

ECONOMIC STUDY OF THE ORGANISATION,
FINANCE AND OPERATIONS OF
FARMERS' BUSINESS CO-OPERATIVES
IN VERMONT

M, 9J: 8.7383

G2

44562

XM, 9J: 8.7383

G2

044562

1105 - 21 436
OCTOBER, 1932

BULLETIN 346

University of Vermont and State Agricultural College
Vermont Agricultural Experiment Station

~~1105 - 21 436~~
BURLINGTON, VERMONT

Dhananjayrao Gadgil Library



GPE-PUNE-044562

AN ECONOMIC STUDY OF THE ORGANIZATION, FINANCE AND OPERATIONS OF FARMERS' BUSINESS COOPERATIVES IN VERMONT

1796.

By H. C. GRINNELL



12

(In cooperation with the Federal Farm Board)

Vermont commercial cooperative organizations, engaged primarily in marketing dairy products, have been actively at work from about 1875 to date. Approximately 130 farmer-owned butter and cheese factories were in operation in 1905, nearly all of which have now disappeared. Since statutory definition of cooperatives in 1915, 36 local dairy marketing, two maple marketing, and six purchasing associations have been organized. There were 22 cooperative creameries and four purchasing associations in 1929.

Although the number of dairy cooperatives has declined since 1922 their business has increased. The 1929 sales of 21 associations operating plants averaged \$530,000, their assets \$135,000 and their stockholders' equities \$77,000. They received approximately 30 percent of the deliveries to all Vermont plants. Their patrons, 90 percent of whom were stockholders, numbered 5,547. Eighty percent of their receipts was in the form of milk and 20 percent in cream; 55 percent was shipped as milk, 32 percent as cream and 13 percent as butter and other manufactured products.

The sales made by the purchasing associations averaged \$248,000, their investment \$28,000 and their operating costs 4.3 cents per dollar of sales. They served 2,240 farmers, 46 percent of whom were stockholders. Their unit operating costs were inversely related to sales volume.

The operating costs of the cooperative creameries averaged 13.6 cents per dollar of sales and 43 cents per hundredweight of milk. These costs at butter factories were lower than at milk shipping stations, but their net sales per hundredweight and the prices they paid patrons were likewise lower. Among 14 associations which shipped milk in bulk to metropolitan markets those which shipped a large proportion in fluid form operated at a relatively low unit cost. The costs of the large associations were higher than those of the relatively small ones, their failure to operate economically apparently being due to the fact that they carried more than their proportionate share of surplus and to the extension of their operations over wide areas.

Average selling prices and prices paid patrons depended largely on the percentage of the total product which was sold as fluid, although the large associations sold to better advantage than the smaller ones which carried the same percentage of surplus.

44562
Xm, 9(1): 8-7383
G 2

BULLETIN 346: AN ECONOMIC STUDY OF THE ORGANIZATION, FINANCE, AND OPERATIONS OF FARMERS' BUSINESS COOPERATIVES IN VERMONT

By H. C. GRINNELL

CONTENTS

Purpose	
Scope and method.....	
Development of farmers' organized business associations	-18
Dairy marketing associations.....	7
Out-of-state cooperatives operating in Vermont.....	14
Maple products marketing associations.....	16
Purchasing associations.....	17
Other farmer-owned corporations.....	18
Status of agricultural cooperation, 1929.....	18-27
Volume and type of business in 1929.....	20-27
Dairy marketing associations.....	20
Purchasing associations.....	27
Legal and economic aspects of organization.....	27-43
Capital structure.....	27
Purposes of organization.....	28
Cooperative features.....	30
Membership relations.....	32
Personnel and management.....	35
Business policies.....	39
Balance sheet items.....	43-55
Purchasing associations.....	43
Dairy marketing associations.....	46
Operating items.....	55-57
Purchasing associations.....	55
Dairy marketing associations.....	56
Current tendencies among Vermont cooperatives.....	57-71
Purchasing associations.....	57
Dairy marketing associations.....	59
Factors affecting service to member-patrons.....	71-90
Purchasing associations.....	71
Dairy marketing associations.....	72
Summary	91-95
Appendixes A-D	97-103
A. Adjustment of auditors' statements.....	97
B. Chapter 210, General Laws, Sec. 4897 (Vermont).....	98
C. "Capper-Volstead Act" (Federal).....	98
D. Tables 1-7.....	100

¹ Former Acting Agricultural Economist.

APPENDIX A

ADJUSTMENT OF AUDITORS' STATEMENTS

Intangible Assets.—Intangible assets, such as goodwill and organization expense, were omitted from the balance sheets because of lack of known material value to the business.

Accounts Receivable.—Allowances or reserves for doubtful accounts, when recorded as a part of net worth, were transferred to the asset side of the balance sheet as a deduction from accounts receivable.

Notes Receivable.—Discounted notes were deducted from notes receivable. Although notes receivable discounted represent a contingent liability, the act of discounting constitutes essentially the sale of an asset the proceeds of which already appear among the assets.

Fixed Assets.—When allowances for depreciation of fixed assets appeared as a reserve in the net worth section of the balance sheet, they were transferred and deducted from the assets against which they were charged and the assets entered at their net value.

Deficit.—Deficit accounts appearing on the asset side of the balance sheet were transferred to the net worth section as deductions in order to obtain the true net worth.

Accrued Expenses.—Reserves for expenses were frequently listed among net worth items. These were transferred to current liabilities as accrued expenses.

Capital Stock.—Treasury stock was deducted from capital stock to obtain the actual amount of capital stock outstanding. Forfeitures of capital stock sometimes appeared in the profit and loss statement as income available for distribution to members. This item was transferred to the net worth section of the balance sheet, thus treating it as capital income rather than earned income.

Membership Liabilities.—In the statements of a few of the larger dairy corporations, amounts due members appeared as part of current liabilities. In some cases the corporation paid interest on this item, which was later distributed as a stock dividend. Such indebtedness to members was deducted from current liabilities and transferred to a separate section of the equities. In the analysis, it is treated as a part of the members' net worth.

Reserve for Dividend.—When reserves for dividends were included as a part of the net worth section of the balance sheet, they were transferred to current liabilities only when there was evidence that dividends had been declared.

Freight Out.—Freight and icing expense for outgoing shipments were deducted from gross sales to get net sales.

Interest.—Interest on capital stock was deducted from operating expenses and treated as a distribution of net earnings. Interest paid or due on borrowed capital was included in the operating expenses. To allow for varying amounts of investment in the business, interest was charged on the stockholders' investment at the prevailing rate of six percent and also credited to other income as interest not paid. This double entry does not affect net income for distribution.

Reserves Allowances.—Auditors frequently included transfers to contingent reserves with the operating expenses. These were deducted from the expense items and included as part of the distribution of net earnings.

Depreciation.—Those organizations which have installed a regular double entry system of accounts and have their books audited regularly, usually charged depreciation against the fixed assets at following rates:

Furniture and fixtures.....	10%	Buildings:	
Delivery equipment.....	25%	Wood frame.....	5%
Machinery and equipment.....	15%	Brick and tile.....	3%
Land improvements.....	10%	Concrete and steel.....	2%

Many of the larger dairy corporations apply a separate rate of depreciation to each major item of equipment. In the case of associations which carried no open asset accounts and charged no depreciation on fixed assets, the valuation of the assets was based on estimates by managers or officers or on income tax reports, and depreciation was charged at the standard rates given above.

APPENDIX B

CHAPTER 210, GENERAL LAWS OF VERMONT

GENERAL CORPORATION LAW

SECTION 4897.¹ PROVISIONS AS TO COOPERATIVE ASSOCIATIONS. A corporation formed under this chapter shall not have the word "cooperative" or any abbreviation thereof as part of its name, unless the articles of association contain all of the following provisions:

- I. Each shareholder shall have one vote and only one in all matters pertaining to the management of the corporation;
- II. The interest or dividend on the paid-up capital stock of the corporation shall not exceed six percent per annum;
- III. There shall be set aside annually not less than ten percent of the net profits of the corporation for a reserve fund until there is accumulated a fund of not less than fifty percent of the paid-up capital stock.
- IV. The remainder of the earnings, or any part thereof, shall be distributed by a uniform dividend upon the amount of purchases or sales through the corporation by the shareholders, or the amount of raw material furnished to, or business done through the corporation by the shareholders; such profits or earnings to be distributed as often as once in twelve months;
- V. Not more than ten percent of the capital stock of such corporation shall be owned by any one member;
- VI. Certificates of stock in cooperative corporations shall contain a statement on the face thereof that the holder is entitled to only one vote thereon.

APPENDIX C

"CAPPER-VOLSTEAD" ACT

(Public—No. 146, 67th Congress)
(H. R. 2373)

AN ACT TO AUTHORIZE ASSOCIATION OF PRODUCERS OF AGRICULTURAL PRODUCTS.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes; *Provided, however,* That such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum.

And in any case to the following:

Third. That the association shall not deal in the products of nonmembers to an amount greater in value than such as are handled by it for members.

SEC. 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly

¹ As amended to December 31, 1929 (No. 81 of 1929). It was still further amended by No. 96 of the Acts of 1931 (the so-called "cooperative marketing act" designed "to encourage the orderly marketing of agricultural products through cooperation"), but since this bulletin deals with the data secured prior to 1931, present form of the law is not given but that in operation at the time to which the data have reference.

enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than thirty days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade. An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the association an order reciting the facts found by him, directing such association to cease and desist from monopolization or restraint of trade. On the request of such association or if such association fails or neglects for thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

Approved, February 18, 1922.

APPENDIX D

TABLE I.—MEMBER AND PATRON RELATIONSHIP, ALL GROUPS OF ORGANIZATIONS

Year	Number of associations	Members				Patrons			
		Patron		Non-patron	Total number	Member		Non-member	Total number
		Number	Percentage of total			Number	Percentage of total		
Cooperative dairy corporations, annually, 1916-1930									
1916.....	2	78	100	78	78	80	20	98
1917.....	3	184	98	3	187	184	88	25	209
1918.....	4	217	97	7	224	217	88	30	247
1919.....	8	906	98	20	926	906	96	41	947
1920.....	12	1,738	98	34	1,772	1,738	97	58	1,796
1921.....	13	2,423	97	82	2,505	2,423	97	78	2,501
1922.....	17	2,957	95	144	3,101	2,957	95	154	3,111
1923.....	17	3,113	92	282	3,395	3,113	92	252	3,365
1924.....	19	3,587	89	440	4,027	3,587	94	231	3,818
1925.....	22	3,937	86	618	4,555	3,937	93	298	4,235
1926.....	22	4,584	85	812	5,396	4,584	92	419	5,003
1927.....	22	4,698	84	874	5,572	4,698	90	528	5,226
1928.....	22	5,144	84	1,013	6,157	5,144	90	586	5,730
1929.....	22	5,096	82	1,087	6,183	5,096	90	551	5,647
1930.....	22	5,485	82	1,203	6,688	5,485	90	625	6,110
Stock companies by five-year periods, 1905-1925, and annually, 1925-1930									
1905.....	12	395	75	131	526	395	42	536	931
1910.....	13	345	66	175	520	345	33	710	1,055
1915.....	13	318	62	195	513	318	29	778	1,096
1920.....	13	290	55	233	523	290	25	854	1,144
1925.....	13	239	45	296	535	239	20	977	1,216
1926.....	13	228	43	300	528	228	21	867	1,095
1927.....	13	220	42	304	524	220	19	950	1,170
1928.....	13	209	40	309	518	209	19	869	1,078
1929.....	13	182	35	335	517	182	21	702	884
1930.....	13	182	35	335	517	182	22	662	844
Cooperative purchasing associations, annually, 1925-1930									
1925.....	4	1,005	80	256	1,261	1,005	59	691	1,696
1926.....	4	1,030	81	235	1,265	1,030	57	785	1,815
1927.....	4	1,040	83	212	1,252	1,040	54	897	1,937
1928.....	4	1,060	84	200	1,260	1,060	50	1,065	2,125
1929.....	4	1,022	81	243	1,265	1,022	46	1,218	2,240
1930.....	4	1,020	80	250	1,270	1,020	44	1,278	2,298
All organizations, annually, 1925-1930									
1925.....	39	5,181	82	1,170	6,351	5,181	72	1,966	7,147
1926.....	39	5,842	81	1,347	7,189	5,842	74	2,071	7,913
1927.....	39	5,958	81	1,390	7,348	5,958	72	2,375	8,333
1928.....	39	6,413	81	1,522	7,935	6,413	72	2,520	8,933
1929.....	39	6,300	79	1,665	7,965	6,300	72	2,471	8,771
1930.....	39	6,687	79	1,788	8,475	6,687	72	2,565	9,252

TABLE 4.—AVERAGE ASSET VALUES; 16 COOPERATIVE DAIRY CORPORATIONS, 1922-1929

Balance sheet items	1922	1923	1924	1925	1926	1927	1928	1929
Assets								
Cash	\$ 1,852	\$ 3,583	\$ 5,788	\$ 8,114	\$ 7,106	\$ 12,015	\$ 12,727	\$ 13,191
Receivables	28,273	31,068	29,222	28,844	36,332	42,276	48,559	51,100
Merchandise inventory..	2,948	5,464	5,909	5,470	7,937	14,684	7,766	11,157
Other current assets....	511	538	604	652	624	709	937	1,100
Total current assets	\$33,584	\$40,653	\$ 41,523	\$ 43,080	\$ 51,999	\$ 69,684	\$ 69,989	\$ 77,211
Deferred assets.....	\$ 2,675	\$ 3,009	\$ 2,820	\$ 3,498	\$ 3,696	\$ 3,671	\$ 3,987	\$ 4,400
Investments and other	428	465	327	438	6,277	7,104	7,415	9,176
Office equipment.....	\$ 708	\$ 736	\$ 829	\$ 951	\$ 994	\$ 1,161	\$ 1,089	\$ 1,150
Delivery equipment....	889	1,005	1,325	2,564	2,808	3,349	3,393	3,289
Plant equipment.....	21,228	20,939	23,504	23,719	29,256	32,122	31,633	32,869
Buildings	24,846	25,464	27,919	31,650	32,689	33,533	34,267	33,924
Land and improvements	3,107	3,240	4,170	4,850	5,590	5,636	6,239	6,299
Total fixed assets..	\$50,778	\$51,384	\$ 57,747	\$ 63,734	\$ 71,337	\$ 75,801	\$ 76,621	\$ 76,719
Total assets	\$87,465	\$95,511	\$102,417	\$110,750	\$133,309	\$156,260	\$158,012	\$168,067

TABLE 5.—AVERAGE EQUITY VALUES; 16 COOPERATIVE DAIRY CORPORATIONS, 1922-1929

Balance sheet items	1922	1923	1924	1925	1926	1927	1928	1929
Equities								
Patrons' accounts payable	\$20,170	\$22,667	\$ 23,444	\$ 25,204	\$ 30,330	\$ 34,607	\$ 37,066	\$ 39,116
Trade accounts payable.	3,359	3,389	3,923	2,776	2,830	3,904	5,801	7,603
Trade notes payable....	181	27	280	569	575	1,853	1,644	1,616
Bank notes payable....	8,911	7,072	6,412	3,593	7,503	13,286	5,481	9,397
Other current liabilities	1,766	1,179	1,437	1,049	1,788	2,367	1,811	2,209
Total current liabilities	\$34,387	\$34,334	\$ 35,496	\$ 33,191	\$ 43,026	\$ 56,017	\$ 51,803	\$ 60,011
Fixed liabilities....	12,941	10,416	10,678	12,562	16,211	16,122	13,403	12,578
Total liabilities....	\$47,328	\$44,750	\$ 46,174	\$ 45,753	\$ 59,237	\$ 72,139	\$ 65,206	\$ 72,589
Capital stock.....	\$30,845	\$34,192	\$ 36,380	\$ 39,337	\$ 50,137	\$ 55,355	\$ 59,208	\$ 59,375
Reserves	6,669	13,611	15,409	18,583	17,653	20,760	23,136	25,715
Undivided profits.....	2,623	2,958	4,454	7,077	6,282	8,006	10,462	10,383
Total net worth....	\$40,137	\$50,761	\$ 56,243	\$ 64,997	\$ 74,072	\$ 84,121	\$ 92,806	\$ 95,473
Total equities	\$87,465	\$95,511	\$102,417	\$110,750	\$133,309	\$156,260	\$158,012	\$168,067

