

What's the Story?

A recent study reveals the contribution of locally owned TACC members to the Texas economy. Telling that story goes far beyond just the numbers.

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Everyone likes a good story. Whether it's a humorous story about your last hunting trip, or a bedtime story told to a child, stories are something we can relate to and share with little or no preparation. In a recent best seller among business literature, authors Dan Heath and Chip Heath discuss the factors that make certain stories stick in our minds.

As an example, they consider the Great Wall of China – a common story is that the Great Wall of China is the only man-made structure that is visible from space. However, this is not true. The wall is only 30-60 feet across, and even given its length, if it were visible, then so too would be the many miles of interstate across our country



and the world. And yet, the story persists because it gives the hearer an emotional, credible story with a clear frame of reference.

Sometimes stories are told in a way to purposefully make them more relevant. When researchers wanted to help consumers grasp the dangers of movie theater popcorn cooked in coconut oil, they realized that simply revealing the 37 grams of saturated fat in a medium serving might not connect with all consumers. And so a more memo-

orable story was created: the amount of saturated fat consumed by eating a medium-sized movie popcorn is the same as eating bacon and eggs for breakfast, a Big Mac and fries for lunch, and a full steak dinner combined. The story was much more effective and as a result movie theaters have stopped popping corn in coconut oil. An effective story made the difference.

In contrast, cooperatives typically do a poor job of telling their story, or worse, they leave the story telling up to their competitors. It goes something like this:

- The cooperative keeps your money for a long time before you get it back (if ever)
- Cooperatives operate at an unfair advantage since they don't pay any taxes
- Cooperatives are inefficient, outdated, and drag down overall industry profitability

Unfortunately, regardless of the truth, these stories leave an impression that can do more damage than we care to admit. The lesson to be learned is that you can't expect your story to be obvious to everyone. In this light, telling the cooperative story is more than good PR, its imperative for future success.

The Cooperative Assessment Survey

So what is the cooperative story? In 2008, the Texas Agricultural Cooperative Council (TACC) initiated a study to answer this question. The study focused on a subset of TACC members that are locally owned agricultural cooperatives. One hundred and five of such cooperatives were identified throughout the state with several responding that they are no longer in operation for a potential total of 96 cooperatives to survey on the extent and nature of their operations. Notably, they all participated. This is their story.

Cooperative Management Letter

is supported through funding from the
Roy B. Davis Distinguished Professorship
in Agricultural Cooperation at Texas A&M
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COOPERATIVE MANAGEMENT PROGRAM

<http://cooperatives.tamu.edu>

These 96 businesses operate in 136 counties throughout Texas covering a combined area of 130,435 square miles, which is nearly the size of Montana. Operating primarily in rural communities, these cooperatives have the potential to impact the lives of 8,259,091 people, or about 1 in 3 Texans. In the reported year these businesses paid total employee compensation of \$84,354,451, providing work for 3,989 people. Although many of those surveyed gave no indication of their tax contribution within their resident county, we find it significant that 30 of our sample indicated that they were among the top 3 tax paying entities for their county. All told, these cooperatives are owned by 66,887 stockholders who currently have invested \$245,628,726 in the Texas agricultural sector. That is a sizable investment that continues to drive the economies of many rural communities.

The cooperatives in our survey conduct business with and support farms on 60% of harvested cotton acreage, and about 50% of harvested grain acreage. They operate across the state primarily in a wide band stretching from the Rio Grande valley to the Texas panhandle, with a greater intensity of cooperatives surrounding Corpus Christi and Lubbock. On average, these businesses have been in operation for more than 56 years. Twenty-eight percent of our sample operate branch locations to expand their service area, which is 5 counties on average. But the contribution these cooperatives make to the Texas economy go beyond the simple numbers they report.

Economic Contribution

A dollar of retail spending or commodity sales at a local cooperative contributes not only to the cooperative, but also to its supply chain, employees' incomes, and government tax revenues. When equity and patronage payments are made to members, those dollars circulate through the economy as well. Of course, some of the original expenditure leaks out of the regional economy; inventory is imported from other regions, employees commute from other regions, and businesses and households pay federal taxes. The portion of the money that remains in the local economy throughout all these transactions constitutes an economic gain. To understand that gain, we must first explain "multipliers" and "effects".

In general, we are concerned with four different types of effects when reporting economic contribution. Output or sales multipliers measure the effect of our cooperative group on

Figure 1. Concentration of Texas Cooperatives

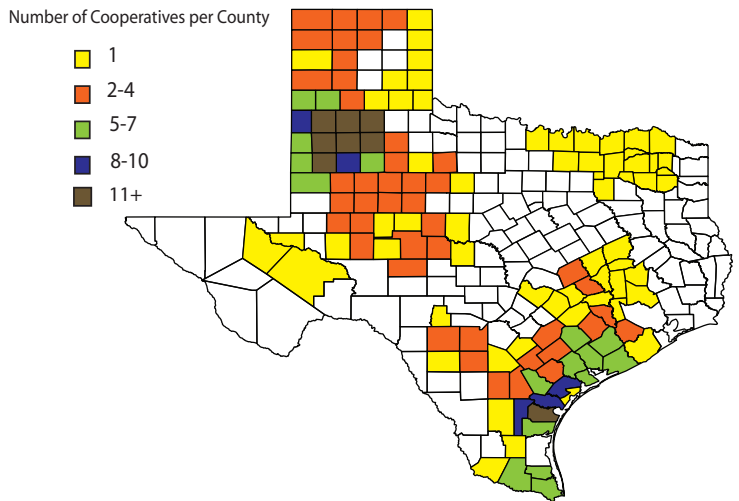


Figure 2. Cotton Acres Served By Cooperatives

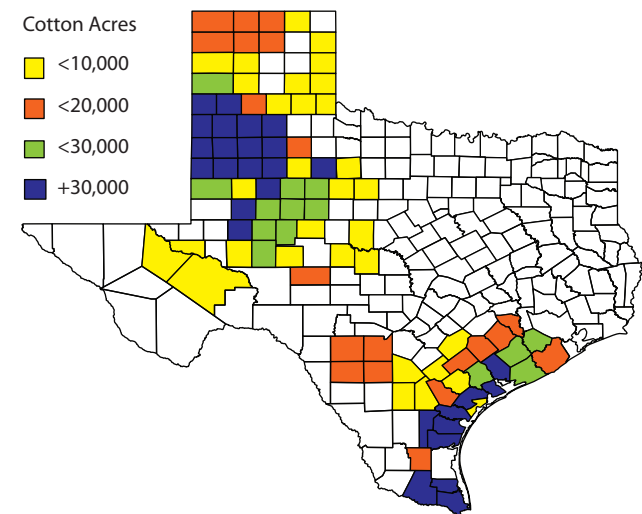
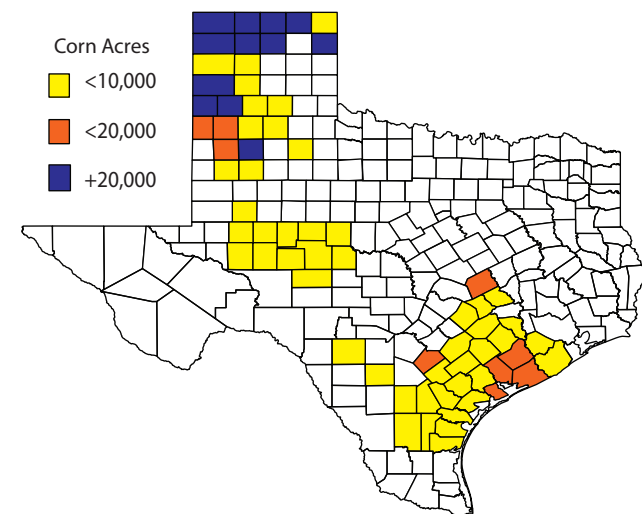


Figure 3. Corn Acres Served By Cooperatives



Cooperative Averages	
5	Counties served
7	Directors
14	Full time employees
18	Years of stock outstanding
28	Part time employees
45	Dollars for membership
56	Years in business

the overall economic activity in the region. The value-added multiplier measures the return to the resources used by our cooperatives. The income multiplier measures the effect of non-local spending on the incomes of households in the region. The employment multiplier measures the effect of non-local expenditures on regional employment.

Each of these multipliers can be described as having three components. The direct effect on the economy is the initial sale, like the sales of our defined group of cooperatives. It results in two types of secondary effects. The indirect effect results from our defined group of cooperatives purchasing inputs among local industries. The induced effect results from the expenditure of institutions such as households and governments benefitting from increased activity among local businesses. For example, a cooperative gin runs a profitable business (direct effect) and purchases office supplies from a local retailer (indirect effect). Further, the cooperative's employees purchase food at a local diner (induced effect).

The retail sales and warehousing, or store-front, aspects of Texas Cooperatives contributed \$524 million in additional output across the state (Table 1) for 2007. These sales increased the state's value-added or GDP component by \$152 million, income by \$76 million, and employment by 1,300 jobs in 2007. When commodity sales are included as part of cooperative activity, these Texas cooperatives contributed \$1.7 billion in additional output through commodity production, retail and warehousing operations, and equity and cash patronage payments (Table 2). This activity increased the state's value-added or GDP component by \$790 million, income by \$543 million, and employment by 20,000 jobs. In comparison to non-cooperative sales arrangements, equity and patronage payments and the tax treatment of these cooperatives boosted Texas output by \$150 million, value-added by \$85 million, and income by \$254 million (Table 3).

So what's the story? Local agricultural cooperatives in Texas: 1) effectively increase the well-being of their members through the distribution of their profits, 2) add to the peace and prosperity of rural Texas communities by keeping profits distributed locally, and 3) are potentially impacting the lives of 1 in 3 Texans.

	Output (Sales)	Value-Added	Income	Employment
Direct	\$362M	\$66M	\$32M	607
Indirect	\$119M	\$61M	\$31M	354
Induced	\$43M	\$24M	\$13M	335
TOTAL	\$524M	\$152M	\$76M	1,297
Multiplier	1.45	2.29	2.41	2.13

Table 1. Retail Sales and Warehousing Contribution to Texas Economy by Texas Cooperatives, 2007.

	Output (Sales)	Value-Added	Income	Employment
Direct	\$985M	\$377M	\$329M	15,405
Indirect	\$428M	\$234M	\$117M	2,592
Induced	\$315M	\$179M	\$97M	2,450
TOTAL	\$1,728M	\$790M	\$543M	20,447
Multiplier	1.75	2.09	1.65	1.33

Table 2. Total Contribution to Texas Economy by Texas Cooperatives, Including Commodity Sales, 2007.

Output (Sales)	Value-Added	Income	Employment
\$150M	\$85M	\$254M	1,168

Table 3. Additional Economic Contribution Attributed to Cooperative Business Status, 2007.

For More Information:

- Heath, Chip and Dan Heath. *Made to Stick: Why Some Ideas Survive and Others Die*. Random House:New York, 2007.
- More on telling compelling stories can be found at <http://www.madetostick.com>.
- Economic contributions were estimated using the IMPLAN modeling system (Minnesota IMPLAN Group, 2004)

Photo Credit:

- Samxli, http://en.wikipedia.org/wiki/Image:GreatWall_2004_Summer_4.jpg

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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 Cooperative Extension, The Texas A&M University System.