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# AGRICULTURAL CO-OPERATION IN SOUTH WALES.

**An Economic and Financial Analysis.**

BY

J. MORGAN JONES, M.A.

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**1927.**

## Preface.

The farmers of Wales have long been familiar with the co-operative movement in a number of forms designed for different purposes. Interest varies by localities and somewhat according to agricultural conditions, but there is scarcely any part in which farmers as a whole have no personal or financial interest in societies. The best known and most successful form is that for supplying farm requirements, yet in spite of local failures in marketing efforts there is much deliberation on the possibilities of reform of the marketing systems and some consideration of the place of co-operation in such reform.

The need for reinforcing the existing co-operative societies and of furthering developments in the marketing of produce has led to the inauguration of a scheme for economic advisory service in co-operation and marketing. This scheme, given below, was arranged between the University College of Wales and the Welsh Agricultural Organisation Society in 1926, and is designed to supply service through the Agricultural Economics Department of the College in as many as possible of the following ways:—

(a) The advising of all Agricultural Co-operative Societies in Wales which contribute to the fund on co-operative work in general, and on credit, accounts, costings, etc.

(b) The arranging of conferences in Wales of farmers and representatives of the Agricultural Co-operative Societies, the N.F.U., the Agricultural Committees of the County Councils and their staffs, and other parties interested, to discuss agricultural co-operative problems.

(c) The distribution to societies, through the press or other medium, of information concerning co-operative activities, and of reports, statistics, etc., relating to the movement in Wales.

(d) The organisation of courses for the training of managers and other officers of the A.C. Societies.

(e) The provision of expert practical advice on grading, packing, transport, and the marketing of produce.

(f) The provision of Welsh and English lecturers to address meetings of farmers, branches of the N.F.U., etc., on various aspects of agricultural co-operation.

(g) The general furtherance by the provision of the above services of the Agricultural Co-operative Movement in Wales.

The work is done under the immediate supervision of a Joint-Committee of the Councils of the College and the W.A.O.S.

Work was started under the scheme in January of this year, and Mr. J. Morgan Jones was later appointed Marketing Assistant. It was evident that investigation and research would be necessary before advisory work would be possible on any comprehensive scale; and also that it would be advisable to try to remedy any weaknesses in existing institutions before others were suggested. A considerable amount of advisory work in several forms has been carried on, but the chief subject of research has been the condition of the co-operative societies and the causes of stagnation and development, or of success and failure. The following pages represent the first result of the scheme in publication of extended studies.

Co-operative organisation and trading present manifold problems with economic, political or societal, and even human characteristics. On many of the aspects of these problems no person could claim to have knowledge which would justify dogmatic statement and careful observation and measurement, where these are possible, often bring clearer realisation of their variety and complexity. Yet certain general influences on the condition of societies can be detected and some of these have been analysed and described by Mr. Morgan Jones.

Acknowledgment of the ready assistance of managers, officers and members of societies in the study of their methods of organisation and trading is due and gratefully tendered by the author and the Department.

Special recognition must be made of the skilled and considerate assistance of Mr. Hugh Jones throughout the investigation.

A. W. ASHBY.

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*November, 1927.*

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# AGRICULTURAL CO-OPERATION IN SOUTH WALES.

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The development of co-operation has been one of the outstanding features of the agricultural history of South Wales during the past 25 years or so. Both progress and experiment have been remarkable and the influence of the movement is perhaps more widespread than in any other large area of England and Wales. The present achievement is mainly in the business of supplying requisites, but in the past essays in the manufacture and sale of produce have been important.

As the term "co-operation" is often misunderstood and wrongly applied, it is necessary to recognise the distinctive features of co-operative business. The essential principle of this as distinct from the joint stock company is that a co-operative society is a union of persons, not of capital, and the control of the business is vested in shareholding members irrespective of their capital interests in the society. In actual practice the results of co-operation can be measured in the amount of control which farmers obtain over their businesses and its results, chiefly as regards the conditions of the supply of their requisites, and the sale of their produce.

### **Membership and General Trade.**

The movement is now firmly established over the greater part of South Wales, and the total turnover of societies in 1926 was nearly £850,000. The following table shows the distribution, number, membership and business of 48 registered societies operating at present in the seven South Wales counties.

TABLE I.  
SUMMARY OF COUNTY TABLES.

(1) Requisite Societies.	No. of Societies.	Member-ship.	Sales.		
			Requisites. £	Produce.* £	Total. £
Cardigan ..	11	3,728	132,683	6,353	139,036
Pembroke ..	5	1,803	91,187	135	91,322
Carmarthen ..	10	6,623	383,864	25,719	409,583
Glamorgan ..	10	1,888	66,797	..	66,797
Monmouth ..	1	222	52,192	..	52,192
Radnor ..	3	269	10,113	..	10,113
Brecon ..	2	525	45,433	..	45,433
	42	15,058	782,269	32,207	814,476
(2) General Purpose Societies †					
(a) Auction Mart ..	3	398	..	29,428	29,428
(b) Egg ..	3	399	..	4,331	4,331
	6	797	..	33,759	33,579
Grand Total ..	48	15,855	782,269	65,966	848,235

These statistics of membership must be handled with care for several reasons. In the case of a few societies returns were not obtained for 1926, and the membership as at 1923 has been inserted, but it is not likely that much error would arise from this. There are several societies whose share registers need revision since many persons are included in them who for various reasons have lost all connection with the societies. There are two items, however, which tend to make membership returns unrepresentative, and these are that a person may be a member of more than one society, and that the society trades with non-members. But these anomalies can be discounted to a large extent when estimating the present scope of the movement in relation to its possible expansion. The extent of trade with non-members may be largely counter-balanced by the number of nominal members who do not trade with the society, and it is unlikely that there is much overlapping of membership among societies with the same objects, although there are cases of farmers being members of two requisite societies. In estimating the distribution of membership in various counties, it is evident that anomalies

\* See p. 38.

† There is one successful smallholdings society in Glamorganshire and a number of allotment societies in South Wales, but these are not discussed in this report, and statistics pertaining to them are not included.

may arise in so far as farmers of more than one county may be members of a "border" society.

The membership of the movement can be viewed in relation to the total number of farmers and agricultural holdings in the following table:—

TABLE 2.  
MEMBERSHIP AND FARM POPULATION.

County.	Members- hip of all Socie- ties.	Farm- ers and Graziers 1921.	Per cent. in Move- ment.	Agric- ultural Hold- ings 1926.	Agric- ultural Hold- ings per 100 mem- bers.	Culti- vated Land per Hold- ing. (acres).
Cardigan, Car- marthen, and Pembroke ..	12,951	13,829	94	20,275	157	46.4
Glamorgan ..	1,888	3,249	58	4,762	252	47.0
Border Counties	1,016	6,483	15.7	8,769	863	62.5
Totals and Averages ..	15,855	23,561	67.2	33,806	213.2	50.6

It is evident from the preceding table that the movement in South Wales, though firmly established, is capable of expansion since on the average one-third of the farmers are outside the movement. The attraction of these farmers into the movement will depend mainly on the business efficiency of societies in relation to their competitors. Propaganda and the demonstration of the aims and ideals of co-operation will certainly play a part in this expansion, but the farmers will make their ultimate judgment on the business efficiency of societies. Moreover, existing societies have considerable room for expansion before they can be regarded as the chief suppliers of requisites to present members, apart from being the medium through which farm produce is marketed. At present 42 requisite societies in South Wales are only selling on the average £52 worth of goods per member, and only buying £2 worth of produce from each. It is difficult to state in quantitative terms how much the average farmer buys and sells in a year, but it is obvious that there is room for immense expansion, especially in the sale of farm produce.

The foregoing statistics show interesting variations in the scope of the movement in the various counties. It is significant that there are only 6 co-operative societies in the three border counties compared with 42 in the remaining four. While it may appear that the English-speaking people of the Prin-

cipality are less amenable than the Welsh to co-operative organisation, it is possible that the difference is more determined by economic factors such as the character of farming. Co-operation, especially in the joint purchase of requisites, seems to be less firmly entrenched in areas where farms are large than in those where farms are relatively small.

In common with other parts of the British Isles, the experience of co-operative effort in Wales shows that organisation for the joint purchase of requisites is the easiest and most successful form of association. Few failures have to be recorded among requisite societies, whereas association for the marketing of produce has always been difficult and often disastrous. The reasons for the comparative ease with which requisite businesses are organised are two-fold. In the first place the problems of management are simpler because there is greater standardisation of goods and uniformity of prices in the case of farm requirements than with farm produce. The difficulties of purchasing uniform goods at fairly well-known prices are less formidable than those of selling variable farm produce; also the market for goods is to be found at the society's door, rather than in distant centres where the knowledge of customers and their requirements is less definite. In fact the technical knowledge demanded in a requisites business is of a different order from that required in handling farm produce and facilities for gaining such knowledge have been more widespread. Secondly, associations for the joint purchase of goods demand less of interest, loyalty, and confidence from members than do marketing societies. Apart from the fact that most farmers have alternative markets for their produce, there is the added difficulty that members are more critical of prices received for goods than of prices paid for supplies. Furthermore, under present conditions it is difficult for a marketing society to pay for goods on a quality basis without alienating some of its members. The requirements are mostly bought on a statement or a guarantee of quality.

## **Types of Businesses.**

There are in South Wales 42 requisite societies, the majority of which are efficiently managed and are in a strong financial position. Though some of these societies sell produce in the form of eggs, butter, and grain on behalf of members, over 90% of their trade is concerned with supplying farmers with requisites. But the variable economic characteristics of requisite societies in different areas are shown in the following table:—



TABLE 3.  
BUSINESS STATISTICS OF 36 REQUISITE SOCIETIES.\*

County.	No.	Mem- bers per Society.	Sales per Society.			Sales per Member.		
			Requi- sites.	Pro- duce.	Total.	Requi- sites.	Pro- duce.	Total.
Cardigan ..	11	339	£ 12,062	£ 578	£ 12,640	£ 36	£ 1.8	£ 37.8
Pembroke ..	5	361	18,237	27	18,264	50	.6	50.6
Carmarthen ..	10	662	38,386	2,572	40,958	58	4.0	62.0
Glamorgan ..	10	189	6,672	..	6,679	35	..	35.0

\*Note.—The statistics in this and subsequent tables are derived from returns and statements of account for 1926. In the majority of cases the financial year ends on December 31st, though in a few instances accounts are closed on Sept. 30th or Oct. 31st.

The preceding table reveals several features of interest, such as the prevalence of small societies which do not sell produce in Glamorganshire, the high turnover of Carmarthen-shire societies, and the relation between the size of a society and the amount of trade per member. The economic characteristics of a trading society, as revealed for example in the size and character of its turnover, will be largely determined by local conditions, such as altitude and contours of its area, industrial or urban environment, and the type of farming practiced.

One important factor determining the size of a society, apart from the policy of those responsible for its control, is the topography of the area in which it trades. It is significant that in the hillier districts of Wales, societies are smaller than in the more low-lying counties. Some districts naturally form themselves into units suitable for the operation of a single business, and a co-operative society cannot easily open depôts in districts which are cut off one from another. In Carmarthen-shire, on the other hand, good communications enable one society to successfully operate depôts covering a great part of the county. Some societies, of course, are small not because they are hemmed in geographically but because they have not desired or been able to expand either territorially or in supplying members with larger proportions or amounts of their requirements.

The type of goods dealt in is chiefly determined by the industrial and agricultural environment in which the business is conducted. A society operating near densely populated centres generally recognises that the disposal of farm produce is outside its scope since members will usually sell a good

deal of their produce direct to consumers or retailers. This accounts for the absence in Glamorgan of societies dealing in farm produce. Furthermore, the "urban" society tends to specialise in supplying members with their more purely agricultural needs. Most co-operative societies in the Principality deal in hardware and household goods, and their effort to supply the farmer with most of his requirements is to be commended up to a point, especially in areas distant from distribution centres. But farmers living near densely populated areas have alternative—and generally more efficient—sources of supply for their domestic and personal needs. Consequently societies in such areas will be more specialised than those serving outlying districts where the co-operative society is expected to meet more divergent wants.

Moreover the relation between the industrial and agricultural surroundings is fairly intimate and both in conjunction will largely determine the nature of a society's business. There is a natural tendency for farmers in parts of counties such as Glamorgan to turn to milk production, with the result that their societies will be concerned mainly with the supply of feeding stuffs, whereas in a mixed farming area, more seeds, fertilisers and hardware will be demanded.

It is difficult to estimate the influence of the type of goods dealt in on the business problems of a society. The margins obtainable are greater in the case of some goods than others, and there is considerable variation in the seasonality of the demand for various classes of requisites with corresponding results on the requirements of labour and stocks in depôts. But there is a fairly intimate connection between the size of business as measured in monetary values, and the type of trade conducted. Where there are no records of tonnage handled, the only criterion for measuring the business of a society is in terms of turnover. Some societies have suffered a decline in turnover compared with the later war years. But in most cases, tonnage handled has not declined and any shrinkage usually is due to lower prices. The value of the turnover will be largely determined by the proportion of various classes of goods to the total. If a society is specialising in the sale of relatively expensive requisites, its turnover will be greater than that of a society handling the same tonnage of goods having lower unit values. If at the same time the farmer requires each year a greater tonnage of such goods than of the less valuable, the cash turnover per member of the society will be further augmented. The fol-

lowing table shows that in the larger societies a greater proportion of feeding stuffs are sold than in the smaller and that sales per member are correspondingly greater.

TABLE 4.  
TYPE OF GOODS SOLD BY 26 REQUISITE SOCIETIES.

	No. of Societies.	Average Sales per Society.	Per cent. of Total.					Sales per Member.
			F.S.	Imp.	Seeds.	Fert.	H. & M.	
Group (1)	14	£30,216	85	.08	4.4	5.4	5.12	£57
" (2)	12	£13,800	63	3.3	6.3	8.4	19.0	£42
Average	26	£22,646	79	.9	4.8	6.2	9.2	£51

*Abbreviations :*

- F.S. —Feeding Stuffs.
- Imp. —Implements, machinery and ironmongery.
- Fert. —Fertilisers and Manures.
- H. & M. —Household and miscellaneous goods, such as grocery, drapery, and coal.

Produce —In some societies the sales of local farm produce are not enumerated separately because, *e.g.*, in the case of corn the business does not differ from the trade in other corn.

The bulk of societies in group (1), where 75% or more of the sales is taken up by feeding-stuffs, are supplying milk-producing areas, whereas those in group (2) are situated in the mixed farming districts, where there is greater room for trade in seeds and fertilisers. It is significant that the sale of groceries and coal is a feature of the business of these societies. Though margins in the grocery trade are attractive, societies should consider that labour costs in this department tend to be rather high. The experience of the few societies selling drapery and clothing would hardly seem to justify the extension of this type of trade to districts in which it is not specially required of societies, as there is the danger of serious loss unless stocks are cleared quickly. The question of selling implements, machinery and parts is on a different plane since these are purely "agricultural" goods which the co-operative society should be able to supply. It is extremely inequitable that the agricultural implement "ring" should adhere to its refusal to give full agency terms to co-operative societies. Such stubborn refusal can only be broken down by the determined action of societies and their members acting in conjunction over a wide area.

The requisite societies of South Wales vary very considerably in the scope of their businesses and in the amount

of service given to members. There are a few survivals of the pioneer form of joint trading by which farmers, without setting up a store, shared truckloads of goods between them and thus reaped the advantages derivable from bulk purchase and the reduction of freight charges. Most societies have now emerged from this stage—in fact, several societies omitted the first step altogether—and operate one or more depôts for the storage of goods. About 10 societies have gone a stage further and own lorries which are engaged on the delivery of goods to members' premises. There are some societies each operating several depôts which have reached the limits of territorial expansion and are looking for development by intensifying their trade with existing members and expanding their delivery service.

## Comparisons—1923 and 1926.

Though comparable data of statistical value is scarce and difficult to obtain, it is possible to compare the position of these 36 societies in 1926 with that of 1923. The comparative position as regards membership, paid-up capital and trade is shown below :—

TABLE 5.  
STATISTICS OF 36 REQUISITE SOCIETIES,  
1923 AND 1926.

	No. of Societies.	Membership.		Paid-up Capital.		Sales.	
		1923.	1926.	1923.	1926.	1923.	1926.
<i>Truck Load</i>	5			£	£	£	£
Per Society ..		55	58	119	133	2734	2140
Per Member ..				2.2	2.3	49	36
<i>Storage.</i>							
<i>Sales grouping</i>							
£10,000 and under ..	12						
Per Society ..		170	174	626.5	650	5910	6003
Per Member ..				3.7	3.7	34.8	34.4
£10—20,000 ..	7						
Per Society ..		347	365	773	798	15900	15725
Per Member ..				2.22	2.19	45.8	43.1
£20—30,000 ..	7						
Per Society ..		502	516	1429	1761	25560	26173
Per Member ..				2.81	3.4	50.9	50.75
£30,000 and over ..	5						
Per Society ..		1048	1143	1522	1839	71650	71331
Per Member ..				1.45	1.6	68.4	62.4
<i>Summary of Storage Societies.</i>							
Total ..	31	13218	13970	30535	34904	719365	721971
Per Society ..		426	451	985	1126	23205	23289
Per Member ..				2.31	2.64	54.4	51.7

It is gratifying to be able to record an increase in the membership of all groups of societies. There are only one or two cases where membership has declined since 1923, and in some the increase is as much as 10 or 12 per cent. It is true that the comparison is in some cases vitiated by the fact of share registers not being carefully revised, but it is evident that these societies are more than holding their own in membership.

There has also been a substantial increase in the share capital subscribed by members, though this still remains rather low. On the whole, share holdings per member have slightly increased, but this is not sufficiently important to indicate any great change in this respect. Comparisons of membership and share holdings per member at any two periods may be vitiated by lack of care in revising share registers or by changed conditions as to the admission of new members. The value of the shares issued, and the amount called up on acceptance varies considerably between individual societies. In some societies with strong reserves it is stipulated that new members shall pay more than the face value of shares, since the accumulation of reserves increases the realisable value of shares subscribed.

It is perhaps surprising to find that the turnover of these societies has been so well maintained. While the sales of the storage societies taken as a whole have actually increased in value the trade per member, measured in similar terms, has diminished. But this is due to the fall in the values of agricultural requisites, which on the goods handled by these societies has been about 10% since 1923. The decline in sales per member is approximately 5.5%, and consequently it is evident that the tonnage of goods sold has actually increased. This satisfactory result may be partially attributed to the fact that coincident with the decline in the arable area, farmers are year by year relying more on bought foodstuffs for their livestock. Moreover there can be little doubt that the use of artificial fertilisers is increasing and this would also tend to extend farmers' demands for requisites. Private traders, by canvassing, are doing their utmost to meet this demand, but it is evident that the co-operative societies are showing themselves capable of meeting the new situation.

This can hardly be said of the truck load societies, which, though maintaining their own as regards membership and capital, have suffered a great loss in trade. The decline in the business of these societies is absolute and cannot be attributed to the decline in prices. For several reasons, which

are discussed below, the small truck load society is finding it increasingly difficult to meet present day competition. Should the process indicated in the foregoing table continue, it is possible that this class of society may be forced out of business unless steps towards amalgamation are taken.

## Truck Load Societies.

At present there are five societies in South Wales which can be placed in the truck-load category, though some of them in fact temporarily store goods for members. Such societies can be placed in this category, however, because the stores are only opened when members come to purchase goods, and a full-time employee is therefore unnecessary. The following tables indicate the financial and trading position of these societies at the end of 1926.\*

TABLE 6.  
FIVE TRUCKLOAD SOCIETIES.

<p>(1) <i>Sales and Membership.</i></p> <p>Members per Society .. 58</p> <p>Sales .. .. £2140</p> <p>.. .. Member £36</p>	<p>(2) <i>Trading Results.</i></p> <p><i>Per Cent. of Sales.</i></p> <p>Gross Profit .. 3.35</p> <p>Trade Margin .. 4.8</p> <p>Expenses of Management .. 3.7</p> <p>Trade Expenses .. 4.5</p> <p>Profit .. 0.3</p>
<p>(3) <i>Capital.</i></p> <p>Per Society .. .. £586</p> <p>Members' Interest (per cent. of Total Capital) .. 63%</p>	<p>(4) <i>Allocation of Capital.</i></p> <p><i>Per cent. of Sales.</i></p> <p>Total Capital .. 27.4%</p> <p>Fixtures and Investments .. 5.2</p> <p>Trade Capital .. .. 22.2</p>
<p>(5) <i>Sources of Trade Capital.</i></p> <p><i>Per cent. of Sales.</i></p> <p>Society's Working Capital .. .. 14.4%</p> <p>Creditors .. .. 4.6</p> <p>Bank .. .. 3.2</p>	<p>(6) <i>Uses of Trade Capital.</i></p> <p><i>Per cent. of Sales.</i></p> <p>Debtors .. .. 12.5</p> <p>Stock .. .. 2.5</p> <p>Cash .. .. 7.2</p>

\* *Definitions used in this and following tables:—*

1. *Management expenses:* These include salaries and wages, rents, rates, and taxes, office expenses, motor charges, etc., in short all costs except financial charges, depreciation and bad debts. This broad classification is used because it is that of Form of Return A.R. 17 compiled by these Societies.

2. *Working (or Trade) Expenses:* Represent "management expenses" plus financial charges, depreciation and bad debts.

3. *Total Capital:* Represents the total liabilities of the Society as shown in the balance sheet. Some items such as Trade Creditors and Bank Overdraft continually vary, and the capital normally employed could only be calculated by taking a monthly average of each of these two items.

4. *Society's Working Capital:* The amount of capital owned by a Society (members' interest), less the amount of fixed capital in land and buildings, fixtures, and investments.

5. *Trade Capital* represents total capital employed less the amount of fixed capital in land and buildings, fixtures and investments.

6. *Credit Sales:* Proportions of credit to total sales have been taken from "trade debtors" at end of year. Credit sales vary at different periods of the year, and are apt to be high March to May. The average amount of credit during the whole year is probably a little higher than at the end of the year, but this applies to all groups and scarcely affects comparisons.

Taking the group as a whole, these societies are in a fairly healthy position both as regards capital and credit trading. The proportion of the total capital employed that is owned by members is about the average, and the credit position is not serious. Societies of this type have several advantages compared with the larger concerns. By the nature of their business, little capital is tied up in buildings and fixtures with the result that practically all the capital is directly available for trading purposes and normally very little capital is absorbed in stocks.

Outgoings in respect of rents and rates are small and this tends to reduce working costs. Moreover, labour costs are low since the business does not entail the work of a full-time employee, and the management is often remunerated on the basis of business done, so that labour charges bear a close relation to sales. Consequently the small truck load society is able to operate profitably on margins which would be impossible in the case of a larger business. On the other hand, in areas of small farms or small farming businesses, such a society can operate only where wants are simple and close organisation is possible. Where farm businesses are fairly large, and larger quantities can be ordered, such societies could supply varied requirements.

But the small society has its peculiar difficulties which tend to obscure some of the advantages set out above. Being only a part-time servant of the society, the manager is handicapped when purchases are of an intermittent character. He can hardly be expected to develop that keenness in buying with which it is essential to meet competitors to-day. In some societies the secretary-manager can only buy with the consent of the committees who in turn insist that the selling price shall be cut as fine as possible, irrespective of operation costs. In the case of one society this practice resulted in a gross profit of only 1.2% on sales, producing a loss of 2.5% on turnover. A lack of appreciation of business problems on the part of the committee and general body of members, and to a less extent of managers is the chief source of weakness in societies of this character. Valuable as they are as a bulwark against possible aggression on the part of general distributors, one can hardly escape the conclusion that a change of outlook and methods is necessary before they can make a serious contribution to agricultural co-operation. Their position will become more serious when the present demand for farm delivery of goods becomes more insistent. Owing to the increase of motor traffic, and unfitness of roads for horses,

farmers are less inclined to go to depôts for their goods and are asking suppliers to deliver on the premises. When this becomes general, small societies will have to consider the possibilities of expansion or amalgamation with neighbours so that a delivery service may be operated economically. With societies of this class the overhead charges of a delivery service would be such as to make profitable trading, at competitive prices, virtually impossible. This remark applies to some societies of the storage type, and it can be estimated that a society offering varied commodities must have a turnover of at least £12,000 annually before it can expect success in operating a delivery service of its own.

### Storage Societies.

Statistics of trading have been obtained from 31 requisite societies, each operating one or more depôts and employing full-time labour. The following table, grouping the societies on a turnover basis, reveals the prevalence of small businesses.

TABLE 7.  
STATISTICS OF 31 STORAGE SOCIETIES.

Sales Grouping.	No. of Societies.	Average Sales per Society.	Average Membership.	Sales per Member.	Capital.		Per cent. of Sales.	
					Total.	Members' Interest. % total.	Total Capital.	Profit or Loss.
£10,000 & under	12	£6,003	174	£34.4	£2,429	59.2	42.8	-0.3
£10—20,000   ..	7	£15,725	365	43.1	£7,056	55.1	43.1	+1.0
£20—30,000 ..	7	£26,173	516	50.75	£11,554	54.4	44.8	-0.1
Over £30,000 ..	5	£71,331	1,143	62.4	£22,514	77.9	34.0	+1.5

The connection between the turnover and the value of trade per member is evident and is in keeping with what has been stated above. Apart from this the preceding table does not reveal radical differences between large and small societies, although the financial stability and profitable trading of the five largest is outstanding. These societies naturally benefit by a more rapid turnover of capital and a curtailment of working costs in relation to sales, but there is no apparent reason why the members should hold a larger proportion of the total capital owned and used than in smaller societies.

*Supply of Capital:* The indication of sources from which the capital employed by societies is derived throws interesting



light on the financing of the movement in South Wales. In the 31 societies under review the capital employed can be allocated to the following sources:—

TABLE 8.  
SOURCES OF CAPITAL. PERCENTAGE OF TOTAL.

Total Capital Employed.	Members' Interest.			External Capital.			
	Paid-up Share Capital.	Reserves and Accumulated Profits.	Total Members' Interest.	Loans.	Trade Credit.	Bank Overdraft.	Total Borrowed.
£273,000	12.8	52.3	65.1	4.1	24.5	6.3	34.9

In the above table reserves and accumulated profits include those which have been allotted to members as bonus shares. Members' share claims represented by paid up and allocated bonus shares amount to £68,282. The subdivision of members' interest as percentages of the total capital is therefore:— Paid up shares 12.8%, bonus shares 12.2%, reserves and profits remaining undistributed 40.1%.

The outstanding feature of this table is the small contribution made directly by members in paid-up shares to the finance of their societies. Members' interest varies between ownership of about 1 per cent. and 99 per cent. of the total capital used, but the fact that members' interests generally are so high is testimony both to the substantial profits made by societies during past years, and of the commendable way in which reserves have been kept in the businesses. Whereas the retention of reserves when they can be profitably utilised is a business-like policy, it must be remembered that this is rather a precarious means of finance. Had it not been for some years of easy trading, many societies would to-day be faced with shortage of capital if members did not realise their responsibilities to a fuller extent. There are some societies which are still suffering from a scarcity of capital, and persistent appeals made to members for financial support have met with little response. Taking the South Wales societies as a whole paid-up share capital amounts to little over £2 per member. On the basis of annual sales to the value of £52 per member, about £16 is required to finance each member's trade. Consequently members have directly subscribed only sufficient capital to finance about one-eighth of their

trade with societies; on the other hand they have sacrificed dividends and sometimes share interest to the creation of reserves. Co-operators should realise that a certain quantum of capital is necessary to 'the society's business, and the less of this supplied by them the greater is the amount of borrowed capital on which interest is payable. Members should realise that the share capital which they subscribe is used in their own interests, and that returns on that capital may take the form of more reliable and/or cheaper goods and better service.

In attracting capital and maintaining the loyalty of members, societies should give some consideration to the farmer in his capacity of investor. It is natural that farmers should look for a return on their money in whatever way it is made available to the society. There are farmers who are prepared to loan money to the society but unwilling to take up shares. This attitude is largely determined by the fact that the lender is more sure of his interest and can withdraw his capital after giving due notice. The weakness of loan capital from the standpoint of the society is that it is withdrawable and that such capital can only be retained provided interest is paid.

But it does not follow that loan capital will yield more to the lender than capital invested in shares. The investor has less security since most shares are—and quite properly—of the transferable rather than the withdrawable class, as it is essential to societies that the bulk of their share capital should not be withdrawable. There is in Wales at least one case of a society which has suffered very considerably because shares were withdrawable and farmers exercised their rights when purchasing their farms in post-war years. But as shown above, the accumulation of profits and reserves by the societies now under review has increased members' interests to four times that of the original subscription. A member may pay £5 for share capital, while reserves and accumulated profits may make his total interest up to £20. When reserves have reached these dimensions it is equitable to allot them, and natural for members to demand that this should be done, especially if on occasions interest on shares has been sacrificed in the interests of the society. With the allotment of bonus shares, making them transferable at increased values, the member or his heirs may realise the advantage of his capital investment. Failure to distribute reserves in shares often means that early members are subsidising later ones, and there may be a tendency for the pioneers to lose their interest

in the society; or, the greatest danger of all, that existing members, jealous of their reserves, should in practice refuse to admit others to membership. In some societies with strong reserves it is stipulated that new members pay in excess of the face value of the share something to meet the increased value of shares in view of possible distribution.

*Profit and Loss:* There are such marked differences between societies of the same size in matters like the geographic situation, conditions of finance, type of trade conducted, and the amount of services rendered to members, that a size classification does not provide the best basis for analysing financial results and business efficiency. Consequently in subsequent tables societies will be grouped according to such conditions as profits made, expenses incurred, and credit given in relation to trade. In examining the financial accounts of a business, the average man looks first at the statement of profit and loss to ascertain the results of the year's trading. Of the 31 societies now under review, 6 made losses, and the remainder made varying amounts of profits in relation to sales in 1926. The extreme variations are striking, for in one case each £100 of sales left the society £4 profit, and in another each £100 of sales left a loss of £11 8s. od.

TABLE 9.  
GROUPING AS TO PROFIT AND LOSS.

Profit or Loss.  Per cent. of Sales.	No. of Societies.	Average Profit or Loss.	Trade Margin.	Trade Expenses.	Average Sales per Society.
		Per cent. of Sales.			
<i>Profit.</i>					
2% or over ..	7	+ 3.1	9.6	6.5	£37,011
1—2% ..	6	+ 1.66	8.7	7.05	£24,610
Under 1% ..	12	+ 0.3	6.9	6.6	£19,194
Loss ..	6	— 4.0	6.3	10.3	£14,151

The above method of stating results has been adopted in order to preserve continuity in a series of comparisons. Most people, however, will be inclined to ask what is the return on capital. The answer to this question cannot be a simple one if it has to cover the varied conditions of capitalisation in these societies. One society making a net trading profit—before meeting financial charges—of 1 per cent. on turnover and 3 per cent. on capital used, borrowing half its capital

from outsiders, and paying 6 per cent. interest for this, has no return on its own capital, yet, strictly speaking, there are "capital earnings" from its business. Another, making a net profit on trading before meeting financial charges of 1 per cent. on sales and 4 per cent. on capital, borrowing only one-fifth of the capital used and paying 5 per cent. interest, provides £3 5s. Od. per cent. on its own capital. In this case the total earnings are 4 per cent. on all capital used, but the earnings are unevenly divided between the owned and borrowed capital. When heavy losses are suffered, the position may be quite different, for, strictly speaking, there may be no earnings of capital, although interest is paid on loans, simply because the interest payments are made out of the owned capital. Thus a society suffering a loss of 2 per cent. on turnover before meeting financial charges, borrowing half its capital and paying 6 per cent. interest, reduces its own capital by the amount of the trading loss plus the amount of interest payment. The seriousness of this position is clearly shown in Group IV. of the summary below. When trading profits are quite small there is the possibility of having profit on the trading business and actual loss over the whole transactions of the society because a sum greater than the profits is paid to lenders of capital. In the following table, financial results are calculated on the basis of sales, owned capital, and total capital employed.

TABLE 10.  
PROFIT AND LOSS ON SALES AND CAPITAL.

Profit or Loss. Per cent. of Sales.	No. of Societies.	Profit or Loss.		
		Per cent. of Sales..	Per cent. of Owned Capital.	Per cent. of Total Capital.
<i>Profit.</i>				
I. 2% or over ..	7	+ 3.1	+ 9.1	+ 7.9
II. 1—2% ..	6	+ 1.66	+ 7.9	+ 4.86
III. 1% and under	12	+ .3	+ 1.8	+ 1.15
IV. Loss ..	6	— 4.0	—18.9	— 5.7

The profit or loss shown is the net result of the financial and trading transactions of societies. In the case of the groups showing profits the percentage of profits on owned capital is the rate actually available for distribution on that capital. And in the group showing losses the percentage of loss on owned capital is the actual proportionate reduction of

that capital during the year. The lenders do not suffer loss unless societies get so weak that they fail to make their interest payments. The percentage of profit or loss on total capital used is the rate of distribution of these results if all capital were owned by the society. The actual rates of distribution are quite different.

The results in Group IV. are interesting and important as showing the risk of short periods of bad trading with borrowed capital. Were all the capital used in this group owned by the societies they could carry on for a long period with their losses with the possibility of re-adjustment and recovery, but with a high proportion of borrowed capital re-adjustment must be made quickly for failure marches rapidly forward, while re-adjustment may be difficult in times of general depression. The payment of interest on large proportions of borrowed capital is one of the chief causes of instability of societies when profits are small or losses are incurred. For such societies the effects of losses are cumulative—each loss means more borrowing and greater payments to lenders.

The conditions producing a profit or loss are variable enough to make it unsafe to isolate any one as being entirely responsible for the result. Naturally, trading results depend upon income in the form of gross profit on sales and miscellaneous receipts in relation to the trading charges. The gross profit which a society can secure will depend on the strength of local competitors and the prices at which goods are bought and sold. Some societies cannot allow themselves liberal margins owing to the keenness of competition. Other societies are able to sell at market prices, and retain a good profit because goods have been bought on favourable terms. It is the general practice of managers to keep for the society part at least of the advantages of a "lucky" purchase, thus balancing their losses on less fortunate deals. Since the price at which goods are bought has such an important bearing on the gross profits which can be secured, it is essential that the management should be in possession of, and able to use, the best market intelligence, besides having command of sufficient capital to take advantage of favourable offers. In fact Table 9 would seem to suggest that the better results of the larger societies are partially attributable to efficient purchasing. The intimate connection between the strength of buying and finance will be dwelt on at a later stage.

*Operating Costs:* But a society's profit is not determined solely by its income, since this must be considered in relation to expenditure. A society may be trading on wide margins

and suffering loss if the burden of expense is heavy. Operating costs can be roughly classified into three groups:—“ Management ” costs, arising out of the actual handling of goods; interest charges, arising out of the financing of the business; and overhead charges, such as depreciation of fixtures and plant. In the following table societies are grouped according to the amount of trade expenses in relation to sales. The averages, however, mask wide variations in total expenses which show extremes of 3.16 and 19.5 per cent. on sales.

TABLE i1.  
EXPENSES AND PROFIT AND LOSS GROUPING.

Expenses Grouping.	No. of Societies.	Expenses of Management.	Other Exs.	Total Exs.	Profit or Loss.	Sales per Society.
Per cent. of Sales.		Per cent. of Sales.				
Under 6% ..	9	4.2	.5	4.7	+1.3	£32,500
6—8% ..	11	5.8	1.2	7.0	+ .75	£21,730
Over 8% ..	11	7.6	2.4	10.0	— .7	£17,317

The larger proportion of a society's working costs is taken up by payment for the use of premises, labour and “ office ” charges, and the delivery of goods when this is done. The cost of premises varies considerably with the location and size of a society. Those serving industrial areas have to face heavier costs on buildings since land values—and consequently rents—tend to be higher than in rural areas. Large societies with a number of depôts are under necessity of investing a considerable proportion of their capital in buildings which make additions to cost in the form of taxes, rates, interest, depreciation and repairs. But the increase in turnover is normally sufficient to cover the extra outlay. Most depôts have been built adjoining railway sidings where this is possible, and thus handling costs are materially reduced.

The chief single item of expense is in respect of management and labour since agricultural requirements are bulky and take considerable handling. Again there is a tendency for the labour charges of societies in industrial districts to be higher than in those serving rural areas since town wages are generally higher than those prevalent in the country. As regards payment for management proper it would seem that

the best policy is to pay a flat rate rather than institute a commission on sales. The latter method often induces the manager to push sales, and perhaps allow too much credit. And at this juncture it might be suggested that Management Committees in the past have sometimes failed to realise the importance of enlisting first-class business men into the service of the society by offering adequate remuneration.

Motor expenses figure prominently in the costs of the nine societies owning lorries which are engaged in the transport of supplies to depôts and farms. But all expenses must be treated in terms of turnover and normally these societies find that the maintenance or increase of turnover fully justifies the costs of a delivery service. The expenses of two groups of societies, one giving no delivery, and one giving some delivery services have been examined, with the following results:—

#### EXPENSES OF DELIVERY AND NON-DELIVERY SOCIETIES.

	Average Sales.	Expenses as per cent. of Sales.		
		Expenses of Management	Other Expenses.	Total.
9 Delivery ..	£35,230	6.16	1.25	7.31
10 Non-Delivery ..	£33,290	5.33	0.89	6.22

With only a relatively small difference in average turnover between the two groups, and slightly in favour of the delivery societies, these show a relatively small addition to costs due to the extra service given. The exact costs of the delivery services are not ascertainable, and if ascertained they would show but one side of the economy of the service. Only a complete set of records showing work done and costs would be useful, and even these would give an incomplete basis for judgment of the cost and value of the service, because the lorries make possible economies in the storage and handling of goods, and give returns in the maintenance of custom, which cannot be recorded with accuracy. Payment for haulage to depôts is one item of direct expenditure often eliminated by the use of delivery vehicles. However, there is no doubt that delivery societies gain benefit from the extra service given.

“Other expenses” includes interest charges, depreciation and miscellaneous expenditure. Table 11 reveals the important fact that as the burden of expenditure increases a larger proportion is taken up by charges of this character. This is

further evidence of the influence of finance on trading results and will be dealt with later. The other feature of the table is that the larger society is better able to adjust expenditure to turnover than the smaller. It is generally true that it is extremely difficult to reduce expenditure to meet a given decrease in turnover since so many charges are payable whatever the volume of business done.

*Credit*: Most requisite societies regard it as part of their business to give some amounts of credit to members. Practices vary considerably in this respect, for the proportion of credit to total sales varies between less than 4 and over 44 per cent.; but the majority of societies are allowing fairly long credits. The small societies show the strongest tendency to give liberal accommodation in this respect.

TABLE 12.  
GROUPING ACCORDING TO AMOUNT OF CREDIT GIVEN.

Trade Credit. Per cent. of Sales.	No. of Societies.	Debtors.	Expenses.	Profit or Loss.	Average Sales per Society.
		Per cent. of Sales.			
15% and under ..	13	12.2	6.4	+ 1.5	£28,833
15—25% ..	10	20.7	7.5	+ 1.1	£24,136
25% and over ..	8	32.6	9.9	— 1.7	£13,221

An examination of the wisdom of giving long credits is important owing to the obvious connection between long credits, heavy expenses, and poor financial results, demonstrated in the foregoing table. Though granting some credit is perhaps a necessity under the present conditions of farming, it is evident that each society should carefully review its credit situation. An examination of individual societies in each of the above groups reveals the interesting fact that there is no clear correlation between the type of farming carried on in a district, the terms of sale usually offered by a society, and the credit situation. At first sight it might have been expected that societies serving liquid milk areas, where the flow of income is fairly regular, would have shown a more satisfactory position as regards credit than societies serving store stock areas. But this does not prove to be the case. It is perhaps more surprising that the offer of discounts for cash is not generally accompanied by a healthy credit position. Several societies are offering 2½% discount for cash in 14 or 28 days and yet



between 3 and 4 months' credit is taken by customers. Other societies, on the other hand, offer no such premium on cash payments and still secure the settlement of accounts within a month or six weeks. While the offer of discount for cash does serve to speed up payments, societies should consider whether prevalent rates are not excessive in relation to the results obtained. The conclusion is invited that the credit position is determined primarily by the strength or policy of the manager and local committees.

*Finance and Success:* A careful comparison of the three foregoing tables establishes the intimate relationship between heavy expenses, long credits and poor financial results. This is so because the dividing line between successful and other societies turns primarily on questions of finance—the sources from which capital is derived and the uses to which it is put.

A society which is relying largely on borrowed capital will have to face heavy expenses in the form of interest charges. Where the proportion of members' interest in the total capital employed is high the society has control of much capital on which it is not legally bound to pay interest. Further, some societies are in such a strong position that income is derived from interest on outside investments and loans. On the other hand the employment of loan capital, taking long credit from suppliers or incurring heavy bank overdrafts, sometimes both, materially increases the working costs since such borrowed capital must be paid for either in the form of bank or loan interest, or loss of trade discounts, and possibly by paying trade interest charges as well. Consequently there is a close connection between the financial strength of a society and the terms on which it can buy, and offer goods to customers, and this in turn affects the margins which can be retained for the society. The relation of expenses to sources of capitalisation is demonstrated in the following table. The heavy expenses of societies in the third group are closely connected with the extensive use of borrowed capital.

TABLE 13.  
EXPENSES AND CAPITAL PER CENT. OF SALES.

Expenses Grouping.	Trade Expenses.	Trade Capital.	Society's Working Capital.	Outside Capital.	Members' Interest Per cent. of Total Capital.
6% and under ..	4.7	28.6	17.6	11.0	67.0
6—8% ..	7.0	28.1	16.6	11.5	65.8
Over 8% ..	10.0	37.7	17.0	20.7	55.4

The returns from the employment of capital will be largely governed by the rapidity of capital turnover. The cost of capital to a business is the same whether it is turned over once in the course of a year's trading or several times. At current rates of interest £100 turned over four times to purchase £400 of goods will only cost the same—say £5—as if only £100 worth of goods were bought and sold in a year. Societies in the third group are paying nearly £7 11s. od. for capital which does the same work as that for which societies in Group I. are only paying £5 14s. od. Or, if the members' interest is left out of consideration Group 3 pays £1 17s. 8d. for each £1 paid by Group I. Consequently, the more rapid the turnover of capital, the less is its cost in relation to trade done.

But all the capital employed by a society cannot be used to purchase and stock goods, since some will be taken up in buildings, fixtures and plant. The sum thus tied up represents the difference between Total and Trade Capital. The minimum of trade capital required is usually more or less fixed at about 25% of turnover. Consequently a society using its capital in such a way that it is not liquid (i.e., available for the purchase and storage of goods and giving some credit), will require more capital per £ of sales.

From the standpoint of the liquidness of assets, giving long credits to members is tantamount to tying up capital in fixtures or investments. When members are taking long credits they are robbing the society of working capital, and using the society's capital to finance their own business. Thus the society is forced to employ more capital than would otherwise be necessary. Heavy capitalisation in relation to trade is a feature of societies giving long credits, and this implies a low-earning power of capital unless credit is charged for or covered by increased prices. This low-earning power is in fact found. The relations between credit given and the efficiency of capital employment is demonstrated in the following table. The losses sustained by societies in the third group are largely due to the fact that customers take about 98 days' credit compared with 36 days in the first group.

TABLE 14.  
CAPITAL AND CREDIT PER CENT. OF SALES.

Credit Grouping.	Average Debtors to Sales.	Trade Capital.	Society's Working Capital.	Outside Capital.	Ex-penses.	Profit or Loss.	Mem-bers' Interest. % of Total Capital.
15% and under	12.2	24.9	17.5	7.4	6.4	+ 1.5	70.7
15—25%.. ..	20.7	30.6	16.7	13.9	7.5	+ 1.1	56.25
25% and over ..	32.6	43.9	16.5	27.4	9.9	— 1.7	50.8

The connection between expenses, the turnover and cost of capital, and long credits with financial results can now be summarised if the capitalisation of societies grouped on a profit and loss basis is studied.

TABLE 15.  
CAPITAL AND FINANCIAL RESULTS PER CENT. OF SALES.\*

Group.	Profit or Loss.	Trade Capital.	Society's Working Capital.	Outside Capital.	Credit.	Ex-penses.	Members' Interest % of Total Capital.
Profit.							
2% and over ..	3.1	28.6	22.8	5.8	17.2	6.5	88.0
1%—2% ..	1.66	28.4	16.05	12.4	17.9	7.05	63.0
Under 1% ..	.3	29.4	16.2	13.2	19.1	6.6	61.2
Loss . . . . .	4.0	42.8	12.9	29.9	28.3	10.3	35.8

\* See Tables 9 and 10.

*Financial Earnings and Expenses:* As there are all sorts of conditions in respect of finance amongst the 31 societies whose results have been analysed it is necessary to indicate the exact position as regards the earnings of capital invested or deposited outside their actual trading business, and the payments for external capital, not owned by the societies, used in their businesses. Societies may receive interest on invested or deposited capital, and receive discounts for cash payments on purchases. They may pay trade interest on overdue accounts, give cash discounts to purchasers, and pay interest on loans and bank overdraft. Of these transactions there may be all kinds of combinations, *e.g.*, a society which has capital invested may at times pay trade or bank interest, or one which pays discounts to its purchasers may itself receive or fail to qualify for trade discounts on the goods it buys. Only the net results of these forms of transactions in their varied combinations are useful for general purposes and these are shown below, using groupings of societies previously used. Thus using the credit grouping, Group I. having an average of 12.2 per cent. credit sales to total shows a favourable balance on these financial transactions of about 3s. per £100 of sales. Group II. having an average of about 21 per cent. of credit to total sales shows a favourable balance of about 1s. 9½d. per £100 sales. While Group III., having an average of nearly 33 per cent. of credit to total sales shows an unfavourable result on these financial transactions and loses about 7s. 3d. per £100 of sales. The full details are overleaf:—

TABLE 16.  
SUMMARY OF FINANCIAL CREDITS AND DEBITS. PER CENT. OF SALES.

Group. Credit given.	Financial Receipts.			Financial Payments.				Balance.
	Trade Dis- counts Re- ceived.	Capital Interest Re- ceived.	Total Re- ceipts.	Inter- est Paid.	Dis- counts Paid.	Bank and Loan Char- ges Paid.	Total Pay- ments.	
15% and under	0.09	0.3	0.39	0.035	.045	0.15	0.23	+ 0.16
15—25% ..	0.55	0.15	0.70	0.01	0.25	0.35	0.61	+ 0.09
25% and over ..	0.24	0.18	0.42	0.1	.21	0.48	0.79	— 0.37

Group II. shows the possibility of unexpected combinations of these financial transactions. On the whole, these societies have the highest financial earnings, representing about 14s. per £100 of sales, but having about 12s. 2½d. of financial expenses have only a balance of 1s. 9½d. The net result for all the societies is an average earning of about 1s. 2½d. on each £100 of sales. The actual expense of borrowing to finance members' purchases does not measure the effect of long credit on the society, other factors such as limitation on buying methods are more important.

If the same analysis is made for the groups of societies as grouped by total expenses as percentage of sales the following net result is obtained:—

TABLE 17.  
EXPENSES GROUPING. PER CENT. OF SALES.

Group.	Financial Credits.	Debits.	Balance.
6% and under ..	.34	.12	+ .22
6—8% ..	.46	.47	— .01
8% and over ..	.6	.82	— .22

All these summary tables emphasise the necessity for the improvement of financial results of increasing the rapidity of capital turnover by the reduction of credit. Whatever the financial strength of a society, the reduction of credit will reduce the amount of capital required in the business for a given turnover. In the case of the weaker societies, the curtailment of credit will reduce, though in all cases not dis-

pense with the use of borrowed capital. The societies' large reserves could, as a result of credit reduction, release part of their capital for outside investment or improvement of depôts or stores and business development. In all cases, the reduction of credit would improve financial results, unless turnover were seriously diminished. Though the reduction of credit is no panacea for all the troubles of societies, yet attempts should be made in this direction. At present "long credit" is actually threatening the stability of many societies. Each society will have to work out its own policy in this matter in response to local conditions.\*

The effects of differences in cash and credit trading and in methods of financing trade are not by any means fully measured by profits or losses, or financial charges. The chief effects may be and often are to be found in prices of goods or in services rendered. Quantitative comparisons of prices over the whole range of goods offered by societies are impracticable. But small amounts of debts, and good finance, may lead to keen price-fixing or to high profits: long credit, or high borrowing to high prices, low profits or losses, according to the policy of the society or the circumstances in which it carries on trade.

## Relations with Members.

The majority of requisite societies are on a solid business footing, and have now won the confidence of their members by providing reliable goods at favourable prices, and giving service generally. They have brought a high standard of efficiency and honesty into the requisite trade, and this is no small achievement. Even in South Wales there are many districts in which land is of poor quality, in which farm businesses are small because of small areas or low productive capacity of land, in which homesteads are scattered and roads are poor. There are also districts which for these days are relatively badly situated for railway transport. Here are all the conditions which may lead to primitive trading conditions and in which low standards of trading efficiency and commercial honour sometimes appear. In these districts the achievements of societies have not infrequently been high in relation to the local conditions. Indeed, in some of these areas, owing to the existence of a society with an efficient committee and manager, the trading facilities are now as good as those

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\*For further discussion see *Agricultural Co-operation: The Control of Credit*, published by this Department, 1927.

in other districts with more favourable natural and economic circumstances. If farmers in South Wales cannot now obtain their requirements, however modern or uncommon they may be, from the co-operative movement it is because they do not take the trouble to inform the societies and managers of their needs. When demands arise, in whatever form, most societies do their best to meet them; usually with success.

Amongst the group of societies dealt with there are many ways in which trade is conducted and the contacts and relations between managers (or salesmen) and customers are maintained. In the case of extreme immobility the manager and *depôt* attendants stay in their *depôts* expecting members and customers to call and make enquiries and fetch goods, while the extreme of mobility is found in a travelling salesman. But most managers do some visiting of market places, halls, marts, and other places where farmers foregather. Doubtless in the theory of co-operative organisation, the member, realising his interest in and connection with the society, would be expected to visit its *depôt* for information or with orders. Conditions vary to a considerable extent, but speaking generally no reliance can be placed on this principle. It is probable that farmers have never been more canvassed for their orders than since 1921. Private firms wishing to regain trade after the contraction of the war years, and others wishing to establish trading connections, began a process of canvassing and "pushing" which has since been carried along by its own momentum. In some cases the co-operative societies have followed suit in their local areas, and there are others whose present position would have been stronger had they preceded or followed their competitors. Some societies can live on their reputations for quality, service and price, but no society suffers by the spreading of a good reputation in the area in which it has rights and facilities of operation. Other societies could offer better prices if canvassing enabled them to extend their trade.

But on the whole the business contacts and relations between managers or salesmen, and members and customers, are closer and stronger than the "political" or societal relations between other officers, such as the secretary and chairman, and the members. Again conditions are very variable. In some cases "the manager is the society" for nearly all practical purposes except the distribution of interest and dividend. In others, the existence of the society, and the place and importance of the officers and committee, are more clearly seen and recognised. Here there are two more or less distinct condi-

tions. In one the activities and influence of the officers and committee are felt within the internal organisation and conduct of the business, but the manager and paid staff and buildings represent "the society" to most members and customers, while in the other the activities and influence of officers and committee are felt and known throughout the business and organisation. On the whole the latter tends to be the more healthy condition, especially when members of the committee gain knowledge and use prudence and skill in the exercise of their functions. Very efficient businesses, in the immediate present, can be found where "the manager is the society," but in the long run there is great danger in this position. When the officers and committee are active in the business, conditions vary to some extent according to the attitudes of managers, for some are anxious that the existence of the society shall be realised and bring it forward to the notice of members, while others are rather anxious to put the society into the background and to keep the business contacts mainly as between themselves and their customers. There are other aspects of the relations between members and societies, besides the direct trading relations, which deserve discussion, but these may be reserved for another occasion. Yet it must be said that the varied connections between members and the society, the proper keeping of share registers, issue of notices and trade publicity matter, payment of interest and dividend, all have their influence on trading conditions.

*Delivery of Goods:* Besides the necessity of keeping general contacts with customers to meet present day competition in the requisites trade, societies will soon be called upon to deliver goods to customers' premises. Ten are already doing this for some of their members whereas a larger number arrange with outside persons for delivery at cost price to the farmer. In some cases again the farmer makes his own arrangements with a local carrier or haulier for haulage from the depôt to his farm. All these practices point to the fact that farmers in the future will be dissatisfied unless there are facilities for delivery of goods. Owing to the development of motor traffic, roads are becoming unsuitable for horses. Moreover with the cost of labour standing as it does, farmers are grudging the time taken up by long journeys to sources of supply. Experience of the uncertain harvest weather in 1927 is likely to intensify the demand for delivery. The efficient organisation of a delivery service will require careful study on the part of managers, together with some co-operation on the part of members so that full loads can be handled. In motor

transport the key to economy turns largely on the extent to which high mileage with fair loads can be obtained from lorries, together with a minimum of unloaded mileage. Farmers living along a lorry route will have to be approached in advance as to their requirements so that a full load can be made up.

*Salesmanship or Canvassing:* With the expansion of delivery, societies will have to modify existing means of maintaining contact with members. Visits of members to depôts will become less frequent and this method of keeping personal contact will have to be substituted by more outdoor work on the part of the depôt staffs. Canvassing on farms or in markets, and possibly the issue of price lists and advertisements are likely to play an important part in maintaining turnover in the future. Generally speaking, some means will have to be devised of keeping members in touch with the society's activities, the goods it has for sale and the prices at which they are offered.\* It may be stated that one society is confident that the appointment of a canvasser who also acts as a debt collector has been amply justified.

Even under present conditions, and when contact can be easily maintained, there is a tendency for members to regard their society merely as one among a number of competitors and not as their own business which should claim their entire allegiance. Judging from the poor attendances at general meetings, one often wonders how much true co-operative spirit there is in the movement. The benefits of co-operation may often have been exaggerated by propagandists, and it is true that mere enthusiasm is no substitute for sound business. But a better understanding among the rank and file of the special problems and ideals of co-operation would certainly benefit societies. For example, the risks of trading could be considerably reduced if members could give the manager some idea of their prospective requirements. Thus the manager could take bolder steps in the matter of contracts, for instance, and often avoid losses in the case of "seasonal" goods. Moreover, a better appreciation on the part of members of the ways in which taking long credits shows its effects through the whole structure and results of the business, would tend to raise the standard of business efficiency.†

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\*See *Salesmanship in Agricultural Co-operation*, by A. W. Ashby, Welsh Journal of Agriculture, Vol. III., 1927, and reprinted.

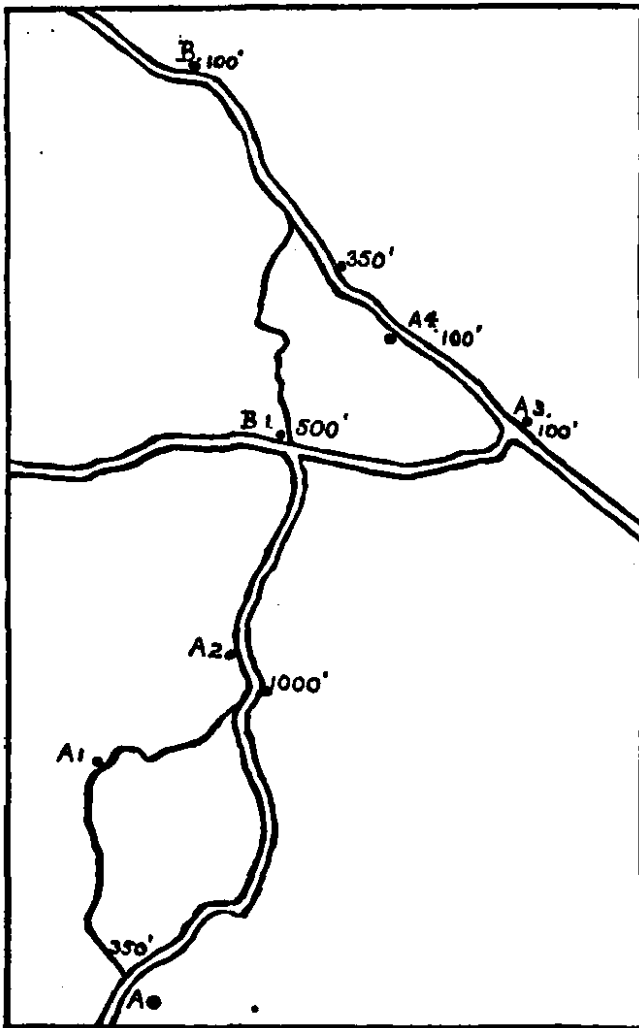
†See *Results of Credit* leaflet, published by this Department, 1927.



## Relations between Societies.

The principle of co-operation should permeate through the whole movement, and be reflected in the relations of societies with each other. Unfortunately there are several cases where the relations between societies in neighbouring districts are far from harmonious. The chief bone of contention is the question of territorial boundaries, and disputes often arise as to which society should trade or open a depôt in a particular district. That there are flagrant cases of "cutting in" and ignoring geographic areas is evident from the following map showing the distribution of societies and their depôts in one part of Wales.

INTERMIXTURE OF DEPOTS.



There are two societies trading in this area; one society has headquarters at A, from which it despatches goods by road to its depôts at A1, A2, A3 and A4. The other society has headquarters at B and a depôt at B1, to which it also sends goods by road. Points A and B are both situate on railway lines. But to the branch A4 of the society centred at A, goods are sent from the railway centre at B. On the other hand the small society has a depôt at B1 which is on the route of supplies going by lorry from A to A3. As the map is drawn to scale, it is easy to see how far the larger society has extended its depôts, but in delivering the goods it has to climb from 350 feet above sea level to 1,000 feet and then drop nearly to sea level again. The road from B to A3 is a first class road and at no point does it rise above 350 feet. Other things being equal goods could be supplied by B society to the points A3 and A4 cheaper than from A.

The existence of conditions such as these is evidence that there is much misunderstanding as to the wider objects of co-operative trade. Depôts should be distributed in such a way that goods could be brought to them at a minimum cost. The ultimate judgment of co-operation will be made in terms of service to farmers, and the society which can give this most efficiently should undertake the trade of a "borderline" district. It is gratifying to be able to record that recently two societies, in conference, came to an amicable agreement as to trading in a particular area. It is to be hoped that this sane method of procedure will be extended.

Logically if the underlying principle of co-operative trading is sound, it should be so extended that societies as such should reap the advantages of joint purchase. In principle, the economy of centralised purchase of supplies by societies is incontrovertible, though several practical difficulties need to be overcome. Societies in South Wales are purchasing goods to the value of between £725,000 and £750,000 annually, and it is obvious that bulk purchase would lead to substantial reduction in cost. Admittedly all supplies cannot easily be bought centrally, but particular commodities lend themselves to collective purchase. During the past summer, several societies joined in purchasing basic slag and a considerable saving was made. The fear among managers that joint purchase might threaten their independence is no small barrier to the extension of such practices. There are cases of healthy rivalry between managers and some of jealousy, with rare instances of co-operative managers being on better terms with local private traders than with managers of other societies. But the

future is likely to witness the expansion of information and trading relations between societies.

The chief obstacle to the extension of centralised trading is the fear that history will repeat itself and that schemes which are theoretically sound will again prove disastrous in practice. The Farmers' Central Trading Board which was afterwards turned into the Agricultural Wholesale Society Limited started its career in South Wales, and while functioning locally served useful purposes and was a source of strength. Had it remained as a local institution it might have continued a useful and effective existence and the general movement in South Wales would have been the stronger and more widespread for its assistance. Removal to London and subsequent developments tended to divide the local movement from its activities but unfortunately, as events proved, not from its organisation and finance. The disaster of the A.W.S. has much retarded, if not entirely stopped, the possible development of forms of combined or centralised trading by societies as such in an area in which the organisation for this purpose was both feasible and desirable. There are sufficient societies having common trading needs and conditions, connected with suitable centres, to make such organisation practicable, but with the results of the previous failure in mind it is not surprising that societies and their managers now look askance at any proposal of development of such activities. Much care will be necessary in any future approach to combined action, and much thought of the methods of securing the interests of individual societies. The A.W.S., which went into liquidation in 1922 not only proved a disastrous failure, but involved many societies in serious loss. Several societies in South Wales are faced with heavy claims from the Liquidator for the payment of the balance of their total capital liability to the A.W.S. The legal validity of some claims is said to be open to dispute, and steps are now being taken to ascertain the amount to which each society is liable. It is difficult to prophecy as to the final result, but in any case, the financial position of several societies will be seriously impaired. It is to be hoped that as a result of this trouble, the legal position as to the liability to which societies and members can be committed will be made clear for all time. The A.W.S. controversy should be sufficient warning to societies to carefully examine their rules, and also to keep a careful record of membership. In many cases, share registers are and have been in serious need of revision, and neglect to exclude from returns members who have lost all connection with the society is likely to involve some co-operatives in unnecessary liability as regards A.W.S. claims.

The failure of the West Wales Dairies Ltd., has also brought up the important question of the committal of members to obligations to take or subscribe shares without their express consent. While there is discussion of obtaining an amendment of the law to secure that no member shall be committed to the taking or subscribing of shares without his consent expressed in writing it may be said that such amendment is not absolutely necessary, as each society can make its own rule on this point. One South Wales Society (if not more) has adopted this rule:—

“ Shares shall be transferable but not withdrawable. They shall be of the nominal value of.....payable in full on application and the Society shall have no power to increase the nominal value of the share without the consent in writing of each member.”

And this is fair and equitable between individual members and the society at large.

## Sale of Produce.

Though several requisite societies are selling produce on behalf of members, it is difficult to measure exactly the extent of this trade in South Wales. In 42 societies, the value of produce sold, as appears in copies of the returns sent to the Registrar of Friendly Societies, was about £32,000, or about 4% of their total turnover. Most of this represents sales of eggs and butter, though some corn is sold by co-operative societies in certain districts. Some of these societies do not separate their produce sales from trade in requisites, since their corn trade often resolves itself into a transfer from member to member through the medium of the society. The trade in local corn is scarcely distinguishable in principle from that part of the general business concerned with the supply of feeding stuffs and seeds.

There are in Pembrokeshire three small societies registered for the selling of eggs and poultry produce, but their total turnover does not exceed £5,000 per annum. Though two of these societies made small profits for 1926, not one of them is in a strong financial position. All things considered, the history of co-operative marketing in South Wales has been discouraging, and several bad failures, especially in the disposal of dairy produce, have reduced farmers' faith in the movement. At present, all societies dealing in farm produce, whether entirely or as part of a requisite business, are experiencing considerable difficulty. They are hampered on the one hand

by the unreliability of supplies as regards quantity and quality, and on the other by the uncertainty of sales outlets. Before organised co-operative marketing can become a success in the Principality, changed outlook on the part of farmers and managers of societies seems to be necessary. Farmers have not appreciated the importance of supplying their society with all the marketable supply of the commodity concerned at all seasons of the year. Co-operatives in foreign countries have discovered that instituting a supply contract is the only method of securing adequate support. The unreliability of supplies in quantity or quality produces many difficulties for the manager, especially in securing reliable outlets, since the best customers demand a guaranteed supply as regards quality and quantity. Hitherto, co-operative societies generally have done little to raise the standard of produce, and this largely accounts for their inability to find markets. There are examples of course, where societies, in the case of eggs, test and grade all supplies before they leave the depôts. But such practices must become general before co-operative marketing will be placed on a sound footing. To meet foreign competition to-day, the standard of goods must be raised, and it is natural for agriculturists to ask co-operative societies to undertake part of this task.

There are three societies controlling auction marts which have materially improved local conditions for the sale of live-stock. Members of these societies are satisfied that auction selling is a more advanced method of disposal than that of private treaty, though there are some members who merely bring in their stock to be valued. On the whole, the opinion is held that in farmer-controlled marts the prevalence of rings and knockouts is less marked than in those publicly or privately owned.

## Conclusion.

It is evident that though agricultural co-operative societies are scattered all over South Wales, there are still several compartments of the farmer's business into which co-operation has not penetrated; and there is ample scope for development, especially in marketing farm produce, and also in organising agricultural credits. The future of co-operation will depend largely on the degree to which farmers may regard it as a business necessity. Coupled with sound business, education in co-operative principles and practices will do much to foster the collective point of view. Co-operation will succeed when

farmers come to regard it as the natural and only, or most efficient, form of conducting their buying and selling.

At present agricultural co-operation in South Wales is less of a movement than a number of independent trading units. It is true that there are managers who regularly confer with their neighbours and some experiments in joint purchase have already been made. But the extension of such practices is to be fervently hoped for, since co-operative societies in future must do everything which will increase their competitive strength. With a more frequent and general passing around of market information, i.e., knowledge as to prices and sources of supplies, the few cases of indifferent management will soon disappear. The object of all societies is to render service to the farmers and all the possibilities of improving trading efficiency should be utilised, even though certain societies would lose some of their "privacy" or their jealously-guarded independence for their loss in these will be more than covered by their gain in membership and financial strength.