

Heterogeneity in Member Needs

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As we have been discussing, most agricultural cooperative now face a diverse membership with different time horizons, different needs for goods and services and different attitudes toward the cooperative. Time horizon issues are influenced by the equity management system with an age of patron system creating the most issues. The length of the revolving period also affects time horizon issues. Another dimension in membership heterogeneity is differences in the goods and services needed from the cooperative.

A livestock producer member obviously has different requirements from a cooperative relative to a grain producer member. Members with their own application equipment use a cooperative's agronomy department differently relative to those using application services. Some producers may be interested in variable rate and scouting services while others want only basic fertilizer application and spraying. The list of differences in member needs could go on and on. The implication is that members will have different opinions about services supplied and how the cooperative should reinvest in infrastructure.

In a perfect cooperative world, each department and each segment within a department would be generating a similar profit margin and return on investment. When that is the case, the cooperative can use a single patronage pool and all members are receiving a fair benefit and fairly reinvesting through retained patronage. In practice, some areas of a cooperative are often more or less profitable. If a single patronage pool is used one member group is effectively subsidizing another. That feeds the differences in opinions as to how the cooperative should reinvest in infrastructure.

Issues involving different needs across the membership can be addressed through multiple patronage pools and rationalizing profit margins across departments, products and services. Just like the time horizon issues, those solutions are not simple or painless. Multiple patronage pools are a tradeoff between fairness and complexity. They also raise issues in handling a loss in a particular pool. Competitive pressures can make it difficult to maintain margins in some areas. At the end of the day, the board must balance the needs for fairness against complexity. Greater differences within membership needs justify greater complexity in pricing and patronage.

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