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*Cooperative*  
*Purchasing by*  
Indiana Farmers

by Gerald M. Francis



Farm Credit Administration  
Cooperative Research and  
Service Division  
Washington, D. C.

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# Indiana Farmers Through Federated County Farm Bureau Associations

*By*

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FARM CREDIT ADMINISTRATION

*Cooperative Research and Service Division*

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## Summary

**C**OOPERATIVE purchasing by farmers in Indiana is performed by county cooperative associations federated in a central organization, the Indiana Farm Bureau Cooperative Association. This purchasing system was established largely through the initiative of farmers in their separate communities but with the assistance of the State association. Local ownership and local control by farmers characterize the whole system.

The Indiana Farm Bureau Cooperative Association maintains offices and warehouses in Indianapolis for the purpose of providing the county cooperatives with farm supplies of good quality and with essential centralized services. It makes contracts with manufacturers and processors of required commodities on both brokerage and purchase-and-sale bases. It also assists county cooperatives with accounting and auditing services and employs commodity specialists who help managers improve their distribution services and efficiency. County associations own the entire common stock of the State association, which they have acquired through patronage refunds. They elect its 11 directors.

The county cooperatives—the subject of this study—show marked variations in the character of their business operations. Each selects the supplies to be handled, purchases mostly through the State association but in part elsewhere, warehouses commodities as facilities permit, sells at prevailing local prices, and controls policies of granting credit to patrons. Petroleum products, comprising 31 percent of total sales in 1937, are sold mainly at farms by truck drivers. Other supplies are sold at the warehouses or by salesmen in special sales campaigns.

The associations have constantly expanded their services to farmer-patrons. They have reached out to extend to Indiana farmers throughout the State the benefits of large-scale purchasing power. In 1937 their total business reached approximately \$15,000,000. Of this amount 83 percent represented sales of farm supplies, chiefly petroleum products, fertilizer, feed, seed, fence, and farm machinery. Marketing of farm products accounted for the other 17 percent. The associations in that year served about half of the farmers in Indiana and handled approximately one-fifth of all farm supplies purchased for Indiana farms. They are the largest single source of farm supplies within the State.

Membership in the associations is limited to individuals, firms, and corporations that are engaged in some phase of agricultural production. Membership is based on ownership of at least one \$5 share of common stock. Usually a share can be obtained only through participation in patronage refunds. It therefore represents substantial purchasing through the association. The associations have approximately 50,000 members, and at least an equal number of other farmers are well along in the process of acquiring membership.

By keeping their cooperative services constantly in the farmers' minds, the associations endeavor to attract new members and stimulate the interest of old patrons. Personal contacts of the managers is the chief means of carrying on such educational activities. In many cases managers set aside a definite portion of their time for visiting farms of nonpatrons. Personal contacts are supplemented by holding special and annual meetings of members and their families, by mailing special sales circulars to members, and by having managers attend township farm bureau meetings.

Facilities commonly consist of petroleum bulk plants, warehouses, offices and equipment, trucking facilities, and branch warehouses. Those associations offering marketing services have grain elevators.

Credit may be extended on sales to patrons. Accounts receivable at the end of the year usually amount to less than 10 percent of the total sales of farm supplies. One-fourth of the associations have developed a service for assisting farmers in obtaining loans from production credit associations and from county farm bureau credit unions. This has relieved these cooperatives to some extent of their credit problems and has contributed to education of patrons in the benefits of using cooperative credit institutions.

Experiences of 15 associations that operate branches indicate that, although the distribution of supplies from branches may improve the services to patrons, it may increase the difficulties of operation so that more alert management is needed to assure the desired results.

Combining marketing services with purchasing activities, as is done by 25 Indiana associations, has helped to build business by attracting patrons. Frequently, however, it has led to lower average trading margins and to heavy expenses together with unsafe business practices that have occasionally resulted in losses.

The associations' net income amounted to more than half a million dollars in 1937. Although the rate of gross earnings on sales of supplies declined from 1934 to 1937, both because margins were lower on petroleum products in 1937, and because larger amounts of general farm supplies were handled at margins lower than those on petroleum supplies, expenses were also reduced. Thus a more diversified group of commodities with relatively lower gross margins was handled, but increased volume with resulting lower expense per dollar of sales



brought the average net operating income to nearly as high a percentage of total sales in 1937 as it was in 1934.

After paying expenses of operation and dividends on capital stock and providing for reserves and surplus, the associations refund the balance of their savings annually to patrons in proportion to the value of their purchases. These patronage refunds, which are usually paid at a uniform rate on combined sales of supplies, in 1937 ranged from 1 to 10 percent of sales. Refunds are customarily issued partly in cash and partly in common stock. Special cash refunds are commonly paid on fertilizer.

The assets of these associations were valued at approximately \$3,500,000 at the close of 1937. Current assets represented 60 percent and fixed assets 25 percent of the total. The ratio of current assets to current liabilities was 2.5 to 1. Long-term indebtedness accounted for less than 10 percent and net worth for 66 percent of total assets.

While obtaining added advantages from close cooperation with their State association each year, these cooperatives have continued to strengthen their individual methods of operation and to increase their local ownership and control.

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## Appendix

### Standard Form of Contract Between County Cooperatives and Petroleum Truck Drivers

**THIS AGREEMENT**, made and entered into this ..... day of ....., 19...., by and between ..... County Farm Bureau Cooperative Association, Incorporated, hereinafter referred to as the Association, and ....., hereinafter referred to as the Driver;

Witnesseth:

Whereas, the Association is a service organization, owning, leasing, or controlling trucks, and acting in the distribution of petroleum products and other supplies; and

Whereas, The Driver is owner of a truck chassis leased or controlled by the Association, and represents the Association in the territory allotted to him, which may be changed from time to time, and is held responsible for the delivering of products of the Association, according to its orders, prices, and instructions, to the farmers with all possible promptness and dispatch, and for collecting all amounts due from the purchasers of the products delivered;

Now, therefore, it is hereby mutually agreed as follows:

(1) That, the Driver agrees, at his expense, to furnish a truck suited to carry the Association's tank and to keep the same well painted and in good mechanical condition; and the Association agrees to furnish the tank and keep same in attractive and well-painted condition, and to furnish adequate truck-tank equipment for delivery.

(2) That, the Driver agrees to carry on said truck an insurance policy in a reputable company to cover public liability and property damage, and to hold the Association harmless from all accidents, injuries, and damages arising from the use of such truck, excepting only such liability as the Association may have under the Indiana workmen's compensation law; and the Association will, at all times, have the right to fully cover and insure tank, equipment, and merchandise.

(3) That, the Driver agrees to pay the Association, in full, for all goods taken out by him, either upon the succeeding day or upon his first return to the plant. Any account created by the Driver, due to his deviation from this policy, shall be the obligation of the Driver; and he shall guarantee the Association against loss on such accounts by furnishing bond or other personal security acceptable to the Association or to its bank.

(4) That, the Association may adequately bond the Driver for its protection against misappropriation of funds or property.

(5) That, the Association agrees to keep ample supplies of its products on hand at all times, but shall not be held responsible for losses resulting from delays in filling orders by reason of fires, strikes, labor questions, or any other cause beyond its control.

(6) That, on all deliveries to patrons, the Association agrees to pay the Driver the commissions mutually agreed upon, as set out in the schedule attached hereto and made a part hereof. (This schedule may be changed from time to time by mutual agreement.)

(7) That, the Association will allot to the Driver the territory solicited by him, which may, from time to time, be changed by the Association and the Driver. The Driver agrees to devote his full time in the solicitation and distribution of petroleum supplies handled by the Association.

This contract shall continue in full force and effect until canceled by either party by giving 30 days' written notice to the other party of its intention so to do.

If, at the time such cancelation takes effect, the driver is indebted in any amount to the Association, the Association shall have the option to acquire immediately the Driver's equipment, or such equity as the Driver may have in such equipment, at the fair market price thereof, less fair depreciation thereon, and less the amount of such indebtedness. In the event that such valuation cannot be agreed upon promptly by the parties hereto, the same shall be set by a disinterested third party selected by the parties hereto, whose decision shall be final and binding on both parties hereto.

In witness whereof, the parties hereto execute this contract the day and year first above written.

Attest:

-----  
Driver

-----  
COUNTY FARM BUREAU  
COOPERATIVE ASSOCIATION, INC.

By -----

Attest:

### Schedule of Compensation to Drivers

#### Farm Deliveries<sup>1</sup>

<i>Commodity</i>	<i>Regular deliveries</i>	<i>Quantity discount deliveries</i>
Farm bureau regular gasoline.....	---¢ per gallon	---¢ per gallon
Farm bureau U. S. motor gas.....	---¢ per gallon	---¢ per gallon
Farm bureau kerosene.....	---¢ per gallon	---¢ per gallon
Farm bureau No. 1 prime white distillate..	---¢ per gallon	---¢ per gallon
Co-op Tract-O-Line.....	---¢ per gallon	---¢ per gallon
Lubricating oils.....	---¢ per gallon	---¢ per gallon
Miscellaneous oils.....	---¢ per gallon	---¢ per gallon
Fly spray, disinfectants, etc.....	---¢ per gallon	---¢ per gallon
Greases.....	---¢ per pound	---¢ per pound
Tires.....	---¢ on sales	

#### Service Station Deliveries

Farm bureau regular gasoline....	---¢ per gallon, within city limits of city in which bulk plant is located.
Farm bureau regular gasoline....	---¢ per gallon, within a radius of 10 miles of bulk plant.
Farm bureau regular gasoline....	---¢ per gallon, in remainder of county.
Farm bureau U. S. motor gas....	---¢ per gallon, within city limits of city in which bulk plant is located.
Farm bureau U. S. motor gas....	---¢ per gallon, within a radius of 10 miles of bulk plant.
Farm bureau U. S. motor gas....	---¢ per gallon, in remainder of county.
All lubricating oils.....	---¢ per gallon, barrel delivery only.
All greases.....	---¢ per pound.

<sup>1</sup> The commission rates paid to drivers differ among the associations.

TABLE 22.—AVERAGE MONTHLY SALES IN PERCENTAGE OF TOTAL SALES OF PRINCIPAL FARM SUPPLIES FOR 62 COUNTY ASSOCIATIONS IN 1934

Farm supply	January	February	March	April	May	June	July	August	September	October	November	December	Total
Gasoline.....	6.7	6.2	8.0	10.6	10.4	8.9	9.6	9.6	8.6	8.4	7.0	6.0	100.0
Kerosene.....	5.8	5.0	7.5	14.9	13.7	8.7	8.4	9.4	7.6	7.3	6.2	5.5	100.0
Traactor fuel.....	1.7	2.5	5.9	22.7	19.0	7.5	8.4	10.4	7.6	7.0	4.7	2.6	100.0
Lubricants.....	4.4	3.9	7.7	16.6	16.1	8.4	7.9	9.2	6.8	7.6	6.7	4.7	100.0
Average of petroleum supplies.....	4.7	4.4	7.3	16.2	14.8	8.4	8.6	9.6	7.6	7.6	6.1	4.7	100.0
Feed.....	7.2	7.7	10.3	9.0	9.8	10.0	8.2	9.2	7.0	6.2	7.5	7.9	100.0
Seed.....	1.4	8.1	19.5	17.2	6.1	6.2	4.4	10.0	13.2	9.8	2.5	1.6	100.0
Fertilizer.....	.1	.1	1.7	8.5	20.1	2.7	.9	4.4	45.3	13.6	1.9	.7	100.0
Fence.....	3.3	5.2	7.7	17.5	14.3	7.3	9.0	9.7	9.2	7.9	5.5	3.4	100.0
Twine.....	.4	.2	.1	1.0	1.9	63.2	15.4	4.3	7.2	4.8	.8	.7	100.0
Miscellaneous.....	7.1	7.3	8.7	12.2	10.1	10.4	11.5	9.7	9.4	6.7	3.3	3.6	100.0
Average of general farm supplies.....	3.2	4.8	8.0	10.9	10.4	16.6	8.2	7.9	15.2	8.2	3.6	3.0	100.0
Average of all commodities.....	3.8	4.6	7.7	13.0	12.2	13.3	8.4	8.6	12.2	7.9	4.6	3.7	100.0

Data computed from records of the Indiana farm bureau county cooperatives.

## Other Publications Available

In addition to this bulletin, the following publications of the Farm Credit Administration may be of interest to farmers' purchasing cooperatives:

**Cooperative Purchasing of Farm Supplies**

Bulletin No. 1, *Joseph G. Knapp and John H. Lister*

**Accounting Principles for Cooperative Cotton Gin Associations**

Bulletin No. 2, *Otis T. Weaver*

**Cooperative Marketing of Agricultural Products**

Bulletin No. 3, *Ward W. Fetrow*

**Cooperation in Agriculture, a Selected and Annotated Bibliography**, Bulletin No. 4, *Chastina Gardner*

**Statistics of Farmers' Cooperative Business Organizations, 1920-1935**, Bulletin No. 6, *R. H. Elsworth*

**Cooperative Marketing of Range Livestock**

Bulletin No. 7, *L. B. Mann*

**Membership Relations of Cooperative Associations**

Bulletin No. 9, *J. W. Jones*

**Contract Feeding and Pasturing of Lambs and Cattle**

Bulletin No. 15, *C. G. Randell*

**Commercial Trucking of Fruits and Vegetables in Nine Atlantic Coast States**, Bulletin No. 17, *Nephtune Fogelberg and H. W. Mumford, Jr.*

**\*Use of Motortrucks in Marketing Fruits and Vegetables**

Bulletin No. 18, *Marius P. Rasmussen*

**Farmers' Purchasing Associations in Wisconsin**

Bulletin No. 20, *Rudolph K. Fraker and Joseph G. Knapp*

**Farmers' Mutual Windstorm Insurance Companies**

Bulletin No. 21, *Gordon A. Bubolz*

**Cooperative Purchasing of Farm Supplies in Mississippi**

Bulletin No. 22, *John H. Lister and Gerald M. Francis*

**Problems and Trends in Farmers' Mutual Fire Insurance**

Bulletin No. 23, *V. N. Valgren*

**The Surplus Problem in the Northeastern Milksheds**

Bulletin No. 24, *Leland Spenser*

**Relative Prices to Producers Under Selected Types of Milk Pools**

Bulletin No. 25, *T. G. Stitts, E. W. Gaumnitz, and Others*

**A Statistical Handbook of Farmers' Cooperatives**

Bulletin No. 26, *French M. Hyre, Whiton Powell, and Others*

**Cooperative Purchasing Through the Illinois Farm Supply Company and its Member County Service Companies**, Bulletin No. 27, *John H. Lister*

**Accounting Procedure for Cooperative Grain Elevators**

Bulletin No. 28, *E. B. Ballow*

**Terminal Fruit Auctions as Marketing Agencies for Farmers' Cooperatives**, Bulletin No. 29, *Kelsey B. Gardner*

**Cooperative Farm Supply Purchasing in the British Isles**

Bulletin No. 31, *Joseph G. Knapp*

\*No copies available.

(Continued on page 4 of cover)

# Other Publications Available

*(Continued from page 1 of cover)*

- Cooperative Milk Marketing in Louisville**  
Bulletin No. 32, *Wm. C. Welden and T. G. Stitts*
- Cooperative Marketing of Fleece Wool**  
Bulletin No. 33, *James M. Coon*
- Cooperative Marketing of Livestock at Cincinnati**  
Bulletin No. 34, *H. H. Hulbert*
- Livestock Auction Sales in the United States**  
Bulletin No. 35, *C. G. Randell and L. B. Mann*
- Butter Marketing by Cooperative Creameries in the Middle West**  
Bulletin No. 36, *Paul E. Quintus and T. G. Stitts*
- Cooperative Egg and Poultry Auction Associations**  
Bulletin No. 37, *John J. Scanlan and Roy W. Lennartson*
- Early Developments in Cooperative Cotton Marketing**  
Circular No. C-101, *O. W. Herrmann and Chastina Gardner*
- Organization and Operation of Cooperative Irrigation Companies**  
Circular No. C-102, *Wells A. Hutchins*
- Western Cattle and Sheep Areas**  
Circular No. C-103, *L. B. Mann*
- Economic Analysis of Bargaining Problems of Milk Cooperatives**  
Circular No. C-104, *T. G. Stitts and Wm. C. Welden*
- Refrigerated Food Lockers, a New Cooperative Service**  
Circular No. C-107, *L. B. Mann*
- Organizing Farmers' Cooperatives**  
Circular No. C-108, *S. D. Sanders*
- Organizing a Cooperative Cotton Gin**  
Circular No. C-109, *Otis T. Weaver and U. H. Prickett*
- Marketing Fruits and Vegetables Cooperatively**  
Circular No. C-110, *M. C. Gay*
- Co-ops in Agriculture**  
Circular No. C-111, *French M. Hyre*
- Development of Cooperative Cotton Ginning**  
Circular No. C-112, *Omer W. Herrmann*
- Farmers' Retail Petroleum Associations**  
Circular No. C-113, *Joseph G. Knapp and French M. Hyre*
- Crushing Cottonseed Cooperatively**  
Circular No. C-114, *John S. Burgess, Jr.*
- Organization Structure of Farmers' Elevators**  
Circular No. C-115, *Harold H. Hedges*
- Cooperative Marketing of Dairy Products**  
Circular No. C-116, *Harry C. Trelogan and French M. Hyre*

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