What Drives Interest in Mergers Among Cooperatives?

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It is no secret that the long term trend in cooperatives, as in other agribusiness sectors, is toward consolidation. The number of agricultural cooperatives in the U.S. has steadily decreased over time. Cooperative consolidation has not resulted in a significant drop in the number of locations being managed under the cooperative umbrella. In general, cooperative consolidation has led to a fewer number of larger firms managing a larger asset base for the same total membership base.

Historically, financial hardship has been a key driver of cooperative consolidation. During the mid 1980s to mid 1990s, cooperative consolidation occurred in cycles as financially stressed cooperatives merged with other firms or were purchased by private firms. Since the late 1990s cooperative consolidations across the U.S. has been more consistent. It also appears to be driven by slightly different factors.

Economies of scale and scope and improvement in equity structures have been the historical driving force of cooperative consolidation. As cooperative firms explore reinvestment in grain storage and crop nutrient handling, it is natural for them to consider unification as a means of creating those assets at an increased economy of scale. Cooperative unification can also be a pathway to more rapid equity redemption. The length of the equity revolving period is closely linked to profitability. Larger cooperatives tend to achieve scale economies that generate higher profitability and allow them to revolve allocated equity more rapidly.

Human resource issues are a more recent factor contributing to cooperative mergers. Across the U.S. many agricultural cooperatives find themselves with CEOs close to retirement age. Cooperative boards often find themselves trying to recruit management talent from a small pool and are competing with neighboring cooperatives. As boards of directors ponder an eventual management succession they also often consider the option of merging with another cooperative as a means of accessing top quality management talent.

While the most recent cycle in cooperative mergers has been somewhat flatter, relative to historic waves, it is interesting to speculate on why merger activity waxes and wanes. Cooperative unification has always been driven by the goals of achieving economies of scale and scope. Cooperatives are driven by efficiency because efficiency driven profit gains benefit both the cooperative and the member. I propose that there are three factors that lead to merger cycles: improvement in member communication, infrastructure reinvestment, and shared information on the merger process.

I'll elaborate on those points in my next newsletter.