Swimming in the Patronage Pool

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Patronage refunds are a fundamental aspect of the cooperative business model   Patronage creates the "User Benefit" principle that we stress as we describe cooperatives to potential members. According to cooperative principles, patronage can be calculated in either physical units or monetary units. A cooperative can operate with a single patronage pools, netting profits and losses across departments or use multiple patronage pools. For example, patronage on grain can be calculated separate from patronage on fuel or fertilizer. Multiple patronage pools are often more equitable since profit margins and infrastructure investment vary across departments or products. The tradeoff of multiple patronage pools is determining when the complexity outweighs the advantages.

Separate patronage pools are logical when different membership groups use different products and services from the cooperative. If every member grew the same crops and used the cooperative in the same way then separate patronage pools would be irrelevant. As cooperative membership has become more diverse many cooperative have developed separate patronage pools for major products or departments. It is easy to see that fuel customers are generating different margins and using different assets relative to wheat customers.

An interesting question that is emerging is whether separate patronage pools could be justified within a department or even within a product line. For example, large producer members may own their own application equipment and depend on the cooperative only for fertilizer warehousing and blending. Smaller producer members may use application services or member operated application equipment. In that example margins, costs and investment can vary dramatically across fertilizer users. One could argue that separating the fertilizer department patronage across product sales and equipment services would be more equitable. Separate pools might give bulk fertilizer users higher patronage and encourage new larger producer members.

As mentioned, separate patronage pools create additional complexity in calculating and communicating patronage. Because multiple patronage pools limit the ability to net losses across products and departments there is also the issue of handling losses. If full patronage is paid on all profitable departments then the loss from an unprofitable department must be absorbed by reducing unallocated retained earnings. That creates the same unfairness that drove the decision for separate patronage pools.

As cooperatives mature and their membership becomes more diverse equitably calculating and distributing patronage becomes more complex. Multiple patronage pools can be a logical step in aligning the cooperative's business model with member use. There is no one size fits all solution to patronage distribution. If you haven't discussed how your cooperative handles patronage in several years, that may be a good topic for the next board meeting.

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