 percent of the locals' sales, the other half consisting of a wide range of items, such as feeds, seeds, potatoes, serum, tile, insecticides, nursery items, twine, equipment, fencing, and household supplies. Twenty-three of the 35 locals handle these general supplies. (b) Equivalent prices can be secured by ordering direct from distributors. About half of the managers of the local associations expressed this view. It was also stated that when ordering direct faster service is secured.

LOCAL PURCHASING COOPERATIVES COUNTY FARM BUREAUS AND AFFILIATES

HISTORY

County councils of agriculture, organized as early as 1919, were the forerunners of the Tennessee Farm Bureau. In 1921 a temporary State organization of the Farm Bureau was started, composed of 16 county councils of agriculture. The permanent organization was set in 40 counties in 1924, and by 1941 had spread to 73 counties. Of all the county farm bureaus, 44 report cooperative buying and selling in 1938 of volume over \$400 each.⁴ The chief function of 35 of these units is cooperative purchasing. Names, locations, and organization dates of these cooperatives are shown in table 19.

AREA SERVED

Each local serves one county. Farm bureau, or affiliate purchasing cooperative activity, is reported in all but 5 counties of West Tennessee, in 8 counties of Middle Tennessee, and 11 counties of East Tennessee. Middle Tennessee has one of the largest supply units in the State (figure 10).

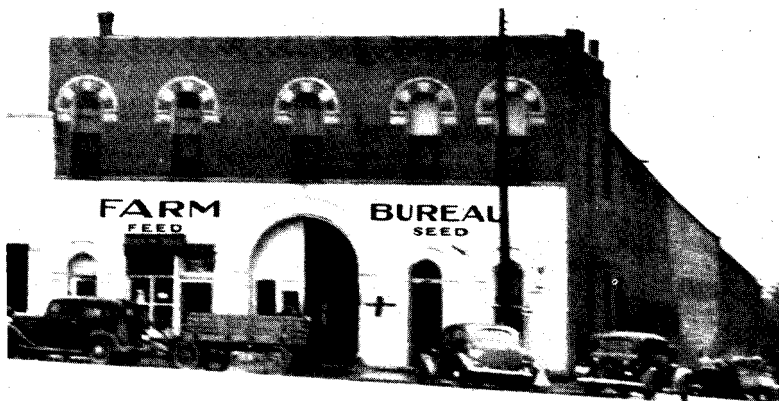


Fig. 10—This farm bureau store began operations in 1932.

Of 35 farm bureau purchasing organizations it is among the largest in volume of business. Since 1938 it has erected another building.

⁴Nine bureaus perform marketing activities, as discussed in the livestock section of this bulletin.

ORGANIZATIONAL STRUCTURE

The 35 farm bureau purchasing organizations have a total membership of 5,562, and a nonmember patronage of 4,552. Sixteen of the farm bureaus have affiliates which are incorporated under the Tennessee Cooperative Law. The other 19 function through the farm bureau organizations, and are not incorporated.

Generally, purchasing activity begins informally on a limited scale as a service activity to its members. Usually no separate organization is recognized at first, the directors taking the necessary steps for incorporating when they believe volume of business justifies.

Membership Relations.—Membership requirements of the local organizations vary considerably. No financial contribution is required by 26 of the units, 8 require a \$1.00 share, and 1 requires a \$25 share per member. The 16 incorporated associations specify that each participant be a member of the farm bureau. In these cases the dues are \$10 annually, members being entitled to all services of the bureau. Two organizations require a membership agreement, and 3 require that all members be farmers (table 20).

Membership control is exercised through voting on the basis of one-member-one-vote. Among the 16 incorporated units, the number of shares which can be held by one member is limited in 15 cases and unlimited in 1. In 10 of the 16 organizations shares are transferable.

Members of the local purchasing organizations appear to take a fair degree of interest in association activities. All units have at least one annual membership meeting. In only 6 associations did the attendance at the last meeting fall below 40 percent. In all but 6 instances over 40 percent of the members are active patrons.

Quorum requirements, in a large number of the organizations, are not specified because voting for officers and directors is done by mail.

Management.—Control by farm bureau directors remains about the same whether the organization conducts purchasing activities through the bureau or an incorporated affiliate.

In many instances the county agent has worked closely with the organization, details of management being handled under the direction and with the assistance of the board of directors. Usually after incorporation the directors assume more responsibility than before. Of the 16 incorporated units, 5 are still handled in cooperation with the county agent, while 11 are operated much like independent business organizations. Requirements pertaining to directors are shown in table 20.

Salaries of managers, of associations which have full- or part-time management, range from \$600 to \$1,800 per year. In some cases managers serving on a part-time basis augment their income by other

employment. Two associations pay managers on a commission basis. In one instance, 10 percent of gross sales is the manager's compensation, but from this he is obligated to pay all expenses of the association. Two associations operating on a part-time basis pay their manager on a per-diem basis.

Table 20—Membership relations and management control of thirty-five local farm bureau purchasing organizations, Tennessee, 1938.

Pertaining to members	Associa- tions having—	Pertaining to directors	Associa- tions having—
Membership requirements:		Number on board: 3	1
No financial contribution	26	5	3
\$1 share common stock	8	6	1
\$25 share stock	1	7	7
Sign agreement	2	9	5
Must be farm bureau members		10	4
Must be farmers	17	11	3
Membership control:	3	over 11	11
One member-one vote	35	Elected annually	35
Shares that may be held:		Serve one year	35
No limit	1	Must be members	32
1	13	Must be patronizing members	3
2	1	Meet: monthly	26
5 percent	1	quarterly	2
Unincorporated	19	on call of president	7
Proxy voting: prohibited	7	Determine policy	33
permitted	28	Determine policy with	
Stock: transferable	10	managers	2
nontransferable	6	Receive no compensation	13
Membership interest:		Receive compensation for	
Meetings required annually: 1	22	travel	22
2	2	Elect executive committee	17
4	11	Executive committee	
Quorum:		appointed by president	1
75 percent	1	No executive committee	17
66 percent	1	Executive committee meets:	
Majority	1	monthly	3
10 percent	2	on call of president	15
5 percent	1	Elect officers annually	34
7 percent	1	Officers must be directors	31
4 percent	1		
Not specified	27		
Attendance last meeting:			
80 to 100 percent	14		
60 to 80 percent	9		
40 to 60 percent	6		
Below 40 percent	6		
Members active patrons:			
80 to 100 percent	18		
60 to 80 percent	6		
40 to 60 percent	5		
Below 40 percent	6		
Elect officers annually	1		

In many of the organizations a joint employee, with the county agent's office, acts as bookkeeper. These employees are paid from association funds, on an annual basis, from \$100 to \$275. In 9 associations no managerial compensation is paid from organization funds.

FINANCIAL ANALYSIS

Operating Statement.—About half of the 35 farm bureau purchasing associations do an annual volume of business under \$4,000 each (figure 11). Sales of 6 units are small, ranging from about \$450 to \$1,800, but sales of the 6 largest range from \$17,000 to \$124,000. The average for all 35 associations is \$12,737 (table 21).

DOLLARS

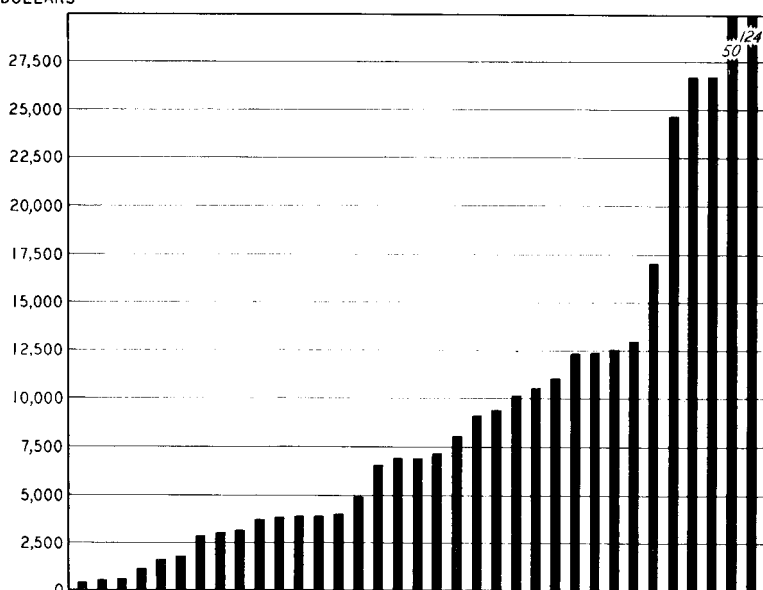


Fig. 11—Dollar volume of sales, 35 farm bureaus and affiliate purchasing cooperatives, Tennessee, 1938.

The cooperatives are operating on about an 8-percent gross margin, and show a total net gain of 2.4 percent—the percentage that total net gain is of net sales.

Incorporated purchasing associations, compared with unincorporated, usually do a considerably larger volume of business and operate on a larger gross margin (table 21).

Table 21—Consolidated operating statement of sixteen incorporated and nineteen unincorporated farm bureau purchasing organizations, actual and percentage of sales, Tennessee, 1938.

Item	16 Incorporated			19 Unincorporated		
	Actual	Average per association	In relation to sales	Actual	Average per association	In relation to sales
	Dollars	Dollars	Percent	Dollars	Dollars	Percent
Net sales	347,273	21,705	100.0	98,526	5,186	100.0
Less: Cost of goods sold	317,301	19,831	91.4	90,952	4,787	92.3
Gross income	29,972	1,874	8.6	7,574	399	7.7
Less: Operating expenses	23,401	1,462	6.7	3,867	204	3.9
Net operating income	6,571	412	1.9	3,707	195	3.8
Add: Other income	269	16	.1	64	3	.1
Net income	6,840	428	2.0	3,771	198	3.9
Patronage dividends paid	3,406	212	1.0	2,406	127	2.5

The smaller unincorporated units, however, report a lower ratio of expense. A likely explanation is that, by means of a cooperative

arrangement with the county agent's office, the general and labor expense is reduced. This same factor apparently is responsible for the smaller units' showing a larger percentage of net gain and paying a higher percentage of patronage dividends.

Comparisons of the farm bureau purchasing associations, by geographic areas, are shown in table 22.

West Tennessee has the largest number of associations and the largest volume of business. The units in this area, on the average, operate on the lowest expense ratio and show the highest net gain.

Associations in Middle Tennessee report the largest average volume of business. This is due mainly to one large organization in that area. The Middle Tennessee group, as a whole, operates on a wide margin and has higher operating expense than that in West or East Tennessee.

Table 22—Consolidated operating statement of thirty-five local farm bureau purchasing organizations, actual and percentage of sales, by geographic areas, Tennessee, 1938.

Item	East Tennessee (11 associations)			Middle Tennessee (8 associations)			West Tennessee (16 associations)		
	Actual	Average per association	In relation to sales	Actual	Average per association	In relation to sales	Actual	Average per association	In relation to sales
Net sales	Dollars 61,371	Dollars 5,579	Percent 100.0	Dollars 184,890	Dollars 23,111	Percent 100.0	Dollars 199,538	Dollars 12,471	Percent 100.0
Less: Cost	56,562	5,142	92.2	168,386	21,048	91.1	183,305	11,457	91.8
Gross income	4,809	437	7.8	16,504	2,063	8.9	16,233	1,014	8.2
Less: Op. exp.	3,353	305	5.4	14,645	1,831	7.9	9,270	580	4.7
Net Op. income	1,456	132	2.4	1,859	232	1.0	6,963	434	3.5
Add: Other inc.	102	9	.1	43	6	—	188	12	.1
Net income	1,558	141	2.5	1,902	238	1.0	7,151	446	3.6

Consolidated Assets, Liabilities, and Net Worth.—While total current assets of the 35 associations are over \$67,000, there are 5 with no assets, operating entirely on borrowed money (table 23). Fifteen have no buildings or equipment; the other 20 have fixed assets of \$9,500.

Table 23—Consolidated assets, liabilities, and net worth of thirty-five local farm bureau purchasing cooperatives, Tennessee, 1938.

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	\$21,900	Accounts payable	\$15,700
Receivables	19,500	Notes payable	8,000
Inventories	25,400	Other	200
Other	500		23,900
	67,300	Net worth:	
Fixed assets:		Common stock	5,000
Land, buildings, and equipment	9,500	Preferred stock	8,300
Other assets:		Reserve and surplus	39,700
Prepaid expenses	100		53,000
Total assets	\$76,900	Total liabilities and net worth	\$76,900

The 35 associations, as a whole, are in a good current financial position and have adequate net worth (capital and surplus) for the volume of business handled.

PROBLEMS AND PROGRAMS

Difficulty In Collecting Dues.—Seventeen of the associations require that members join the farm bureau. Eight of these report some difficulty in collecting annual dues. Nine report no difficulty. They are incorporated, and do a considerable volume of business. Some associations doing a small volume of purchasing per member have found it advisable to keep membership contributions at nominal amounts.

Inadequate Building Facilities.—Fifteen associations report the need for warehouses or additional buildings, for storing and handling supplies. Incorporated organizations doing considerable business usually have adequate buildings or are making plans to secure those needed.

Credit.—Only 4 associations report difficulties from extending too much credit. Where this problem has arisen it has generally been due to extension of long-time credit to persons other than farmers.

The following credit program has been found to be satisfactory: (a) Extending only a small amount of credit, with settlement each month; (b) furnishing credit on the basis of sound security; (c) supplying credit to an approved list of patrons only.

Need for An Expanded Wholesale Agency.—Some of the associations handle several kinds of supplies, indicating a need for the centralized agency to supply them. The wholesale subsidiary of the Tennessee Farm Bureau now handles largely fertilizer, insecticides, oils, and seeds, and managers of some of the locals feel that an expansion is desirable.

Lack of Operating Capital in Peak Season.—Failure to build up adequate reserves, or inability to borrow money during certain periods of the year, is a difficulty said to have been encountered by 5 associations. This is being overcome by accumulating more reserves.

Transportation.—Most of the associations are serving entire counties from one point, which makes it necessary for members to transport fertilizer, feed, and bulky supplies considerable distances. Three are operating in counties without railroads. Two have set up distributing agencies in different parts of the county to aid in delivery.

INDEPENDENT ASSOCIATIONS

HISTORY

At least 117 local purchasing cooperatives were organized in Tennessee between 1888 and 1937. Of those remaining active, 35 are

county farm bureaus or affiliates and 3 are independent associations (tables 19 and 24).

Table 24—Names, locations, areas served, and years organized, three independent local purchasing cooperatives, Tennessee, 1938.

Name	Location	Area served	Year organized
Union Mercantile Company Farmers' Gin Company, Incorporated	McEwen	McEwen and community	1908
Newport Cooperative Mills, Incorporated	Bells	Crockett County	1925
	Newport	Cooke and surrounding counties	1934

AREA SERVED

One association serves a small community, one a county, and one a county and portions of adjoining counties. An association is located in each of the major divisions of the State—West, Middle, and East. The association in West Tennessee operates a gin.

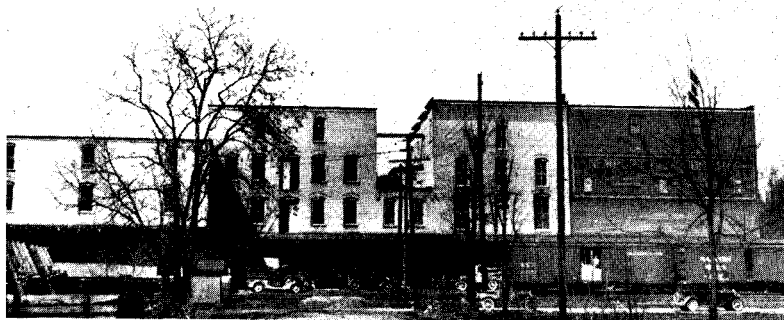


Fig. 12—Newport Cooperative Mills, Inc., formed in 1934, serves farmers by buying, processing, and selling their grain. Flour, feed, and meal are important commodities handled.

ORGANIZATIONAL STRUCTURE

Two associations are incorporated under the Tennessee Cooperative Law and 1 under the General Corporation Law. The 3 associations have 410 members and 850 nonmember patrons.

Membership Relations.—Financial contribution required of members consists of the purchase of common stock, ranging from a \$10 to a \$100 share. The only other membership requirement is that, in 1 association, members must be farmers. In 2 instances there is no limit to the number of shares which can be held by a member, but in 1 case the limit is 1 share.

Voting is on the basis of one-member-one-vote in 2 associations, while in 1 the by-laws provide for voting according to the number of shares held. In all cases voting by proxy and transfer of common stock are permitted.

Two associations require annual meetings; 1, semi-annual. Quorum requirements are 5 and 30 members, respectively, in 22 associations, while in the other, two-thirds of the common stock must be represented. Attendance at the last membership meetings ranged from 10 to 60 percent. The proportion of members who are active patrons is 70 percent in 2 associations and 20 percent in the other.

Management.—Control is maintained through boards of directors, numbering 5, 7, and 9, respectively. Directors in all cases are nominated and elected at annual meetings. They serve for 1 year in 2 associations and 3 years in the other. In all cases directors must be members of the association.

Directors meet semi-annually in 1 case, monthly in another, and upon call of the president in the third. Managers of 2 associations exert considerable influence in determining policies.

In 1 association directors are not compensated for travel; in 1 they are reimbursed; and in the other a bonus is allowed them in proportion to net income.

One association has an executive committee of 6, appointed by the president, which meets monthly.

In 2 cases officers are chosen annually by the board of directors; in 1 they are elected annually by the stockholders.

Managers of 2 associations have served since the organizations were formed. Managers are hired by the year, at salaries ranging from \$600 to \$2,400.

FINANCIAL ANALYSIS

Operating Statement.—All of the organizations have a considerable volume of business (figure 12). Total annual sales amount to \$461,000, or slightly more than 50 percent of the total cooperative purchasing in Tennessee. One association handles approximately 25 percent of the State's cooperative purchasing.

The associations operate on an average of 9.7 percent gross margin; operating expenses are about 9.4 percent of net sales, leaving about 0.3 of 1 percent of sales as net income for the group. Income from ginning, however, augments the income from purchasing, so that the total net income of the group is approximately 0.8 of 1 percent of sales (table 25).

Table 25—*Consolidated operating statement, three independent purchasing cooperatives, actual and percentage of sales, Tennessee, 1938.*

	Dollars	Percent
Net sales	461,000	100.0
Less: Cost of goods sold	416,300	90.3
Gross income	44,700	9.7
Less: Operating expenses	43,400	9.4
Net operating income	1,300	.3
Add: Other income	15,500	3.3
Less: Other expenses	16,800	3.6
Net income	12,900	2.8
	3,900	.8

This group operates on comparatively low margins, as do county farm bureaus, the result being that patronage dividends are paid only irregularly and in small amounts. The associations paid no patronage dividends in 1938.

Assets, Liabilities, and Net Worth.—These associations account for over 65 percent of the total assets of 39 Tennessee cooperative purchasing associations. They also have 50 percent of the cash, 59 percent of the inventories, and over 80 percent of the fixed assets of the entire purchasing group.

They have over 80 percent of current liabilities, 75 percent of the common and preferred stock outstanding, and 60 percent of surplus and reserves. As a group these organizations are older and transact a greater volume of business than the Farm Bureau associations. Two of the Farm Bureau organizations, however, are now approaching the position held by the larger independent organizations.

The current assets-liabilities ratio of the independents is 1.5 to 1; and although for farmer cooperatives this may be considered satisfactory, a standard of at least \$2.00 of current assets for \$1.00 of current liabilities is considered desirable for private corporations.

Membership equity (common stock and surplus) is \$94,300, and investment in fixed assets \$69,700 (table 26).

Table 26—Consolidated assets, liabilities, and net worth of three independent purchasing cooperatives, Tennessee, 1938.

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	\$ 24,600	Accounts and notes payable	\$ 32,400
Receivables	13,000	Accrued items	2,700
Inventories	34,000	Other	11,100
	<u>71,600</u>		<u>46,200</u>
Fixed assets:		Net worth:	
Land, buildings, and equipment	69,700	Common stock	34,600
Other assets:		Preferred stock	4,100
Investments	2,300	Surplus	59,700
Prepaid expenses	1,000		<u>98,400</u>
	<u>3,300</u>		
Total assets	<u>\$144,600</u>	Total liabilities and net worth	<u>\$144,600</u>

As a satisfactory ratio of capital and surplus to fixed assets is 1 to 1, it is apparent that these organizations are in a sound position in this regard. A composite balance sheet of the 3 associations is shown in table 26.

PROBLEMS AND PROGRAMS

Lack of Member Business.—Two membership problems are reported by 2 associations: (a) how to secure a greater percentage of members' business, and (b) how to interest nonmember patrons in becoming members. In the past, 2 of the associations have not been exempt from income tax under the Cooperative Law because of insufficient volume of business with members.

These problems have been overcome in some other Tennessee cooperatives by lowering financial contribution requirements for membership, conducting annual membership campaigns, and conducting educational programs.

A difficulty reported by 2 associations is that of keeping control out of the hands of a few members. This is being accomplished by the other cooperative by limiting the number of shares which can be held by one member and by making memberships available to all non-member patrons.

SUMMARY AND RECOMMENDATIONS

Generalizations relative to Tennessee cooperatives are discussed in the following order: (a) Desirability of incorporation, (b) necessity for sound financing, (c) adequate compensation of officers and employees, (d) improvement in membership relations, (e) need for satisfactory records, (f) possibilities of success, (g) weaknesses of inactive associations, and (h) opportunities for further development in Tennessee.

DESIRABILITY OF INCORPORATION

Cooperatives should be incorporated in order to limit the personal liability of members, and to be eligible to borrow money from the Louisville Bank for Cooperatives.

Of the 101 farmers' marketing and purchasing organizations in Tennessee, 49 are incorporated, of which 2 are organized under the General Corporation Law and 47 under the Tennessee Cooperative Law of 1923.

Managers of 40 of the 52 unincorporated associations indicated that their associations did not incorporate because of limited volume of business. Other reasons given are that their organizations are primarily educational. Sometimes the management is unfamiliar with the advantages of incorporation.

Twenty-one cooperatives, over half of which are incorporated, have more nonmember than member patrons, and do a greater volume of business with nonmembers than with members.

Tennessee cooperatives planning to incorporate should obtain copies of the State and Federal Cooperative Marketing Acts. By meeting the requirements of these laws, cooperatives become eligible for exemption from State franchise, license, corporation, or other taxes or charges upon reserve held by it for members.

Incorporated cooperatives, because of their more permanent and legal status, usually find it possible to borrow money at lower rates than do unincorporated associations. Twenty-three incorporated associations rely to a considerable extent upon borrowed money; sources of credit being commercial banks, Federal banks for cooperatives, individuals, and commercial firms dealing with the cooperatives. In May, 1939, the interest rate of the Bank for Cooperatives, for short-term operating capital, was 2½ percent and the rate on long-term facility loans, 4 percent (12).

NECESSITY FOR SOUND FINANCING

While many Tennessee cooperatives, mainly incorporated, borrow money to supplement their capital, their chance of success would increase if they could build additional capital through member investments, and depend less upon borrowings. This is indicated by the fact that 20 cooperatives became inactive, previous to this study, because of improper financing. Failure to finance these organizations soundly resulted in their operating without adequate facilities and with insufficient working capital.

No subscription to capital is required by 58 associations, and in only 3 is a capital retain deducted. Experience shows that substantial farmer participation should be in the form of financial support. While investment in 24 cooperatives probably is inadequate, being \$1.00 or less per member, in 7 cases financial contribution ranges from \$2.00 to \$10.00 per member, and in 13 the range is from \$11.00 to \$100.00.

Capital may be accumulated by either of two methods: (a) payment of a membership fee, annual dues, or purchase of stock; or (b) deductions or retains from the value of the commodity handled. In some cases a combination of the two methods is used.

ADEQUATE COMPENSATION OF OFFICERS AND EMPLOYEES

In general, the directors, officers, and other employees of cooperatives are not adequately compensated. Reimbursement for expenses incurred by officers and directors in attending meetings and for other official business generally is inadequate.

Directors.—In 44 associations, directors, who perform services involving considerable time and travel, receive no compensation. In others it has been found desirable to reimburse directors for actual travel expense, or allow them a per diem sufficient to cover expenses. In one case the directors receive a small bonus, proportionate to the net income of the association.

Officers.—About 20 of the purchasing associations are operated in cooperation with county agents' offices, the only salaries paid being to office employees, either on a monthly or per-diem basis. In some purchasing associations of the car-door type a few members contribute their services gratis.

All local wool pools, and many of the local livestock shipping associations, are operated in cooperation with the county agents' offices, and have no full-time paid employees.

In 16 associations the secretary-treasurer receives compensation, but in three-fourths of the associations none of the officers are paid for services.

Managers.—Twenty-four of the 101 cooperatives have full-time managers. Of these, 12 are marketing and 12 purchasing organizations.

Compensation of full-time managers varies from \$40 per month upward, 2 associations paying more than \$300 per month. One pur-

chasing association pays its manager 10 percent of the volume handled, the manager paying all expenses.

Managers working part time are often paid on a per-diem basis, ranging from \$1.25 to \$5.00, but sometimes payment is based on either the dollar or the tonnage volume of business.

IMPROVEMENT IN MEMBERSHIP RELATIONS NEEDED

Membership problems are reported by 41 associations. The more important of these are lack of membership consciousness and loyalty, and the production and delivery of low-quality products. These problems appear to be due, in part, to a lack of membership participation in the affairs of the association, and to a lack of member knowledge as to the functions and services of the cooperative.

The need for a more aggressive educational program to improve membership interest, in at least half of the associations, is indicated by the following observations: Eleven associations require no annual membership meetings; attendance at the last membership meeting was below 40 percent for almost half the associations; the proportion of members who are active patrons is below 60 percent in 23 associations; control of some associations is gradually being assumed by a minority; in 10 of the 39 capital-stock associations no limit is placed on the number of shares that can be held by one member; 40 associations have no educational programs for members except reports at local and annual meetings.

Consideration of what is being done by other associations to improve membership relations should be helpful to those having problems of that kind. Sixty-one associations have educational programs at membership meetings, issue circular letters or printed material on the associations' activities, and participate in quality-improvement campaigns.

A large proportion of the patrons of all Tennessee cooperatives receive the Tennessee Farm Bureau publication. Many of the associations receive cooperative material, such as *News for Farmer Cooperatives*. Two of the regional cooperatives issue news publications for their members.

Nine cooperatives report holding district meetings for members, and in 2 instances field men are employed to work with members and potential members.

Sixty-one associations cooperate to a considerable extent with the Agricultural Extension Service in conducting some type of educational program for members. One of the best methods of disseminating educational material among association members, and of building up membership consciousness, is for some agency to work through managers, employees, and directors (14).

NEED FOR SATISFACTORY RECORDS

Successful cooperatives keep accurate records to show the financial condition of the business. These records also help reveal the causes of success or failure and indicate inefficiencies in methods.

Many weaknesses exist in the system of records kept by the 101 associations. Records vary from check-book entries of receipts and expenses, in the case of 48 associations, to records kept by major commodities and departments. In 10 instances the accounting systems were designed by certified public accountants, and show perpetual inventories.

Records of 63 associations do not show members' investments, and in 43 cases the members' patronage is not shown. For 86 co-operatives no cost records are used, and for 29, records are not kept by departments or commodities.

The books of 37 cooperatives are not audited regularly. Of the 64 whose books are audited, about one-fourth make no assets and liabilities statement to members.

In this connection, however, it should be borne in mind that many of these cooperatives are of the local one-commodity type, and are amply served by simpler records than are needed by large and complex regional organizations. The most desirable records are those designed to meet the peculiarities of the given business, are simple, uniform, and not excessive in cost.

It might be desirable for a central agency to devise adequate record systems which could be used by different types of cooperatives. The accounting systems employed by local farm bureaus and affiliates, for example, might be adapted to the needs of all local purchasing or marketing units.

POSSIBILITIES OF SUCCESS

For most types of marketing and purchasing cooperatives in Tennessee, prospects of success appear to be favorable. About 53 percent of the associations active in 1938 had operated 10 years or more, and 10 percent had operated 25 years or more. Average age of the 101 active cooperatives is 12 years.

On the other hand, over half of the 820 inactive cooperatives which were formed between 1874 and 1938 were out of business before 5 years of operation; less than one-fifth operated 10 or more years; and the average life was less than 7 years.

Analysis of inactive cooperatives indicates that mortality decreases gradually after 3 years of operation.

Mortality has been highest among fruit and vegetable associations (not including strawberry), livestock breeders and poultry co-operatives, and one-crop organizations. Of these types, 95 percent have gone out of business.

Life of other types of cooperatives has been much longer. Forty percent of the livestock-shipping associations and wool pools that have been organized are still operating, with an average age for active associations of almost 13 years. One-third of all purchasing associations formed are active, and have been operating an average of almost 10 years. Ratios of inactive to active are 2 to 1 for milk bar-

gaining, 6 to 1 for creameries, 8 to 1 for sweetpotato associations, and 10 to 1 for cooperative cheese factories and strawberry associations (table 27).

Table 27—Average number of years of operation of 101 active and 820 inactive marketing and purchasing cooperatives in Tennessee, 1938.

Kind of association	Active		Inactive	
	Average number years operation to 1938	Number associations	Average number years operation to 1938	Number associations
Grain.....	27.0	1	4.7	26
Strawberry.....	22.0	9	8.7	98
Creamery.....	22.0	5	7.6	30
Cheese factories.....	17.0	2	5.4	20
Livestock shipping and wool pools.....	12.7	27	5.7	40
Purchasing.....	9.8	39	6.1	78
Tobacco.....	8.0	1	8.0	22
Cotton.....	8.0	1	4.4	23
Sweetpotato.....	6.8	6	5.3	51
Livestock breeders.....	6.0	4	7.6	136
Milk bargaining.....	6.0	2	5.7	4
Poultry.....	4.8	3	5.8	104
Other fruits and vegetables.....	3.0	1	5.7	188
All associations.....	12.0	101	6.5	820

Associations of practically all types formed in recent years have lived longer than earlier ones, because of sounder organization, better management, and other favorable factors.

Some of the active fruit and dairy associations have operated successfully over a long period of time despite the fact that mortality among these types has been high in the past.

WEAKNESSES OF INACTIVE ASSOCIATIONS

A study of factors and conditions contributing to the failure of cooperatives is useful in strengthening existing organizations and insuring permanence of those formed in the future.

While many factors are responsible for failures, poor management probably has caused more than several other factors combined. One-fourth of the inactive associations report this as the main reason for failure (table 28).

The next most important reason given is lack of membership loyalty, which has led to insufficient business. Inadequacy of educational programs often has resulted in inability to stimulate membership interest and cooperation.

Decreased production of the crops and livestock handled, in areas served by the cooperatives, and development of truck transportation facilities have caused some associations to become inactive. They failed or were unable to make adjustments to the new conditions.

Many locals ceased to function when replaced by regional associations. Examples are the local cotton and tobacco associations absorbed by the Mid-South Cotton Growers' and Dark-Fired Tobacco Growers' Associations.

Table 28—Main reasons for going out of business, as reported by 820 inactive marketing and purchasing cooperatives in Tennessee, 1878-1938.

Reason	Associations reporting
	Percent
Inefficient management.....	25
Lack of membership consciousness.....	16
Failure to readjust with agricultural changes.....	13
Consolidation or reorganization.....	11
No need for cooperative.....	10
Lack of definite credit policy.....	9
Unsound financing.....	7
Inadequate accounting records.....	6
Over-investment in fixed assets.....	2
Miscellaneous—fire, disease, climate.....	1
Total.....	100

Source: Development of Farmers' Cooperatives in Tennessee, Monograph 99, Tennessee Agricultural Experiment Station, 1939.

Where there were already keen competition and efficient service by local marketing and purchasing agents, many cooperatives have been forced out of business because they were not needed. Lack of proper appraisal of economic conditions prior to organization has led to the formation of cooperatives in areas where the volume to be handled was not adequate for efficient operation.

Many cooperatives have failed because of lack of a sound credit policy, or because they started business with insufficient capital. These found it hazardous to finance their organization on capital borrowed from nonmembers or to finance later by deductions from returns to members.

It should be noted that mistakes made by inactive cooperatives are not necessarily inherent, but were business errors that may occur in any new enterprise. Since the errors may be corrected, it appears that there is a much better chance for success in the future.

OPPORTUNITIES FOR FURTHER DEVELOPMENT IN TENNESSEE

Farmers of Tennessee as a whole are not completely served by cooperative marketing and purchasing organizations at present. There are 35 counties which report no cooperative buying and selling organizations (see map on title page). Many of the cooperatives now in operation are specialized one-commodity marketing organizations or, among the purchasing associations, handle a restricted line of supplies.

Because of certain limitations, such as lack of capital, facilities, membership interest, or management, some cooperatives do not completely serve their respective territories. Fifty-six associations serve less than 200 patrons each (both members and nonmembers); 29 serve from 200 to 500; and 16 have a patronage of 500 or more per association (table 29).

Twenty-one associations do a business per organization of less than \$2,000 annually, and only 17 exceed \$50,000. Of the latter group, 4 are purchasing organizations.

The value of cooperatives to Tennessee farmers cannot be judged entirely in terms of net earnings or patronage dividends. In 1938, 18

cooperatives paid patronage dividends of \$13,500; but a large number of associations have operated on a cost-of-service basis, thus making savings for farmers but accumulating no reserve and paying no cash dividends.

Table 29—*Patronage and volume of business of 101 marketing and purchasing cooperatives in Tennessee, 1938.*

Number	Patrons			Volume of business			
	Number of marketing associations reporting	Number of purchasing associations reporting	Total	Dollars	Number of marketing associations reporting	Number of purchasing associations reporting	Total
Under 100	22	8	30	Under 1,000	8	3	11
100 to 199	15	11	26	1,000 to 1,999	7	3	10
200 to 299	7	6	13	2,000 to 3,999	3	7	10
300 to 399	3	5	8	4,000 to 9,999	14	9	23
400 to 499	6	2	8	10,000 to 49,999	17	13	30
500 to 999	3	5	8	50,000 or over	13	4	17
1,000, over	6	2	8				
Total	62	39	101		62	39	101

There appears to be need for development of cooperative purchasing and marketing activity through organization of new associations, extension of territory served by present agencies, and increase of number of members and volume per member within existing territories. In 1938, cooperative marketing by Tennessee farmers is

Table 30—*Estimated percentage of farm products marketed cooperatively and farm supplies purchased cooperatively in Tennessee, 1938.*

Total cash income from products marketed	Value	Marketed cooperatively
	Dollars	Percent
Crops: Cotton lint	24,853,000	7.6
Tobacco	19,064,000	7.1
Small grains and corn	12,000,000	.1
All vegetables, including sweetpotatoes	5,749,000	1.0
Strawberries	1,584,000	22.8
Other fruits, potatoes, and other crops	8,327,000	
All crops	71,577,000	5.1
Livestock and livestock products:		
Cattle, hogs, and sheep	27,453,000	4.4
Dairy and dairy products	15,864,000	16.2
Poultry, turkeys, chickens, eggs	11,587,000	.7
Wool	323,000	35.0
Other livestock	1,092,000	.2
All livestock	56,299,000	5.5
Total farm marketings	127,876,000	5.3
Farm marketing and government payments	140,196,000	
	Value	Purchased cooperatively
	Dollars	Percent
Supplies purchased		
Estimated purchases of selected farm supplies	30,000,000	3.0

Source: Tennessee Cash Farm Income, Mimeograph releases, Agricultural Marketing Service, July 8, 1940, and March 28, 1941; Agricultural Statistics, tables 688 and 689, USDA, 1940.

estimated at less than 6 percent of total farm marketings, and co-operative buying at 3 percent of the total supplies purchased by farmers (16) (table 30).

Cooperatives which appear to be most successful usually handle more than one commodity. Associations that are extending their activities, to provide maximum use of personnel and equipment, thus decreasing costs and adding to net returns, generally are those doing the most business, and having the soundest financial organization, most efficient management, and greatest membership loyalty. Many co-operatives are not inherently limited to the one activity, but have a wide field for development of side-line activities which would result in increased benefits to patrons.

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