

Minn ①
Ext. Misc Pub ③
1929
④

COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS

U. S. Department of Agriculture
and State Agricultural Colleges
Cooperating

UNIVERSITY OF MINNESOTA
DOCUMENTS
SEP 21 1976
ST. PAUL CAMPUS LIBRARIES

Extension Service, Office of
Cooperative Extension Work,
Washington, D. C.

WHY SOME COOPERATIVES HAVE BEEN DISCONTINUED IN MINNESOTA*

D. C. Dvoracek,
Extension Marketing Specialist
Department of Agriculture of the University of Minnesota

Minnesota has seen the organization and failure of two state-wide organizations for the selling of potatoes cooperatively. "The Minnesota Potato Exchange" was incorporated January 27, 1920, and functioned for three seasons. It was organized as a federation of local companies, and had an average membership of about one hundred for each of the three years. The Exchange was capitalized at \$15,000 but never had more than \$10,200 stock outstanding. Each member company was required to deposit a note for \$500 as security for fulfillment of contract, which could be used collateral security for any loans needed by the Exchange. The contract designated the Exchange as a sales agent for all potatoes and similar produce marketed by the local company. It carried no time limit but was cancelable annually.

The Exchange sold all potatoes thru the North American Fruit Exchange the first year, and thru the American Fruit Growers during the second and third years.

Some factors contributing to its failure included:

1. An unsatisfactory potato market for season of 1920-21.
2. Cars did not stand up under inspection.
3. No control over sales of potatoes as to time, or as to grade.
4. Lack of quality on shipments resulting in difficulty in selling.
5. Inadequate accounting system.
6. Decreasingly small volume from year to year.
7. Inadequate field service.

*Address presented before the Central States Extension Conference, Purdue University, La Fayette, Ind., April 24 to 26, 1929.

DISTRIBUTION: A copy of this pamphlet has been sent to extension directors, marketing extension specialists, and State county agent leaders.

This archival publication may not reflect current scientific knowledge or recommendations.
Current information available from University of Minnesota Extension: <http://www.extension.umn.edu>.

The organization of the Minnesota Potato Growers Exchange was started in March, 1923. An active membership campaign was begun May 1st to sign up 50 percent of the commercial acreage of the state under a five year contract, between the grower and the county organization and in turn between the county organization and the State Exchange. Control passed from grower to the Exchange with delivery,-- right being given to grade, to make loans using the potatoes as security; control their movement to market, and pool them making returns on the basis of grades; to deduct cost of operation and an amount to create a reserve from proceeds of sale. Two pools were provided for, one closing August 15 for early potatoes and a late pool after August 15th to the end of the crop season. A warehouse corporation was organized as a subsidiary to the Exchange to own warehouses and to store, hold, grade, load and ship the potatoes. It was financed by the issue of common and preferred stock.

The original plan called for federation of locals but soon developed into a centralized type. County boards were elected by members of the county but had little to do with the direction of the Exchange. This was vested in an executive board of 6 members elected from 55 trustees representing the counties. A seventh member of the Executive board was appointed at large to represent public interest. In actual charge of operations was the general manager with departments for financing, accounting, warehousing, seed, and publicity. The Exchange entered into a contract with the Federated Fruit and Vegetable Growers for the sale of all their produce except seed.

By July, 1924, 156,909 acres were under contract in 33 counties or 42 per cent of the total 1922 acreage for the state. This promised 21,999 cars and they actually handled 9,869, or a 45 per cent delivery. The business set up was organized to take care of the estimated volume and hence the cost per unit of operating was materially increased.

The average net sales of all varieties and grades less freight was 67.08 per cent. Total expenses of operation were 35.47 per cent, and current assets 31.61 of which members received 24.04 per cwt.

Cost of marketing potatoes at selected loading points varied from \$8.18 per carload to \$209.47 per carload, indicating a wide variation in cost of loading.

In September, 1925, the Executive board took steps to release the members from their contracts for the 1925-26 crop year, and the Minnesota Potato Growers Exchange became history.

The primary reason why this Exchange discontinued operations was that the members were dissatisfied with the results obtained. The advances made were necessarily small because of the generally unfavorable market and the sales made. Most of the potatoes sold were in the

late potato pool, final settlement was made late and the final total price received was disappointing. The membership was poorly informed as to what was taking place in the exchange.

While the Exchange started as a federation it rapidly developed into a closely centralized organization. County associations were organized with but little to do and no control over local affairs and local associations passed out of existence, placing too much responsibility on individuals unfamiliar with local conditions.

Wherein the Exchange failed may be briefly summarized:

1. Quality was not controlled as completely as set up permitted due to lack of field service.

2. Inadequate financing of the movement to market and in making returns to growers.

3. No payments made on homestored potatoes.

4. Accounting system cumbersome.

5. Varieties, grades, and qualities not properly reflected in prices paid.

6. Failure to recognize local organizations to extent of control of local problems and bearing of local expenses of marketing by local association thereby encouraging efficiency in handling.

7. Exchange was oversold by enthusiastic organizers and solicitors.

8. Last and perhaps the fundamental cause of discontinuing the Exchange was the enormous crop of 1924 resulting in low prices leaving a very small net price to grower after cost of operation was paid. But had it not been for some of the preceding conditions, the members would have remained loyal and permitted the working out of some of the defects of operation and organization.

The Lake Region Egg and Poultry Association incorporated in 1924 with 13 assembling plants under the plan as described in the Minnesota specula bulletin No. 86. It operated during 1925 and 26 and discontinued operation in 1927.

The primary reasons for the failure of the association may be summarized,

1. Mismanagement not only in the State association but also in the Twin City unit, due to the inefficiency of the Twin City

2. The State association was based too much on hopes of future development rather than present conditions. As a result some units were organized that did not have sufficient volume for economical operation. In others the volume was scattered over so wide an area as to make collecting charges exorbitant.

3. Units were organized where a splendid local market already existed, with the probability of securing a better price problematical. This is especially true of the Twin City Unit.

4. Lack of sufficient immediate volume. Many growers signed up giving the number of chickens they expected to have and not the number of commercial producers.

5. Active opposition from produce dealers who paid higher prices for eggs and poultry and materially narrowed the spread between local prices and prices in the East.

6. Organization oversold, hence members expected too much.

7. Lack of confidence due to adverse propaganda, delay in returns, minor difficulties, relatively higher prices paid by produce dealers, resulted in decreased volume, and increased cost. This also resulted in members breaking contracts by failure to deliver and eventually lead to suit to collect such damages and finally a break up of the organization.

8. Dissension among board members resulting in argument and debate instead of business administration.

9. Lack of adequate accounting and auditing systems.

10. Lack of working capital coupled with inefficient management resulted in the accumulation of a heavy debt secured by signatures of board members. Efforts are still being made to collect sufficient damages from members to liquidate this debt.