The Cooperative as an Extension of the Farm Firm

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Discussion of the performance of agricultural cooperatives often focuses only on the cooperative firm. Some might maintain that a cooperative is a business and that running a successful cooperative is no different from running any successful business. Cooperatives do need to operate efficiently, have effective strategic planning and sound governance. It those respects it is true that they are no different from other businesses. The unique aspect of an agricultural cooperative is that it is an extension of the farm firm. The farmer members receive returns from their farm operations and, thru patronage, from their ownership and participation in the cooperative. The two benefit streams are intertwined because transactions between the member and the cooperative affect both the farming net income and the cooperative's net income.

From time to time, academic papers are published analyzing both farm returns and cooperative returns. A typical approach is a two asset portfolio model where the farmer is assumed to hold two assets, their farming operation and their share of the cooperative. That leads to conclusions as to whether cooperatives should distribute as much cash as possible, or retain cash and invest in the cooperative. In time periods when farming is profitable and cooperatives struggle, the conclusion is that the cash is more valuable in the member's hand. During other periods, it appears that the optimal solution would be for the cooperative to always retain profits. Those analysis miss the point that the cooperative is an extension of the farm firm.

Recent trends in Midwestern grain and farm supply cooperatives provide a great example of the cooperative as an extension of the farm. In the last ten years grain yields have expanded dramatically due to genetics, input technology and regional shifts from lower yielding crop like winter wheat to higher yielding crops like corn, milo and soybeans. In the Midwest, farmers use both on-farm and commercial grain storage. The farmers could have responded to their needs for increased storage by constructing additional on-farm storage. Collectively, they decided to rely on additional commercial storage. In the December 1999 USDA position report, 66% of the U.S. corn stocks were stored in on-farm storage. By 2015 that level had fallen to 45%. The increased demand for commercial storage led to attractive storage and handling returns at cooperatives. Those returns encouraged the boards to construct more speed and space. The infrastructure expansion of the cooperatives was in essence an extension of the farm firms and their need for storage. Producers, on average, essentially decided that they gain economies of scale by collectively creating the storage at the cooperative level.

It is appropriate and useful to evaluate returns on assets and equity at the cooperative level. Still we must never forget the fact that those returns are an extension of the member's farm operation. The profitability of our business units helps us identify areas where additional investment in justified. Ultimately, that profitability is linked to member needs. The true measure of cooperative success is when the member's combined return from the farm and cooperative are greater than if they were not a member.

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