Grain Margins and Rochdale Principles

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Last week I discussed the sources of grain margin risks in grain marketing cooperatives. Some sources of that risk relate to grain grading accuracy and stored grain management and must be managed in the elevator. Other elements such as estimating transportation costs and hedging fall to the manager and merchandiser. The more straightforward source of grain margin risk is when a cooperative raises grain prices (and thus lowers margins) in an effort to maintain or attract grain volume.

One of the original Rochdale cooperative principles was "Goods Sold at Market Prices." The Rochdale pioneers understood the risks of offering favorable prices and thus attempting to provide patronage returns on the front end. If costs were underestimated the cooperative would sustain a loss, threatening its survival. Additionally, the cooperatives competitors might attempt to match the favorable price and the cooperative would end up benefiting nonmembers as much as members. Pricing at market levels was more likely to create profits at the cooperative level. Those profits are essential to the cooperative business model because they allow the cooperative to issue cash patronage, retain funds by issuing stock patronage and have the cash to replace infrastructure and redeem previously issued cash patronage. In a traditional cooperative it is the process of creating and retaining profits that makes users into owners. Returning benefits through patronage clearly identifies the cooperative's value.

All of these forces are in play in grain origination. Every manager and merchandiser of a grain cooperative knows that it is tempting to raise their bid just a little to attract bushels. Perhaps the cooperative can make it up through merchandising and maintain an adequate margin. In any case, the members should be happy. As the Rochdale pioneers would have predicted, it doesn't always work out that way. A cooperative's competitors have the same struggles and may match the cooperative's bid. Every grain handler in the market ends up paying a little more for the same bushels than they would have gotten anyway. That results in lower profits and cash flows for the cooperative reducing cash patronage and reduced retained funds for asset investment and equity retirement. That threatens the cooperative's ability to build the speed and space that could attract bushels in the future. The worst part is that cooperative members end up judging the impact of the cooperative on the basis of profits and patronage and conclude that it has little value to them.

Discussing grain origination from a distance is like criticizing a boxer when you are not one taking the punches. Still it is interesting to see how the issues that the Rochdale pioneers identified are still relevant to grain cooperatives and grain origination. The next time a member complains that your grain price is too low just tell them that the Rochdale committee won't let you raise them!