

## **Is Payroll and Expense or an Investment?**

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Patronage is one of the benefit streams from a cooperative. Patronage is affected by both prices and efficiency. One would hope that a cooperative sets prices at market level and the resulting profits and patronage reflect the efficiency of the firm. From that line of reasoning, it is easy to see why cooperatives focus on efficiency. Research suggests that the ratio of expenses to gross margin (a common measure of efficiency) is correlated with almost every measure of cooperative performance.

The largest expense category in most agricultural cooperatives is personnel expense. The second largest category is everything else. That makes it difficult to discuss expense control without considering personnel expense. It also leads to two conflicting messages. The financial analyst examining the ratios will likely advocate for reducing personnel costs. The strategic advisor will advocate for investing in people. In simple terms, some see personnel expenditures as an expense and some see them as an investment.

The two views are not completely in conflict. Competitive compensation reduces turnover and all of the expenses related to recruitment, selection and on boarding. Technical training can allow employees to become more efficient and allow the cooperative to accomplish more with fewer people. Technical training can also reduce loss and shrinkage. Developmental training can create more engaged employees and they may find ways to increase margins. There is also a short-run and long run view of investing in people. Developing employees for the next level may involve some small costs in the short run but reap benefits down the road.

It would be interesting to analyze how successful cooperatives with low personnel cost ratios arrive at that outcome. My guess is that low personnel cost ratios are more closely related to structural changes than tactical decisions. When it is logical to make a location seasonal, that decision has a major impact on personnel costs. Low expense cooperatives have likely automated and streamlined processes. They have figured out where they were wasting time and resources and addressed those issues.

How should you view personnel? When you are considering automation, streamlining and logistic changes, think of them as an expense! When you are thinking about rewarding and developing employees, think of them as an investment!