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# Texas Farmer Cooperatives' Response to Change

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The Texas A&M  
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**Texas  
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College Station

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# TEXAS FARMER COOPERATIVES' RESPONSE TO CHANGE

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Cooperatives, and their farmer members, are in an unheralded but persistent struggle for survival. That struggle, to an important extent, results from the fact that agriculture and the economic environment within which it operates are constantly changing. The center of concern currently results from the overall depressed economic conditions in agriculture and the general economy. Longer-run concerns, to which cooperatives must adjust, include the struggle for control of agriculture, government policies toward agriculture and the availability of capital needed to grow.

Success in this struggle depends upon the ability of cooperatives to identify both internal and external forces currently affecting their response to change. Internal change includes such things as changes in personnel, land, facilities, equipment, cash flow, membership, boards of directors and management. The amount, availability, obsolescence, yield, volumes and utilization of available capacity all affect the cooperative's capabilities and levels of achievement. External forces that affect the life of cooperatives include such things as an economic policy, changing structure of agriculture, changes in farm production, inflation, interest rates, foreign trade and domestic farm policies.

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<sup>1</sup>Roy B. Davis Distinguished Professor of Agricultural Cooperation and Extension Economist-Marketing and Policy.

<sup>2</sup>Professor of Agricultural Economics and Extension Economist-Policy and Marketing.

Internal forces dominate the cooperative's performance in the short-run, while external forces dominate in its long-run performance.

## **Purpose and Procedure**

This publication identifies: 1) changes affecting Texas agricultural cooperatives currently and in the immediate future, and 2) how Texas cooperatives are responding to these changes. As part of the response, the role of planning and the role of regional cooperatives will be examined.

Information in this publication is based on results of a survey of all Texas agricultural cooperatives during May and June of 1982. Completed questionnaires were received from 117 cooperatives.

## **Changes Affecting Texas Agricultural Cooperatives**

Eighty percent of the responding Texas cooperatives indicated that in the last 10 years they had overtly identified changes that are currently affecting their operations or will affect them in the future. Among cooperatives that identified such changes, 80 percent had done so within the last two years. Two percent of the cooperatives reported that they had last looked at the impact of changes on their operations more than 5 years ago. Changes affecting the cooperative were identified primarily in the joint action between the board of directors and management. Only 8 percent of the cooperatives utilized a committee to identify changes, and 5 percent utilized members.

About half of the cooperatives examining changes affecting their operation reported that they merely talked about it. The most common practice among those with a record of their deliberations was to make it a part of the regular long-range planning process. Others included only analysis results in the minutes of the board. Only 5 percent of the cooperatives prepared a separate written report on changes affecting them.

The major sources of change affecting Texas agricultural cooperatives, according to this study, were the U.S. economy and political situation. The next most important source of change was changes in the market of farm products, followed by changes in the world economic and political situation and, finally, changes within farming itself.

When asked what changes will affect their cooperative within the next 10 years, half or more identified the following changes:

	<b>Percent of Responses</b>
High cost of farming	84
Economic uncertainty	75
Inflation	73
Fewer farms	69
Increased capital requirements	64
Government farm programs	59
Increased producer debt load	57

The following changes were identified by at least one-fourth of the cooperatives:

	<b>Percent of Responses</b>
Government export policy	45
Increased cooperative debt load	40
Competition from private firms	37
Fewer acres farmed	33
Too few workers	30
Fewer crops grown	27
Competition from other cooperatives	27
Increased production	27

The following were identified by less than one-fourth of the cooperatives as changes affecting them:

	<b>Percent of Responses</b>
Reduced production	22
Modulation of cotton	19
Changes in regional cooperative	18
Corporate farming or foreign ownership of land	17
More crops grown	15
Technological change	15
Availability and cost of water	15
Equity redemption and retirement	15
Need for better financial planning and marketing skills	12
Unit train movement of grain	9

It is useful to note that the most frequently identified sources of change were generally economic or government forces that were largely beyond the control of the individual farmer or local cooperative. The potential for influencing forces of change—such as inflation, economic uncertainty and farm programs—is limited to political action at the national level through regional cooperatives, farm organizations or others.

Even further down the list of changes, many were not within the control of the cooperative. Exceptions include the cooperative's debt load, competition from other cooperatives, changes in regional cooperatives, equity redemption and the need for better financial planning and marketing skills.

In spite of a limited ability to influence such forces of change, cooperatives must adjust to them—hopefully in an anticipatory fashion with a full understanding of what is being done and why. This requires analysis of the forces of change, the effect on an individual cooperative and alternatives available for adjusting to change.

## **Changes in Membership Composition**

The average Texas agricultural cooperative had 246 members in 1982. As shown in Table 1, 37 percent of the members farmed less than 500 acres. Thirty-six percent farmed from 500 to 999 acres, 22 percent from 1,000 to 2,499 acres, and 5 percent farmed 2,500 or more acres. The U.S. census shows that in 1978, 77 percent of all Texas farms and ranches were less than 500 acres, 11 percent from 500 to 999 acres, and 12 percent were 1,000 or more acres. Thus, the average cooperative member farmed more acres than the state average. Texas cooperative members are concentrated on the high plains of Texas where farmers typically farm more land.

Although there are numerous small farms in east Texas, only a few cooperatives are in this region and a small percentage of farmers and ranchers belong to cooperatives. Many east Texas farmers are retired from city jobs, or are currently working in Houston, Beaumont, Dallas or Shreveport and do not feel the need for cooperatives.

Another Texas A&M University study<sup>1</sup> found that 66 percent of the high plains cotton farmers were members of either farm supply or

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<sup>1</sup>Edward G. Smith, *Economic Impact of Current Alternative Farm Programs in the Southern High Plains of Texas*, unpublished Ph.D. dissertation, Texas A&M University, College Station, December 1982.

**Table 1. Distribution of farms in Texas, 1978, and of members in Texas agricultural cooperatives for 1982 and projected for 1992 by acres farmed.**

Acres farmed	1978 census Texas farmers Percent	Members of Texas ag. cooperatives		
		1982 Percent	Projected 1992 Percent	Change Percent
Less than 500	77	37	26	-11
500 to 999	11	36	32	- 4
1,000 to 2,499	12	22	34	+12
More than 2,500		5	8	+ 3
Total	100	100	100	

marketing cooperatives (not including credit or electrification cooperatives) (Table 2). the high plains study indicates that cooperative membership declines sharply for farm sizes of more than 2,560 acres. Less than one-third of farmers with more than 2,560 acres were members of either marketing or farm supply cooperatives.

These large scale farmers typically find it beneficial to integrate vertically on their own or through the formation of a regular corporation in concert with other large scale farmers. Nearly half of the farmers with more than 2,560 acres of cropland had proprietary interest in an agriculturally related business as a regular corporation, partnership or sole proprietor. More impressive was the finding that 80 percent of those farming more than 4,400 acres had direct ownership interest in a farm supply or marketing business not organized as a cooperative. Most typically, these farmers owned a gin, fertilizer and chemical companies, equipment dealerships and elevators.

When asked to project the acreage per member 10 years from now, the survey showed an increase in the percentage of members who will farm larger acreages (Table 1). Apparently, future cooperative membership will include fewer, but larger, farmers.

Texas cooperatives estimate that slightly more than half (53 percent) the farmers with more than 2,500 acres in the cooperative trading area are currently members of the cooperative. Thirty-three percent of the cooperatives reported loss of patronage of larger producers.

**Table 2. Percent of farm operators with membership in a marketing or farm supply cooperative, by cropland acreage, Texas southern high plains, 1982.**

Size of farm Acres	Percent of farms
1—320	75
321—640	60
641—690	71
691—1,280	69
1,281—1,600	67
1,601—2,560	87
2,561—4,400	38
More than 4,400	20
All farms	66

Source: Edward G. Smith, *Economic Impact of Current Alternative Farm Programs in the Southern High Plains of Texas*, unpublished Ph.D. dissertation, Texas A&M University, College Station, December 1982, p. 67.

The high plains study suggests that cooperatives are indeed having problems holding on to the membership of larger farmers. Larger farmers find more benefits in non-cooperative integration (owning their own gin) than in cooperative integration.

Significantly, less than half of the cooperatives reporting declining patronage of larger producers had a plan for recouping this patronage.

Larger farmers account for an even larger proportion of the cooperative's business. The survey indicated that one-fourth of the members accounted for more than 50 percent of the cooperative's business, while half of the members accounted for more than 75 percent of the cooperative's business.

While 14 percent of the cooperatives reported losing more than 20 percent of members/producers during the last 5 years, 26 percent reported gaining more than 20 percent membership in the last 5 years. The cooperatives that lost significant membership did so mainly because of reasons external to their operations.

The most common reasons given for losing patronage included retirement, death of members, urbanization, land purchased by large owners and members who stop planting cotton. Only two cooperatives

cited poor management, while competitive conditions were cited by three cooperatives. One cooperative reported losses resulting from the sunflower deal of a few years ago and the textile mills' committed pooling arrangement, adding that some previous members are returning.

Most of the cooperatives reporting gains in membership cited internal changes as the cause. The most common reasons included better service, new product lines, expanded facilities, efficient operation, greater profit, aggressive merchandising, and good member and public relations. The current adverse economic climate as well as less aggressive corporate competition also were cited as causes for membership increases.

## **Financial Changes**

Cooperatives participating in the survey had 59 percent of their assets in member equity and 41 percent in borrowed capital. On the average, they showed little change in net worth as the percentage of total assets in the last 5 years.

During this period, 45 percent of the cooperatives increased returns on equity, while 30 percent decreased returns on equity and 25 percent reported no change. These cooperatives reported 58 percent of their liabilities were short-term (a year or less). This is a change from 49 percent 5 years ago.

Eighty-five percent of the cooperatives anticipate that the current method of capital acquisition will generate enough equity capital to meet their needs 10 years from now. The 15 percent anticipating that the present financing would be inadequate 10 years from now cited four causes:

- 1) inadequacy of plant and obsolescence of equipment and facilities,
- 2) unpredictable profitability of agriculture,
- 3) unwillingness of farmers to leave savings or net margins as equity with the cooperative, and
- 4) impact of inflation.



## Response to Change

How do Texas Agricultural cooperatives respond to changes discussed in this report? The five most common adjustments to change were, in order of frequency:

1. Expanded facilities or services,
2. Tightened credit policy,
3. Reduced long-term debt load,
4. Reduced personnel, and
5. Adopted new technology.

Other changes included: reduced facilities and/or services; modernized for more efficiency; hedged grain on the futures market; initiated price-later contracts; added a computer for member use; expanded trade territory; and leased warehouse space to the public.

The question, "What will you do in the future to adjust to change?" brought the following responses, in order of frequency:

1. Expand facilities and/or services,
2. Adopt new technology,
3. Reduce long-term debt load,
4. Tighten credit policy,
5. Reduce personnel,
6. Diversify cooperative business, and
7. Buy a higher percentage of supplies from regional cooperatives.

Mentioned less frequently were affiliation with new regional cooperative (by local grain cooperatives)<sup>2</sup>, marketing a higher percentage of the products through regional cooperatives and becoming more specialized.

## Long-Range Planning

Twenty-eight percent of the Texas cooperatives reported having a long-range plan. Four percent of the plans were for 2 years, 14 percent for 3 years, 9 percent for 4 years, 55 percent for 5 years and 18 percent for more than 5 years. Eighty-two percent of the long-range plans were for 5 years or less.

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<sup>2</sup>Producers Grain Corporation, a regional grain cooperative that ceased operation in 1982.

Long-range planning is a relatively recent process among Texas agricultural cooperatives. Fifty-seven percent reported developing their first long-range plan within the last 4 years. Only 15 percent developed their first plan as early as 10 years ago. One cooperative reported developing its first plan in 1963. Eighty-eight percent of the cooperatives with a long-range plan update it annually. The majority of those that do not update it every other year.

Sixty-five percent of the cooperatives that do not have a plan reported the desire to have one.

## **Mergers and Consolidations**

Merger or consolidation is generally viewed as beneficial but a harsh adjustment. One of every six Texas cooperatives indicated a need to merge or consolidate with one or more cooperatives. Only 28 percent of the boards of directors of cooperatives had discussed the issue of merger or consolidation with other cooperatives in the last 5 years. Most of these were within the last 2 years. Of the cooperatives that had discussed merger or consolidation, only one in six drew up a merger plan.

One-third of the cooperatives that discussed merger or consolidation started or completed a feasibility study. Only one cooperative completed the merger. Cooperatives apparently are not adjusting to change as rapidly as their farmer-members.

Among the cooperatives that did not discuss merger or consolidation, one-fifth indicated that they expected this to take place in the future. The most common reasons given for anticipating a merger or consolidation were:

1. Changing agriculture,
2. Strength of competition,
3. Need to improve marketing capability,
4. Weak financial condition,
5. Higher energy cost,
6. Need to improve supply sources,
7. Declining volume,
8. Changing motor transportation,
9. Railroad abandonment, and
10. Depleting water supply.

## Regional Affiliation And Assistance

Ninety percent of the cooperatives were affiliated with regional cooperatives; 10 percent were not. The majority of local cooperatives were affiliated with more than one regional. Fifty-one percent of the local cooperatives reported that the regional cooperative has helped them to adjust to change. Among the cooperatives that received assistance from regionals, 98 percent had received assistance from Farmland Industries. Other cooperatives named as rendering assistance to local cooperatives, in order of frequency, were: Texas Bank of Cooperatives, Plains Cotton Cooperative Association, FarMarCo, Union Equity, Plains Cooperative Oil Mill, Agri-Industries, Plains Cooperative Compress, American Rice, Inc., Valley Cooperative Oil Mill, American Cotton Growers, Gulf Compress and Mississippi Chemical.

Two most common means for providing service or information to the locals were personal consultation and special newsletters. Other means used included: house organs, magazines, seminars, conferences, meetings and special studies.

The most common information provided by regionals to locals was information for decision making, including advice on new technology. Locals also credited the regionals with allocating supplies during years of shortages, aid in financial planning, economic and market forecasts and assistance in solving transportation problems.

What kind of assistance would Texas cooperatives like to have from their regional cooperative to help them adjust in the future? Response in order of frequency follows:

1. **Marketing.** Local cooperatives expect regionals to be a market watcher, analyzer, creator and forecaster. They desire marketing and transportation assistance. They desire information on old and new products. They want storage contract details, and want the regional to provide price change notices. They expect regionals to be better marketers.

2. **Financial planning, analysis and credit.** Locals look to the regional for cost analysis and projections. One cooperative indicated that the regional ought to provide big loans to help build high capacity plants.

3. **Personnel training.** Locals desire more personnel training. Some local cooperatives are willing to do this with a regional on a shared-cost basis.

4. **Legislative representation.** Locals desire more regional representation in setting terms of government policy with respect to agriculture.

5. **Maintain strength.** Local cooperatives recognize that regionals must remain financially strong to provide services, return savings to the locals and provide continuing marketing assistance to locals.

6. **New technology.** Local cooperatives rely on regionals to keep up with new technology and advise locals of technological changes to which they must adjust.

7. **Member education.** Regionals are viewed as an important source of member education to the locals.

8. **Management assistance.** Local cooperatives frequently turn to the regionals for assistance in making management decisions and recruiting managers.

## Cooperative Education

Only one in four Texas agricultural cooperatives provided training for new or prospective board members. The training, when provided, is usually done only after the annual election and consists of special orientation seminars or other in-house training sessions conducted by management and/or the board. In those cooperatives where management and/or the board does not conduct a training, training is received either from Farmland Industries or from the annual Texas Agricultural Cooperative Managers and Directors Conference sponsored by the Texas Federation of Cooperatives. Principal media for orienting new board members are: the Board Policy Handbook, financial records, organizational charts, bylaws, tour of fiscal facilities, long-range plan, job descriptions and selected publications. Cooperatives not providing formal training expect new directors to learn as they sit on the board and vote on policy matters that come before it. Learning by doing runs the risk of incurring serious mistakes in judgment and is not an efficient means of getting the job done.

Twenty-three percent of the cooperatives reported that board members receive training from sources outside the cooperative, primarily from the Texas Cooperatives Managers/Directors Conference held each March and sponsored by the Texas Federation of Cooperatives. Cooperatives also reported training from Texas A&M (Texas Agricultural Extension Service), Texas Bank for Cooperatives and Farmland Industries.

Twenty-nine percent of the cooperatives responding to the survey reported that the manager had received special training during the past year. About half of these managers received training from Farmland

Industries. The next most common source of management training was the Texas Cooperatives Managers/Directors Conference and area schools conducted jointly by the Texas Federation of Cooperatives, Texas Agricultural Extension Service and the Texas Bank for Cooperatives. One cooperative indicated that it received training in management use of computer systems from IBM.

The most frequent length of management training was 3 days, but training time varied from 2 to 49 days. Various subjects were covered and are listed below in order of frequency:

1. Management technical skills,
2. Financial budgeting and planning,
3. Board responsibilities,
4. Marketing and knowledge about products, and
5. Cooperative principles, cooperatives' response to change.

Other topics mentioned include inventory control, loss prevention, safety and employee training.

The survey shows that two cooperatives out of three (67 percent) spent no money on education, compared with 64 percent in last year's survey. Of the 33 percent that allocated funds for education, allocations varied from .006 percent to 5 percent of total expenses. The majority of cooperatives with educational programs spent less than one percent of the total expenses for that purpose. Thirty percent of the cooperatives spent 1 percent and 15 percent spent either 3 or 5 percent.

Educational sources and programs listed as "educational expenses" by cooperatives, in order of frequency, included:

1. Texas Federation of Cooperatives Managers/Directors Training Conference,
2. Texas Federation of Cooperatives annual meeting,
3. Texas Institute of Cooperative Education,
4. Youth and Young Farmers' Conferences,
5. Newsletter plus subscriptions to *Farmland News* to members,
6. Special Farmland Industries' training schools,
7. Cooperative Bookkeepers' School, and
8. Correspondence courses.

Less frequently mentioned educational sources included audio-visuals developed for employees, programs, consultations and various meetings and seminars.

## Special Assistance

The survey shows, and our experience confirms, that Texas agricultural cooperatives seek and need planning assistance in two areas: 1) long-range planning and 2) financial planning. Among the cooperatives without a long-range plan, 62 percent reportedly would like to have one. Nearly 80 percent of the cooperatives wishing assistance in developing a long-range plan indicated they would like to receive that assistance from the outside. Thirty-eight percent of the cooperatives would like help from the outside in financial planning.

The following table shows Texas cooperatives would prefer to get financial and long-range planning assistance from the following sources:

**Table 3. Sources of long-range and financial planning assistance preferred by Texas agricultural cooperatives, 1982\***

Source of Assistance	Long-Range Planning Percent	Financial Planning Percent
Bank for cooperatives	69	84
Regional cooperative	67	42
Land-grant university	49	47
Private consultant	46	34
Other	5	8

\*Most cooperatives selected two or more sources.

## Conclusion

Cooperatives are adjusting to change. Not all of them recognize either where or how much adjustment will be required. They either have not studied the need for change or have not recognized the realities of the factors requiring change. Texas cooperatives face more change than that of many other states. Two high plains regional cooperatives recently went bankrupt. Market channels are changing, forcing adjustments in cooperative policies. The cost of pumping water for irrigation continues to rise while the availability of water declines. Agricultural prices and incomes continue to be highly volatile. The

financial condition of crop farmers has severely deteriorated since 1979. Under these conditions, pressures build for cooperatives to pay producers higher prices for products, charge lower prices for inputs and services and/or reduce returns for capital accumulation.

Texas agricultural cooperatives' adjustment to change, therefore, is not easy.

- Local cooperatives tend to rely on regional cooperatives for assistance in responding to change.
- There is a need for more cooperative education than locals plan or budget for. Thus, primary responsibility for initiating and executing a needed educational program rests with regional cooperatives.
- Most of the major changes affecting local cooperatives are outside of the cooperative. These are forces generated by changes in the general U.S. and world economies, government programs, structure of agriculture, resources and inflation. The members' financial conditions also affect the status of agricultural cooperatives.
- The land-grant university ranked high as a source of assistance preferred by Texas agricultural cooperatives and was the chief outside source of assistance.
- Texas agricultural cooperatives sought assistance in long-range and financial planning in 1982.
- Inadequate consideration has been given to mergers and consolidations as a means of overcoming financial and operational difficulties encountered through change.

Adjustment to such changes requires conscious evaluation and planning. All too few cooperatives are doing this needed planning. The services are available or can be made available to Texas cooperatives. Requests should be made to the Texas Federation of Cooperatives, the Texas Bank for Cooperatives, your regional cooperative or the Texas Agricultural Extension Service.

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