

Drift Proofing Your Cooperative

Phil Kenkel

Bill Fitzwater Cooperative Chair

A sea captain who ignores drift can miss their intended destination by hundreds of miles. The cooperative board faces a similar challenge in accounting for patron drift. Patron drift is the constant evolution of the needs and attitudes of a cooperative's membership. In most cooperative part of that drift relates to the fact that the membership has become more diverse. It is impossible for a cooperative to evolve in every needed direction at once. There are some structures that help to keep cooperatives better aligned with their changing membership base.

The first step to managing patron drift is to avoid cross subsidization of products and departments. To the extent that the market allows, the cooperative should set margins so that every activity carries its own weight. When one product, service or department is unprofitable or has minimal profits the patrons using that area of the cooperative are being subsidized by other patrons. Imagine a situation where fewer members continue to use the profitable department and more start using the subsidized department. The resulting problems are easy to see. Implementing separate patronage pools for major departments is an extension of the same concept. Members should share in the cooperative's profits and that share should reflect the profitability of the areas of the cooperative that each member uses.

The second step is manage profit distribution and equity management in a manner that keeps equity investment in proportion to use. A cooperative can be much more nibble when the patrons who use a service are also providing the equity investment to support the service. Conflicts over strategy emerge when some segments of the membership are under-invested and some are over-invested. The base capital plan is the ultimate structure for proportionality but retaining profits as allocated equity, and striving for a reasonable equity revolving period are steps in the right direction.

A third step is to try and match the diversity of the board with the diversity of the membership. A board consisting of old-school traditional producers will not steer the cooperative to meet the needs of innovative, tech savvy members. A board of all innovators is equally problematic. The board should operate with their "board member hats" on but their "farmer hats" help them to understand member needs and what drives the member's decisions. It is helpful when the different styles of farmer hats around the board table match the different types of farming operations in the membership.

Those steps will help you account for patron drift in your navigation. May you have fair winds and following seas!