

Dr. John Park
 Associate Professor and
 Extension Specialist

Department of Agricultural Economics
 Texas A&M University
 2124 TAMU
 College Station, TX 77843-2124
 Phone: (979) 845-1751
 Email: jlpark@tamu.edu

Cooperative MYTH-BUSTING Vol. 1

Over the course of history, various beliefs about cooperatives have become accepted as absolute truth. Some of these are nothing more than a myth. A recent study compares some popular beliefs with those held by the managers of financially proven cooperatives.

Historically, cooperatives have enjoyed great success—they have stabilized competition and returned increased profits to agricultural producers. Its very easy to attribute this success to the modern cooperative because we are familiar with it. However, it is important to realize that the modern cooperative is the result of an evolutionary process.

Over the past century cooperatives in the United States have grown from an expression of social cause to a force for market security to a mainstream form of modern business.

During this time, the driving spirit of cooperation might have remained constant, but the business environment and competitive abilities of agricultural producers most certainly have not. The successful cooperative

business is the one that has adapted over time to these changing pressures.

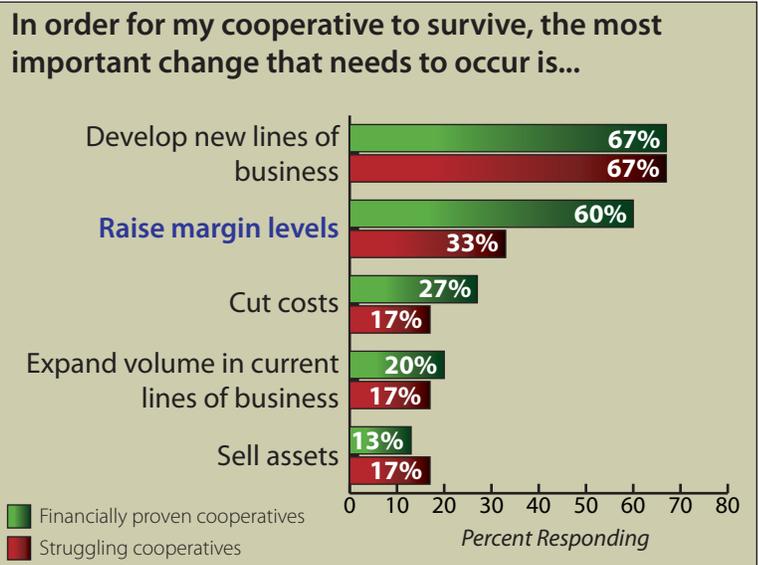
The result is that our concept of cooperatives is based in part on past principles and beliefs that might not be relevant in today's business world. The purpose of this article is to shed light on the facts behind some of these "myths."

Recently, we conducted a survey of cooperative managers and board chairmen in Texas, in order to better understand their practices and perceptions. By contrasting successful cooperatives against those that are struggling, it is hoped that we can identify those best practices that breed success. This article presents only a few results from this study with brief commentary. You can then judge for yourself if these myths are true or false. Good luck!

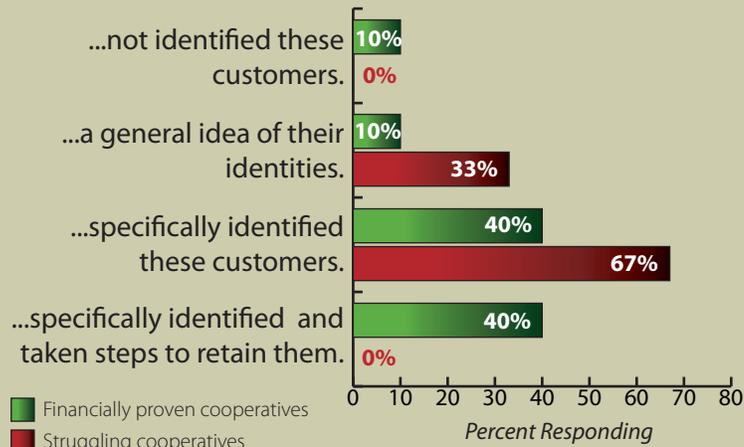
Myth #1: Cooperatives are supposed to operate at cost.

Providing service at cost is often quoted as a long-standing cooperative principle. After all, cooperatives are established for the benefit of the members, and what do members need more than favorable prices? Over time this has evolved into a philosophy that the cooperative should resist charging high margins or make a sizeable profit. However, a business will not last very long operating at or near cost. It will struggle to grow and adapt to changing market pressures.

If your business has the ability to earn a higher margin in the marketplace, you owe it to yourself to allow your business to earn the profits that will be returned to you in the future.



In regards to my top 25 active customers, my cooperative has...



Myth #2: There is no such thing as member loyalty.

There are many businesses that enjoy relationships with loyal customers every day. Businesses in pest control and insurance have very high degrees of customer loyalty. Most of us go to the same grocery store week after week. Why should a cooperative be any different?

The real difference resides in our expectations and treatment of our customers. While it may be true that each member of a cooperative should have the same rights, it is also true that each member wants to feel that they are personally valued by the business. To do this, you have to know who your customers are and what they want.

In our survey, we found that 80% of the financially proven cooperatives had either identified their top 25 customers or identified and acted to retain those customers.

Myth #3: Cooperatives are naturally less successful than other firms.

Cooperatives are probably more challenging to manage than investor owned firms. Other firms don't face the added complexity of satisfying customers who also happen to be active and often vocal owners. However, when a cooperative is successful, it is a very formidable opponent. The reality is that cooperatives and investor owned firms alike struggle from time to time.

The challenges faced by struggling cooperatives are real and can't be ignored or excused (some of these are presented at the right). Even so, you can choose where to focus your attention. Cooperatives that are financially proven tend to focus more on customers than on competitors. Meanwhile, struggling cooperatives may "take their eye off the ball" to focus more on their competition — a very real concern for them.

What factor has the greatest impact on your ability to compete with your closest business rivals?



What factor has the greatest impact on your ability to compete with your closest business rivals?



Myth #4: The cooperative's employees shouldn't be making more money than its members.

If there is one thing that a manager would like his/her board members to understand, it might be the importance of labor to the bottom line. Labor is most likely the largest expense on your cooperative's income statement.

There tends to be an attitude among cooperative boards that this is an expense to be minimized. First of all, let me say that this decision belongs solely to the manager. Second, I think it is a mistake to discount the value of your employees. Superior labor requires a superior investment. If you hire at the level required to just get by, then most likely your cooperative will just get by. Our survey showed that financially proven cooperatives tend to place higher value on employee expertise and leadership experience.

Educational programs of Texas Cooperative 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, Chester P. Fehlis, Deputy Director, Texas Cooperative Extension, The Texas A&M University System.