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COOPERATING
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MILK PRODUCERS' ASSOCIATIONS

Kenneth E. Johnson

Groups of milk producers interested in improving or stabilizing their market conditions often band together for their mutual benefit. Such groups or associations may or may not try to meet the legal requirements of a corporation under the laws of the state. Groups interested in a legal status apply through the Secretary of State's office and file articles of incorporation. After the application has been approved the fees paid the organization is recognized as a legal cooperative organization.

Cooperative milk producers' associations are specialized in their operation, but the basic purpose is to market the producers' product. Producers working as a group are able to do some things which as individuals they cannot do. It is also possible to do some things more effectively as a group.

True cooperation and the application of sound cooperative principles are as essential in one type of cooperative as another. True cooperation means following the principles of cooperation. These are:

1. Democratic control - one member, one vote.
2. Limited returns on capital.
3. Savings prorated to members on the basis of patronage.
4. Promotion of education.
5. Limited risk assumption.
6. Political and religious neutrality.
7. Membership selection.

The highest type of direction and management must be supplied by the board of directors and manager, and the cooperative effort of the patrons must be equally good. Marketing of milk and milk products is a very specialized, fast-moving, continually-changing business.

There are inherent advantages and disadvantages in cooperative milk marketing.

Advantages

1. Increased bargaining power, represented by many producers.
2. Equal advantage for all. Small producers can receive same price as large producers.

3. Constructive work with processors in developing desirable pricing formula.
4. Aid in meeting market requirements pertaining to quality and seasonal milk supply.
5. Stabilizing influence in the market.
6. Perform services that are impossible for individual to provide, check tests and weights and reconcile grievances.
7. Provide information regarding the market to which the individual would otherwise not have access.

Disadvantages

1. Cooperative cannot act or make decisions as rapidly as an individual.
2. Large producer may be able to sell to better advantage at certain times than cooperative.
3. Large group of persons who must cooperate effectively.

The advantages seem to outweigh the disadvantages by far. There may be an exception to this for the man who insists on being "completely independent", does not want to cooperate with others and values this above long-time financial gain. Under present day conditions such individuals are likely to be few in number.

Milk producers' associations throughout the United States have had varying degrees of success. The basic principles followed, the abilities and efforts of the directors and manager, and the degree of real cooperation practiced by the entire organization have largely determined the success of cooperatives.

Aims and Objectives

For the purpose of this circular, a milk producers' cooperative association will be considered as one that bargains in the marketing of milk to dealers and does not manufacture or distribute the product. It is the purpose of such organization to make milk available to dealers in the quantity and quality needed, and to agree with dealers upon the price that will be received. If this is properly done it can be expected to benefit producers, dealers and consumers. This must constantly be kept in mind, for marketing will break down if the situation gets out of balance and any segment of those making the market are working at a disadvantage or

getting more than their share. If prices are too high, consumers will reduce purchases and both producers and dealers will be adversely affected. If prices are too low, the consumer will benefit, the dealer may or may not benefit, and the producer is in a very weak position. If this continues for any length of time, producers will drop out of the market and the milk supply will become inadequate.

One of the principal aims of producers' associations should be orderly marketing. This includes matching supply and demand as closely as possible throughout the year. Milk pricing should reflect as accurately as possible the cost of production, the utilization of milk, the quality of milk and the price structure of nearby markets. Prices paid to producers will naturally vary seasonally and should encourage more production in the low production months and less during the flush season.

A producers' organization can do much to maintain stable prices paid by dealers, thus avoiding price cutting and price wars which are detrimental to all segments of the market. Bargaining with dealers in the market in connection with pricing formula and buying plans is one of the many functions of an association. Checking test and weights is another. A continuous educational program is another primary function of any completely successful cooperative. Educational work with members to aid them in following better dairying practices and to assist them in more easily meeting market quality requirements should always be considered functions of the cooperative.

Essentials

There are certain essential conditions that must exist in a market or milkshed before there is any real chance of success for a cooperative producers' association.

1. A need for an organization must exist.
2. There must be a sufficient volume of milk in the milkshed. (Volume should be large enough to provide efficient management and operation without excessive costs per member.)
3. The producers must want a cooperative organization and be willing to give sufficiently of their time to organize and maintain the organization.
4. An association must be founded upon completely democratic, cooperative principles and be maintain that way.

5. Members must realize that an association can accomplish collectively what individuals cannot, even though some individuals may be able to market at higher prices at certain time.
6. An association must excel in giving the members service and in carrying out such functions as the checking of tests and weights, determination of the utilizations of milk and other services that may make a market function better.
7. Last but not least, before organizing, producers must have a real desire for a good market. This must be a fair market operated in an orderly manner with prices that reflect the quality of and demand for milk.

Membership

It is essential that practically all of the producers in the market are members if a producers' association is to be successful. What the exact percentage should be, no one knows. That will largely depend upon local conditions. It seems safe to say that 85 - 90% of the producers should be members. This is also true of total production in the milk shed. If it is a grade A market, this membership requirement would apply to those that are grade A producers. A high percentage of membership should be secured in all parts of the milkshed. Organizations can not be completely successful if any portion of the milkshed is not organized.

Stock and Non-Stock Organizations

Cooperative milk producers' associations may be formed as either stock or non-stock cooperatives. Either type of organization may be equally successful, if sound financing is accomplished. The sale of memberships in a non-stock cooperative does not raise sufficient capital and usually must be supplemented by other sources, such as loans or certificates of indebtedness to members. The sale of stock to members is a more direct method of financing, and can eliminate additional financing. It should be kept in mind that the sale of stock should be limited to producers. A new cooperative will have more strength and more support from the membership if all financing can be accomplished within the organization.

If the principle of stock financing of cooperatives is to be thoroughly sound, at least three basic points must be adhered to. First, stock should not be purchased as an investment. Instead, each producer should buy stock to become a member and to provide the necessary financing to effectively market his product. Second, as previously stated, stock should not be sold to non-producers. Third, a low maximum interest rate on stock should be clearly stated in the by-laws. If these three points are followed, it should not be necessary to state a limit on the amount of stock which can be bought by and individual producer.

Before producers become members they should be thoroughly acquainted with the purposes and functions of the cooperative and they should see where they would be able to do more effective marketing than each could do individually. No producer can be an asset to the organization if he has a skeptical attitude and will assume none of the responsibility. No organization can be any stronger than its membership.

Managers and directors of cooperatives should make a real effort to keep the membership informed on all facts and developments which affect the membership. By the same token, members should want to learn all they can about their cooperative, and about cooperative marketing principles that are normally related to their commodity. All members should be encouraged to attend all meetings held for the membership. One fundamental principle of cooperatives is equal treatment of all members. Therefore, no members should expect special treatment or privilege that cannot be extended to all members.

Organization of a Cooperative

After producers are satisfied that a need exists for a certain cooperative and that the necessary essentials for success are present, organization may proceed. Producers must be convinced of the need and must be willing to exercise initiative in organizing. No one can organize it for them. Information about cooperative marketing and organization can be obtained from the College of Agriculture, Bank For Cooperatives, State Cooperative Council and from other successful cooperatives of like nature.

Before organization begins, it is well to have the counsel of a good attorney who is familiar with cooperative law and preferably with the cooperative marketing of the specific commodity.

Before organization can proceed very far, it is necessary to have temporary incorporating officers. This is necessary in order that articles of incorporation can be filed with the Secretary of State and organization can proceed. These articles may be very brief. The name and purpose of the organization should be stated and the organization headquarters cited. Complete, amended articles can always be filed later. It would be advisable to consult the Secretary of State regarding the method of procedure and state law pertaining to cooperatives.

It will be necessary to select an organization board that will be responsible for actual organization and membership procurement. This board should represent all parts of the area to be included. For effective organization it is generally necessary to have the area divided into districts and certain men responsible for heading organization work in each district.

When sufficient membership is actually signed up, a meeting of all members, either as an entire group or by districts, should be held to adopt the articles and by-laws and to elect members to the board of directors. The board of directors then elect the officers.

While discussing organization, the actual business of the cooperative must be considered--that is, how carried on, what personnel and building space will be needed, what volume of milk will probably be handled, what services will be furnished by the association and how will the cooperative be financed. The probable number of members and what volume of milk that membership would represent should be considered first. The cost of providing office space and equipment and the number of personnel, their duties and probable salaries should be estimated as closely as possible. Initial costs of starting the cooperative and the operating expenses must be segregated, as these costs will be financed differently. The association, when organized, must have sufficient funds on hand to pay all initial expenses and meet any emergencies. These funds will come from capital, that is, money raised to establish the cooperative. When approximate operating expenses are determined and some basis of expected milk volume calculated, rough determination of the assessment per hundred pounds of milk can be made. Suppose that volume

appeared to be about 2, 400, 000 pounds of milk per month after the sign-up and approximate operating expenses were likely to be \$1225 dollars per month. This would mean that a checkoff of 5.1 cents per hundred weight of milk would be needed to meet each month's actual expense. The amount of deduction should always be set a little higher, especially in a new association. Additional services and more personnel generally become a necessity as the organization grows. A reserve should also be accumulated. With such figures, it would probably be well to set the amount at 7 cents per hundred to allow for errors in estimations and for the building of a small reserve fund. Existing associations in the state are currently having a check-off of 7 cents per hundred up to three per cent of receipts, which would amount to 12 cents on a hundred weight basis, with milk at \$4.00 per cwt. Any accumulation of funds from this source not needed for reserve goes into a revolving fund to be prorated back to patrons on a patronage basis.

Board of Directors

The board of directors of a milk producers' association is a very vital part of the organization and should be selected by the membership with the utmost care. Members of the board should be men who will devote the needed time and energy that is required for the cooperative to be a success. They should be clear thinkers and cooperative-minded to the extent that they will want what is best for the organization. Board members must not be afraid to act or make decisions upon subjects within their power. Even though they must be highly cooperative, each must be able to think and express himself independently. Board members should not follow any one man or group within the board because it seems to be a popular thing to do. Decisions should be made upon merit and not upon friendship or political basis.

It is a duty and responsibility of the directors to set policies and procedures for the manager to follow. It is the duty of the manager to carry these out and not be the one to set the policy. The manager should advise with the board and make recommendations. He should be a man familiar with all phases of marketing the commodity. The directors should not leave everything to the manager in policy and business decisions. A cooperative will be more democratic, have more strength and better membership relations if the membership has an opportunity to vote on policies and decisions of any importance. Members will then be responsible for such decisions and will take a more active part and do more constructive thinking concerning the cooperative's business.

It is imperative that the directors of a milk producers' cooperative be fair and just at all times. Prices, and factors affecting prices, not only affect the producers but also the consumers and distributors.

Cooperatives generally provide for a director's term of two or three years. In many cooperatives, directors cannot succeed themselves. Organizations with this by-law provision are well pleased with its effect.

Management

The position of manager is a very important one in a milk producers' cooperative. The manager has many duties and responsibilities and the success or failure of the organization can depend upon his management as well as on the directors and the members. The manager of a milk producers' marketing cooperative should have a good knowledge of the economics of milk marketing and of dairying itself. He should be able to deal effectively with producers and also milk handlers and distributors. A really good manager will have initiative, sound judgment, and ability to work with people. It is necessary that he have the ability and desire to carry out policies and directions of the board and yet can act independently upon matters that come within his scope. A good manager should be firm but very fair, be patient and have ability to explain procedures to members. To be effective a manager must command the respect of members, milk processors and all others with whom the cooperative may deal.

The manager should not be a relative of any of the directors. He cannot be a member of the cooperative and should not be employed solely on the basis of personal friendship. A cooperative should never look for a "cheap" man for manager. Many organizations have made that mistake in the past. A man fully qualified for such a position should be paid a good salary and should be encouraged to develop a vital interest in the success of the cooperative. His pay should compare very favorably with positions of like responsibility in commercial dairy companies. Even more varied abilities are required on the part of a cooperative manager.

Buying Plans

Milk buying plans should be consistent with the status of the market and milkshed. There are some Grade A milk markets in Nebraska that are rapidly approaching the point where there will be a surplus of Grade A milk, above bottling requirements, during a large portion of the year. The milk industry,

under each conditions, could not continue to price all producer milk at a level reflecting the bottle value of milk, and the same time use a sizable amount of it for manufacturing purposes. In some areas of Nebraska, milk is still being priced on a straight hundredweight basis. No butterfat test is made and milk of any competition brings the same price. This is quite an obsolete method of buying milk and is subject to misuse in various ways.

The fairest method of pricing milk to producers appears to be on the basis of its use. It is then a matter of accurately reflecting that retail value back to the producer and allowing fair cost of operation in the various marketing functions. The class-use buying plan is designed to reflect to the producer the value of his milk according to the relative value of the use to which it is put. Under such a plan milk is divided into different classes. All bottled milk and flavored milk drinks are normally in Class I. Cream and ice cream, and perhaps cottage cheese, logically fall into Class II. All manufacturing uses such as butter, dried powder and evaporated or condensed canned milk fall into Class III.

It is also important that every producer of milk within a market has the opportunity to receive the same price for an approved quality milk. This can be accomplished in the class-use method by the use of a producers' pool, a system commonly used by cooperative milk producers' associations. The cooperative pools all milk of approved quality and collects for milk sold to the different handlers on the basis of the use of the milk. A "blend" price is then paid the producer. The blend price represents the total value of milk in the market divided by the number of hundredweight. If during a certain month 70 per cent of the milk was used in Class I, 20 per cent was used in Class II and 10 per cent was used in Class III, then the individual producer would be paid on that basis. He would receive the Class I price for 70 per cent, the Class II price for 20 per cent and the Class III price for 10 per cent of the milk he marketed that month.

The class-use plan has several advantages as a method of cooperatively marketing milk. It is forward-looking in nature; that is, it is based upon present sales and use. Any time new products or new uses are found for milk that have a higher classification, milk is moved up from Class III use. The plan constantly reflects the supply and demand situation in the market. It is fair to producer, handler and consumer. It provides an incentive to producers to work toward more orderly marketing in more nearly fitting supply to demand during seasons of the year. This would mean a higher blend price.

Detailed knowledge of the use made of milk by handlers is absolutely essential for success of an association using a class-use plan. Each handler would submit complete use data each month to the cooperative and the association would have a C. P. A. audit made each year of the handler utilization records. This is not too much to expect from any dairy company that is progressive and desires to buy milk on a fair, equitable basis. Markets operating under federal milk marketing orders have this same thing done. In that case it is accomplished by the market administrator.

Naturally there are other plans of buying milk. One that is sometimes advocated, and has had some popularity at various times, is the base-surplus plan. A base is set for each producer according to his previous production. He would be paid a higher price for that amount and a lesser price for all over that amount. This plan generally becomes difficult to administer and such things as cows bought and sold make the determination of fair base more difficult. Another basic criticism is that it is based upon the past and may put either the producer or handler at a disadvantage. If proportionately more milk can be sold in the higher value uses, then the handler has an advantage and the producers do not receive as much as the milk is worth according to that utilization. If demand for Class I and II milk is less, then the handlers are working at a disadvantage.

Pricing Formulas

The actual pricing of milk of a certain classification is a controversial subject. There is not only much variation in opinion as to what the price should be at any given time but also as to how the price should be computed. Methods of determining prices range all the way from straight bargained prices with no formula at all to complicated formula determination. Most formulas are based upon the value of manufactured milk products and premiums are added to that basic price. Basic formulas for pricing Grade A milk in this area are often based on the wholesale price of 92 score butter at Chicago plus a skim milk value based on the value of non-fat dried milk solids. Either this system or an alternate one using the paying price of several Midwest condenseries is generally used in federal order milk markets. The premium

paid over the basic price is generally changed at least twice a year to reflect the supply-demand conditions caused by seasonal production and the difference in cost of production during the high and low production seasons.

Increased attention is being given to methods of formulating prices that are not directly connected with milk products. A recent example is the Boston Formula which used several price and business activity indexes. The factors used are: (1) The wholesale commodity price index, (2) The New England feed-farm labor index and, (3) The index of department stores sales. Seasonal price changes are made by lowering the price on January 1 and again on April 1. Price increases are made on July 1 and again on October 1.

Both general types of pricing formula have merit. One is directly related to the price of milk products. The other is based on several economic factors that reflect cost of production, business activity and general price levels.

Seasonal Price Incentives

In practically every milk market there is a constant need for more nearly matching seasonal production with seasonal demand. It is seldom possible to exactly balance supply and demand in the milk business. There are some things that can be done which will help. Price incentives are perhaps the most important. Varying the price of milk between high and low production seasons is one way. This way, however, may result in changing consumer prices throughout the year. In some Nebraska milk markets there is now a plan whereby dairy plants pay a seasonal-volume premium during the fall months. This plan has no relationship with any other seasonal period during the year. It is merely a graduated premium based on the daily deliveries of milk. It may result in a somewhat larger supply in the fall months, but the largest producers get the highest premiums even though they may have produced a much larger volume during the flush months. This type of incentive cannot be expected to continue when enough milk is produced for Class I needs during the lower production months.

A take-off and pay-back plan is used in some markets where milk is marketed through producer associations. In this plan the cooperative deducts a specified amount from the price of milk sold by each producer during the highest production months (generally three months). For example, this may be 30 cents per hundredweight. This total is then placed in a separate fund and held by the cooperative. One-third of this total is then paid back during each of the three lowest production months. This money is prorated per hundredweight of milk marketed by each producer during that month. The pay-back per hundredweight will be considerably more than the take-off as the total volume in the market will be less during that period. The producer with more level production will have less money deducted in the spring and will receive more additional money in the fall.

Summary

There must be a definite need for a cooperative if it is to be successful. Producers must want a cooperative badly enough to organize it and then actively support it. Prospective members should be given a full explanation of the proposed organization, its functions, possibilities, and limitations. The probable volume must be large enough to make efficient operation possible. The cooperative must be set up in sound financial condition, both as to financing initial costs and subsequent operating expenses.

A milk producers' cooperative must start with a sufficiently high percentage of the producers in the market and must ultimately be of such value to producers that practically all will want to be members. Prospective members should realize that a cooperative cannot obtain unreasonably high prices for its producers. Any attempt to work on that basis will defeat the purpose of organization. On the other hand, a cooperative should work toward more orderly marketing, providing as nearly as possible adequate supplies of good milk at all seasons of the year. It should raise and maintain the quality of milk and continually aid in creating more consumer demand for milk. Careful supervision must be given to tests and weights, and sincere efforts must be made to adjust differences between producers and dealers in any marketing operations.

A cooperative should continually strive to keep its members informed on all points of interest that relate to marketing their milk. This will make successful operation easier. Members will realize more fully how prices are determined, what things affect prices and what things the cooperative might do to make a better milk market. At the same time, harmony and good working relationships must be maintained with all groups. Members must realize the importance of electing board members that are capable and enthusiastic. Directors should hire and keep a well-qualified manager. Poor pay attracts only poor managers.

A cooperative should not be expected to accomplish the impossible. Members should understand that there will be times when everything will not be smooth sailing. Even though a group selects the best board members and manager available and the new organization is well supported by the members, there will be difficult problems and decisions to make. There may be those who will try to defeat the cooperative. Any possible failure, however, is much more likely to come from within the cooperative itself. It could come about by lack of interest, lack of faith in the directors or manager, by the lack of tolerance and cooperative spirit and action, or by divergent interests and policies resulting in the formation of small groups or cliques. Or it could come about by poor business practices or too many faulty decisions or policies. Such conditions can best be avoided by a loyal, well informed membership and a capable, firm, progressive board of directors, who will insist upon good management. A cooperative is nothing more than the entire membership working through the directors and manager. The organization can be no stronger than its weakest segment.