

Dr. John Park

*Roy B. Davis Professor of
Agricultural Cooperation*

Tommy Engelke

*Executive Vice-president,
Texas Agricultural Cooperative
Council*

Why We Cooperate

Several reasons are typically cited why agricultural producers cooperate. When put into the simplest terms, its because of a special relationship between customer, cooperative, and community.

Roy Bennett Davis was a true Texas pioneer. With humble beginnings on the west Texas frontier, Mr. Davis lead a life devoted to the growth of his community. Consider just some of his accomplishments...

He was asked to serve as a regent of Texas A&M University because of his success as a cooperative manager during tough economic times.

He served for many years on the Texas Tech University Foundation Board, and later in life was an advisory director of the Textile Research Center at Texas Tech University.

He spent 28 years as the general manager of the Plains Cooperative Oil Mill (now PYCO) in Lubbock, TX.

During that time, Mr. Davis lead the technological changes that would make Plains Cooperative Oil Mill the largest in the world.

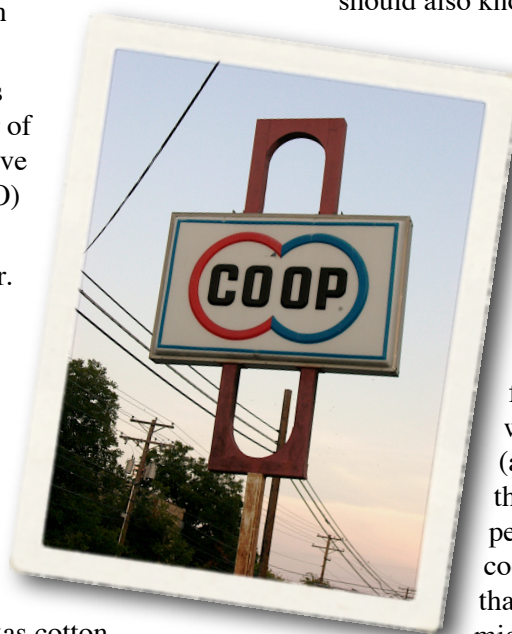
He continuously worked to develop new markets for Texas cotton

making Lubbock the cotton capital of the world.

Because of his efforts, he was asked to serve in various capacities, including director of the Texas Credit Administration, chairman of the Texas Rural Development Commission, a member of the Advisory Council for Technical Vocational Education in Texas, member of the Research Export Expansion Council (an appointment from the US Secretary of Commerce), and more (see the Handbook of Texas Online for a complete biography). You

should also know that Mr. Davis was a kind, generous, and religious man.

This quick recounting of the accomplishments of this remarkable individual is important if you are to understand the following...Mr. Davis was known to say (and we paraphrase) that if you want to help people, working for a cooperative is better than preaching. This might have been said



Cooperative Management Letter
is funded through the Roy B. Davis
Professorship in Agricultural
Cooperation at Texas A&M University.
© 2010

roy b. davis
COOPERATIVE MANAGEMENT PROGRAM

Department of Agricultural Economics
Texas A&M University
2124 TAMU
College Station, TX 77843-2124

Phone: (979) 845-1751
Email: jlpark@tamu.edu

<http://cooperatives.tamu.edu/>

somewhat tongue-in-cheek, but the point is valid. Cooperatives have the potential to affect a lot of people and improve their livelihood.

Why We Cooperate

We suggest that there are four basic reasons cited why agricultural producers form cooperatives in the first place:

1. To pool financial resources,
2. To have access to more business activities,
3. To provide certain goods and services that would otherwise be unavailable, and
4. To combat unfair market power.

Let's describe each in turn.

To pool financial resources

Starting a new business often starts with an idea or a need, but can stop with a lack of capital. Cooperation helps a good business plan get off the ground when it might otherwise be impossible by spreading the risk and investment among multiple stakeholders.

To have access to more business activities

Farming and ranching is serious business. Today more than ever it requires greater specialization and efficiency in production. However, the need remains for business services and marketing expertise. The cooperative can provide these allowing the farmer or rancher to focus on production.

To provide goods and services

Agricultural production would not be possible without the proper inputs or access to a market. Input suppliers, processors, and marketing firms play an important role in

the food and fiber system. Unfortunately, profit margins can be slim, asset turnover can be low, and there may be other challenges that make these businesses unattractive to investors. A cooperative effort incorporates investment from the users of the business, which then affects the decision to provide these necessary goods and services.

To combat unfair market power

Finally, with an inability to set price, agricultural producers may find themselves at the mercy of the sellers of their inputs and buyers of their output. Owned by the customer, the cooperative seeks to be profitable, but is very conscientious about price. This in turn places price pressure on competing firms that is more favorable for producers.

Why We Still Cooperate

As you can see, there are some very good reasons why a cooperative may be formed. However, what about once its already in operation? What is it about the cooperative that can sustain the needs of existing members and also attract new members?

Once the cooperative is in existence, it is easy for the members to lose the connection to the original need for cooperation. The cooperative is already providing needed goods and services. Through its very existence it is already providing a more favorable state of competition. The thinking of the individual is that one person's lack of participation in the cooperative will not change the status quo. Thus, the benefits of cooperation can get washed into the background of the current competitive environment.

The result is that competitors have an easier time of attracting the business of cooperative members. If in addition, a cooperative fails to provide adequate value to its members, you can see how that cooperative might struggle with member loyalty no matter how strong the need for the original formation of the business.

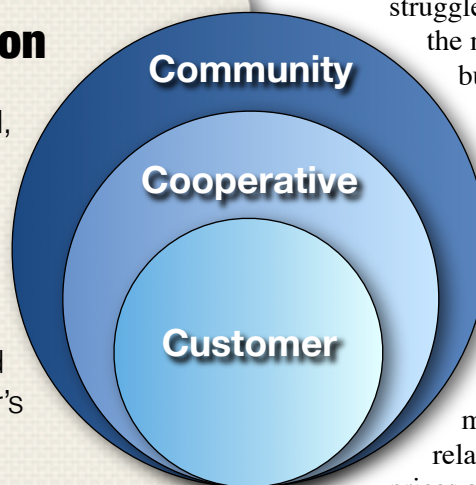
Therefore the reasons for continued cooperation are different from those stated for cooperative formation. We believe these reasons center on benefits to the customer, cooperative, and community.

Customer

The individual cooperative member participates in part out of selfish motivations defined by the customer relationship. Customers are looking for low prices and high returns. As a customer, you

Continued Cooperation

Once a cooperative is formed, continued participation may be explained by the value of service to the customer, the sense of belonging and security found through the cooperative, and sustained quality of life in the member's community.



Advantages of Doing Business with the Cooperative

We wanted to know what your cooperative means to *you*. So, we asked around. Listed here are some of the responses that we hear from cooperative members, directors, and managers.

“Co-ops generally offer greater expertise and service regarding products they sell and market, versus the large box and chain stores that literally sell products only and thus no sense of allegiance to the customer.”

“Whether it is perception or reality, many people associate quality, durability, and honesty when they trade through a co-op.”

“There is a sense of ‘unity’ and ‘community’ in a cooperative due to the nature of joint ownership among the patrons.”

“The structure has become so popular during recent turbulent decades, that although some new businesses are not chartered as a cooperative, they have copied, act like, and operate like a cooperative (i.e. independent cotton marketing pools, etc.).”

“Dollars spent at the co-op generally stay in the community and are not shipped off to another state or country.”

“Being a member of a co-op allows you annually to attend the business meeting of the firm to explore how it is operating financially and administratively. In an independent business you are not allowed to do so.”

“For many who trade in the co-op, there is a feeling that ‘by doing business in the co-op, I am helping the survivability of the backbone of this country — farmers and ranchers.’ It is almost a sense of duty, honor, and patriotism.”

“Co-ops generally formed during periods of economic adversity and as such they are born of conviction, resulting in greater staying power and loyalty of the patron.”

“In a cooperative, rather than the board of directors being hand-picked by large investors, they are elected from within the members of the organization, thus handily demonstrating democratic control.”

“Unlike the big box stores, upon entering a cooperative, generally speaking, you are treated with instant respect because the employees usually know you and what you are looking for.”

“The joint ownership of a cooperative by numerous farmers not only spreads the risk of operating a business within a very volatile industry, but it also lowers the exposure to those producing the food and fiber.”

patronize the business that provides the most value. If you feel you are subjected to abnormally high prices, or if you feel your investment is providing below standard returns, you will take your business elsewhere.

A successful cooperative is one that protects its value proposition. It constantly strives for the efficiency that allows it to remain competitively priced and takes care of the bottom line in order to provide a profitable return to members.

Cooperative

On another level, our experiences have taught us that cooperative members like to belong to something larger than their own enterprise. Especially something to be proud of. In that sense, there is a value to the cooperative member in the association with other producers. This social effect is very real, although it may have less of an affect than the customer relationship. After all, when asked what makes them proud of their cooperative, most members would mention profitability in some form.

Community

Finally, local cooperatives can have a significant economic impact on their communities. Our research has shown that most rural cooperatives are among the top three tax paying entities within their community. In addition, cooperative profits are returned to the members, meaning that more

money stays within the local economy for a longer period of time. This in turn drives economic growth. This benefit is often overlooked by the cooperative community, but is certainly something of which to be proud.

Why do we cooperate? Ultimately it is to capture value as a customer, enjoy social unity as a cooperative, and sustain the economic growth of our communities.



For more information...

More about Roy B. Davis can be found at “Davis, Roy Bennett” in *Handbook of Texas Online*, <http://www.tshaonline.org/handbook/online/articles/DD/fda87.html>, Accessed February 8, 2010.

You might also enjoy “Communicating the Value of Texas Cooperatives” found on our website at <http://cooperatives.tamu.edu/>.

Photo Credit: page 1, Emmy Williams; page 4, Stacy Braswell, “Old Chappell Hill”.



Improving Lives. Improving Texas.

Educational programs of Texas AgriLife Extension are open to all people without regard to race, color, sex, disability, religion, age, or national origin. Issued in furtherance of Cooperative Extension Work in Agriculture and Home Economics, Acts of Congress of May 8, 1914, as amended, and June 30, 1914, in cooperation with the United States Department of Agriculture, Edward G. Smith, Director, Texas AgriLife Extension Service, The Texas A&M University System.