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Co-Operative and Other Organized  
Methods of Marketing California  
Horticultural Products

By  
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## PREFACE

This monograph is based on studies made during a residence of nearly two years in California. The chief sources of information have been: (1) personal interviews with officials of marketing organizations; (2) articles of incorporation, by-laws, agreements, crop contracts, and other printed documents; (3) detailed records of Boards of Directors and other official bodies; (4) files of periodicals published in fruit producing regions or giving prominence to horticultural products; and (5) special literature bearing on the subject (see Bibliography).

An effort has been made to give a true picture of the co-operative movement in California as applied to the marketing of horticultural products. This study was completed in March, 1917, and describes conditions as they existed at that time. Since then various new organizations have been formed, transportation conditions and rates have changed on account of the war, and the government has greatly extended its participation in matters pertaining to food distribution. No attempt has been made to include a discussion of these later developments, though some of them are directly in line with the possibilities suggested near the close of this report.

The writer desires to acknowledge his indebtedness to the late Professor A. V. Stubenrauch for suggesting the undertaking of this study and for encouragement during its progress almost to its completion; to other members of the faculty of the University of California for helpful suggestions; to the officers and managers of the various marketing organizations for their courteous assistance; especially to G. Harold Powell, General Manager of the California Fruit Growers Exchange, for the privilege of examining all the records in the office of that organization; to C. B. Messenger, Editor of the *California Cultivator*, for access to early files of the *California Cultivator* and the *Rural Californian*; and to Joseph F. Daniels, Librarian of the Riverside Public Library, for access to files of the *Riverside Press and Horticulturist* and the *Riverside Daily Press*.

J. W. LLOYD

Urbana, Illinois  
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## INTRODUCTION

The permanence of horticultural industries depends primarily upon the successful marketing of the products. Many individual horticultural enterprises have failed, not because of inability of the operators to produce the crops, but for lack of efficient marketing facilities. When individual efforts at marketing have failed, growers have been obliged either to give up their horticultural pursuits or to co-operate with their fellows in the marketing of their products. The greater the distance of the grower from his market, the more helpless he has been as an individual in attempting to solve his marketing problems. It is not surprising, therefore, that California growers have been leaders in the development of co-operative marketing organizations in America.

A study of the conditions which led to the formation of co-operative marketing organizations in California, and of the accomplishments of these organizations should indicate the relative advantages of co-operative, as compared with other methods of marketing. Furthermore, the experiences of these organizations in the progress of their development illustrate certain principles which appear to be fundamental to the success of co-operative marketing enterprises. A detailed consideration of these principles as exemplified by the experiences of California marketing organizations will constitute the major portion of the present paper.

Three methods of marketing California horticultural products may be noted: (1) outright sale to speculative buyers, (2) consignment upon a commission basis, and (3) sale through a growers' co-operative marketing organization. Each of these methods has characterized certain periods in the marketing of the various California products. In the early eighties of the last century, California fruit was usually purchased outright from the growers by speculative buyers who shipped it to a few of the larger markets. California fruit in the eastern markets was then looked upon as a luxury to be indulged in only by the wealthy, and the

limited shipments were sold at exorbitant prices. During this period, the buyers paid good prices to the growers, and at the same time made large profits for themselves. Within a few years, however, with increased production, the markets seemed to be easily oversupplied, and the former buyers refused to purchase fruit from the growers, but were willing to handle it upon a commission basis, in addition to a fixed charge for packing. This arrangement relieved the shipper of all risk and insured him a profit, but placed the grower at the mercy of an uncertain market, and finally resulted in such low returns that the entire fruit industry of the state was threatened with ruin. The crisis was reached during the financial panic of 1893. For a few years previous to that date, efforts had been made by growers to devise some better method of marketing their products; and in a few places small local associations had been organized. A special impetus was given to the formation of fruit growers' co-operative marketing organizations in 1893, particularly among orange growers in the southern part of the state. The various local organizations of orange growers became affiliated, and in 1895 a central organization, known as the Southern California Fruit Exchange, was incorporated. This organization has been in continuous activity since that date (though in 1905 the name was changed to California Fruit Growers Exchange), and furnishes the facilities by means of which a large part of California's citrus fruit crop is marketed.

Besides the citrus fruit growers, producers of deciduous fresh fruits, raisins, dried peaches, walnuts, almonds, apples, berries, and cantaloupes, have formed marketing organizations which are at the present time in active operation. Some of the organizations are general in character, attempting to serve the needs of the given industry throughout the state; others have confined their activities to a given producing region without regard to the same product in other localities.

The following organizations of growers are concerned in the marketing of California horticultural products:

## CALIFORNIA CO-OPERATIVE MARKETING ORGANIZATIONS

Name	Headquarters	Product	Years in Operation	Percentage of Crop Handled
General organizations:				
California Fruit Growers Exchange	Los Angeles	Citrus fruits	22	67
California Fruit Exchange	Sacramento	Deciduous fresh fruits	16	20
California Associated Raisin Co.	Fresno	Raisins	4	80+
California Walnut Growers Association	Los Angeles	Walnuts	5	70
California Almond Growers Exchange	San Francisco	Almonds	7	80
California Peach Growers	Fresno	Dried peaches	1	75
Locality organizations:				
Sebastopol Berry Growers, Incorporated	Sebastopol	Berries	8	
Sebastopol Apple Growers' Union	Sebastopol	Apples	6	
Turlock Merchants and Growers, Inc.	Turlock	Cantaloupes, etc.	2	

In addition to the above, the following have filed articles of incorporation, and are in process of organization: California Prune and Apricot Growers, Inc., California Associated Olive Growers, Inc., and Watsonville Apple Distributors.<sup>1</sup> Mention should also be made of the California Avocado Association and the Coachella Valley Date Growers Association, organizations which are looking after the welfare of their respective industries, the products of which are not yet of sufficient volume to warrant any attempts at co-operative marketing.

<sup>1</sup> This study was completed in March, 1917. Other organizations handling California horticultural products have been formed since that time.





## CHAPTER I

### ADVANTAGES OF CO-OPERATIVE MARKETING

A study of the accomplishments of the organizations enumerated in the tabular statement on page 11, and of some of their predecessors in the same industries, indicates that growers' co-operative marketing organizations handling California horticultural products are capable of:

1. Reducing the cost of marketing.
2. Improving the distribution of the product.
3. Increasing the demand for the product.
4. Standardizing the product.
5. Protecting the individual grower.

#### HOW MARKETING COSTS HAVE BEEN REDUCED

In this discussion, "cost of marketing" is assumed to mean the difference between the price paid by the jobber in the consuming region and that received by the grower for a given product. It includes packing-house charges, transportation, and brokerage, commission or other form of compensation for doing the selling. In the early period when the fruit was handled principally by speculative buyers who purchased it outright from the growers, this cost of marketing included a large profit to the dealer. When market conditions changed so that large profits were no longer assured, the same firms continued to operate as packers and shippers, charging the growers a fixed amount for packing and a commission for selling. This was the method in operation at the time the orange growers decided to organize for the purpose of doing their own marketing.

One of the most tangible results secured by the orange growers upon assuming their own packing and selling was a marked reduction in the cost of packing as compared with the charge exacted for that service by the firms who had previously handled

the crop and who continued to handle it for growers outside the organization. Reports of various associations of growers at the end of the first season's operations following the general movement toward organization in 1893, gave definite evidence on this point. At the annual meeting of the Riverside Heights Orange Growers Association, October 2, 1894, the officers reported that "the total expense per box for packing the fruit . . . was 29 cents."<sup>1</sup> The report of F. M. Douglass, Secretary of the Duarte-Monrovia Citrus Association, July 17, 1894, stated that, "The charge to the growers for packing the fruit and loading on car was but 24 cents per box. Though the price was small, it proved sufficient to cover the expense."<sup>2</sup> The previous season, one of the largest commercial packers had charged growers 40 cents a box for the packing.<sup>3</sup> In an address at a meeting of the Southern California Pomological Society, at Pomona, November 16, 1894, T. H. B. Chamblin, in reviewing the first year's operation of the Exchange system,<sup>4</sup> stated that, "Previous to the advent of the Exchange system, it cost from 35 to 50 cents per box to pick, pack, and haul to the railway. The average was about from 40 to 45 cents. During the past year it has not cost much over 28 cents per box."

Fully as favorable results were attained the next season. According to the *Ontario Record*,<sup>5</sup> "Mr. Adams [Manager of the Ontario Fruit Association] states that this year [1895] the expense of packing, miscellaneous expenses and salaries [i.e. cost of operating the local packing-house] amounted in round numbers to 28 cents per box. . . . When the old commission system was the only selling medium, the grower paid from 35 to 60 cents for packing alone." The costs of packing in some of the Riverside associations for the 1894-95 crop were as follows: Riverside Heights Association, 25.68 cents per box; Brocton Square Association, 26.20 cents per box; Navel Orange Co., 24+ cents.<sup>6</sup> The same item stated that, "The average cost throughout

<sup>1</sup> *Riverside Press and Horticulturist*, Oct. 6, 1894, p. 2.

<sup>2</sup> *California Cultivator*, Aug., 1894, p. 229.

<sup>3</sup> *Riverside Press and Horticulturist*, Sept. 23, 1893, p. 2.

<sup>4</sup> *Rural Californian*, Dec., 1894, pp. 635-636.

<sup>5</sup> As quoted in *Riverside Press and Horticulturist*, Aug. 31, 1895, p. 1.

<sup>6</sup> *Riverside Press and Horticulturist*, Sept. 28, 1895, p. 2.

the valley has probably not gone above 27 cents, as against 35 paid to outside packers the same season." At the close of that shipping season, Fred L. Alles, in an article entitled, "California Fruit Exchanges vs. The Commission System,"<sup>7</sup> stated that, "In no one thing has the exchange system shown its value more positively than in the cost of packing and marketing the fruit. It has reduced the cost of packing from the old commission system average of 43 cents per box to a present rate of 28 cents, a saving to the growers of nearly \$200,000 on packing alone."

In October, 1900,<sup>8</sup> the stockholders of the Riverside Heights Association "were most enthusiastic over the splendid showing made the past year . . . and the average cost per box for packing was 27½ cents—lower than any other association by 1½ cents."

In a circular issued by the California Fruit Growers Exchange, December 20, 1911, B. A. Woodford, General Manager, said: "A brief review or comparison of conditions as they exist just prior to the formation of the Exchange and as they exist to-day is interesting. Then, the cost of packing a box of oranges and putting it upon the car was between 40 and 50 cents. Now, the same service, better done, costs on the average 30 cents."

In a public address the same year,<sup>9</sup> Mr. Woodford said: "The cost of packing as compared with seventeen years ago has been reduced to all growers more than 10 cents per box, a saving of \$2,000,000 annually on the present output."

The low cost of packing as conducted by the associations which constitute the California Fruit Growers Exchange, was due mainly to two factors: (1) The elimination of the profits formerly accruing under a system of commercial packing, since all operations are conducted upon a strictly co-operative basis at actual cost; and (2) the purchase of box material and other packing-house supplies in enormous quantities for the entire Exchange system and their distribution to the various associations at actual cost.

Some local co-operative associations of raisin growers which had been organized in the vicinity of Fresno about the time the

<sup>7</sup> *California Cultivator*, Nov., 1895, pp. 381-383.

<sup>8</sup> *Riverside Daily Press*, Oct. 3, 1900, p. 5.

<sup>9</sup> *Proceedings Thirty-ninth State Fruit Growers' Convention*, p. 89.

orange growers were organizing in the southern part of the state, likewise secured marked savings in packing expense. The report of W. F. Forsey, Secretary of the Producers' Raisin Packing Company, showed that in two years this co-operative company had "saved enough in packing, as compared with the prices charged by commission packers, to build and equip their packing-house and pay for the land" on which it stood. In one year they had saved \$6500 in packing 150 carloads of raisins. They "packed 15,410 boxes Layers No. 1 of twenty pounds each at an average cost per box of  $19\frac{1}{4}$  cents. The price charged by the commission packers is [was]  $32\frac{1}{2}$  cents for doing exactly the same work. . . They packed 41,362 fifty pound cases at an average cost of  $16\frac{9}{10}$  cents per case, and the price charged by the commission packer is [was] 25 cents." <sup>10</sup>

In the orange growers' organizations, not only the cost of packing, but also the cost of selling was materially reduced when the growers took their business into their own hands. The customary commission charge seems to have been 10 per cent on the gross sales, though 7, 8 and 12 per cent <sup>11</sup> have also been mentioned. "The Exchange charges the growers only actual cost for . . . selling the fruit which . . . [in 1895 was] about 4 per cent, a saving of a full \$150,000 this year to the growers." <sup>12</sup> In a feature article <sup>13</sup> in the *Los Angeles Herald*, June 27, 1897, based on data furnished by the officers of the Southern California Fruit Exchange, the statement was made that, "Under the Exchange system the cost [of selling the fruit] the past season has been only  $7\frac{1}{2}$  cents a box. The old [commission] system of charging would be about 25 cents a box on Navels and about 17 cents a box on seedlings. Here is a saving of  $17\frac{1}{2}$  cents a box on Navels and  $9\frac{1}{2}$  cents a box on seedlings."

In some of the early reports regarding reductions in the cost of marketing oranges, the savings made by the growers due to reduced costs of packing and of selling were combined into one item for purposes of comparison with other methods of marketing. In a brief review of the first year's marketing of oranges

<sup>10</sup> *Pacific Rural Press*, Mar. 9, 1895, p. 146.

<sup>11</sup> *California Cultivator*, Nov., 1895.

<sup>12</sup> Alles, Fred L., in *California Cultivator*, Nov., 1895.

<sup>13</sup> *Los Angeles Herald*, June 27, 1897, pp. 16-17.

under the Exchange system, W. E. Collins said:<sup>14</sup> “. . . the charge to the grower for packing and marketing the fruit has been from 25 to 50 per cent less than the combined charge for packing and commission under the old system.” Reports for the season of 1894-95<sup>15</sup> “show that the Redlands growers [not in the Exchange system] paid 52 cents per box for packing and selling their fruit, while the same item of expense in the Colton Exchange was but 32 cents — a clear gain of 20 cents in favor of the Exchange system.” In a circular issued by a “committee of the Orange Exchanges comprising the Pomona valley,” in the fall of 1896,<sup>16</sup> it was stated that “the expense of packing and selling [had been] reduced to the actual net cost, saving the growers 15 to 35 cents per box.” A circular issued by the Riverside Fruit Exchange in the fall of 1898<sup>17</sup> said: “The entire cost of the box material, packing and selling . . . will not exceed . . . 35 cents a box to the grower [in the Riverside Exchange, for the season of 1897-98].”

The low cost of selling instituted by the “Exchange system” in the early days has been consistently maintained to the present time, even though the service has been vastly extended and improved. December 20, 1911, B. A. Woodford, General Manager of the California Fruit Growers Exchange, issued a statement that “prior to the formation of the Exchange . . . the growers paid the California shipper 7 to 10 per cent on the gross proceeds for selling the fruit. Now, a better service is open to all growers for less than 3 per cent.”<sup>18</sup> The annual reports of the present general manager, G. Harold Powell, show that the cost of selling citrus fruits through the California Fruit Growers Exchange, from 1912 to 1916, has been less than 3 per cent on the gross sales. In this selling cost has been included the cost of maintaining a comprehensive advertising campaign each season. The continuance of this low cost of selling in spite of the greatly improved service has been made possible by reason of the

<sup>14</sup> *Rural Californian*, Oct., 1894, p. 533.

<sup>15</sup> *Rural Californian*, Nov., 1895, p. 594.

<sup>16</sup> *Rural Californian*, Oct., 1896, p. 413.

<sup>17</sup> *Riverside Daily Press*, Nov. 16, 1898, p. 5.

<sup>18</sup> Circular issued by the California Fruit Growers Exchange, Dec. 20, 1911.

large volume of business transacted, the thorough organization of all departments of the service, and the employment of salaried agents in place of brokers in the principal markets of the country.

In addition to reducing the costs of packing and selling fruit for its members, the California Fruit Growers Exchange was the principal factor in securing reductions in freight rates and refrigeration charges on California citrus fruits. The orange freight rate was reduced 7 cents per box and the lemon rate 21 cents per box. Based on the output in 1911, this was equivalent to an annual saving of over \$1,700,000.<sup>19</sup> Reductions in charges for the various kinds of refrigeration service were secured from time to time, and resulted in further reducing the cost of transportation. Since these savings in freight and refrigeration charges were available to all shippers alike, the Exchange has been of direct service to the entire industry in this connection, and not to its own members alone.

The California Fruit Growers Exchange has also been able, in its transactions, to reduce greatly the losses due to freight overcharges or damages in transit, and to bad debts or failure of purchasers, which losses might otherwise constitute an important item in the cost of marketing. The payment of freight overcharges is avoided by a thorough system of auditing instituted by the traffic department of the Exchange. This department also secures and compiles the data for the establishment of claims against the transportation companies for damages to fruit in transit whenever such damages have occurred. The importance of this service in saving money for the growers is indicated by a statement in the annual report of the general manager of the Exchange for the year ending August 31, 1916, as follows: "There have been presented to the railroads during the year 11,364 claims, including those for pilferage, overcharge, and for loss and damage in transit. These claims aggregated \$151,006.01, and during the year \$111,557.31 have been paid and returned to the shippers. The expense of this service is included in the marketing cost."

Losses due to bad debts and similar causes have been practically eliminated by having personal representatives in all the

<sup>19</sup> *Proceedings of Thirty-ninth Fruit Growers' Convention*, p. 89.

leading markets, by conducting the business on essentially a cash basis [requiring settlement in full for every car of fruit within 48 hours after the sale is consummated], and by using local banks as depositories for funds, thus avoiding the possibility of loss due to failures while checks were being transmitted to and from California. During the year ending August 31, 1916, the growers belonging to the California Fruit Growers Exchange lost only "\$102.73 due to bad debts and all other causes. This equals three-eighths of one-one thousandth of one per cent of the money returned to California [by the Exchange]. In thirteen years the Exchange has returned to California \$192,500,000, and during this period the losses from bad debts and from all other [similar] causes have amounted to only \$7,688.56. . . This business represents transactions with 2,500 jobbers in the United States and foreign countries." <sup>20</sup>

Other co-operative marketing organizations have adopted the methods of the California Fruit Growers Exchange in reducing marketing costs, in so far as these methods have been applicable to the business of the respective industries, in their present stage of development. The organizations composed of local associations operating their own packing-houses purchase on the best possible terms the packing-house supplies needed by all their members. The California Fruit Exchange (handling deciduous fresh fruits) has for years had its fruit handled through the sales agents maintained by the California Fruit Growers Exchange in the various markets. Since the heavy shipments of deciduous fruits occur at a season of the year when shipments of citrus fruits are comparatively light, this arrangement has been of advantage to both Exchanges. The California Walnut Growers Association, by establishing more direct connections with the jobbing trade than existed when each local association acted independently, has been able to reduce the selling cost to about 3 per cent,<sup>21</sup> whereas the brokerage alone was formerly from 5 to 6 per cent. The California Walnut Growers Association and the California Almond Growers Exchange are now co-operating in a mutual effort to secure a reduction from the pres-

<sup>20</sup> *Annual Report of General Manager, California Fruit Growers Exchange*, Aug. 31, 1916, p. 4.

<sup>21</sup> Personal interview with C. Thorpe, Manager, Apr. 26, 1916.

ent freight rate of \$1.40 per cwt. on walnuts and almonds from Pacific Coast producing points to eastern markets.

#### HOW THE DISTRIBUTION OF THE PRODUCT HAS BEEN IMPROVED

Before the formation of growers' co-operative marketing organizations in California, the fruit shipped to points outside the state was sent almost entirely to a few of the larger markets, and difficulty was experienced in disposing of the crops to advantage, under the methods then employed, when the total annual shipments of oranges, for example, were only about 4,000 cars.<sup>22</sup> The shipping was done by a number of firms, each acting independently of the others. The result was that some markets were oversupplied and others undersupplied. This occasioned a great disparity in prices. Reports of low supplies and high prices in a given market incited such heavy shipments to that market that the best market might quickly be made the poorest market. It was even claimed that shippers sometimes purposely "broke" certain markets in order to dissuade their competitors from continuing to offer goods in those markets. This was done principally during the period when shippers were handling the fruit on a commission basis, and the losses due to low prices fell upon the *growers* whose fruit was sacrificed in the competition between different shippers for the control of certain markets. The shippers were sure of a profit on the packing, and received a commission on the gross sales, so that the losses resulting from the unsystematic method of distributing the crop fell principally on the growers.

The returns to the growers were so low that the cry of "over-production" was set up, and in some cases large areas of fruit plantations were uprooted because the crops were netting the growers less than the cost of production. This was especially true of the raisin industry before the formation of the California Raisin Growers' Association. Almond growers had also begun to destroy their orchards for the same reason shortly before co-operative marketing of their product was instituted.<sup>23</sup> The orange growers did not pull out their orchards, but were greatly

<sup>22</sup> Circular issued by California Fruit Growers Exchange, Dec. 20, 1911.

<sup>23</sup> Personal interview with J. B. Davidson, of the California Almond Growers Exchange, Oct. 10, 1916.



concerned because of the apparent ease with which the markets were oversupplied and prices depressed; and rumors of overproduction were rife.

The trouble was not due to overproduction, but to lack of adequate distribution. Under the marketing methods then in vogue, the growers had no control whatever over the distribution of their products; the shipping firms dictated the time of harvest, each usually striving to place as much fruit as possible on an early market in the hope of securing high opening prices, instead of supplying the market through as long a season as possible, and thus affording an outlet for larger quantities of fruit at paying prices. Moreover, the shipping firms confined their business principally to supplying the large cities with fruit, and made little or no attempt to develop markets in the smaller places. Thus for years California fruits were not generally distributed over the country as a whole, but their sale and consumption were confined principally to the large cities and immediately surrounding territory.

One of the first and most important changes in marketing policy instituted by the co-operative organizations of growers was a widening of the distribution of their products, both as to time and place. The shipping season for each of the various products has been extended as much as the nature of the commodity and the customs of the consumers will permit; and the latter are even being changed by the systematic effort of growers' co-operative marketing organizations. For example, the marketing season for lemons was formerly confined almost exclusively to the hot summer months; now lemons are shipped from California twelve months in the year. Oranges were formerly used principally during the winter and early spring, and shipping ceased entirely during the summer months; now they are handled the year round. Both these results have been brought about largely through the efforts of the California Fruit Growers Exchange in persistently calling the attention of the consuming public to the winter uses of lemons and the summer uses of oranges.

The area of distribution for their respective products has been greatly extended by nearly all the large co-operative marketing organizations of California growers, by establishing business con-

nections in practically every city in the United States and Canada which is large enough to handle the given product in carload lots. Thus many markets are supplied by direct wholesale shipments from California which formerly depended upon reshipments from the larger cities, often in small lots and at high transportation rates. Moreover, these smaller cities now serve as distributing centers from which the products are sent to the surrounding villages in a much fresher condition and at less transportation expense than when the goods were distributed only through the larger cities; and many small places are now supplied which were never reached by the former method of distribution.

It has been largely through the efforts of the growers' co-operative marketing organizations that the railroads have been induced from time to time to improve their transportation and refrigeration service. This has been brought about partly as a result of conferences by representatives of the growers with the railway officials, in which it was pointed out to the railway companies that it was to their advantage as well as that of the growers to maintain a character of service which would make it possible to place the fruit in good condition in all markets of the United States and Canada. The position of the growers was further emphasized by the establishment and collection of claims for damages whenever it could be shown that the poor condition of fruit on arrival was due to any negligence or delay for which the railway company was responsible. The relations between the railroads and the fruit growers have really passed through three stages. At first, the railroads did as they pleased, regardless of what the fruit growers said, and the growers had no recourse because they were not organized. Then came a period during which the organized fruit growers were almost continually fighting the railroad companies for better service or pressing damage suits based on claims for losses due to inefficient service. The third stage has now been reached, in which the railroad companies recognize that they and the fruit growers have mutual interests; officials of the leading fruit growers' organizations are advised with before new rulings or regulations affecting the shipment of their respective commodities are published; and certain classes of claims are promptly paid without any court

proceedings.<sup>24</sup> Thus the organizations of fruit growers have been instrumental in bringing about better relations between the railroads and the fruit industry, and in securing more efficient transportation service.

#### HOW DEMAND FOR THE PRODUCT HAS BEEN INCREASED

The production of California fruits, particularly citrus fruits, has been increasing much more rapidly than has the population of the United States. "The population of the United States increased 20.7 per cent from 1890 to 1900; the shipments of citrus fruits increased 195 per cent during the same period. From 1900 to 1910 the population increased 21 per cent, while the shipments increased 292 per cent during the same period."<sup>25</sup> Foreign markets, particularly those of Canada, have been developed to help take care of this increased production; but the disposition of the greatly increased quantity of citrus fruit has been made possible largely through an increase in the per capita consumption of oranges and lemons by the people of the United States. "It is through the increase in fruit-eating habit of the people that the enormous increase in the fruit production is taken care of."<sup>26</sup> This increased per capita consumption of oranges and lemons by the people of the United States is the direct result of systematic effort to that end by the California Fruit Growers Exchange. "There is no other force as powerful in increasing the use of citrus fruits as educational advertising to consumers. For seven years the [California Fruit Growers] Exchange has been advertising . . . continuously, the organization realizing that in times of financial depression advertising is a necessity, and that in times of prosperity it is an opportunity. During prosperous times, per capita consumption of oranges and lemons can be increased, new buying habits can be formed, and new uses developed more economically and more easily than under any other conditions. . . . The Exchange

<sup>24</sup> Personal interview with A. M. Mortensen, Traffic Manager, California Fruit Growers Exchange, May 16, 1916.

<sup>25</sup> Address of G. Harold Powell, before meeting of Western Fruit Jobbers Association, Feb. 16, 1915. Printed in *The Western Fruit Jobber*, April, 1915.

<sup>26</sup> Address of G. Harold Powell, above cited.

advertising is increasing the use of oranges and lemons by educating the public to their delicious and healthful qualities by repeating appeals to the appetite, by tempting illustrations and displays, by constant suggestions of new uses and new reasons for using. . . . The opportunity to increase the consumption of citrus fruits is indicated by the fact that the total consumption of oranges during the Washington Navel season, including fruit from California, Florida, Porto Rico and other sources, is only two dozen per month for each family of five persons, and approximately one-half dozen per month during the Valencia season. Including imports the consumption of lemons is approximately one-half dozen per family per month throughout the year.

“The national advertising of the Exchange has been carried on during the year chiefly through seventeen magazines of which most are publications for women, and by a campaign in 333 daily newspapers. In the circulation of both magazines and newspapers more than 450 million . . . advertisements have been printed. In connection with the educational campaign 300,000 orange and lemon recipe books were distributed on request.

“In addition to the direct publicity [advertising in magazines and newspapers], the Advertising Department is co-operating with the wholesale and retail trade through the Dealer Service Department. . . . Through the Dealer Service men the Exchange is constantly studying the retail and wholesale conditions that effect the sale of citrus fruits, and applying the facts thus developed in connecting the advertising directly with the fruit trade. Merchants are shown how to make attractive fruit displays, how to sell a larger volume of oranges and lemons, how to do a more profitable business on a lower margin, how to keep fruit fresh, minimize decay and wastage, and how to take advantage of the . . . national advertising.

“This year the sales promotion work of the dealer service men involved more than fifteen thousand personal calls on retail fruit merchants; [and] more than one hundred and thirty thousand pieces of window display material were distributed. . . . Investigation . . . developed the fact . . . that 75 per cent of the oranges are retailed through local grocery stores.”<sup>27</sup>

<sup>27</sup> *Annual Report of General Manager, California Fruit Growers Exchange*, Aug. 31, 1916, pp. 12-13.

“The thing that is of primary interest to the producer and the jobber is whether the retail dealer turns his stock over in the quickest possible time and thereby gives the maximum distribution of fresh fruit to the consumer and at the same time reduces decay and waste to a minimum. . . . One-half of the consumers of the country are served by the small town and country merchants. Oranges and lemons are self-sellers if artistically displayed. . . . Dealer service aids in the form of artistic window displays, which make the consumer a friend of the store and create a desire for the fruit.”<sup>28</sup>

“The desire for fruit is awakened by suggestion, by seeing attractive displays of fresh, luscious fruit in the windows of the store, on the counters, or in other forms of display. . . . It is promoted by prices which bring the fruit within the reach of the average consumer. The retail dealer, more than any other factor, creates this appetite appeal, because he comes in direct contact with the consumer, and he stimulates or retards it by charging reasonable or exorbitant prices. . . . Attractive displays and quick sales, at a reasonable margin of profit on each transaction, increase the per capita consumption and make a satisfactory profit for the dealer at the end of the year.”<sup>29</sup>

In making their calls upon retailers, the dealer service men explained to them “how they could make more money by selling a large volume of fresh fruit on a low margin. . . . The secret box of oranges or lemons was dragged out from behind the counter and displayed where people could see the fruit and buy while it was fresh. They showed how this method of selling would prevent loss from decay . . . and left-overs.”<sup>30</sup>

Thus the work of the dealer service men, employed by the California Fruit Growers Exchange, has supplemented the advertising in magazines and newspapers in stimulating the consumption of California citrus fruits, and has also contributed directly to lowering the cost of these fruits to the consumer by

<sup>28</sup> Address of G. Harold Powell before meeting of Western Fruit Jobbers Association, Jan. 18, 1916.

<sup>29</sup> Address of G. Harold Powell before meeting of Western Fruit Jobbers Association, Feb. 16, 1915.

<sup>30</sup> Letter from W. R. Watson, Manager Dealer Service Department, California Fruit Growers Exchange, Aug. 17, 1916.

encouraging the retailer to handle large volumes of fruit at a low margin of profit rather than a small volume at a high margin.

Following the success of the California Fruit Growers Exchange in advertising as a means of promoting the consumption of their products, some of the other marketing organizations have adopted essentially the same methods. The California Associated Raisin Company commenced advertising their product in 1914, and spent \$117,452.64 in connection with the advertising campaign and other publicity work in disposing of the 1914 crop.<sup>31</sup> This was equivalent to spending \$1.64 in advertising for each ton of raisins sold, but was looked upon as a very good investment,<sup>32</sup> since it was considered the direct cause of increasing the sales of seeded raisins to bakers from 750 tons in 1914 to 7300 tons in 1915,<sup>33</sup> and also laid the foundation for future sales. In the course of the advertising campaign in connection with selling the 1915 crop, advertisements were carried in 348 daily newspapers.<sup>34</sup> The plans of the Company for the year commencing June 1, 1916, contemplated the expenditure of \$150,000 in advertising (including full-page advertisements in two national magazines) and \$100,000 in publicity work. In over twenty cities the Company maintains men the year round; and for several weeks during the fall has a large additional force of specialty men calling upon the trade, distributing window display material, demonstrating raisin bread, and otherwise giving publicity to the raisin as a food product.<sup>35</sup> It was planned to "call upon the retail grocers and fancy home bakers in practically every town of 5,000 population and over throughout the country."<sup>36</sup>

The keynote to the raisin advertising has been "California Raisin Bread," and a large demand for raisins to be used in bread-making has been created. For example, a bakery in Flint, Michigan, "within twelve days, built up a business of 800 loaves

<sup>31</sup> Statement to Growers; Raisin Settlement, 1914 Crop, September 30, 1915. *Sun-Maid Herald*, Nov., 1915, p. 6.

<sup>32</sup> *Sun-Maid Herald*, Dec., 1915, p. 2.

<sup>33</sup> *Sun-Maid Herald*, Apr., 1916, p. 10.

<sup>34</sup> *Sun-Maid Herald*, July, 1916, p. 4.

<sup>35</sup> Personal interview with Wylie M. Giffen, President, California Associated Raisin Company, July 18, 1916.

<sup>36</sup> *Sun-Maid Herald*, July, 1916, p. 1.

of California Raisin Bread per day, starting from nothing;”<sup>37</sup> and after a campaign of advertising and demonstrating in Columbus, Ohio, it was estimated by the bakers that the quantity of raisin bread being consumed in that city was 15 or 20 times as great as before the campaign.<sup>38</sup> In May, 1916, it was estimated that the Company was selling at the rate of between 10,000 and 12,000 tons of raisins per year “exclusively for use in raisin bread.”<sup>39</sup>

The California Walnut Growers Association and the California Almond Growers Exchange also have resorted to advertising as a means of increasing the consumption and extending the distribution of their respective products.

#### STANDARDIZATION OF THE PRODUCT

Standardization of the product has been a large factor contributing to the success of the advertising campaigns above mentioned and to the development of markets for the commodities in question. It is impossible successfully to advertise a commodity unless it has certain definite desirable characteristics or qualities which are uniformly present in all the offerings. Such uniformity can be secured only through standardization of the product; and standardization of a horticultural product can be effected only by concerted action on the part of those who supervise the preparation of the product for market. It is only by this means that uniformity can be secured throughout a large volume of product, and a definite brand on a fruit package be made to mean always the same thing. It is true that standards of grading and packing may be established by federal or state legislation, and the enforcement of such acts vested in civil authority. But such acts can seldom be passed without the sanction of the producers of the commodity affected, or enforced without their co-operation. As a matter of fact, standardization of the products handled by growers' co-operative marketing organizations in California has usually preceded rather than followed legislative enactment; and a much more rigid and definite standard can be maintained by a co-operative organization of

<sup>37</sup> *Sun-Maid Herald*, Dec., 1915, p. 9.

<sup>38</sup> *Sun-Maid Herald*, Jan., 1916, p. 15.

<sup>39</sup> *Sun-Maid Herald*, May, 1916, p. 1.

growers whose interests are mutual than can ever be enforced throughout the state by government officials.

Soon after the organization of the citrus fruit growers was effected, a box of a definite size and shape was adopted as the standard package for oranges and another for lemons; and all associations in the organization were required to pack their fruit in these standard packages and no others. Three grades of fruit were also established and described. Later, the basis of grading was somewhat modified, and after systematic advertising was started, more complete descriptions were formulated to indicate the kind of fruit that might be packed under the advertised brands. Not only do all the managers of Exchange packing-houses have the same description as a guide, but each is visited every few days by a representative of the Field Department, one of whose chief duties is to promote as great uniformity as possible in grading and packing throughout the 162 local associations that compose the California Fruit Growers Exchange. By united effort, the Exchange has been able to so standardize the grading that the "Sunkist" brand is now recognized throughout the United States as synonymous with "uniformly good oranges and lemons," and consumers are able to order this brand over the telephone without any uncertainty as to the quality of the fruit they will receive.

The California Walnut Growers Association has adopted definite regulations regarding the grading, bleaching and inspecting of their product, and identical methods are employed by all the affiliated local associations, thus insuring uniformity in the output. It has thus been possible to dispense with all local brands, and to market all the first grade nuts under the "Diamond Brand," adopted by the organization. The organization has established a cracking test and guarantees that the nuts sold as first grade shall show at least 85 per cent of good meats. The local associations make cracking tests of each lot of nuts as brought in by the growers; then when a car is being loaded, an inspector sent out from the central association takes a sample of nuts (consisting of a "double handful") from every tenth sack, thus securing about twenty-five samples from the carload. He mixes all these nuts thoroughly; then takes out and cracks four samples of 100 nuts each, and reports to the central office the



average percentage of sound meats. He also sends to the office a four-pound sample of the nuts, which is kept, together with the car number, until the close of the season. "Near-grade" nuts are sold at a definite discount for each per cent they fall below the standard set for the "Diamond Brand;" and still lower grade nuts are run through a cracker and only the sound meats are sold.<sup>40</sup> The association is thus able to market the entire product of all its growers, and to supply the trade with a product of known quality.

Similar methods of securing uniformity in their product have been adopted by the California Almond Growers Exchange, and their "Blue Diamond Brand" represents a highly standardized product, the reliability of which is recognized by the wholesale trade. Before the formation of the Almond Growers Exchange, California almonds were looked upon as inferior to those imported from Europe; but the Exchange has demonstrated to the trade that the California unshelled almond, as now standardized, is superior to the imported article.<sup>41</sup>

The California Associated Raisin Company has featured a special grade of seeded raisins under the "Sun-Maid" brand, and has depended largely upon the uniformly pleasing quality of this brand of raisins, together with extensive advertising and other publicity work, to increase the consumption of and demand for raisins throughout the country. The success attending this campaign has been made possible because of the uniform quality of the raisins packed under this brand — in short, because the brand represents a standardized product.

Previous to the formation of the Sebastopol Apple Growers' Union, there was little uniformity in the grading or packing of apples in that locality. One of the principal objects in organizing the Union was to bring together the products of the numerous small orchards and standardize the pack.<sup>42</sup> This has been accomplished by entirely eliminating orchard packing, and han-

<sup>40</sup> Personal interview with C. Thorpe, Manager, California Walnut Growers Association, Apr. 26, 1916.

<sup>41</sup> Address of T. C. Tucker, Manager, California Almond Growers Exchange, at Berkeley, Cal., Sept. 18, 1916.

<sup>42</sup> Personal interview with E. C. Merritt, Manager, Sebastopol Apple Growers' Union, July 21, 1916.

dling the whole crop under one management through the four packing-houses operated by the Union. So successful has this method been in securing a uniform pack that now the phrase "Fancy Sebastopol Gravensteins" conveys a definite meaning to the trade, and these apples are eagerly sought in the markets of Chicago, New York, and Liverpool.

Although it is usually considered impracticable to standardize a horticultural product unless the grading and packing can be done at central points by the employees of an organization rather than on the ranches by the growers themselves, the marked success attending the efforts of the Turlock Merchants and Growers demonstrates that such an attainment is not impossible, provided proper instruction and supervision are given and the growers are sufficiently mindful of their own interests to follow the specifications that have been mutually agreed upon. The cantaloupe growers in the Turlock district have usually confined themselves to small acreages of this product, and the packing is done for the most part by members of the growers' families. Such a situation is most favorable to extreme lack of uniformity in the packed product; and yet the co-operative organization, by employing expert inspectors to instruct the growers in grading and packing, has been able to put out a uniform product, which has commanded respect in the nation's markets because of its dependable quality.

#### PROTECTION OF THE INDIVIDUAL GROWER

As long as the individual growers sold their crops directly to speculative buyers or had them handled by shipping firms on a so-called commission basis, each grower and each community of growers was open to exploitation on the part of the buyer or shipper. And if the individual grower consigned his fruit to a distant market, instead of dealing with a buyer or shipper, he likewise was obliged to accept for his fruit whatever the distant dealer saw fit to send him.

The individual grower, acting alone, has very meager facilities for ascertaining the actual conditions in the markets of the country at a given time. Very few growers have a sufficient volume of product for sale to warrant their incurring the expense of procuring telegraphic information regarding the condition of

the various markets at sufficiently frequent intervals to be of any material service in disposing of their products. Furthermore, such information as they might secure by this means could usually be procured only from dealers in the respective markets who had no personal interest in the welfare of the grower, and whose reports to the inquiring grower might be influenced in a large measure by their own interests. In addition to this it would be impossible for each individual grower to make a systematic study of the peculiar demands of the various markets or to secure reliable information regarding the quantities of supplies likely to be available from domestic and foreign sources. In short, it would be impossible for each grower to secure by direct means sufficient data to enable him to determine what his crop is really worth. It is also true that the representatives of buyers or shippers who are sent out to deal with the growers are often able to take undue advantage of the grower in any transaction involving the sale of the latter's crop. A man who is dealing in fruit every day can drive a much better bargain from his own standpoint than can a grower whose experience in selling fruit is confined to one crop each year. The buyer would thus have a marked advantage over the grower, by reason of being continually in practice, even if the grower were naturally as keen a business man as the buyer. As a matter of fact, it is usually those men who have a natural aptitude for bargaining who are engaged in buying fruit from growers; and while there are many growers who have business instinct, and have had business experience in other fields, there are many whose natural abilities lie in the direction of the production rather than the merchandising of fruits. On the whole, the average individual grower, situated at a distance from the ultimate market for his product, is in an extremely weak position so far as the selling of his fruit is concerned.

However, by combining their interests, and forming co-operative marketing organizations, the growers of various California products have been able to change the situation entirely. At relatively slight expense per member, or per unit of fruit handled, a large organization can secure reliable information regarding the peculiarities of given markets, and the condition of the crops, both domestic and foreign; and can maintain during the

marketing season a thoroughly organized telegraphic service that will enable it to know the exact condition of each market every day.

It is the custom for the manager, or other representative, of each of the large organizations, to visit the various markets at least once a year, to confer with the "trade" and secure first-hand information regarding any peculiar requirements of a given market. It is not unusual for an organization to send a representative to foreign lands in order to ascertain the condition of given crops and the probable extent of competition from such sources. Telegraphic service that will give dependable information regarding the exact condition of the various markets from day to day can be maintained only by such organizations as have personal representatives in those markets. Probably the most efficient service of this character is that of the California Fruit Growers Exchange, which maintains salaried agents in 77 of the leading markets. These agents represent the growers in the selling of the product and the transmission of any information that will be helpful to the industry. They are in constant touch with the trade, and wire back to California daily reports citing the exact conditions. These reports are assembled in the Los Angeles office of the Exchange, and copies are sent within a few hours to every local association of the growers. The California Fruit Exchange, by special arrangement with the California Fruit Growers Exchange, makes use of the latter's agents in the handling of its crop, and secures the same kind of telegraphic service. Thus growers of citrus and deciduous fruits who belong to the co-operative marketing organizations above mentioned are kept in close touch with market conditions throughout the country. Since this information goes through the central office of the organization concerned, and since this same office has definite information regarding all Exchange shipments en route, it is unnecessary for any shipments to be made blindly. All the shipments of these two Exchanges can be made in a systematic manner, with a view to securing proper distribution of the entire product through the various markets, even though the central office acts merely in an advisory capacity, and the ultimate decision regarding the

destination of each particular carload of fruit rests with the local association that loaded the car.

Thus the likelihood of oversupplying certain markets, while others are left undersupplied, is greatly reduced. Furthermore, if supplies from other sources depress a given market, cars originally intended for that destination can be diverted to other markets, even after arrival and inspection. The presence of the personal representatives of the growers in the various markets to determine the condition of the fruit upon arrival and wire for instructions in case of a depressed market, greatly facilitates the expeditious handling of the fruit, and avoids severe losses that might otherwise occur. If the fruit were being handled through brokers—who are essentially representatives of the buyers rather than of the sellers—there would be no incentive for an agent to advise diversion if he could possibly sell the car by offering it at a greatly reduced price, for if the car were diverted from his market, he would receive no brokerage. On the other hand, the compensation of the salaried agents of the Exchange does not depend upon the number of cars sold in a given market, but upon their ability to assist intelligently in that distribution of the product which will yield to the growers the highest average returns. Thus the Exchange growers are protected from the low price that might ensue from an inadequate method of distribution.

In addition to this protection, the individual grower is protected from any severe loss in case certain cars of fruit should deteriorate in transit or for any reason be sold at a lower figure than the average price for which fruit of the same grade was selling during the same period; for all the fruit of the same grade contributed by the different growers in a given local association during the same period is pooled, and each grower receives for his fruit the average net returns for the period. The element of chance involved in individual shipments of perishable fruits to distant markets is thus eliminated. In the case of the less perishable products which are harvested within a limited period, but for which the marketing season may extend over a considerable length of time, it is customary to make only one pool for the whole season and to place in the same pool not merely the product of a given local association, but the

product of all the associations which compose the general organization. Thus no matter at what time during the season a given growers' product is sold, he receives the same price for the same grade as does every other grower in the organization.<sup>43</sup> This eliminates the element of speculation and assures to each grower the average price for the season.

#### PURCHASE OF SUPPLIES

In addition to performing its function as a marketing agent, a co-operative organization of growers may serve its members by acting in the capacity of purchasing agent in securing orchard or other supplies needed in large aggregate quantities by the growers. The chief advantages of such purchases are that by purchasing in large quantities under contract, the organization is able to secure the goods at lower prices than could one individual; and that because of the large quantities purchased, the organization can afford to take time and incur expense to investigate thoroughly the sources of supply of a given article and the relative merits of different offerings before placing its orders, thus insuring the grower against inferior quality or exorbitant prices. An additional advantage is the ability of an organization to secure the goods needed in times of scarcity or emergency. For example, during the freeze of 1913, the Fruit Growers Supply Company, a subsidiary organization of the California Fruit Growers Exchange, was able to secure oil in enormous quantities and on extremely short notice for operating the orchard heaters belonging to its members. Except for the established connections and prompt action of this organization, the loss to the citrus fruit growers from frost injury would have been much greater than it was.

<sup>43</sup> The placing in one pool of the entire product of a large organization composed of a number of locals is possible only where the product is of such a nature that there are no material differences in the quality or finish of the graded product, due to differences in soil, climate, or methods of culture. Walnuts, or almonds from different localities may readily be pooled, but not oranges or lemons.

## CHAPTER II

### FUNDAMENTAL PRINCIPLES OF CO-OPERATIVE MARKETING

The results attained by certain co-operative marketing organizations in California show plainly that such organizations are capable of securing for the grower marked advantages by reason of reducing the cost of marketing, improving the distribution and increasing the consumption of the given commodity, standardizing the product, protecting the individual against losses, and economizing in the purchase of supplies. Nevertheless, the experiences of these organizations during the process of their evolution, and of other organizations that have been attempted from time to time, indicate with fully as great certainty that, in order adequately to serve their purpose and continue in successful operation, it is essential that certain fundamental principles be observed in their organization and management. While certain organizations may continue with apparent success for a time, and others may attain a limited degree of success for a still longer time without conforming to all these principles, there is likely to be a fairly close relation between the degree of success attained and the extent to which the principles alluded to are observed. These principles may be stated as follows:

1. Organization for marketing purposes can be most readily effected when conditions in the given industry are such that the need of improvement is quite generally apparent to those engaged in the industry.

2. Unless at the time of organization, the conditions in the industry are so unsatisfactory that striking improvements are possible early in the life of the organization, the organization itself is likely to die from inertia or succumb to attacks from outside interests.

3. At the time a local organization undertakes to handle a crop, there must be a sufficient volume of one product or closely allied products represented by the membership to enable shipments to be made in carload lots and to effect a sufficient aggregate saving in the cost of marketing to more than counter-balance the expense of operation.

4. The organization must be composed of persons whose interests are similar. Membership in a growers' organization should usually be limited to actual growers of the crop to be marketed.

5. Definite provision must be made for financing the business of the organization.

6. The benefits accruing from membership in the organization should be distributed among the members in proportion to the value of the products handled for each.

7. In a properly-constituted growers' co-operative marketing organization, it makes little difference whether the voting power is based upon individuals (one-man, one-vote), volume of product, or shares of stock.

8. For the purpose of marketing the product of a large horticultural industry, an affiliation of local organizations is preferable to a single large organization made up directly of individual growers. In such an affiliation, the identity of each local should be preserved and its interests fully represented in the central organization.

9. Each organization must possess—represented either in its membership or its employees—a degree of administrative ability and business acumen commensurate with the volume of the business to be transacted and the intricacy of the problems to be solved.

10. The details of handling, selling, and distributing the crop must be adapted to the nature and volume of the product.

11. Loyalty of the individual members and mutual confidence among all factors in the organization are absolutely essential to the permanent success of any co-operative enterprise.

These principles will now be considered somewhat in detail. The remainder of the present chapter and the three succeeding chapters will be devoted to this phase of the subject.



## CONDITIONS IN THE INDUSTRY AT TIME OF ORGANIZATION

*Organization for marketing purposes can be most readily effected when conditions in the given industry are such that the need of improvement is quite generally apparent to those engaged in the industry.*

As long as growers as individuals are receiving satisfactory returns for their products, there is no particular incentive for them to combine with their neighbors for marketing purposes. Some special difficulty which he is powerless to overcome is usually necessary to induce an American farmer to depart from his individualistic tendencies and join forces with his companions in a common cause. Prices below the cost of production, frequent "red ink" returns in the case of perishable products, accumulation of unsold products, depreciation of property values, and threatened financial disaster have characterized the conditions which led to the formation of some of the co-operative marketing organizations in California. This was true of the citrus fruit industry, the deciduous fresh fruit industry, the raisin industry at two different periods, the dried peach industry, and the almond industry. Less disastrous, though sufficiently trying, conditions prevailed among the walnut growers, Turlock cantaloupe growers' and Sebastopol berry growers immediately preceding the formation of their respective organizations. Attempts to start organizations for marketing the products of a given industry at a time when that industry was enjoying a period of prosperity, have usually been unsuccessful. In any case the difficulties of securing membership and perfecting the organization are much greater in times of prosperity than of depression.

To illustrate the circumstances that gave rise to some of the organizations, the following may be cited:

In the citrus industry the conditions had been becoming worse and worse, and the returns to the grower lower and lower until the season of 1892-3, when about half the shipments of the season resulted in "red ink."<sup>1</sup> Before the next crop was ready to harvest, the growers organized, feeling that such a course was

<sup>1</sup> Statement of C. D. Adams, Upland, Cal., in personal interview, May 15, 1916.

the only thing that would save the citrus industry from utter ruin.

In a circular issued by a "Committee of the Orange Exchanges comprising the Pomona Valley," in the fall of 1896, the following statements were made:<sup>2</sup> "Beginning with 1890, when the volume of our crop was only nominal as compared with the present one [1896], we find an unequal distribution of returns from the different commission firms. This inequality increased in 1891, and more so in 1892, but in each case the average price decreased, so that in the season of 1893 not only did growers have returns from 100 cents per box to nothing, but many actually had to pay money in addition to their entire crops of fruit for the privilege of marketing them, and instead of revenue a deficit was the result.

"Had this state of affairs continued, bankruptcy was inevitable for every orange grower. Forced by necessity, many of the leading growers held meetings and conventions where these matters were discussed, which terminated by the forming of Associations and Exchanges on the co-operative plan. That this movement has been successful, can be attested by every grower who became a member, and its benefits are admitted by all others. It at once gave every member a fair average return for his crop and no deficit."

"The [citrus] fruit growers . . . discovered that the commission men in sharp competition with each other, were flooding certain markets with fruit while others were bare, and when natural congestion followed . . . the commission men began to belabor one another, using the fruit growers as clubs with which to beat their business rivals. . . . It was absolutely necessary to change the system of marketing the crop or dig up the orange trees."<sup>3</sup>

"The commission houses grew strong, prosperous and ambitious . . . each desiring to . . . monopolize the California trade. . . . Their rivalry grew sharp and reckless of the interests of the consignor and his profits grew less and less, till

<sup>2</sup> As quoted in *Rural Californian*, Oct., 1896, p. 413.

<sup>3</sup> Alles, Fred L., "California Fruit Exchanges vs. The Commission System." *California Cultivator*, Nov., 1895, pp. 381-383.

. . . losses began to figure in the returns. . . . Such was the situation . . . from eight to six years ago.”<sup>4</sup>

“The most disastrous year . . . that the citrus-fruit industry in California has ever experienced was 1892-3. . . . As a result of this failure of speculative shippers to sell the year’s crops at fair prices . . . a convention of growers assembled . . . in Los Angeles on the 4th of April, 1893. . . . Following the recommendation of this convention of growers, organization of associations and district exchanges was effected in all the principal citrus-fruit districts.”<sup>5</sup>

“The panic year of 1893 hit the orange growers hard. Thousands of statements came from eastern commission houses showing, in red ink, that the fruit consigned to them had been disposed of for less than the amount of the freight and selling charges. As a consequence the growers that year turned their backs upon the commission merchants and speculators, organized the California Fruit Growers Exchange and proceeded to take the marketing of their fruit into their own hands.”<sup>6</sup>

Preceding the formation of the California Fresh Fruit Exchange,<sup>7</sup> the conditions in the deciduous fresh fruit industry were somewhat similar. “Frequently the year’s returns failed to pay the year’s expenses. Mortgages increased until the banks refused to lend, and discouragement approached desperation in its intensity. Men found themselves possessed of debt-laden orchards and vineyards and without the means of giving them proper care.”<sup>8</sup> During this period many fruit growers gave up operating their own ranches and rented them to Orientals, because they could not themselves make any money from the growing of fruit under the existing conditions.<sup>9</sup>

“In the Fall of 1900, a State Convention of fruit growers was

<sup>4</sup> Hoag, I. N., “Marketing Citrus Fruits.” *Rural Californian*, Mar., 1898, pp. 54, 55.

<sup>5</sup> *Cyclopedia of American Agriculture*, Vol. IV, p. 265.

<sup>6</sup> Woehlke, Walter V., “In the Orange Country.” *Sunset Magazine*, Mar., 1911, pp. 251-264.

<sup>7</sup> The name was later changed to California Fruit Exchange.

<sup>8</sup> *A Brief History of the Deciduous Fruit Industry of California*, published by the California Fruit Exchange, Jan., 1913, p. 9.

<sup>9</sup> Address of J. L. Nagle, Manager, California Fruit Exchange, at Berkeley, Cal., Dec. 11, 1916.

held at Fresno, under the auspices of the State Board of Horticulture. The question of 'Marketing Fruit' was on the program for discussion. At all of the annual Fruit Growers' Conventions of the preceding years, this same subject of 'Marketing' had been an issue of importance. At the convention of the previous year a statement had been presented showing the returns of a typical foot-hill fruit ranch in one of the most celebrated districts of the State for that season. The total returns for something over twenty thousand boxes of peaches, pears, and plums, partly sold for cash to a dealer, and partly sent East on commission by the same dealer, averaged less than twenty-two cents per package.

"This twenty-two cents had to pay (as far as it would go), for labor, farm supplies, and equipment, water for irrigating, box lumber, paper, nails, etc. . . . Ensuing discussion revealed that this was not an exceptional case. It was merely typical of existing conditions among a large proportion of the 'merely growers.'

"At the Fresno meeting of 1900 the discussion on the subject of 'Marketing' developed an interest of unusual intensity. . . . The result was the appointment of a committee clothed with power to call a meeting early in the following year.

"This meeting . . . was held . . . in the City of Sacramento, on the 15th of January, 1901. . . . Earnest deliberation resulted in the formulation of a set of by-laws" and the appointment of an executive committee "with authorization to organize the [California Fresh Fruit] Exchange."<sup>10</sup>

In the Seventh Biennial Report of the State Board of Horticulture (1899-1900) appeared a "Review of the Raisin Industry," furnished by M. T. Kearney, former president of the California Raisin Growers' Association. It stated that for five years prior to the panic of 1893 raisins had been sold by growers in the field at an average of five cents per pound. From that time till 1897 the price decreased until it was as low as  $\frac{3}{4}$  cent per pound, and farmers fed raisins to their horses, in place of barley. In Fresno County alone 20,000 acres of vineyard were uprooted.

<sup>10</sup> *A Brief History of the Deciduous Fruit Industry of California*, pp. 10-11.

“Much of this demoralization in prices was due to a system of shipping raisins on consignment to Eastern brokers. . . . To place the industry on a paying basis, the farmers organized themselves into the Raisin-Growers’ Association. . . . The movement was an entire success the first year,” and prices advanced to  $2\frac{3}{4}$  cents per pound in 1898. “The success of their efforts in 1898 induced them to reorganize again for 1899 and 1900, and assisted by the fact of there being a short crop in 1899 . . . they were enabled to advance their prices to an average of  $4\frac{1}{2}$  cents per pound.”<sup>11</sup>

The conditions obtaining in the raisin industry prior to this organization of the growers are further illustrated by facts mentioned by Wylie M. Giffen,<sup>12</sup> president of the California Associated Raisin Company. Mr. Giffen took up his residence in the Fresno district twenty-eight years ago. At that time the raisin crop was relatively small and prices high. Speculators usually bought the crop. A few years later raisins became more abundant, and the buyers manipulated the market. They would contract with the growers to take their product at a specified price. If the market advanced, the growers delivered their raisins at the contract price; but if it declined, the buyers forced them to accept a lower price or stand the expense of a suit, which usually would have cost more than the difference in price of the raisins, in the case of a small grower. When the hard times occurred in 1893, the packers, who had been handling the crop, refused to buy, but were willing to handle the raisins on commission. Under this arrangement the growers sometimes received  $1\frac{1}{2}$  cents per pound and sometimes “red ink.” This continued for a few years, and the whole raisin country became nearly bankrupt. The depreciation in property values was so great that Mr. Giffen bought a vineyard of 20 acres at \$50 per acre, in a location where six or eight years before the bare land would have sold for \$125, and such a vineyard for about \$400 per acre. He also bought a quarter section of land for \$11,000, the buildings on which had cost more than that sum. Banks held mortgages on vineyard property, but would not foreclose because they would lose money by so doing.

<sup>11</sup> *Seventh Bien. Rep. Cal. State Board of Hort.*, pp. 39, 40.

<sup>12</sup> Personal interview, July 18, 1916.

The organization which started to handle the raisin crop in 1898, known as the California Raisin Growers' Association, continued until 1904.<sup>13</sup> Then there was a period, with no general organization of the growers, during which the packers handled the crop as they saw fit. The conditions during this period were thus described by Walter V. Woehlke:<sup>14</sup> "Two hundred miles north of the citrus belt in the San Joaquin Valley lies a compact district which supplies more than half the raisins consumed in the United States. Here, also, large buildings filled with costly machinery are in operation. . . . But these buildings and their contents do *not* belong to the growers; they are the property of individuals and corporations, and they are operated solely for the pockets of these individuals and companies, with no regard for the welfare of the producer. The California orange-growers, owning the appliances for preparing their fruit for the market, are prosperous and smile. The California raisin-growers, paying annual tribute to the firms operating the packing-houses for profit, are unable to make the product of their fertile acres pay expenses. . . . Co-operation saved the citrus men from the fate of the raisin-growers."

Following this second period of depression in the raisin industry, a new organization was formed in the spring of 1913 and commenced business at a time when the unsold portion of the 1912 crop still remaining in the hands of the growers amounted to about 35,000 tons. This was the California Associated Raisin Company. It undertook the handling of this carry-over as well as the new crop coming on, and has continued as the principal factor in marketing the California raisin crop since that date.

In the dried peach industry the price paid the growers for the product kept getting lower and lower until in 1915 it was only 2½ cents per pound. This was approximately one cent below the average cost of production. Low prices were due to the fact that the packers speculated with the crop, and influenced prices to their own advantage whether buying or selling. They would tell the grower that there was not much demand for

<sup>13</sup> The causes which led to the disruption of this organization will be considered under another heading (see pp. 67-71).

<sup>14</sup> Woehlke, Walter V., "In the Service of Quality." *The Outlook*, Oct. 23, 1909, pp. 417-427.

peaches, and tell the jobber that the crop was very short.<sup>15</sup> The growers rebelled against this treatment, and at a mass meeting in August, 1915, appointed a committee of five to investigate conditions. Subsequent meetings were held, a membership campaign conducted, the "California Peach Growers" incorporated, and business commenced by the new organization in May, 1916. As in the case of the Associated Raisin Company, one of their first acts was to take charge of the marketing of the carried-over product from the preceding year. They have also successfully handled the 1916 crop.

Preceding the formation of the California Almond Growers Exchange in 1910, the almond crop had been handled almost entirely by a few San Francisco dealers whose principal business was the handling of dried fruits. Although local associations had previously been formed for the purpose of pooling the crop of given localities and inviting bids from dealers, the desired results were not attained, for the dealers would agree among themselves and only one would bid for the crop of a given association.<sup>16</sup> Prices kept getting lower, until the almonds were being sold for less than the average cost of production, and growers had begun to grub out their orchards. At this juncture, the Almond Growers Exchange, an affiliation of the local associations, was formed. Since that time the growers have made good profits from their orchards every year.<sup>17</sup>

Previous to the organization of the "Turlock Merchants and Growers, Incorporated," in the spring of 1915, buyers had handled the cantaloupes and other products offered by the farmers of the Turlock district. These buyers demanded wide margins for their services, and took over the products at their own prices. Under these circumstances, although the farmers grew good crops, they were unable to realize sufficient amounts from the sale of their products to pay their regular expenses. This affected the business of the merchants in Turlock, since the

<sup>15</sup> Personal interview with J. F. Niswander, Manager, California Peach Growers, July 18, 1916.

<sup>16</sup> Personal interview with J. B. Davidson, of the California Almond Growers Exchange, Oct. 10, 1916.

<sup>17</sup> Address of T. C. Tucker, Manager, California Almond Growers Exchange, at Berkeley, Cal., Sept. 18, 1916.

farmers were unable to meet their obligations. It was, therefore, partly as a matter of self-preservation that the Turlock merchants (grocers, drygoods merchants and other business men) took the initiative in forming an organization through which the farmers could market their products without being obliged to accept any price the dealers happened to offer.<sup>18</sup>

The fact that the present organizations of growers representing the citrus fruit, deciduous fresh fruit, raisin, dried peach, and almond industries of the state, were without exception effected during periods of depression in the respective industries, forcibly illustrates the general principle that co-operative marketing organizations can more readily be formed at times when the given industry is in an unprosperous condition, due to the failure of existing marketing methods to bring satisfactory returns to the growers.

#### POSSIBILITY OF MARKED IMPROVEMENTS

*Unless at the time of organization, the conditions in the industry are so unsatisfactory that striking improvements are possible early in the life of the organization, the organization itself is likely to die from inertia or succumb to attacks from outside interests.*

Unless thought and effort are given unstintingly by somebody to the affairs of a co-operative organization, the organization will not prosper, or even persist; and unless it can be demonstrated early in the life of the organization that it is capable of rendering its members a distinct service that will improve their financial condition, the necessary incentive to thought and effort will be lacking. Men do not persistently put forth effort without hope of reward; and hope of future reward is best engendered by attainment of present reward. The worse the condition of an industry at the time a co-operative organization undertakes the marketing of the product, the more forcibly can the organization demonstrate its ability to serve its members, and the more pronounced will be the support it will elicit; and unless striking results can be attained there is likely to be insufficient support to enable the organization to persist.

<sup>18</sup> Personal interview with David F. Lane, President, Turlock Merchants and Growers, Incorporated, July 19, 1916.



It is also true that a co-operative organization is likely to meet severe opposition from those interests which have previously handled the product to their own advantage. Men are loath to relinquish control over a certain source of revenue which they have previously enjoyed. This opposition is likely to take such extreme and insidious form as to result in the disruption of the organization unless its right to survive has been strikingly demonstrated to its members by reason of marked improvement in their financial condition under its operation.

Especially pernicious attacks were made against the organization of citrus fruit growers during the early period of its existence. The representatives of the shippers used almost every conceivable means in their attempt to kill this movement of the growers. They made attacks upon the integrity of the local managers and directors, trying to convince the growers that the men they had placed in charge of affairs were scoundrels and not handling the business in the interests of the growers. The purpose was to make the growers dissatisfied with the management, so that they would depose the leaders in charge and substitute some mediocre material that would be unable to handle the business successfully; and thus lead to the breaking down of the Exchange movement. Nearly every man of real ability in the Exchange was attacked in this way; and such attacks were continued by the shippers through all the early years of the Exchange.<sup>19</sup>

“It was quite to be expected that every attempt of the producers to organize would meet with bitter opposition from the middlemen. . . . It is not strange that these speculators . . . would spend large sums of money to break down organization among growers.

“It is well known that the Southern California Fruit Exchange has, ever since its beginning, been the object of most bitter and unscrupulous opposition from fruit speculators. Every form of abuse, denunciation and falsehood have been employed to create distrust. Defamation of private character and grossest libels against individuals who have been prominent in the Exchange have been the common weapons of the opposition.”<sup>20</sup>

<sup>19</sup> Personal interview with C. D. Adams, Upland, Cal., May 15, 1916.

<sup>20</sup> *Rural Californian*, Mar., 1898, pp. 61-62.

Another method reported to have been employed by the opponents of the citrus growers' organization was the intentional glutting of certain markets in anticipation of the arrival of fruit which had been sold by the growers f. o. b. California, to dealers in those markets; "thus demoralizing the market and causing dissatisfaction in the minds of Exchange customers."<sup>21</sup>

In reviewing the first year's operation of the organized orange growers,<sup>22</sup> T. H. B. Chamblin said: "No movement among fruit growers for the purpose of enabling them to handle their own business, was ever so maliciously misrepresented and maligned as the Southern California Fruit Exchanges, and no organization ever accomplished so much in so short a time. It is no exaggeration to say that the organization saved to the growers of oranges no less than \$750,000 to \$1,000,000 that but for the organization would never have materialized."

So persistent were the enemies of the citrus fruit growers' organization in disseminating their misrepresentations that definite action to counteract their influence was deemed necessary. Nov. 13, 1895, a committee was appointed to formulate a "circular to the trade contradicting the statements made in anonymous circulars and other circulars and publications in which the Exchanges have been placed in a wrong light before the trade."<sup>23</sup> Feb. 5, 1896, the Board of Directors voted "that the matter of the misrepresentations in the newspapers be referred to the Chairman, and he be authorized to make such corrections as he deems proper;"<sup>24</sup> and June 24, 1896, it was voted "that a committee be appointed to formulate some plan of repudiating incorrect statements which may be published and to issue such repudiation in circular or publication as they may deem best."<sup>25</sup>

At a called meeting of representatives from the various exchanges and local associations, August 5, 1896, the following

<sup>21</sup> Minutes of Meeting of Executive Board of Southern California Fruit Exchanges, Dec. 19, 1894.

<sup>22</sup> *Rural Californian*, Dec., 1894, pp. 635-636.

<sup>23</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Nov. 13, 1895.

<sup>24</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Feb. 5, 1896.

<sup>25</sup> Minutes of Board of Directors, Southern California Fruit Exchange, June 24, 1896.

resolution was adopted: "Resolved: That it is the sense of this meeting that the interests of this organization demand a more direct medium of communication with the growers whose interests are involved to the end that they may be more promptly and fully informed as to the methods, objects and purposes of the Exchange, the conditions of the markets, the disposition of the fruit, and such other matters as shall tend to bring them into closer relation with the system. To this end we recommend that the Board of Directors commence at once the publication of a paper of such character as shall in their judgment best meet the requirements above outlined."

Before the end of September, 1896, arrangements had been completed for the publication of this paper, to be known as the "Fruit Exchange Review," under the editorship of T. H. B. Chamblin,<sup>26</sup> and the first issue appeared in either September or October of that year. Admission to the mails as second-class matter was denied this publication;<sup>27</sup> and on June 30, 1897, publication was "temporarily suspended"<sup>28</sup> and was never resumed.

A few years later, at a time when one of the leading daily newspapers of Southern California was largely owned and controlled by one of the fruit shippers who was a bitter enemy of the Southern California Fruit Exchange, arrangements were made by the Exchange with the *California Cultivator* for the conducting of a department in that paper for the direct purpose of counteracting the influence of matter derogatory to the Exchange appearing in other papers.<sup>29</sup> This department was called "From a Business Standpoint." It was started May 18, 1900, and was continued until July 1, 1904.

Thus for years, the Southern California Fruit Exchange was obliged to fight its way against misrepresentation to the trade and to citrus fruit growers both without and within its own ranks.

<sup>26</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Sept. 9 and 23, 1896.

<sup>27</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Apr. 28, 1897.

<sup>28</sup> Minutes of Board of Directors, Southern California Fruit Exchange, June 30, 1897.

<sup>29</sup> Personal interview with C. B. Messenger, editor *California Cultivator*.

Somewhat similar conditions of misrepresentation and antagonism by shipping interests obtained for a time in reference to the California Fruit Exchange (the growers' organization handling deciduous fresh fruits) and the California Almond Growers Exchange. The steady progress of the Southern California Fruit Exchange, in spite of opposition, and at times serious depletion of its ranks caused by that opposition, has been a source of encouragement to these other organizations during their early struggles for existence.

#### VOLUME OF PRODUCT NEEDED

*At the time a local organization undertakes to handle a crop, there must be a sufficient volume of one product or closely allied products represented by the membership to enable shipments to be made in carload lots and to effect a sufficient aggregate saving in the cost of marketing to more than counter-balance the expense of operation.*

While shipments to nearby markets might be made in less-than-carload lots, the principal volume of California's horticultural products must be placed in distant markets; and economically to reach such markets carload shipments are essential because of the wide difference in freight rates on carload and less-than-carload lots. The loading of a car of perishable fruits must be completed at the point where the shipment originates, for the car cannot be properly braced to insure the safe carriage of its contents until the loading is completed. It is not feasible to employ "pick-up cars," as is often done for short distance shipments, because the haste attending the loading under such circumstances would not permit the proper "stripping" of the cars for long distance shipment. If the car were partially loaded at each of several different shipping points, it would be difficult to fix the responsibility in case of damage resulting from improper loading. Furthermore, the proper refrigeration of a perishable product would be interfered with if the car were repeatedly opened to add to its load. It is therefore quite essential that a local association be able to ship its product in carload lots.

The advantages of having only one product or a few closely allied products are that interest is concentrated, and complications arising from shipping unlike commodities in the same car are avoided.

Since it is necessary that a co-operative organization be able to demonstrate clearly its ability to serve its members, and since the most tangible evidence that will directly appeal to the membership of a local shipping association is a reduction in the cost of marketing, it is important that the volume of business transacted be sufficiently large to permit the economical employment of labor in handling the product and loading the cars, and to prevent the saving in other quarters from being absorbed by overhead expenses. There must be sufficient business fully to employ the time and energy of the manager or other salaried officer. Attempts to conduct the affairs of a co-operative marketing organization without one responsible officer devoting his entire time to the matter, at least during the shipping season, have not usually given satisfactory results. To warrant the employment of a man for handling the business there must be sufficient business to pay his salary out of the saving in marketing expense, and still leave some balance to the credit of the growers. And from the standpoint of society in general, unless a co-operative organization can handle a given product at a lower marketing cost than it was handled by previously-operating factors, its existence is not justified.

Just how large the volume of the product must be in order to insure its economical handling by a co-operative marketing organization depends somewhat upon the nature of the given product. Mr. Geo. H. Cutter,<sup>30</sup> president of the California Fruit Exchange, has stated that in the handling of deciduous fresh fruits there is little chance of a local organization of growers being able to finance its operations if the output is less than thirty carloads during a season, unless it is of such a nature that it all is ready for shipment within a short period and there is a good local man who can and will devote his time to the handling of the business for that short period and then be of no further expense to the association. In the case of citrus fruits, a larger volume of product is necessary, since more elaborate equipment is needed for properly handling the crop. G. Harold Powell, general manager, California Fruit Growers Exchange, has stated that, "It is not usually practicable in the orange business, for

<sup>30</sup> Personal interview, July 20, 1916.

example, to organize an association and build a packing-house unless there are at least 150 cars of fruit to ship.”<sup>31</sup>

It would seem, then, that the volume of the product to be handled in a given locality is a factor of considerable importance in determining the likelihood of success or failure of a growers' local co-operative marketing association.

<sup>31</sup> *Yearbook, U. S. Dept. of Agr., 1910, p. 402.*

## CHAPTER III

### BASIS OF MEMBERSHIP

*The organization must be composed of persons whose interests are similar. Membership in a growers' organization should usually be limited to actual growers of the crop to be marketed.*

It has already been suggested that a growers' co-operative marketing organization can more satisfactorily handle one product or a few closely allied products than a diversity of products. This is partly because of the greater facility with which shipping may be accomplished and trade connections established; but also because a common interest in the production and marketing of some one specialized crop serves as a potent force in binding together the members of the organization. Those whose interests center in the same crop as the chief product of their agricultural effort have much more in common than have a group of persons each of whom is primarily interested in a different crop. Greater concentration of thought, greater unanimity of purpose, and more ready determination and execution of policies are possible in an organization composed of growers of the same product. Moreover, the mental attitude of persons engaged in the growing of some special crop requiring particular care or peculiar conditions is likely to be more conducive to co-operative effort than that of persons engaged in the production of a general assortment of ordinary farm crops.

Not only should the members of a co-operative marketing organization be interested in the growing of the same product; but a given local unit of organization should be composed of persons living within a limited area. There are two distinct advantages which may arise from limiting the membership of a local organization to a comparatively small geographical area. (1) There is much more likelihood that the members will become fully acquainted with one another — and thorough acquaintance

is essential to successful co-operation. (2) The aims and ideals of the various members, the methods of culture they employ, and the quality and finish of their product are more likely to be similar if all live in the same community than if they are distributed over a wide territory. The concentration of orange production in certain regions, thus making possible strong local organizations in limited areas, has been a factor of no small importance in contributing to the success of the California Fruit Growers Exchange; and the difficulties experienced in trying to organize the olive growers of the state have been intensified by reason of the fact that the olive crop is produced in widely scattered areas.

Various attempts to combine in one organization the interests of growers and commercial packers or dealers have clearly demonstrated the incompatibility of such an arrangement. The early attempts at organization in the orange industry were along this line. The Orange Growers' Protective Union, incorporated at Los Angeles, 1885;<sup>1</sup> the Fruit Growers Union of Southern California, organized in Los Angeles County in January, 1891;<sup>2</sup> the Riverside Orange Trust, incorporated in December, 1891;<sup>3</sup> and the Riverside Orange Growers and Packers Protective Association, operating during the seasons of 1892 and 1893,<sup>4</sup> all mark attempts to harmonize the interests of growers and packers in the marketing of oranges. Each had a short and more or less turbulent period of activity; and each ultimately failed because it was not founded upon correct principles. It was not until the growers decided to abandon attempts to reconcile their interests with those of the packers that real progress was made in organization for the marketing of California's orange crop. Following the disruption of the Riverside Orange Growers and Packers Protective Association on February 25, 1893, and subsequent demoralization of the markets,<sup>5</sup> meetings of orange growers were held at Colton, March 21 and 28, "to secure some

<sup>1</sup> *Riverside Press and Horticulturist*, Nov. 28, 1885, p. 2.

<sup>2</sup> *Riverside Press and Horticulturist*, Jan. 24, Jan. 31, and Nov. 28, 1891.

<sup>3</sup> *Riverside Press and Horticulturist*, Dec. 5, Dec. 12, and Dec. 26, 1891.

<sup>4</sup> *Riverside Press and Horticulturist*, Jan. 30, and Dec. 31, 1892; Jan. 7, Feb. 11, and Mar. 4, 1893.

<sup>5</sup> *Riverside Press and Horticulturist*, Mar. 11 1893.



groundwork of common action for the future.”<sup>6</sup> At the second of these meetings, Mr. T. H. B. Chamblin, of Riverside, “was the principal speaker, and he confined himself mainly to showing that the remedy for present evils was in the hands of the growers themselves. . . . Remarks were made by representatives from various sections, which showed all were awake to the necessity of co-operation.”<sup>7</sup> Commenting upon the situation, the editor of the *Riverside Press and Horticulturist* remarked: “It is evident that the sentiment is steadily growing in favor of some effective co-operation among the fruit producers, and the recent suicidal policy of certain dealers is doing more than anything else to convince them of its necessity.”<sup>8</sup> After the Southern California Fruit Exchanges (organized as a result of the concerted movement among orange growers, following the meetings at Colton and a later meeting at Los Angeles, April 4, 1893)<sup>9</sup> had been in operation for one season, C. C. Thompson, a director in the Semi-Tropic Exchange, and president of the Pasadena association, made the statement that “A great deal of co-operative work in the past has been attempted upon the plan of uniting the grower and seller — a plan that is obviously impractical as their interests are inimical.”<sup>10</sup>

#### CALIFORNIA FRUIT AGENCY

In 1893 the citrus fruit growers seemed fully convinced of the impracticability of any alliance with the commercial packers and shippers, and resolutely set about the formation of their own marketing organization independent of all existing local operators. Ten years later, after the co-operative marketing organization of the growers had thoroughly demonstrated its ability to handle successfully the output of its members and was recognized by the trade as the most important factor in the marketing of citrus fruits, it came very near being wrecked by an unhappy alliance with the commercial operators, under the name of the California Fruit Agency.

<sup>6</sup> *Riverside Press and Horticulturist*, Mar. 18, 1893.

<sup>7</sup> *Riverside Press and Horticulturist*, Apr. 1, 1893.

<sup>8</sup> *Riverside Press and Horticulturist*, Apr. 1, 1893.

<sup>9</sup> *California Cultivator*, Apr., 1893, p. 100.

<sup>10</sup> *Rural Californian*, Oct., 1894, p. 533.

Since the period of the California Fruit Agency (April 1, 1903, to August 31, 1904) usually has been given only passing mention in accounts describing the marketing methods that have been employed in the handling of California citrus fruits, and since the experience of this organization serves as one of the most striking illustrations of the utter unfeasibility of permanently harmonizing the antagonistic interests of growers and commercial shippers, some consideration of the conditions which led to the formation of the California Fruit Agency, the difficulties encountered in its operation, and the causes which led to its dissolution, seems warranted in this place.

The formation of the California Fruit Agency was a sincere yet unsuccessful attempt to combine the growers and shippers into one organization for the benefit of the entire citrus industry. At a time when all the markets of the country were completely demoralized by reason of the presence of large supplies of oranges showing excessive decay following a period of wet weather, and the various independent shippers were each acting alone in their efforts to find markets where oranges could be sold,<sup>11</sup> Mr. G. W. Felts, a member of one of the commercial shipping firms, conceived the idea of uniting the whole citrus industry into one marketing agency that could control distribution, eliminate competition and restore the markets to something like normal condition. He thought that the logical way to handle the citrus fruit crop was to have all interests united, and that the psychological moment had arrived for bringing about such a union. At that time there were a number of firms of packers or shippers, who bought fruit from growers or packed and sold fruit for the growers at a specified price per box.<sup>12</sup> A certain group, including all the prominent firms, was supposed to control at that time about 42 per cent of the crop in the aggregate, and the Southern California Fruit Exchange was credited with controlling 47 per cent.<sup>13</sup> Mr. Felts' idea was to bring together these interests representing practically 90 per cent of the crop, and thus eliminate "cut-throat" methods,

<sup>11</sup> Naftzger, A. H., "Conditions Leading to the Organization of the California Fruit Agency." *Riverside Daily Press*, June 5, 1903, p. 5.

<sup>12</sup> Personal interview with G. W. Felts, Apr. 25, 1916.

<sup>13</sup> *Los Angeles Times*, Mar. 31, 1903, p. 7.

the playing of one firm against another by brokers to force down prices, and excessive marketing expense due to useless wiring and the duplicating of agents.

The marketing methods of the Exchange and the "Independents," or packers, were entirely different, in that the Exchange sold almost entirely on a delivered basis, while the packers pushed f. o. b. sales as much as possible. Although there was keen competition amongst the various packers, they hated the Exchange worse than any of their own number, and were collectively fighting the Exchange at every opportunity. The Exchange, on the other hand, was opposed to the independents as a class, because they were continually disturbing market conditions by consigning cars to markets already supplied.<sup>14</sup>

In spite of the advice of his partner that it would be impossible to unite these two antagonistic interests, Mr. Felts secured an audience with the president and general manager of the Exchange, and laid the matter before him. After a long conference, the latter agreed that such an arrangement as that suggested by Mr. Felts would be ideal, but held that it could not be brought about because of the antagonistic nature of the two elements and the lack of union among the independents. However, he stated that if all the independents would join such a movement, the Exchange would do likewise.

Mr. Felts then talked with the independent packers one after another, and secured favorable consideration of his project by all with whom he consulted. Then these packers united to form the California Citrus Union, in order that the proposed general marketing agency might be composed of the two large organizations the Southern California Fruit Exchange and the California Citrus Union. Committees representing each of these organizations were in almost continuous session day after day. The "negotiations" that resulted in the formation of the Agency "involved a great deal of thought, consideration, deliberation, concession, and sinking of differences and trying to get together for the protection of the industry itself."<sup>15</sup>

That great things were expected of the new organization was

<sup>14</sup> Personal interview with G. W. Felts.

<sup>15</sup> Naftzger, A. H., "Marketing Citrus Fruits." *Proceedings 28th Fruit Growers Convention*, May 5-8, 1903, pp. 74-78.

evident from the announcements made to the public and to all Exchange members just before the business was taken over by the Agency. Under the heading, "Hammer out of Business . . . Exchange and Independent Shippers Together for the Marketing," an article in the *Los Angeles Times* states:<sup>16</sup> "Official announcement is made of the new fruit-handling merger, which promises to work a revolution . . . in marketing the citrus fruit crops of Southern California. A deal has been consummated that combines the Southern California Fruit Exchange and the independent shippers. . . .

"These two interests, heretofore antagonistic, are to merge into a corporation, to be known as the California Fruit Agency, through which practically all the oranges grown in California will be placed upon the market to the best advantage of all the growers. . . .

"The primary object of the new venture is to eliminate ruinous competition, prevent glutted markets and provide equal distribution of the output throughout the United States. The amalgamation of all shippers, it is claimed, will work to the establishment of a uniform price, protect the eastern buyer and do away with heavy losses from rejections and hurtful speculation. Furthermore, it is urged, eastern consumers will get their oranges at the same price per dozen as they are paying now, but the methods used by the middlemen to hammer down this [his] buying price will be impossible, and the grower will reap the benefit."

The announcement sent out by the central office of the Exchange to its members, was as follows:<sup>17</sup>

"To all Exchange Members — Gentlemen: This will announce to you the organization of the California Fruit Agency, organized for the purpose of marketing the citrus fruits of California for the exchange, shippers, and growers, alike on a co-operative basis. This organization will become the selling agency for all parties to the arrangement with similar aims and policies as the Southern California Fruit Exchange.

"After long and painstaking negotiations, we have reached a plan which we confidently expect will very greatly facilitate the

<sup>16</sup> *Los Angeles Times*, Mar. 31, 1903, p. 7.

<sup>17</sup> As quoted in *Los Angeles Times*, Mar. 31, 1903.

marketing of our fruit. Under the arrangement which we have made, all of the principal shippers who have been for years engaged in the business, join in the marketing agency. They continue in the business practically as packers, putting at the service of the growers not members of the exchange their numerous packing-houses and extensive facilities, and at a less cost to the grower than heretofore. . . .

“If it should be alleged that this is a trust, our answer is that we neither seek to limit production nor to fix arbitrary prices, and therefore it is not any more in the nature of a trust than is the exchange. . . .

“Southern California Fruit Exchange.”

A few days later, the president of the Exchange was quoted as saying:<sup>18</sup> “Every interest of every Exchange member has been guarded with the utmost care, and at the same time facilities for marketing will be offered to the growers outside of the Exchange better than they have ever had before. . . . The consolidation has been arranged upon such equitable terms that animosities between the people in and out of the Exchange should cease, because both are put in better shape than before to get the value of their products.”

For a short time it looked as though the California Fruit Agency were the solution of all the marketing problems pertaining to citrus fruits. When it started business April 1, 1903, the Agency took over some 1800 cars of fruit en route and on tract unsold,<sup>19</sup> at a time when all markets were congested, demoralized and in a deplorable condition, and the situation altogether disheartening. However, within a short time, the congested condition of the markets was relieved, and the situation entirely changed. Wider distribution of the crop was secured than previously, for agents were shifted to new points, without additional expense to the industry, for previously both the Exchange and some independent had maintained representatives in the same market. Thus the former agents of both, maintained now by the Agency, were able to cover a larger number of markets. J. C. Curtiss, a representative of the Citrus Union, was

<sup>18</sup> *Riverside Daily Press*, Apr. 9, 1903, p. 2.

<sup>19</sup> Personal interview with G. W. Felts, Apr. 25, 1916.

quoted as saying:<sup>20</sup> “. . . only the prompt organization of the packers saved the great orange industry from going to the wall this spring. . . The worst slump the orange market ever had was just ahead of us and this organization was the only thing that could save it. And it did save it.” A few weeks later, the general manager of the Agency and president of the Exchange stated that,<sup>21</sup> “Shipments during the month of May were 50 per cent greater than during the same period in any previous season, and the fruit ran to large sizes and did not have good carrying qualities. . . Nothing but the existence of the Agency has prevented a total collapse all along the line.”

But, in spite of this apparent accomplishment of its object by the Agency, matters within the organization were by no means harmonious. Since the occasion of forming the Agency was a special emergency in market conditions, and since that emergency could be met only by prompt action, the board of directors of the Southern California Fruit Exchange (composed of one representative from each district exchange) acted on behalf of that organization without first referring the matter to the various district exchanges and local associations for consideration. Such a procedure would have delayed action until after the marketing season for that year was over. Even as it was, the Agency took charge of the marketing of the fruit several weeks before all the provisions of the agreement between the Exchange and the Agency were definitely determined.<sup>22</sup> It was not until May 15 that copies of the agreement were sent to the several district exchanges for ratification. That an enthusiastic response was not received from all the exchanges is indicated by the fact that on September 4 a second request was ordered sent to the exchanges that had not ratified the agreement.<sup>23</sup> In the meantime, conditions within the Southern California Fruit Exchange became so strained<sup>24</sup> that one of the

<sup>20</sup> *Riverside Daily Press*, Apr. 15, 1903, p. 3.

<sup>21</sup> *Riverside Daily Press*, June 5, 1903, p. 5.

<sup>22</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Apr. 1, 17; May 1, 15, 1903.

<sup>23</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Sept. 4, 1903.

<sup>24</sup> Minutes of Board of Directors, Southern California Fruit Exchange, May 1, 9, 14, 15, 22, June 26, Aug. 7, 21, 28, 1903.

district exchanges voted to withdraw from the organization, and was prevailed upon to rescind its action only after strenuous conciliatory efforts on the part of Mr. Felts<sup>25</sup> and others.<sup>26</sup>

The feeling among some of the component parts of the Southern California Fruit Exchange, pending the ratification of the agreement with the Agency, was expressed in a resolution adopted by the San Bernardino County Fruit Exchange, July 14, 1903, and presented to the Southern California Fruit Exchange: "Be it resolved, that we hereby respectfully request that the So. Calif. Fruit Exchange quickly return to those sure principles upon which the organization which has done so much for the citrus industry of California was based; that no alliance be made or recognized which involves repudiation of contracts, or discrimination against loyal members of the Exchange or the adoption of methods proven to be false.

"That only such alliance be made as the management and rank and file of the Exchanges shall judge to be for the best interests of the industry and just to all.

"All this to the end that the integrity and harmony of the Exchanges may be maintained and their beneficent influence be perpetuated."<sup>27</sup>

One provision in the agreement which was particularly distasteful to the local associations of the Exchange, and which was the primary cause of the dissension mentioned above, was that prohibiting any increase in the membership of the Exchange except under certain regulations or with the consent of the Agency.<sup>28</sup> This provision had been agreed to by the directors of the Exchange in response to the demands of representatives of the Citrus Union that definite assurance be given them that sufficient fruit would always be left outside of the Exchange, and thus available to the commercial packers, to insure abundant

<sup>25</sup> Mr. Felts was Secretary of the California Fruit Agency throughout its existence.

<sup>26</sup> *Riverside Daily Press*, Sept. 5, 1903, p. 4. Also Minutes of Board of Directors, Southern California Fruit Exchange, Sept. 11, 1903.

<sup>27</sup> Transcribed from the original document, in office of California Fruit Growers Exchange, Los Angeles.

<sup>28</sup> Original document, bearing seals and signatures, in office of California Fruit Growers Exchange, Los Angeles.

material for the operation of their packing-houses.<sup>29</sup> New shippers were to be required to go wherever the committee of the Agency directed. The independent feeling of human nature asserted itself against this dictation to such an extent that a "grievance committee" had to be appointed to take charge of the numerous complaints. While the committee usually decided that the fruit of a given orchard was to be handled through the packing-house to which its location made it naturally tributary, many growers were dissatisfied, and trying times were experienced. Jealousies and discord between Exchange men and Citrus Union men were continually coming to the surface and the old animosities cropping out.<sup>30</sup>

According to Mr. Felts' original plan, the commercial packers who united to form the Citrus Union, were to act merely as packing agents for the organization at a specific price per box — that price being sufficient to yield them a fair profit. He proposed that in any given locality where both an Exchange packing-house and an independent packing-house were operating — the Exchange charging only the actual cost for packing and the independent packer making a profit — a uniform charge for packing in both houses be established, said charge being the average of the two rates formerly obtaining at the two houses. Such an arrangement would have given neither house an advantage with the grower. It was hoped that this would eventually result in a uniform charge for packing throughout the entire citrus district, and have a large tendency to eliminate local jealousies and prejudices. However, the two factions could not get together on this point, and it was never adopted.<sup>31</sup> This is merely a further illustration of the fact that a co-operative organization of growers, one of the fundamental principles of which is to charge only actual-cost for all services, and a commercial organization whose operations are carried on for profit, cannot agree upon the same charge for the same service. Their objects are too diverse to permit such an agreement.

Another feature regarding which the two factors making up the California Fruit Agency were unable to agree was the or-

<sup>29</sup> Personal interview with W. N. Chamblin, Riverside, May 27, 1916.

<sup>30</sup> Personal interview with G. W. Felts, Apr. 25, 1916.

<sup>31</sup> Personal interview with G. W. Felts, Apr. 25, 1916.



ganization of the sales department. It had been understood that R. H. Wilkinson (secretary of the Exchange) was to be sales manager of the Agency,<sup>32</sup> with T. M. Simpson and F. J. Harrigan (who had been salesmen for independent packers) working under him. However, it was agreed that Simpson and Harrigan should be allowed to dispose of the inferior fruit of the Citrus Union then en route and in the markets, before this arrangement was put into effect. Somewhat later when a member of the "marketing committee" of the board of directors suggested that the sales department be organized as originally contemplated, it developed that the Citrus Union would not concede this point,<sup>33</sup> and each of the three members of the "Sales Department" continued to work independently, the territory being divided among them. At a subsequent time, Mr. Felts, secretary of the Agency, attempted to bring about the organization of this department on a stable basis, but the lack of harmony between the representatives of the Exchange and the Union, on the board of the Agency, forestalled this action.<sup>34</sup> Each factor evidently desired to exercise more control over the marketing policies than would be possible if a man in sympathy with the marketing methods of the other factor were placed in charge of the department. Thus, the sales department was never thoroughly organized, and an element of weakness was left which contributed to the final dissolution of the Agency.

In the season of 1903-4, the brokers and commission men who had been left out of the new plan of distributing the citrus crop, "put every object possible in the way of the Agency's marketing."<sup>35</sup> It was said that the merger threw 200 to 400 brokers out of employment. "These are [were] all working against the interest of California fruit instead of for it."<sup>36</sup> The independent shippers in California (those outside of the Agency) also fought the Agency. Price-cutting and the sacrifice of fruit to punish their opponents or gain control of certain

<sup>32</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Apr. 1, 1903.

<sup>33</sup> Personal interview with P. J. Dreher, June 30, 1916.

<sup>34</sup> Personal interview with G. W. Felts, Apr. 25, 1916.

<sup>35</sup> *Riverside Daily Press*, Mar. 26, 1904, p. 5.

<sup>36</sup> *Riverside Daily Press*, Apr. 4, 1904, p. 6

markets were resorted to on both sides. This policy, together with a long period of cold weather and the largest crop that had yet been harvested, demoralized the markets. By March 10, the situation was attracting serious attention on the part of the growers. An item in the *Riverside Daily Press* on that date said: "The returns are low of late, in some cases averaging 10 to 20 cents a box. In other cases there is absolute loss. . . . The Fruit Agency people figure that the average returns have been about 40 cents a box." The Agency was reported to have said that the poor market was "due to the prolonged cold weather in the East." Growers were quoted as saying that it was "largely due to the fact that the dealers have been admitted into the growers' combination; and that, further, because of the trust's method of doing business the hostility of hundreds of brokers and dealers in the East has become arrayed against California oranges." The item further stated: "There is widespread discontent among the growers . . . and an attempt is being made to call a mass meeting . . . for . . . considering the situation."<sup>37</sup> One of the local associations in the Exchange had "adopted resolutions asking that the arrangement existing between the growers in the fruit exchanges and the dealers in the Citrus Union be dissolved."<sup>38</sup> On March 17, the statement was made that "The present season [1904] has so far certainly been the most unsatisfactory to the grower that he has ever experienced."<sup>39</sup> Mention was made of a grower whose fruit was handled by an independent shipper, who received 17 cents in postage stamps for 100 boxes of oranges.<sup>40</sup> March 25, E. P. Ripley, president of the Santa Fe Railway, was quoted as saying "that the competition among different orange factors is the chief cause of the weakening of the industry."<sup>41</sup> It was also stated that "widespread dissatisfaction exists among the growers." The growers felt that there had been something wrong with the marketing methods or management; that the

<sup>37</sup> *Riverside Daily Press*, Mar. 10, 1904, p. 7.

<sup>38</sup> *Riverside Daily Press*, Mar. 10, 1904, p. 7.

<sup>39</sup> *Riverside Daily Press*, Mar. 17, 1904, p. 2.

<sup>40</sup> *Riverside Daily Press*, Mar. 31, 1904, p. 7.

<sup>41</sup> *Riverside Daily Press*, Mar. 25, 1904, p. 6.

cold weather and the "largest Florida crop since the great freeze" could not account for the poor market.<sup>42</sup>

Various rumors and reports were published by those opposed to the Agency, with a view to bringing about dissension and strife among the various interests in California. Finally a series of charges attacking the integrity of the general manager of the Agency was published in a local paper owned and controlled by a member of one of the local associations belonging to the Exchange.<sup>43</sup> Although he was cleared of all these charges by a "Commission of Inquiry," whose investigations and deliberations extended from April 25 to August 27, 1904,<sup>44</sup> he did not continue his connection with citrus marketing organizations after September 1, 1904.

In the meantime, following agitation among the constituents of the organization,<sup>45</sup> the board of directors of the California Fruit Agency had voted to "discontinue business." The official statement announcing this decision was, in part, as follows:

"At a meeting of the board of directors of the California Fruit Agency, held May 20, 1904, the following was unanimously adopted:

"As this organization has not received the general approval and earnest support of the growers necessary to complete and permanent success, we deem it advisable to discontinue business on September 1 next, closing the accounts as soon thereafter as possible. . .

"The California Fruit Agency will, in deference to the express view of its growers, discontinue business on September 1, next, and thereafter the Southern California Fruit Exchange will resume business, and the California Citrus Union as a corporation will become an active marketing factor."<sup>46</sup>

At the same time the board of directors of the Southern California Fruit Exchange issued a statement addressed to Ex-

<sup>42</sup> *Riverside Daily Press*, Mar. 25, 1904, p. 2.

<sup>43</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Apr. 1, 1904.

<sup>44</sup> The full report of this "Commission of Inquiry" is contained in two volumes aggregating over eleven hundred pages of typewritten matter, in the office of the California Fruit Growers Exchange, at Los Angeles.

<sup>45</sup> *Riverside Daily Press*, Apr. 14, 1904, p. 3.

<sup>46</sup> *Riverside Daily Press*, May 21, 1904, p. 4.

change members. Referring to the formation of the Agency, it said: "This undertaking was entered into in good faith and every effort in our power has been put forth to make it a success." It then continues: ". . . The growers outside the Exchange did not come into the organization in such numbers, and give support to it, as was necessary to complete success. There were also other insurmountable difficulties to contend with, which should not be overlooked by growers. In voting to discontinue the business of the California Fruit Agency on September 1st next, it is with the expectation that the Southern California Fruit Exchange will resume active business at that time with such changes in policy and plans as changed conditions may require, and such as the growers through their local Exchanges may dictate.

"The contract of the Exchange remains in full force until August 31, 1905. Many growers have complained that under the Agency agreement new members could not be admitted to the Exchanges. Their desire to co-operate will now be tested, as the Exchanges will be free to take members, and will be prepared to market fruits after September 1st.

"Opposition from parties with adverse interests and criticism from parties who know nothing about the business will probably be continued, but Exchange members should pay no attention to these things, but give full support to a marketing system under their own control, and which has heretofore proved its efficiency."<sup>47</sup>

As contemplated in these announcements, the California Fruit Agency ceased activity September 1, 1904, and the Southern California Fruit Exchange resumed the marketing of fruit for its members, and has continued in active operation ever since (though its name has been changed to the California Fruit Growers Exchange).

The primary cause of the failure of the California Fruit Agency to meet the requirements of a marketing agency for California fruits was the impracticability of harmonizing the interests of the component parts of the organization, consisting as they did of co-operative organizations of growers on the one hand

<sup>47</sup> Minutes of Board of Directors, Southern California Fruit Exchange, May 20, 1904.

and commercial firms of packers and shippers on the other. Although the Agency was apparently successful in fulfilling its purpose in the spring of 1903, and relieved the congestion in the markets almost immediately following its formation, it did not succeed in preventing an even worse congestion a year later. This failure was probably due in part at least to the introduction of marketing policies which never received the sanction of the growers, and to the general lack of harmony in the sales department. As the only means which would subserve the interests of both growers and packers in one organization, a large amount of arbitrary control and authority was necessarily vested in the central body. Such an arrangement was diametrically opposed to the principles of true co-operation; and its disapproval by the local co-operative associations of growers was the logical outcome. The movement for coalition did not originate among the growers. It was an attempt at organization from the top downward, instead of from the bottom upward. The agreement which formed the working basis of the California Fruit Agency was a compromise worked out by the officers of the Southern California Fruit Exchange and representatives of the shipping firms, in attempting to reconcile the adverse interests of growers and commercial shippers; and it contained provisions to which the growers in the Exchange associations would never have submitted if their wishes had been consulted before the action was taken. The California Fruit Agency failed to persist because it was an attempt "to put into double harness two forces whose interests are not common, and who cannot work together successfully."<sup>48</sup>

#### OTHER ATTEMPTS TO COMBINE GROWERS AND DEALERS

Attempts to combine the interests of growers and dealers have also been made in the deciduous fruit industry. The California Fruit Union, incorporated November 13, 1885, started as a strictly co-operative organization with membership limited to growers.<sup>49</sup> However, after one season's operation, during which severe competition with commercial shippers was experienced, and neither growers nor shippers made much money, the by-laws

<sup>48</sup> *Riverside Daily Press*, May 18, 1904, p. 2.

<sup>49</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1885-6, pp. 78-97. Also *Pacific Rural Press*, Nov. 14, 1885, p. 397.

were changed so that commercial shippers were admitted to the organization.<sup>50</sup> Under the new arrangement the Union handled a much larger amount of fruit<sup>51</sup> and was reported to be still "in successful operation" in 1892,<sup>52</sup> but it had retired from business before the opening of the shipping season of 1894.<sup>53</sup> Its policies were largely dominated by the shippers and this caused the growers to withdraw their support.<sup>54</sup>

In November, 1894, a convention of fruit growers at Sacramento "resulted in the establishment of an organization known as the Fruit Growers and Shippers' Association," whose objects were "(1) the establishment of a Bureau of Information to regulate distribution; (2) to establish one auction-room in each city; (3) to make such auction-rooms open and free to all buyers; (4) to do all such other things as may be conducive to the best interests of the fresh-fruit industry of California."<sup>55</sup> In spite of the existence of this organization, the prices received for fresh deciduous fruits in 1895 were a great disappointment to the growers; and one of the chief causes of low prices was said to have been the "constant glutting of the Eastern markets by the indiscriminate shipments of fruit consigned to parties unqualified to handle the product intelligently."<sup>56</sup> That difficulty was experienced in reconciling the interests of growers and shippers is evident from the fact that in April, 1896, a committee "consisting of seven growers and shippers, representing the various elements engaged in the fresh-fruit trade,"<sup>57</sup> was appointed to bring about harmony among the conflicting interests. Although it was reported that the Association was "entirely successful in bringing about a harmony of spirit and a unity of action among shippers and growers,"<sup>58</sup> the growers did not prosper under the arrangement, and conditions in the deciduous fruit industry be-

<sup>50</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1885-6, pp. 306-323, and *An. Rep. Cal. St. Bd. of Hort.*, 1890, pp. 83-89.

<sup>51</sup> *An. Rep. St. Bd. of Hort.*, 1889, p. 446; and 1890, p. 88.

<sup>52</sup> *An. Rep. St. Bd. of Hort.*, 1892, p. 329.

<sup>53</sup> *Rural Californian*, Apr., 1894, p. 192.

<sup>54</sup> *A Brief History of the Deciduous Fruit Industry of California*, p. 8.

<sup>55</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1895-96, p. 67.

<sup>56</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1895-96, p. 67.

<sup>57</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1895-96, p. 69.

<sup>58</sup> *Bien. Rep. Cal. St. Bd. of Hort.*, 1895-96, p. 71.

came so bad that the growers finally formed an organization of their own, in 1901 — the California Fresh Fruit Exchange. This co-operative organization of deciduous fruit growers arranged for the handling of their products in eastern markets by the agents maintained in those markets by the Southern California Fruit Exchange,<sup>59</sup> the co-operative organization of citrus fruit growers. This arrangement was renewed for the season of 1902;<sup>60</sup> but during the seasons of 1903 and 1904, when the Southern California Fruit Exchange was merged into the California Fruit Agency, the California Fresh Fruit Exchange operated through the California Fruit Distributors, an organization of commercial shipping firms, which had succeeded the California Fruit Growers and Shippers' Association in 1902.<sup>61</sup> However, *this alliance of growers with dealers proved incompatible*,<sup>62</sup> and in February, 1905, arrangements were again made by the California [Fresh] Fruit Exchange for the handling of their products by the agents of the Southern California Fruit Exchange.<sup>63</sup> The co-operative organization of deciduous fruit growers has continued to have the products of its members handled by the agents of the co-operative organization of citrus fruit growers ever since that time;<sup>64</sup> and the arrangement is mutually satisfactory, because the ideals of the two organizations are similar.

In the raisin industry, attempts to combine the interests of growers and commercial packers or dealers have likewise been unsatisfactory. From 1889 to 1891 several co-operative packing associations of raisin growers had been formed in the Fresno district. In 1892, these co-operative packing associations and a number of "commission packers" entered into certain agreements with the growers who had organized the California State

<sup>59</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Apr. 24, 1901.

<sup>60</sup> Minutes of Board of Directors, Southern California Fruit Exchange, May 28 and June 4, 1902.

<sup>61</sup> Powell, Fred Wilbur, "Co-operative Marketing of California Fresh Fruit." *Quarterly Journal of Economics*, 1910, Vol. XXIV, pp. 392-418.

<sup>62</sup> Personal interview with Geo. H. Cutter, Pres. California Fruit Exchange, July 20, 1916.

<sup>63</sup> Minutes of Board of Directors, Southern California Fruit Exchange, Jan. 11, Feb. 8 and 15, 1905.

<sup>64</sup> Personal interview with Geo. H. Cutter.

Raisin Growers Association, in reference to the handling of the crop. This association claimed to include growers representing 95 per cent of the crop. During the season, price-cutting became severe, and many carloads of raisins were sold at a price that netted the growers less than  $1\frac{1}{4}$  cents per pound. The commission packers and co-operative packers in the Association each accused the other of starting the price-cutting, and both blamed the outside packers. In April, 1893, a meeting of the Association was called quietly, and an executive committee favorable to the commission packers was chosen. The growers became indignant and proposed a co-operative organization of growers exclusively, of which the existing co-operative associations would form the nucleus. In June, 1893, an attempt was made to get the rival factions together—the executive committee of the California State Raisin Growers Association (which was dominated by the commission packers), and those who favored the co-operative plan; “but harmony was impossible.”

On June 20, 1894, the California Raisin Growers and Packers Company was incorporated, with a board of directors consisting of five growers and five packers. Eighty per cent of the raisin acreage was contracted to this association. Competition from outside packers again led to price-cutting, in which the co-operative packers and commercial packers each again accused the other of making the start. The result was disaster to the growers, and many vineyards were grubbed out in 1894 and 1895.

Efforts to organize the raisin growers were renewed early in 1898. Various plans were suggested, committees appointed, and an organization finally effected, under the name of the California Raisin Growers' Association, with M. Theo. Kearney as president.

In the original plan submitted by M. Theo. Kearney for the formation of the California Raisin Growers' Association, “the existing plants of the co-operative associations” were to be “taken over by the proposed association, and as rapidly as possible packing facilities” were to “be extended;” commercial packers were not to be admitted to membership. This organization was effected in time to handle the 1898 crop, though 75 per cent of the packing was contracted to the various commercial packers, in proportion to their packs of the previous season. “Nearly all



the packers . . . were dissatisfied with their allotments," and difficulty was experienced in enforcing the terms of the contract. At the State Fruit Growers Convention, in December, 1898, Mr. Kearney said: "Our experience this season has convinced me that we cannot blend the interests of the commercial packer with the interests of the grower, any more than we can blend oil and water, and that any attempt on our part to do so will be a waste of time and will be engaging in a very hazardous undertaking."<sup>65</sup> At a meeting of the Association, December 5, 1898, he proposed a plan whereby the Association might be made independent of the commercial packers. It was that the growers be assessed \$5 per acre to build packing-houses which would be operated on the co-operative plan. This move was opposed by the commercial packers, and the growers lacked sufficient independence to adopt it.

An attempt was made to control the packers by very stringent contracts in 1899, but they proved to be not subject to control. Therefore in the spring of 1900, the directors of the growers' association incorporated the California Raisin and Fruit Packing Company, and sought to secure three-year contracts with the growers preparatory to entering the packing business. But many growers did not think it wise to attempt to eliminate the packers, and the packers were not disposed to be eliminated; they were preparing to fight the growers, when the bankers undertook to reconcile the opposing factors. The packers demanded that the growers give up the packing-house idea, and give them a three-year contract similar to that already in force. After several meetings of the bankers, packers, and directors, the packers agreed to effect a combine among themselves so that the growers' association would deal with them as one body, and the three-year contracts with the packers were signed, with some modifications favorable to the packers. This failure of the growers to declare their independence was thus commented upon by J. W. Jeffrey:<sup>66</sup>

"The California Raisin Growers' Association has been having a fight for its life for the past two or three months. . . The

<sup>65</sup> *Pacific Rural Press*, Dec. 10, 1898, p. 380.

<sup>66</sup> Jeffrey, J. W., "Co-operation vs. Combination." *California Cultivator*, May 25, 1900, p. 323.

campaign of the last few months has been along the lines of a steady natural growth of the co-operative idea. That is too slow a process for the Fresno growers, although the experience of the orange growers and the failure of the raisin growers themselves will finally convince the raisin men that success can come only through independent co-operation among themselves. In the fight now about concluded in acknowledged defeat the raisin association has attempted to seal a three-cornered partnership between themselves, the raisin packers and the bankers of Fresno and San Francisco, and it has been an attempt to divide the spoils . . . between the three parties — the growers to get a living out of the raisin business if possible; the packers to secure \$12 to \$15 per ton . . . without risking a penny in the markets, and the bankers to get an easement on the raisin-land securities on which they had advanced money when the packers were handling the raisins on a commission that left less than 1½ cents a pound to the growers. It seems very strange to the originators and friends of the clean-cut, independent Exchanges of Southern California that a tripartite agreement in the name of co-operation should be attempted, between the raisin growers, the packer-speculators, and the money-lenders.”

Following this compromise, there was a series of conflicts between the interests of growers and packers, including the revocation of contracts by the growers’ association, and their subsequent renewal on terms still more favorable to the packers. This latter action was taken by the directorate, after the elimination of Mr. Kearney, and without consultation with the growers. This caused much dissatisfaction, and in the spring of 1904, Mr. Kearney again proposed the elimination of the commercial packers and the establishment of co-operative plants, all represented on a central board; but this was never done. General distrust and dissatisfaction among the growers prevailed; the packers continued to dominate the situation; the growers failed to renew their contracts with their association, and on August 8, 1904, the president of the California Raisin Growers’ Association announced the suspension of business.<sup>67</sup>

<sup>67</sup> This brief account of some of the early organizations in the raisin industry is based largely upon data contained in a thesis by F. Y. Fox, *Co-*

During the existence of the California Raisin Growers' Association there was almost continual conflict between the interests of the growers and the commercial packers; and the disparity of those interests contributed largely to the ultimate downfall of the Association. If the plan repeatedly proposed by Mr. Kearney — that of the Association doing its own packing — had been adopted and put into operation early in the life of the organization, thus severing all relations with the commercial packers, it is probable that the raisin growers of California might have been spared the harrowing experiences which characterized the period from the downfall of the California Raisin Growers' Association in 1904 to the inception of the California Associated Raisin Company in the spring of 1913.

Even when a marketing organization is started strictly as a producers' organization without any intention of forming an alliance or combination with dealers in the same product, there is always danger that the outside interests will be able to manipulate matters in such a way as to secure control of the "growers' organization" and dominate its policies, unless definite provisions are made by the organization to insure against such an eventuality. A good illustration of what may happen to an organization which fails to take such precautions is furnished by the experience of the Brawley Cantaloupe Growers' Association which was organized in 1905 — the second year that cantaloupes were grown in the Imperial Valley. This was an incorporated company, with capital stock, and was composed principally of growers, nearly all of whom were Americans. But the American growers gradually went out of the cantaloupe business and Japanese came in. The retiring growers sold their stock in the association. An eastern firm of cantaloupe distributors quietly bought up the stock as it was offered, and soon controlled a majority of the shares. After that, the policies of the Association were determined by these dealers rather than by the growers.<sup>68</sup>

*operation in the Raisin Industry of California*, University of California, 1912; and quotations not otherwise specified are from this work.

<sup>68</sup>Personal interview with Peter P. Hovley, June 21, 1916. Mr. Hovley was president and manager of the Brawley Cantaloupe Growers' Association during its entire shipping activity (1905-1911).

Recognizing the necessity of making definite provision for insuring that control over the affairs of the organization shall not pass into the hands of outside interests, various means to this end have been adopted by different organizations. The California Associated Raisin Company and the California Peach Growers have each placed the control of their policies in the hands of a board of twenty-five voting trustees<sup>69</sup> elected for a period of seven years, and the Turlock Merchants and Growers, Incorporated, has vested similar power in twenty trustees elected for five years. No matter what transfers of stock may take place in the meantime, all voting of stock during that period is vested in the trustees elected by the persons who owned the stock at the time the original organization was effected. No provision, however, is made for insuring that a majority of the stock shall be in friendly hands at the expiration of the five or seven-year period, since there are no restrictions whatever on the purchase or transfer of stock. The organization of olive growers known as the California Associated Olive Growers has attempted to obviate this difficulty by providing for the issue of two kinds of stock (common and preferred), restricting the sale of common stock to growers, and providing that "the total amount of preferred stock actually issued or contracted for at any time shall never exceed the amount of two-thirds of the total common stock then actually issued."<sup>70</sup>

Other organizations have accomplished the same result by permitting transfers of stock only upon approval of the board of directors. However, the most effective means of insuring that the control of an organization shall remain with the growers is the absolute restriction of membership in the organization or ownership of stock to actual growers of the product to be marketed. This method has been adopted by the California Fruit Exchange and practically all its local associations, most of the local associations composing the California Fruit Growers Exchange, and all the local associations comprising the California Almond Growers Exchange and the California Walnut Growers Association.

On the whole it appears to be very much more desirable that

<sup>69</sup> Documents secured from officers of the organizations.

<sup>70</sup> *California Fruit News*, June 17, 1916, p. 4.

membership or ownership of stock in a growers' co-operative marketing organization be limited to actual growers of the commodity to be marketed, rather than that membership be transferable without restriction, or that stock be transferable except to other actual growers and upon explicit approval of the directors of the organization. It further appears that combinations or alliances of growers' organizations with organizations of commercial packers or dealers are extremely likely to be detrimental to the best interests of the growers.

## CHAPTER IV

### FINANCING THE ORGANIZATION, DISTRIBUTION OF BENEFITS, AND BASIS OF VOTING

#### FINANCING THE ORGANIZATION

*Definite provision must be made for financing the business of the organization.*

The amount of money that must be raised for equipping a co-operative marketing organization and maintaining its operations depends not only upon the volume of the product to be handled, but to an even greater extent upon the nature of the product, and the methods of handling and marketing to be employed. In the citrus industry, where each local association requires a packing-house with elaborate equipment, the initial expenditure of an association before it can begin to handle a crop is necessarily much greater than in the case of a bean growers' association located where the product can be stored in public warehouses, or even an almond growers' association, which can, if necessary, carry on its operations without a warehouse. And after the equipment has been installed, the amount of money needed to finance each season's operations will depend upon the amount of labor performed by the organization in preparing the product for market, the time and method of payment made to the growers, whether or not the output is handled through brokers or through salaried representatives of the organization in the markets, and whether or not the organization has created a reserve fund from the operations of previous years. In any case, before an organization is formed, the only logical method to pursue is to make as accurate an estimate as possible of the probable financial needs of the proposed organization, and to include in the plan of the organization itself a definite plan for securing the necessary funds.

Various means of securing the funds have been employed. In the citrus industry, where packing-houses and equipment are necessary to handle the product properly, a common method is for the local association to organize as a joint-stock company, in which each member is required to purchase a certain amount of stock for each acre of his orchard. This stock, which may amount to twenty-five or more dollars per acre, may be paid in full before the packing-house is erected, but the more usual plan is for the grower to pay for the stock gradually, a common method being for the association to retain from the proceeds of fruit packed and sold for the subscriber a small sum per box (usually not to exceed five cents) until the stock is entirely paid for. This may result in the distribution of the payment for stock over three or four seasons; and the stock is paid for out of the proceeds from the sale of the fruit.

Although this arrangement results in eventually paying for the packing-house from the sale of stock to the growers, the money for its erection must be procured in some other way. Sometimes it may be borrowed from an individual member of the organization; but the more usual method is to borrow it from the local bank; and the attitude of the bank in a given locality regarding the financing of a proposed marketing organization must usually be ascertained before the plans for the organization have proceeded very far.

When an organization is formed without capital stock, it must depend for funds upon advances made by the members, or upon retaining a small sum for each box of fruit handled, and applying the same to a building fund. Unless the members advance the funds the money for erecting the building must be procured from outside sources. The banks have been more favorably disposed toward loaning money for the erection of a packing-house to a growers' association organized with capital stock than one organized without capital stock, even though loans to the latter be secured by notes bearing the signatures of the entire membership of the organization. This attitude of the banks has resulted in the formation of many associations of citrus fruit growers on the joint-stock plan where the non-capital-stock plan would doubtless otherwise have been employed.<sup>1</sup>

<sup>1</sup> Personal interview with B. B. Pratt, Manager Field Department, California Fruit Growers Exchange, May 22, 1916.

No matter which of the methods above mentioned is employed, the growers' association eventually owns the building, and each member will have contributed to its erection and equipment in proportion to the acreage of his orchard or the amount of fruit he has marketed through the organization; and such an arrangement is as equitable a one as could be made, for each member has contributed to that part of the support of the organization in proportion to the service it has rendered him.

Similar means have been employed in financing the erection of packing-houses in other industries. In the Sebastopol Apple Growers' Union, each member subscribed for one share (\$10) of stock for each 200 boxes of his estimated crop, and five cents per box was retained from the sale of the fruit by the Union in payment for this stock. In the Sebastopol berry growers' organization, each member subscribed for stock in proportion to his acreage, and the money for building the packing-house was advanced by one of the members at 6 per cent interest.<sup>2</sup> About half the local associations of almond growers which constitute the California Almond Growers Exchange own and operate warehouses. These were built or purchased with money advanced by growers or borrowed from other sources, and then repaid by levying a certain charge per pound on all almonds handled through the house until the required amount had been collected. In this case, also, the contributions of the various members toward the cost of the house were in proportion to the volume of product the association handled for each.

The ownership of a packing-house or warehouse by a local association of growers, which has been paid for by contributions from each member in proportion to his product, not only affords the association adequate facilities for handling the product of its members, but may contribute fully as much to the welfare of the association by reason of its serving as a potent force in binding together as a unit the members of the organization.

In addition to money for packing-house construction and equipment, each marketing organization usually needs a considerable sum to defray operating expenses, especially during the early part of each season, before returns from the sale of prod-

<sup>2</sup> Personal interview with I. N. Cable, Manager, Sebastopol Berry Growers, Incorporated, July 21, 1916.



ucts become available. If no reserve fund has been created from previous seasons' operations, or if the organization is a new one, this money must usually be borrowed for a longer or shorter period. In the past it often occurred that a new organization met with extreme difficulty in arranging for short-time loans at the commercial banks. This was especially true in the case of a central marketing organization operating on the non-capital-stock plan, and composed of local associations operating on a similar plan. For example, the California Fruit Exchange had such difficulty in securing loans from the banks when the organization was operating without capital stock, that they were forced to reorganize in 1907 as a joint-stock company, and have since been able to procure short-time loans without difficulty whenever needed. The California Almond Growers Exchange, in the first year of its operations (1910), finding itself unable to negotiate loans as an organization, was obliged to secure the \$30,000 needed to finance its operations, by notes signed by individual growers. However, since the organization has demonstrated its ability to meet financial obligations, the banks are anxious to accept the privilege of making any advances that may be required for handling the business. The California Walnut Growers Association also, though operating without capital stock, is now so favorably considered by the banks that it is able to borrow any amount of money it may need for carrying on its business. In fact, the banks seem to be becoming much less prejudiced against granting short-time loans to organizations operating without capital stock than was formerly the case. The Southern California Fruit Exchange and its successor, the California Fruit Growers Exchange, have always been able to borrow whatever money they needed each season, although their capital stock was merely nominal, consisting of only as many shares (at one dollar each) as there were directors. It would seem that the form of organization, rather than the amount of capital stock, has in the past influenced banks in their attitude toward granting accommodation to growers' co-operative marketing organizations. However, since the permanent nature of these organizations in certain industries has become demonstrated, there is less discrimination against non-capital-stock organizations in reference to short-time loans than was formerly the case.

Organizations representing certain large industries have deemed it advisable to have a larger amount of capital stock than could conveniently be subscribed for by the growers on an acreage basis, in order to create a large working capital and thus render themselves less dependent upon loans secured from banks for carrying on their business. Stock subscriptions for \$800,000 were secured by the California Associated Raisin Company before business was started, and for \$600,000 by the California Peach Growers; and larger amounts were later secured by both. The California Prune and Apricot Growers, Inc., in process of organization, does not plan to undertake business unless subscriptions to stock amounting to \$750,000 are secured.<sup>3</sup> In these organizations, subscriptions from growers have been solicited to the extent of their willingness and ability to subscribe; but "all business houses, bankers and professional men, as well"<sup>4</sup> have been urged to participate in the subscription to capital stock. "The grower," "the public," and "the investor" alike have been appealed to on various grounds, in the efforts to secure the desired amounts. Although in each case a voting trust has been created to prevent hostile interests from securing control over the policies of the organization during the life of said trust, the admission of persons other than growers to participation in the stock subscriptions introduces a factor into the organization which may eventually cause serious disturbance because of the disparity between the interests of persons who subscribe for stock as an investment with the expectation of receiving dividends and those who subscribe for the purpose of securing marketing facilities for their products. The admission of outside interests into a growers' organization on the same basis as the growers themselves, even for the sake of securing needed financial assistance, is soliciting the co-operation of those whose interests render it impracticable for them truly to co-operate, unless it be assumed that all participants other than growers in the subscriptions for stock are actuated by philanthropic motives or expect to be indirectly recompensed for their contributions by reason of the increased prosperity of the community due to the

<sup>3</sup> *Subscription and Voting Trust Agreement.*

<sup>4</sup> In document circulated during campaign for subscriptions to the stock of the California Associated Raisin Company.

existence of the better marketing facilities provided by the organization. When with the receipt for money furnished by persons other than growers, a growers' organization must grant the privilege of participation in the determination of its policies, or create an artificial barrier within its own organization to prevent such participation, and thereby prevent also the exercise of initiative on the part of the entire membership except at intervals of five or seven years, the organization is in danger of no longer remaining a co-operative growers' organization, but becoming in reality an amalgamation in which the welfare of the growers' interests is dependent upon the dictation of the small body of men whom all subscribers (growers and others alike) have elected for a period of years by a vote based upon the amount of their stock subscriptions.

Although it has been officially stated that 90 per cent of the stockholders in the California Associated Raisin Company "are growers, at least 9 per cent are business men whose interest in the growers far outweighs any interest they may have in profit from the stock, and not more than 1 per cent, if any at all, are men who would be willing to prostitute this organization for an advantages to themselves as stockholders;"<sup>5</sup> and that "Between 90 and 95 per cent of the stock is owned by growers and the balance is owned by business men living in Fresno and the surrounding towns who could afford to lose many times over the value of their stock rather than to see the raisin industry revert to the condition of years gone by;"<sup>6</sup> nevertheless, the leaders in this organization clearly recognize the existence of the possibility of the stock passing into hostile hands. Their attitude in this matter is indicated by the manner in which they have urged the growers to retain possession of all their stock in the Company. For example, in the same article with the first quotation given above, appeared the following message to growers: "While we are on this subject, allow us to urge every grower to keep his stock . . . keep it as an insurance on your vineyard investment. Just for the same reason that you pay out money to insure your house and your life, you should carry this stock and not allow it to be gathered up by people who might use it for

<sup>5</sup> *Sun-Maid Herald*, Feb., 1916, p. 2.

<sup>6</sup> *Sun-Maid Herald*, Mar., 1916, p. 3.

their own advantage.” Again, in the May (1916) issue of the *Sun-Maid Herald*,<sup>7</sup> under the caption, “An Urgent Request,” appeared the following:

“Don’t sell your stock. It don’t make any difference what you can get for it, keep it. As long as this stock remains in the hands of the growers, the industry is on a good footing; when it leaves your hands and goes into the hands of a speculator, it may become dangerous.”<sup>8</sup>

If sufficient funds to finance a given organization cannot conveniently be secured from subscriptions of growers on the basis of acreage or volume of product, or borrowed from banks, and the issuing of shares of stock on other than an acreage or volume basis becomes necessary, the sale of such stock should be limited to growers of the product to be marketed, the stock should be transferable only to growers, and the amount of stock which may be owned by an individual or firm should be limited. This method has been adopted by the California Fruit Exchange. Stock is sold only to deciduous fruit growers who are members of the local associations which compose the Exchange or to these associations themselves; and the amount of stock which may be held by one individual, corporation, or association is limited to ten shares at \$100 per share.<sup>9</sup>

If, however, there is not sufficient available capital represented in the industry to render feasible this method of procuring funds for the organization, and such subscriptions as can reasonably be levied upon an acreage basis are inadequate to meet the contemplated needs of the organization, when supplemented by as much accommodation as the local banks are willing to grant, the situation is not one which demands an appeal to outside interests to enter the organization with their capital, but rather one which demands a revision of the plans regarding the scope and methods of operation of the organization, particularly in the direction of curtailing the need for large amounts of capital in advance of

<sup>7</sup> The *Sun-Maid Herald* is a “house organ” published by the California Associated Raisin Co. It has been issued monthly, since Aug., 1915.

<sup>8</sup> *Sun-Maid Herald*, May, 1916, p. 2.

<sup>9</sup> Address of J. L. Nagle, General Manager, California Fruit Exchange, at Berkeley, Cal., Dec. 11, 1916. See also *By-Laws of the California Fruit Exchange*, Article XIV.

the sale of products. But as already suggested, a favorable attitude on the part of the local banks toward a growers' co-operative organization is a very desirable business asset, and the existence or non-existence of such attitude in a given locality should be ascertained before organization is effected.

#### DISTRIBUTION OF BENEFITS

*The benefits accruing from membership in the organization should be distributed among the members in proportion to the value of the products handled for each.*

In an ordinary joint-stock corporation, the surplus profits are distributed to the members (stockholders) as dividends in proportion to the amount of stock held by each. In a growers' co-operative marketing association organized as a joint-stock company, in which the stock has been purchased by the various members in proportion to their respective acreages or volumes of product, a distribution of surplus profits would, under normal conditions, be fairly equitable whether it took the form of a dividend based on the shares of capital stock or a division of profits based on the volume or value of the products handled for each member. However, there is some preference in favor of making the distribution on the basis of the value of the products handled, since such a division places the emphasis upon the contribution of products from year to year to support the business of the organization, rather than upon the contribution of money at some previous time, and also encourages the production not only of large yields per acre, but also of high grade products, since value rather than volume is emphasized.

In a fruit growers' organization in which the capital stock is held in amounts disproportionate to the acreage or products of the growers, the most equitable arrangement in the distribution of profits is to limit the dividend paid on the capital stock to a reasonable rate of interest on the paid-up capital, to set aside a limited amount as a reserve fund, and to divide the remainder among the growers in proportion to the value of the products they have marketed through the organization during the season. This method is employed by the California Fruit Exchange, except that the ten per cent dividend annually declared on the capital stock is a little high. The Turlock Merchants and Grow-

ers, Incorporated, limits the dividend on paid-up capital stock to five per cent per annum.

In the case of organizations without capital stock, there can, of course, be no dividends; and since these organizations are operated on the non-profit plan, there can also be no profits to distribute. A common plan employed in operating such associations is as follows: The expenses are estimated as closely as possible, and a sufficient amount per package or pound to create a revenue which will surely cover all expenses is retained by the organization when making remittances to the growers. At the close of the season, when the total expenses for the year are definitely known, the actual average cost of handling each package or pound of product can be determined, and any excess which may have been charged to the growers is returned to them in proportion to the number of packages or pounds handled for each, unless the members vote to have this sum retained in the organization as a reserve fund for extending the equipment or defraying expenses at the beginning of the next season. In either case, the grower has received benefits from the organization in proportion to the value of his products, for the cost of marketing has been upon a package or pound basis, and hence the grower of the higher grade products has had his marketing done at a lower percentage cost; and here again the production of the superior grades is encouraged.

It is equitable to place the charge for marketing upon a package or pound basis rather than a percentage of the selling price; for the cost of preparing the low grade product for market is no less than that of preparing the high grade; the office expense of the organization in the handling of a given volume of products is not reduced by reason of the grades being low rather than high; and the cost of the actual selling may be greater for the low grade product in the case of goods sold by salaried agents, because of the greater difficulty and amount of time that may be required to effect sales.

Some organizations, though having capital stock (which is owned by growers in proportion to their acreage or the volume of their product), operate on a non-profit basis, but consider as a part of the operating expense six per cent interest on the paid-up capital; while others, like the Sebastopol Apple Growers'

Union, pay neither dividends nor interest on capital, but give the growers (who have previously contributed the capital) the direct benefit of the further reduction in the cost of marketing thus afforded.<sup>10</sup>

#### BASIS OF VOTING

*In a properly-constituted growers' co-operative marketing organization, it makes little difference whether the voting power is based upon individuals (one-man, one-vote), volume of product, or shares of stock.*

It has already been shown that the most desirable form of organization is one in which the shares of stock, if any, are held by the growers in proportion to their acreage or volume of product. In such organizations it is ordinarily assumed that, under normal conditions, there will be, on an average extending over a series of years, a fairly close relation between the acreage and the volume of product. Therefore, whether the shares of stock are issued in proportion to acreage or volume of product, a vote based on such shares of stock would, under normal conditions, be essentially the same as a vote based on volume of product.

As to whether the voting power should be based upon individuals or upon volume of product, there seems to be some difference of opinion, it being held by some that true co-operation demands that the vote of each individual in the organization have the same weight regardless of differences in the volume of product represented by the various members; while others hold as tenaciously that the only equitable basis of voting is one in which the vote of each member bears the same relation to the total number of votes as the volume of his product bears to the total product represented in the organization.

It is true that when an organization is composed of individuals representing widely different volumes of product, or a central organization is composed of sub-organizations differing widely in volume of product, there is likely to be a tendency on the part of those representing the larger volumes to feel that their interests may suffer because of inadequate representation unless they are granted greater voting power than that accorded those

<sup>10</sup> Personal interview with E. C. Merritt, Manager, Sebastopol Apple Growers' Union, July 21, 1916.

representing the smaller interests. As a matter of fact, however, the influence of a member in an association, or of a representative of a local association in the central body, in bringing about the action which he considers most conducive to the welfare of the organization, can be exerted even more effectively in the discussion preceding the vote than by the act of voting. Furthermore, unless there is sufficient unanimity existing among the members of the organization usually to render the result of a vote the same whether taken on the basis of individuals or volume of product, there is serious question whether the aims and ideals of the various members are sufficiently alike to justify their belonging to the same co-operative organization.

Sometimes large and influential growers, in localities where their volume of fruit is needed to insure the success of a proposed organization, decline to support such an organization if the voting is to be by individuals, for fear of being overruled in important matters by a majority composed of the lesser growers. To overcome this difficulty, it has been found advantageous in various organizations to make provision for voting according to volume of product, upon all important matters or upon demand of any member. Such an arrangement removes the grounds for objection on the part of the large growers or associations, thus resulting in the establishment of stronger organizations than would otherwise be possible; and in actual operation, the disparity between the interests of large and small growers which may have been assumed to exist, largely disappears.

Many of the local associations of citrus fruit growers which are affiliated in the California Fruit Growers Exchange, provide for a vote on an acreage basis or on the basis of shipments the preceding season, in the annual election of directors, and in actual practice, often elect their directors by an almost unanimous vote.<sup>11</sup> Also in some of the district exchanges of the California Fruit Growers Exchange, where the associations differ considerably in the amount of fruit handled, provision is made for voting on a volume basis, but that method of voting is rarely, and in some

<sup>11</sup> Personal interview with B. B. Pratt, Manager, Field Department, May 22, 1916.



exchanges never employed,<sup>12</sup> because of the close agreement in opinion arrived at in all important matters before a vote is taken.

When the Southern California Fruit Exchange (the predecessor of the California Fruit Growers Exchange) was organized, the original agreement between the central body and the district exchanges provided that "Each of the corporations [district exchanges], signers to this agreement, shall be entitled to one representative on the Executive Board, who, upon any call of the roll, shall be entitled to one vote for each five hundred earloads of fruit, or major fraction thereof, under control of the corporation represented by him; provided that each representative shall be entitled to at least one vote."<sup>13</sup> Two years later a change was made, providing that "In all meetings of the Board of Directors of party of the first part [Southern California Fruit Exchange], on demand of any member, a representatives' meeting shall be called and convened the same day and the question before the Board submitted to such meeting at which the vote shall be on a basis of a total vote of one hundred such votes; the representatives of each Exchange shall be entitled to one vote for each one per cent of the expenses of the party of the first part paid by such Exchange the previous season. . . ."<sup>14</sup> (This was a vote based on the volume of fruit handled, since the expenses were determined on a box basis.) In 1899, provision was made for an executive committee consisting of one representative from each district exchange, and it was specified that "At all meetings of said Executive Committee, upon demand of any one or more members thereof, the vote on any question under consideration shall be taken upon a percentage basis, each member of the committee to have the same percentage of the total vote as the party [exchange] appointing him pays to the assessments levied for expenses, in accordance

<sup>12</sup> Personal interview with P. J. Dreher, Manager, San Antonio Fruit Exchange, June 30, 1916.

<sup>13</sup> Minutes of Executive Board, Southern California Fruit Exchange, Sept. 18, 1895.

<sup>14</sup> Minutes of Board of Directors, Southern California Fruit Exchange, July 28, 1897.

with Section five of this agreement.”<sup>15</sup> (The assessments for expenses were based on the amount of fruit shipped.) Yet votes on a representative basis as indicated in any of these provisions, were taken only upon two occasions during the entire active existence of the Southern California Fruit Exchange; and in both these cases the results were the same as they would have been if each representative had cast one vote.<sup>16</sup>

Also in the California Almond Growers Exchange, it is provided that “The right of each and every member shall be a minimum of one vote, with one additional vote . . . for each ten tons of almonds over the first ten tons marketed by the members of his local Association the previous year. . . . All voting shall be upon the minimum basis of one vote to each member unless a vote on the tonnage basis be called for by three or more voters.”<sup>17</sup> But a tonnage vote has never been called for during the seven years the Exchange has operated.<sup>18</sup>

In general, it may be said that where harmony prevails, the basis of voting is immaterial; and where it does not prevail otherwise, there is little chance of its being introduced by resort to some particular method of voting.

<sup>15</sup> Minutes of Board of Directors, Southern California Fruit Exchange, July 26, 1899.

<sup>16</sup> Minutes of Board of Directors, Southern California Fruit Exchange, May 24, 1899, and Feb. 14, 1900.

<sup>17</sup> *By-Laws of the California Almond Growers Exchange*, Article V, sections 2 and 3.

<sup>18</sup> Taylor, R. H., “Marketing California Almonds.” *The University of California Journal of Agriculture*, Oct., 1916, pp. 44-45.

## CHAPTER V

### SOME ESSENTIAL DETAILS

#### AFFILIATION OF LOCAL ORGANIZATIONS

*For the purpose of marketing the product of a large horticultural industry, an affiliation of local organizations is preferable to a single large organization made up directly of individual growers. In such an affiliation, the identity of each local should be preserved and its interests fully represented in the central organization.*

The necessity of similarity of interests and the desirability of mutual acquaintance among the persons composing a co-operative marketing organizations have already been mentioned.<sup>1</sup> The growers of a given commodity, located within a restricted area, have more interests in common and very much greater opportunity for mutual acquaintance than have individuals residing in different districts. However, additional economies in marketing can be secured and a more comprehensive distribution of the product attained if some general marketing plan is entered into by the growers of the same product in different localities. Such an arrangement can be effected, and at the same time all the advantages of the local organization retained, if the central organization is composed of, and its policies determined by, representatives from the various locals; provided such representatives meet at sufficiently frequent intervals in the discharge of their duties to become fully acquainted with one another. This plan retains the personal element throughout the organization; it gives each local a vital and personal connection with the affairs of the organization as a whole; and serves to keep each member of a local in much closer touch with the work and policies of the organization than would be possible if the larger organiza-

<sup>1</sup> See pp. 51-52.

tion were made up directly of individual growers distributed over a wide territory. In the latter case meetings of the membership would be infrequent, acquaintanceship never fully established, and the determination of the policies of the organization left largely to a few individuals without reference to the specific needs or wishes of the membership in particular localities. When each representative in the central body is elected by a local organization from among its own membership, the interests of the growers composing a given local receive a much more personal representation than when the governing body of the central organization is elected by a general vote of all the growers. Each representative is then in close touch with the needs and desires of the growers he represents and the policies determined will more nearly reflect the thought of the membership as a whole than if they were determined by a group of persons elected by the entire membership voting en masse. And the feeling on the part of the individual members that they have personal representation in the affairs of the organization is vital to the permanent success of a co-operative enterprise; for in a truly co-operative enterprise, it is a case of the members controlling the organization rather than the organization controlling the members.

Different methods have been employed by the growers in different industries to secure representation of all the local associations in the central organization without making the governing body so large as to be cumbersome. In the California Fruit Exchange (which suffers the disadvantage of being a joint-stock company in which part of the stock is held by each of the twenty-eight local associations and part by individual growers, and in which the eleven directors are elected by the stockholders voting on the basis of shares of stock), provision is made that "Each Growers' Organization [i. e. local association] . . . not represented on the Board of Directors . . . shall be entitled to select from its membership some one to sit with this Board at all its sessions, to be known as an Associate Director, and enjoy all the privileges of a regular Director except in voting. He shall be certified to this Board by the organization which selects him."<sup>2</sup>

<sup>2</sup> *By-Laws of the California Fruit Exchange, Article V a.*

In the California Almond Growers Exchange each of the twenty local associations elects a representative "who shall pay a membership fee of one dollar, to this corporation and be a member of this corporation and represent his local Association in this corporation until the election by such local Association of some other person as a member of this corporation in his place and stead. Upon the election by a local Association of a successor to its member in this Association such successor becomes a member in this corporation in the place and stead of the person he is elected to succeed, whose membership thereupon expires."<sup>3</sup> "No member of this corporation may be removed except by the local Association which elected him."<sup>4</sup> "Each and every member of this corporation may be present at all Directors' meetings and participate in the deliberations thereof the same as a Director, and enjoy all the privileges of a Director except such as are reserved to Directors by the Statutes of the State of California."<sup>5</sup> These representatives in annual meeting elect from among their number five directors, who formally conduct the affairs of the organization; but the facts that the representatives may participate in the deliberations at all directors' meetings; that special meetings of the representatives, as such, must be called by the president "on the written request of three (3) or more members;" that the most important business of the organization is always transacted at meetings of representatives rather than directors, and that each local association requires its representative to report regularly to its own board of directors regarding his acts as such representative, indicate that the determination of the policies of the organization rests largely in the hands of the local associations acting through their representatives rather than in the hands of the small board of directors.

The California Fruit Growers Exchange is composed of 162 local associations<sup>6</sup> which are grouped into seventeen district

<sup>3</sup> *By-Laws of the California Almond Growers Exchange*, Article V, Section 1.

<sup>4</sup> *By-Laws of the California Almond Growers Exchange*, Article XV, Section 2.

<sup>5</sup> *By-Laws of the California Almond Growers Exchange*, Article V, Section 4.

<sup>6</sup> *Annual Report of General Manager, California Fruit Growers Exchange*, Aug. 31, 1916, p. 3.

exchanges. Each local association elects one of its members as a director in the district exchange with which it is affiliated, and each of the seventeen district exchanges elects one member of the board of directors of the central exchange. The board of directors of the central exchange meets regularly every week, and in case any member finds it impossible to be present, he advises his district exchange in advance and writes out his resignation. This resignation, together with a recommendation certifying another member, is forwarded by the secretary of the given district exchange to be presented at the meeting of the board of directors of the central exchange. At the opening of the meeting, the resignation is accepted by the board and the new member elected to fill the vacancy. He in turn resigns as soon as the regular member is able again to occupy his place, even though the substitution may be for only one meeting. Thus, full representation of the district exchanges is maintained on the board. The local associations composing each district exchange are for the most part located within a rather restricted area, and each local association keeps in close touch with its district exchange, and makes known its desires through its member on the board of directors of that exchange. Thus there exists a complete chain of personal representation from the individual grower to the central exchange; and the interests of the 8,000 members are adequately protected.

Contrasted with this method of organization for determining the policies to be employed in marketing the product of a large horticultural industry, is that practiced in the raisin industry. Although local associations of raisin growers, formed for the purpose of packing their product, were organized as early as 1889, and although from time to time suggestions were made that a general organization based upon such local associations as units and in which each local should be represented would solve the problem of organization for marketing the raisin crop, both the organization which existed from 1898 to 1904 and the present organization were formed on an entirely different plan. In the old organization, each of the 5,000 growers had one vote in mass meeting<sup>7</sup> for the election of the five directors who conducted

<sup>7</sup> Personal interview with Wylie M. Giffen, July 18, 1916.

the business of the organization; and except at the annual meeting or occasional special meetings the growers had no voice in the affairs of the Association. In the present organization, the California Associated Raisin Company, the stockholders, including growers and others, voting on the basis of shares of stock held, elected twenty-five trustees — five each from five districts, though the voting for trustees from each district was not restricted to stockholders residing in that district. The trustees were elected for a period of seven years, and they annually elect a board of seven directors from among their number. The trustees meet in an advisory capacity once in three months, and the directors meet once a week;<sup>8</sup> but the stockholders, including the growers, have no further official voice in the affairs of the organization till the close of the seven year period. There are no local associations, the members of which can talk matters over and, through their official representatives, make their influence felt in the central body.

The California Peach Growers is an organization formed on essentially the same plan as the California Associated Raisin Company. Those who took the lead in the organization were located in the Fresno district (the stronghold of the raisin industry), were familiar with the workings of the Raisin Company, and felt that the methods employed in the conduct of that organization were applicable to the dried peach industry also. Although this organization, as soon as it was ready for business, secured control of a packing-house in each of the principal peach-producing regions,<sup>9</sup> no local associations were formed contiguous to those packing-houses. Each of the 6,000 peach growers is presumed to vote for trustees once in seven years, and leave the management of "his" marketing organization to those trustees and the directors they may elect from among their number.

The California Prune and Apricot Growers, Inc., is organizing on the same general plan, though the state is divided into seven districts for the election of trustees, two of whom are to be

<sup>8</sup> Personal interview with Wylie M. Giffen, President, California Associated Raisin Co., July 18, 1916.

<sup>9</sup> Personal interview with J. F. Niswander, Manager, California Peach Growers, July 18, 1916.

elected from each of six districts and twelve from the district comprising the Santa Clara Valley and adjacent territory. In addition to the twenty-four trustees elected by the stockholders, one is to be appointed by the state market director. All are to hold office for seven years, and do all the voting of shares of stock that is done in the meantime.<sup>10</sup>

It is unfortunate that organizations of fruit industries recently effected and now in process of formation should have adopted this plan of having one large organization made up directly of individual growers who have no voice whatever in the affairs of the organization except at long intervals. Influenced by the apparent success of the California Associated Raisin Company, the peach growers and prune and apricot growers have patterned their respective organizations largely after the plan adopted for the raisin industry. This plan of organization is lacking in the personal touch which is essential to the permanent success of a co-operative enterprise; and it is a serious question how long organizations formed on this basis will be able to persist.

#### BUSINESS ABILITY NEEDED

*Each organization must possess — represented either in its membership or its employees — a degree of administrative ability and business acumen commensurate with the volume of the business to be transacted and the intricacy of the problems to be solved.*

In a co-operative marketing organization, although the various members are engaged in producing the same commodity, there may be considerable difference, not only in their skill as producers, but also in their general breadth of view, and capacity for large undertakings. When a co-operative marketing enterprise develops in a normal manner, as a result of initiative on the part of the growers of a given product in a community, it is natural that during the progress of organization certain individuals should grasp the significance of the movement more readily than others, and show a capacity for overcoming the obstacles that may arise. That is, the natural leaders in the

<sup>10</sup> *Subscription and Voting Trust Agreement*, being circulated during organization campaign.



community will manifest themselves, if they have not previously done so. While it is true that organizing ability does not necessarily imply the existence of ability to sustain an organization once formed, nevertheless it is approximately true that within a given community those who are responsible for effecting an organization are likely to be the ones who will have to take the lead in determining its policies, planning its operations, and defending it against any outside attacks. One of the important advantages of an organization originating with the growers themselves in a given community, rather than as the result of efforts of a professional organizer from outside, is that those who have thought enough of the organization to spend time and energy in its formation are still there to foster its development. Unless the community possesses men of sufficient foresight and ability to effect the organization, determine its policies, and sustain its activities, without interference from outside sources, except suggestions from similar organizations or the central body with which the local association expects to affiliate, it is doubtful whether that particular locality is yet ready for a co-operative marketing enterprise.

However, while the policies of the organization will be determined largely by the leaders among the members, and its permanence will depend much upon their intelligent support; such members, being growers, can usually give only a fraction of their time directly to the affairs of the organization, and the detailed management of the business and execution of the policies agreed upon must usually be entrusted to a manager who is hired to devote his whole time (at least during the shipping season) to the interests of the organization. Much depends upon the selection of a manager with sufficient business ability and experience to handle efficiently the matters entrusted to his care. The larger the aggregate amount of business of a given kind, the more capable the manager needed. In a new organization made up principally of growers with small acreages, but whose aggregate output is large, there is likely to be a general lack of appreciation of the type of service demanded of a manager, and a tendency to favor sacrificing efficiency for the sake of so-called economy. Fortunate indeed is the organization whose leaders have sufficient discernment and power of persuasion to effect the

employment of a manager whose capacity coincides with the requirements of the given position. The experience of the Turlock Merchants and Growers, Incorporated, illustrates this point. During their first season's operations, the business was handled by an executive board of three members, who really donated their services for the good of the cause. The next year, with a much larger business to handle, it was decided to hire a manager to devote his entire time to the work. Then came the question of salary of a manager. Some members thought that \$1,000 a year would be ample; others thought \$100 a month a more appropriate figure,<sup>11</sup> but the salary was finally fixed at \$4,000 a year, and a man secured whose business experience and ability have contributed much to the remarkable progress of this organization.

Broad experience and demonstrated ability on the part of those employed to fill important positions have been recognized by the directors of the various large co-operative organizations as essential to the success of these institutions. Knowledge of men and of marketing methods and trade conditions in general have been considered more important than specific training in the handling of a particular commodity, for fitting a man to manage the business of a central co-operative selling organization. The present manager of the California Almond Growers Exchange was formerly sales manager of the California Fruit Exchange, and previous to that was connected with the Chicago office of the California Fruit Growers Exchange; the present manager of the California Fruit Exchange was also formerly in one of the eastern sales offices of the California Fruit Growers Exchange; and the sales manager of the Turlock Merchants and Growers, Incorporated, had had many years of experience in the fruit trade, especially in the handling of citrus fruits, before he undertook to direct the sales of Turlock cantaloupes.

Experience as sales managers in the eastern fruit markets is exceptionally good training preparatory to the assumption of duties in responsible positions in the California offices of the various co-operative organizations. The orange and lemon sales managers in the Los Angeles office of the California Fruit Growers Exchange each spent several years in the eastern offices, in

<sup>11</sup> Personal interview with W. H. Lockwood, a director of the Turlock Merchants and Growers, Incorporated, July 19, 1916.

direct contact with the fruit trade, before receiving their present appointments. The eastern district sales managers of this Exchange are at the present time training a corps of assistants who are becoming thoroughly familiar with trade conditions in the leading markets, and who are being advanced to positions as sales managers in smaller markets as their ability becomes demonstrated and as occasions arise. Thus the California Fruit Growers Exchange is building up in its sales department a group of trained men who are in sympathy with co-operative methods of marketing, and as time goes on will be available for more responsible positions either in that organization or in other co-operative enterprises. The existence of this "training school" will aid materially in solving the problem of securing men who are competent to serve as managers in co-operative organizations, and has an important bearing upon the extension of the co-operative method of marketing.

#### METHODS OF SELLING

*The details of handling, selling, and distributing the crop must be adapted to the nature and volume of the product.*

While association packing is desirable for the sake of securing uniformity in the product, it is not applicable to the most perishable commodities, because of the very nature of the product or because of the delay that would be involved in getting the product from the field to the refrigerator car. The blackberries and loganberries of Sebastopol intended for distance shipment must necessarily be placed in the shipping boxes by the growers, since their perishable nature precludes pouring or handling at the warehouse of the shipping association. In the case of cantaloupes, association packing is impracticable in the handling of a large output, because of the delay it would entail in getting the melons from the field to the car. Melons ripen very rapidly in hot weather, and their shipping quality is seriously impaired by a few hours' exposure to high temperature after they are picked. Their normal ripening season occurs when temperatures are likely to be high. For example, at the height of the shipping season in the Imperial Valley in 1916, the official temperature (in the shade) reached as high as 116° F. If an association undertook to do the packing for a number of growers, there

would be times at the height of the season (which usually occurs during a period of very hot weather) when the melons would come in in such quantities that the packing-shed would become so congested that some of the melons would not be packed for a number of hours after they were picked. No elaborate equipment is required for packing cantaloupes, and the product can be placed in the refrigerator cars in a shorter time after picking if each grower takes care of his own packing, in a temporary shed at the edge of his field, where the packing can start almost as soon as the picking, and, where the melons of one grower are not delayed by reason of the presence of those of another.

With the less perishable goods, the association can do the packing, and thus not only be more certain of securing uniformity in the packed product; but in the case of products the handling of which requires expensive equipment, the association can do the packing at considerably less expense than could an individual grower. This is especially true of such products as oranges and lemons.

The method of shipping will depend primarily upon the perishability of the product. For example, the Sebastopol berries shipped outside the state, are precooled as soon as possible after they are delivered by the growers; and are then loaded into pre-iced refrigerator *express* cars, which go out on passenger trains. By these means, these extremely perishable products are shipped as far east as Chicago. California cantaloupes for eastern shipment are almost invariably loaded into pre-iced cars, and require frequent re-icing en route. Oranges require no refrigeration in cool weather, but must be shipped under ice when the weather becomes warm. Apples require refrigeration in summer, and the insulation of refrigerator cars to protect them from freezing in winter. Other deciduous fresh fruits are shipped most extensively during hot weather, and require thorough refrigeration. All these fruits should be moved on as rapid a freight schedule as possible, to avoid decay or other deterioration in transit. Almonds and walnuts are not injuriously affected by ordinary extremes of heat or cold, and might be classed as non-perishable products so far as shipping is concerned; yet rapid movement of shipments is desirable since the chief demand for these commodities in eastern markets occurs

within a comparatively short time after the harvesting season. Raisins, prunes, and dried peaches, on the other hand, can be moved on a slower schedule, and have even been shipped to Atlantic coast points by ocean freight.

The method of selling and the thoroughness of distribution depend somewhat upon the nature of the product, but more emphatically upon its volume. An independent local association handling a relatively small volume of product, such as the Sebastopol Apple Growers' Union, can have its product handled through brokers located in various markets, at less expense than it could maintain agents of its own; and it does not attempt to distribute its products uniformly over the United States, but selects those markets where there is at the time a special demand for its particular product. While the Sebastopol Apple Growers' Union ships some of its Gravenstein apples (its principal product) to Chicago, New York, and even Liverpool, at times it leaves untouched many markets that are nearer; and the relative proportion of the product sent to a given market varies from year to year, depending largely upon the volume of summer apples available from other sources tributary to the given market. This shifting of the relative importance of different markets for their product from year to year, together with the shortness of their shipping season and the relative smallness of their volume, makes the handling of the crop through established brokers the most feasible plan.

On the other hand, a large marketing organization, like the California Fruit Growers Exchange, which ships oranges and lemons every week during the year, and the volume of whose shipments (aggregating nearly 30,000 carloads last year) necessitates the use of all the available markets in the United States and Canada all the time, has enough business to warrant the development of a marketing system of its own, whereby it maintains sales offices manned by salaried employees working under its own instructions, in all the leading markets. The California Fruit Growers Exchange has salaried representatives in 77 different markets, well distributed over the country. It aims to maintain an office in every market where its business amounts to the sale of 100 carloads or more of fruit per year. In other markets sufficiently large to handle oranges by the carload, the

Exchange is represented by local brokers, who work in conjunction with the Exchange office located nearest to them. In a few of the larger cities, especially near the eastern seaboard, the Exchange representative acts as receiving agent, and the fruit is sold at auction; but in most of the markets, the representative of the Exchange sells the fruit in earload lots directly to local jobbers.

The method of handling shipments to bring about as thorough a distribution of the oranges as possible, is as follows:

Every Friday, each representative in the markets wires the Los Angeles office an estimate of the number of cars his market can handle to advantage from the shipments to be made the following week, and the manager of each district exchange telephones the same office an estimate of the number of cars he plans to ship during the same period. With this information at hand, together with daily telegraphic reports on the condition of the various markets and the number of cars on track, and a knowledge of the number of cars en route, the Los Angeles office is in a position to give intelligent advice to the various district exchange managers in the distribution of the next week's shipments.

Continuous rains for several days in the producing region may interfere with picking to such an extent that the shipments of a given week may fall away below the estimate, and zero weather in the markets may prevent the normal movement of stock; also especially favorable weather at either end of the line may result in heavier movement than anticipated. Thus, the actual amount of fruit handled in a given week may differ widely from the original estimate. Nevertheless the estimate serves as the best available working basis.

As soon as a carload of oranges packed by a local association is ready for shipment, the manager of the association reports that fact by telephone to the manager of the district exchange to which the association belongs, giving a complete list of the sizes and grades in the car. While each local association has the right to determine where its fruit is to be shipped, this authority is usually delegated to the district exchange manager. In any case all the business has to be done through him, for the Los Angeles office of the California Fruit Growers Exchange recog-

nizes as shippers only the managers of the seventeen district exchanges.

The manager of a district exchange calls up the Los Angeles office every afternoon and reports what cars his associations have loaded ready for shipment, specifying grades, sizes, and association pack in each case. The market to which each particular car is to be billed is decided upon by the district exchange manager (unless the local association has demanded that its authority be not delegated) either during or after his consultation with the Los Angeles office. In any case the district exchange manager reports the shipment to the Los Angeles office as soon as the car is billed out. The bill of lading, together with a size list and other data, is then mailed to the representative of the exchange located in the market to which the car is billed. Since it takes the freight several days longer than the mail to reach destination, the agent has time to "work on" a given car some time before it arrives. However, he does not quote any price on a particular car until the day before it arrives. The second day before a given car is due at destination, the manager of the district exchange that shipped the car sets a price on it, after consultation with the Los Angeles office. This price is wired by the Los Angeles office to the agent in the market and he quotes that figure to the prospective buyer either before or after the car has arrived. If the jobber agrees to take the car at the price named, the deal is closed without further delay. If, however, the jobber is not willing to pay the price asked, but makes an offer, the agent is not at liberty to accept this offer, but must wire back to the Los Angeles office for instructions. Here the matter is discussed by telephone by the Los Angeles office and the manager of the district exchange who made the shipment, and a reply to the sales agent decided upon, the district exchange manager always having the right to render the final decision, though often acting largely upon the advice of the head of the sales department in the Los Angeles office. The offer may be accepted, or the car may be diverted to another market.

A car of oranges is always inspected upon arrival. The inspection is made either by the agent of the Exchange or one of his assistants, and includes opening and examining the contents

of three boxes of fruit to determine general appearance and condition, especially percentage of rot, if any. If there is much rot, or if the three boxes do not show fairly uniform condition, it is customary to open several more boxes — perhaps ten in all. In case there is over three per cent of rot, a corresponding percentage of the price quoted by the shipper may be deducted by the agent from the bill rendered the jobber. That is, the shipper guarantees delivery with not over three per cent of rot, at the price quoted; and if a greater amount of rot is found, the agent does not have to wire for instructions before allowing the deduction.<sup>12</sup>

In the selling and distribution of walnuts and almonds, commodities for which the principal wholesale demand is limited to a very short season, the maintenance of sales offices in the various markets would be utterly impracticable; and the growers' co-operative organizations handling these two products have wisely elicited the services of brokers, who represent them in the various markets. The California Walnut Growers Association and the California Almond Growers Exchange employ essentially the same methods in selling and distributing their products. Therefore, one description will serve for both. The manager of the organization calls upon the eastern brokers and the trade (jobbers) once a year to make or renew arrangements with the brokers and to assist in the creation and maintenance of good feeling toward the organization, on the part of the jobbers. All sales, however, are made through the brokers. They secure orders from the various jobbers in their respective territories, and transmit these orders to the California organization, several months in advance of the harvest. These orders are all taken subject to confirmation after prices are named. Prices are named by the growers' co-operative organization at the beginning of the harvest, and are transmitted by wire to all who have placed orders. By the terms of the buyers' contract, the orders must be confirmed or rejected within 36 hours after notice of price is received, though the buyer has the privilege of confirming his order for only a part of the quantity originally specified, if he

<sup>12</sup> Personal interview with D. C. King, Manager, Orange Sales Department, California Fruit Growers Exchange.



so desires. With the approval of the seller, he may also increase the amount of the order, at the price named.

When the walnuts or almonds are shipped, they are sent in straight cars to the large markets, and in "pool cars" to the smaller markets. A pool car is one containing shipments for more than one purchaser. By shipping pool cars it is possible to secure carload freight rates directly to any market where orders aggregating a carload can be secured, even though several dealers are represented; and in some cases shipments for nearby towns are included in a pool car shipped to a central point. The broker looks after the distribution of the contents of a pool car to the various purchasers. This method of distribution enables the dealer in a small market to secure his supplies directly from the growers' organization at practically the same price as dealers in the large markets, for the price f. o. b. California is the same to everybody, and the transportation charges are the same to all markets, except that there would be a slight additional charge for local freight or other transportation on small lots reshipped to towns other than destinations of pool cars, making the cost to the dealer slightly more in such cases.

These illustrations serve to show that California growers' co-operative marketing organizations have recognized the importance of employing methods of sale and distribution adapted to the nature and volume of their respective products.

#### LOYALTY OF MEMBERS AND EMPLOYEES

*Loyalty of the individual members and mutual confidence among all factors in the organization are absolutely essential to the permanent success of any co-operative enterprise.*

The idea of loyalty is inherent in the very idea of co-operation. When a group of men mutually agree to bind themselves together for the purpose of accomplishing a given object, each member of the group has a right to proceed upon the assumption that every other member intends to adhere to the agreement; and unless such an assumption is approximately in accord with the facts, disintegration of the group, before the object is accomplished, is almost inevitable. Furthermore, a co-operative enterprise is based upon the assumption that the various individuals entering upon the agreement not only *intend* to fulfill their ob-

ligations, but that they actually *will*; and the degree to which this latter assumption is in accord with the facts will furnish a fairly reliable indication of the probable ultimate success or failure of the organization.

Early in the co-operative movement among the citrus fruit growers, it was customary to make all agreements for only one year at a time. This gave the enemies of the co-operative marketing system a chance to persuade members to withdraw from the organization at the end of any given year, without breaking their technical obligations; and necessitated much reorganization work each year. Until the rank and file of the growers came to look upon co-operative marketing as a permanent arrangement rather than a temporary expedient, the very life of the organization was continually threatened; and but for the enthusiastic loyalty of the leaders and their consistent efforts to counteract the effect of outside influences, deflections from membership would doubtless have been much more numerous than they were.

Merely remaining in an organization from year to year, and fulfilling all technical contracts, is not the full measure of true loyalty. Firm belief in the soundness of the principles of the organization and its methods of operation, and willingness to defend that belief in the face of opposition, are also essential. Lack of intimate knowledge of the detailed workings of the organization, on the part of the individual members, has sometimes stood in the way of their being as loyal as they otherwise would have been. The entire membership of a co-operative marketing organization should therefore be kept in sympathetic touch with the purposes, policies, and accomplishments of the organization as a whole. This can be done in part by printed publications or mimeographed bulletins sent out from the central office of the organization; but such expedients are very deficient in effectiveness as compared with the human voice in personal conference. Frequency of personal contact of member with member, of member with manager, of local manager with officials of the central office, and of officials of the central office with local associations, makes possible the clearing up of any uncertainties or misunderstandings and leads to a better knowledge and more enthusiastic support of the organization.

An industry in which the product is of such a nature that the

growers are likely to come in personal contact with the local managers at frequent intervals through a large part of the year has some advantages over other industries by reason of this very fact; for it serves to keep the individual grower in closer touch with the workings of his organization. This is especially true if the local manager also attends frequent meetings of the central organization and thus keeps fully advised on all matters pertaining to the welfare of the organization. The citrus industry serves as an illustration. In many districts, the shipping season is long; a very large number of the local associations are within a short distance from Los Angeles where the central offices are located; the central organization holds meetings once a week throughout the year; local managers and individual members are welcome at these meetings and large numbers avail themselves of this opportunity to keep in direct touch with the affairs of the organization as a whole. In addition to this, the members of the field department spend much time in visiting local managers at their packing-houses, not only advising them in reference to technical points on grading and packing, but also keeping them intelligently informed on all phases of the organization's work. The annual meeting of each local association is also made a special occasion for instructing the members in the broader phases of the organization's activities and accomplishments. A representative of the field department of the central exchange, and the manager of the district exchange, are usually present at such meetings. The importance of these meetings is emphasized by P. J. Dreher.<sup>13</sup> Speaking of the "development of the co-operative spirit," he says: "It was largely brought about through a system of all-day annual stockholders' meetings, first adopted by the Indian Hill Citrus Association in 1897. Lunch is served at noon by the Association, to which the stockholders and their wives and families are invited. They in turn invite such of their neighbor citrus fruit growers as they believe will take an interest in the matter.

"The growers are urged to come and spend at least *one* day to the details of marketing a crop which it took them a whole year to produce. The meetings are called to order early and

<sup>13</sup>Dreher, P. J., "Early History of Coöperative Marketing of Citrus Fruit." *California Citrograph*, Oct., 1916, pp. 2, 3, 17, 18.

continued through the day, the forenoon being taken up with the reports of the association, election of directors, followed by the District Exchange manager's report, while the afternoon is taken up with the discussion of these reports and such other matters as are of mutual interest to the industry. . . .

"At these meetings full opportunity is given and the members are urged to ask questions and bring out any and all points desired. The District Exchange manager reports fully on all matters pertaining to the Selling Department and answers fully all questions pertaining thereto.

"It is our aim to have the growers fully understand the condition of the industry in its early days, the struggles of the growers in bringing into working order the present Exchange system . . . and the method by which their fruit is marketed, as we believe with a clear understanding of our system on their part they will extend to the Exchange the confidence and support which is necessary for the success of any co-operative organization." <sup>14</sup>

Not only does the California Fruit Growers Exchange plan to keep its 8,000 members in personal touch with the activities of the organization as a whole, but so manages its affairs that its representatives in the eastern markets do not feel nor act like isolated individuals, but realize their function as parts of one great organization, all factors of which are working together harmoniously with one object in view — the best possible distribution of the California citrus fruit crop. Each of the 77 district sales managers receives instructions by wire regarding every car of fruit shipped to his territory, and reports by wire daily to the general sales manager in Los Angeles, and is also in almost daily communication by telephone with his division sales manager, who is located in the most important market in the given division. The division sales managers, of whom there are seven, are men of long experience in the fruit trade, and, being located in the larger markets, are in closer touch with general trade conditions than are the district managers at the less important points. They not only advise with the district managers

<sup>14</sup> Mr. Dreher is here speaking from the standpoint of an official in the central organization. He is vice-president of the California Fruit Growers Exchange, and manager of the San Antonio [District] Fruit Exchange having held the latter position continuously for twenty-one years.

in their respective divisions, but are in position to make personal visits to any of the markets as occasion may demand. In addition to this general supervision accorded each representative during the season, the general manager of the Exchange and the general sales manager visit each district sales manager at least once each year and talk over with him his particular problems as well as the general plans for the season's selling campaign. The division sales manager participates in these conferences with the district managers with his division. At times, also, as many as possible of the eastern representatives get together for a general conference with the heads of the departments of the central organization. These arrangements are conducive to harmony within the sales department and also serve to bind that department by personal ties to the other factors in the organization.

Thus in the marketing of California citrus fruits there is a complete chain of personal contact, under one organization, from the grower who produces the fruit, to the jobber who buys it in carload lots on the eastern market. The grower delivers his fruit at the packing-house of his local association, where he talks personally with the association manager; the local manager talks personally or by telephone with the district exchange manager at least once a day during the shipping season, and also attends the weekly meetings of the central exchange as often as he can; the district exchange manager talks by telephone with the general sales manager or one of his assistants regarding every carload of fruit shipped from his district, and also attends the meetings of the central exchange, where the sales manager reports on the chief activities in the various markets and on general market conditions, and where personal conferences are held between the sales manager and the district exchange managers; the sales manager, who has previously had personal conferences with all the eastern representatives, wires the instructions from the district exchange manager regarding each car; the eastern representative (district sales manager) talks personally with the jobber who buys the fruit.

Without this personal contact, and the mutual confidence among all the factors in the organization, which has been fostered by it, it is exceedingly doubtful whether the California Fruit Growers Exchange could ever have attained to its present efficiency in the marketing of California citrus fruits.

## CHAPTER VI

### OTHER CALIFORNIA MARKETING ORGANIZATIONS

The general principles of co-operative marketing as exemplified by the activities and experiences of California growers' organizations have now been considered. As stated in the introduction (p. 11) only about 20 per cent of the deciduous fresh fruit shipped from California is handled by the growers' organization representing that industry. Of the vegetable shipments, a still smaller percentage is distributed by growers' organizations. California shipments of deciduous fresh fruits and of vegetables are handled largely by organizations of commercial shippers. The most prominent of these organizations are the California Fruit Distributors and the California Vegetable Union. It will be of interest to consider briefly the methods of operation employed by these organizations, and to compare the relative advantages of marketing through such organizations and through co-operative organizations of growers.

The California Fruit Distributors is the marketing agency for fourteen commercial fruit companies and handles from 65 to 70 per cent of the California deciduous fresh fruits shipped to eastern markets.<sup>1</sup> It is represented by salaried agents in the leading markets and has its business handled through brokers in the smaller markets. These representatives wire daily market reports and reports of actual sales to the main office of the Distributors, in Sacramento; and this office furnishes mimeograph copies of these reports to the members (the commercial shipping firms) before noon each day. This is a simple matter, for nearly all the firms have offices in the same building (the California Fruit Building). All shipments made by the Distributors are reported by wire to the Omaha office, with car numbers and con-

<sup>1</sup> Personal interview with Charles E. Virden, General Manager, California Fruit Distributors, July 20, 1916.

tents; and the Omaha office gets out mimeograph sheets showing the shipments of each day and mails them to all the eastern representatives. These representatives can then wire requests for diversion of particular cars to their respective markets, and sell part of the cars while still rolling — or at least “work on” them.

The shipping firms which are served by the California Fruit Distributors get their fruit from the growers in any way they can, and may change their methods from year to year, or employ different methods the same year to suit the fancy of the different growers. Sometimes the shipper buys the fruit outright from the grower at a fixed price. Another method is for the shipper to guarantee the grower a definite, conservative price; and then, if the fruit nets a larger amount after marketing expenses are covered, to divide the profit evenly with the grower, each taking 50 per cent. Still another method is for the shipper to handle the fruit on a straight commission basis, the usual rate being 7 per cent on gross sales. Since each shipping firm pays the “Distributors” 4 per cent on sales for its services in connection with all shipments, the direct revenue to the shipper on commission business is only 3 per cent.<sup>2</sup>

The growers do most of the packing themselves, but it is customary for the shipping firm to have a representative call at each packing-house once or twice a day.

The California Vegetable Union is a close corporation owned by five or six men. It handles California vegetables on a commission or brokerage basis or buys them outright; and its shipments amount to 40,000 to 50,000 carloads per year, or about 75 per cent of the total California output.<sup>3</sup>

The California Vegetable Union has established packing-houses in fifty or sixty places scattered over the state. This concern aims to locate where the natural conditions are most favorable to the production of an especially fine grade of any given product in their line. The usual method is to go into a locality and or-

<sup>2</sup> Personal interview with James H. Hayes, Traffic Manager, Pacific Fruit Exchange (which is a member of the California Fruit Distributors), July 20, 1916.

<sup>3</sup> Personal interview with H. S. Hazeltine, Secretary, California Vegetable Union, May 3, 1916.

ganize the growers into an association; then contract to handle the product of the association. After some preliminary work, a meeting of the growers is called, and the plan for handling the product is presented. Then the growers organize, elect directors and officers, usually including a manager. The Union then makes a contract with the directors; but since the association is usually not incorporated, the Union also draws up a contract which all the growers sign individually. Thus the Union has a contract with both the association and the individuals composing it. In most localities, this process of organizing the growers by the Union has to be repeated every year. For example, the San Gabriel Valley Potato Growers' Association has been organized by the Union every year for 10 or 12 years.

The Union handles potatoes for the growers' account at 10 cents per sack brokerage, or on a commission basis, and gives the growers the choice between the two methods at the time the contract is being drawn. In addition to the commission or brokerage, one cent per sack is retained with which the overhead expenses of the association are paid.

The Union ordinarily buys tomatoes outright. It contracts to handle the crop of an association and to pay the "market price." Said market price is determined as follows: Every Friday the representative of the Union and the manager of the association have a conference, and agree upon the price to be paid the following week, taking into consideration the market conditions, etc. The tomatoes are delivered in field boxes at the Union's packing-house and weighed in. After the tomatoes are graded, the culls are weighed back; and the Union pays only for the good tomatoes.

The Union usually *buys* the asparagus it handles. The asparagus is delivered at the packing-house in lug boxes, where it is weighed. After bunching, the stalks are cut to 9 inches in length. The butts and culls are all weighed back, and the Union pays only for the asparagus that is packed for shipment.<sup>4</sup>

While it is quite common for the Union to reorganize the growers of a given locality each year, sometimes a more permanent local organization is formed and a contract entered into for a term of years. For example, at one time the Union had a

<sup>4</sup> Interview with H. S. Hazeltine.



five-year contract with a local association of celery growers near Santa Ana, in Orange County.

It is the practice of the Union to do the grading and packing of the products it handles. Even in the handling of potatoes, which are sacked in the field, men representing the Union do the sacking. Such methods result in greater uniformity in the product than is usually possible where individual growers do their own grading and packing, even under general supervision of the shippers' representatives; and in this respect the methods of the California Vegetable Union would seem to be superior to those employed by the shipping firms which compose the California Fruit Distributors.

Three years ago the California Fruit Distributors and the California Vegetable Union, together with various other corporations handling horticultural products, formed the General Sales Agency of America.<sup>5</sup> The California Fruit Distributors had previously started an eastern agency, but the volume of their product was not sufficient to give the best results, and, furthermore, the movement of their product was confined to certain months of the year. In the building up of the General Sales Agency from the eastern agency of the Distributors as a nucleus, corporations came in which represented products the heavy movements of which came at different times of the year. This made possible the continuous employment of salaried representatives in the various markets, on a plan similar to that instituted years before by the California Fruit Growers Exchange for citrus fruits. In fact, the man hired to start the eastern agency of the Distributors had formerly been General Eastern Agent of the Exchange.<sup>6</sup> The General Sales Agency of America now maintains agents in all the leading carlot markets of the country, who look after the sales of the shipments made by the various corporations which are members of the Agency. The Agency is paid a brokerage for each car of produce it sells, and if any money is made, it is expected that it will be distributed among the various corporations (members) in proportion to the amount of business done for each. The General Sales Agency is thus a

<sup>5</sup> Personal interview with H. S. Hazeltine, May 3, 1916.

<sup>6</sup> Personal interview with E. G. Dezell, Assistant General Manager, California Fruit Growers Exchange, May 4, 1916.

co-operative organization of commercial corporations for their mutual benefit.

COMPARISON OF COMMERCIAL MARKETING ORGANIZATIONS WITH  
GROWERS' CO-OPERATIVE ORGANIZATIONS

A growers' co-operative marketing organization has certain advantages, from the standpoint of the grower, over commercial organizations like the California Fruit Distributors and the California Vegetable Union. The principal advantages are that any savings in the cost of marketing due to the large-scale operations, skill in management, or any other cause, and any increase in price due to superiority or standardization of the product, accrue to the benefit of the growers rather than the dealers. On the other hand, the commercial organizations quite commonly have one feature that is usually lacking in a strictly co-operative organization of growers, and which appeals with great force to growers whose capital is limited. This is the custom of paying the growers in cash upon delivery of the product at the packing-house or car, or even advancing money during the season, while the crop is being grown. This latter method is of fully as much advantage to the dealer as to the grower, since it insures him absolute control of the crop. The delay in securing returns through a co-operative organization, and the need of money at harvest time, or even before, have kept many growers out of co-operative organizations. Some organizations are trying to meet this situation either by incorporating with sufficient paid-up capital stock to enable them to pay the grower a large percentage of his proceeds upon delivery of his product; accumulating a surplus fund from savings in the costs of marketing, to be used in financing the growers who need help; arranging directly for loans at the local banks to be used in paying the growers a large percentage of the value of their products upon delivery; or making arrangements whereby the growers are enabled to make personal loans at the local banks, on the strength of their crop contracts with the organization.

Without some such arrangement as this there will always be growers who will be compelled by force of circumstances to continue to have their products handled by commercial dealers, no matter how fully in sympathy with the principles

of co-operative marketing they may be, nor how much they are in need of the additional saving in marketing cost that would accrue to their benefit if they were affiliated with a successful co-operative marketing organization. Sometimes those most in need of the benefits of co-operation are least able to avail themselves of them. Unless co-operative organizations are able to afford as immediate relief in financial stress as are commercial dealers, even though the toll exacted by the latter may be enormous, the growers most in need of assistance must continue to turn for relief not to their fellow growers, but to the independent buyers or commercial corporations. In some localities, the most serious practical defect in the co-operative organizations is their failure to provide for the financial needs of their numbers at, or prior to, the harvesting of their crops. The ideal plan for overcoming such a situation is the gradual accumulation of a surplus fund that will be available at the beginning of each harvest season for making such advances as the various growers may require. Of course, this method would be possible only after an organization had become established, and had been operating a sufficient length of time to have accumulated a surplus or reserve fund. A new organization, if it wished to make cash advances, would be obliged to elicit the co-operation of its local bank; and as has previously been stated, unless a local co-operative association of growers has the moral and financial support of the bank in the locality, its chances of success are greatly impaired. It is not ordinarily feasible to secure from the growers themselves, on any equitable basis, sufficient paid-up capital, at the beginning of the organization, to pay for any considerable portion of the products as delivered; so that, even with a fairly large capital stock, if the policy of payment on delivery is adopted, resort to the banks for loans must be made.

In addition to securing for the growers the benefits derived from marketing their own products, other advantages of growers' co-operative organizations over commercial organizations for the handling of horticultural products are the ability and disposition to purchase orchard and other supplies in large quantities and furnish them to the growers at cost; and the mutual exchange of information regarding improved methods of culture,

grading, packing or any other matter that will benefit the industry as a whole, from the standpoint of the grower.

#### AN EXAMPLE OF GOVERNMENT AID IN DISTRIBUTION

The past two seasons the Office of Markets and Rural Organization of the United States Department of Agriculture has assisted in the distribution of cantaloupes from the Imperial Valley to the extent of maintaining a bureau of information at Brawley (the chief shipping point) during the shipping season and encouraging the various shipping firms to make intelligent use of the information furnished, in determining the destination of their respective shipments. The cantaloupe crop of the Imperial Valley is marketed almost entirely through some sixteen or eighteen general distributors, each of whom has direct contracts with a number of individual growers<sup>7</sup> (mostly Japanese), to whom they make advances up to a specified maximum, as the season progresses.

In 1914 all previous organizations of cantaloupe growers or dealers were inoperative; and the season was a disastrous one because of a lack of intelligent distribution of the crop. In 1915, the Office of Markets and Rural Organization detailed a man to the Imperial Valley to render such assistance as might be possible. He appointed a committee of five distributors,<sup>8</sup> who made a list of all the carlot markets for cantaloupes, with the estimated capacity of each. This list was used as a basis of distribution throughout the season. Complete records were kept regarding quantities and prices in the various markets, and a more accurate schedule of market capacities was made for use in 1916, when the same general method of distribution, with the aid of information furnished by the government, was employed. The method was essentially as follows: Wires were received by the government man, from each market every morning, giving the quantity of cantaloupes in the market and the prices ruling. These were tabulated and a copy sent to each distributor. Be-

<sup>7</sup> Exceptions to this general method are that Will Fawcett and Arakelian Bros., who themselves are general distributors, grow large acreages on their own accounts.

<sup>8</sup> Personal interview with B. F. Coons (May 4, 1916), who was a member of this committee.

fore noon each day, each distributor reported to the office of the government representative the number of cars he expected to ship that day and the market in which he would like to place each car. These reports were tabulated so that the total number of cars designed for each market could be ascertained. A meeting of the distributors was held at two o'clock each day, and the estimated number of cars designed for each market was announced. If the relative proportions of the proposed shipments to the different markets did not correspond fairly well with the estimated relative capacities of the markets, adjustments were made at this meeting, voluntarily, by the various distributors, in order to effect a distribution more nearly in accord with the relative consumptive capacities of the various markets.<sup>9</sup>

The results of this method of distribution for the two seasons it has been in operation have been very satisfactory. However, much of the success of the method has been due to the tact, resourcefulness and personality of the government representative in charge of the office, and his assistants, in securing and maintaining the mutual co-operation of the distributors, without the existence of any formal organization; for there is no written agreement whatever, and no verbal agreement among the shippers to do anything except to state where they would like to ship each car of cantaloupes, and to announce any changes they may make after learning the total number of cars designed for each market.<sup>10</sup> The continuance of the method depends primarily upon the personality of the men whom the government may detail to the Imperial Valley each season; for the government neither claims nor exercises any authority in the distribution of the cantaloupe crop, and the acts of each individual distributor are purely voluntary. Under such circumstances, the harmonious co-operation of the competing firms can be maintained only through the unauthoritative influence of the government's representatives.

<sup>9</sup> Personal interviews with O. W. Schleussner, of the Office of Markets and Rural Organization; and attendance at meetings of the distributors, June 19, 20 and 21, 1916.

<sup>10</sup> Since the above observations were made, United States Department of Agriculture Bulletin No. 401 has been issued, describing the method and results for the season of 1915.

## CHAPTER VII

### RELATION OF GROWERS' CO-OPERATIVE MARKETING ORGANIZATIONS TO CONTROL OF PRODUCTION, DISTRIBUTION, AND PRICES

The question sometimes arises as to whether or not growers' co-operative marketing organizations, as at present organized, possess the power to control the production, distribution, and prices of the respective commodities they handle; and if they have that power, whether they should have the right, under the law and in human justice, to exercise it. This question will now be considered in its threefold aspect.

First, should a growers' co-operative marketing organization have the right to control production; that is, to determine or limit the acreage of the given crop which each or any member of the organization shall be allowed to plant? None of the growers' co-operative organizations operating in the state of California at the present time, so far as known to the writer, have any provision for limiting acreage or assume to exercise any control over the amount of land which shall be planted to a given crop by its respective members. The success of the various organizations in marketing the crops produced by their members has led to large increase in acreage, planted partly by growers already members, and partly by new growers seeking membership by the time their plantations have come into bearing. The policy of the co-operative marketing organizations has been to welcome this increased acreage, whether it represented new plantings by existing members or the acquisition of new members with their new plantings. The door to these organizations has always been open; and they have undertaken to handle the product of whatever acreage their various members, acting as individuals, without restriction, might see fit to plant. This is as it should be. The function of a growers' co-operative mar-

keting organization is to promote, rather than restrict, production; to make increased production profitable, by reason of its efficiency as a marketing medium, rather than to increase profits to a favored few or per unit of product, by curtailing supply. With each increase in production, the respective organizations have extended their facilities for marketing, stimulated demand by special appeals in advertising or in price, and effected the distribution of the goods, instead of wasting their energy in contemplating means of restricting production.

The variation in production of horticultural products from year to year is likely to be large, even though the acreage were the same; for no two seasons are equally favorable for any given crop and the yields of horticultural crops are especially uncertain because of the susceptibility to frost injury, and the wide variations in the extent of that injury both as to area involved and degree of injury inflicted within the area. Under exceedingly favorable conditions a small acreage might yield a much larger volume of product than a large acreage in an unfavorable season. Control of acreage would therefore not necessarily control production. That is, no amount of control over acreage could be expected to result in uniform production from year to year. Therefore, even if an attempt should be made to control production, it would be ineffective except within quite wide limits. The only logical plan for the marketing organizations to follow is the one which they have adopted — viz., to accept all acreage offered, to secure as careful an estimate as possible of the probable yield, and to plan the marketing campaign accordingly.

The production of horticultural products represents an enterprise suitable to be undertaken by individuals; the marketing of these products can be facilitated by co-operation among neighbors; but the fact that a grower joins a marketing organization does not, and should not, involve the relinquishment of his right as an individual to determine the various details of his own business, including the acreage he will plant, and the special efforts he will exert with a view to securing as large a yield as possible.

The next questions for consideration are: (1) Who should determine the methods to be employed in disposing of the crop?

(2) What special methods of disposition may be resorted to in case of sudden increase in production? (3) Who should determine when resort should be made to these special methods and what portions of the product should be disposed of in each of the various ways?

If we are considering an independent local organization, unaffiliated with any central organization composed of similar units, the answers to the first and third of the above questions are very simple: These matters should be determined by vote of the growers who compose the organization. But if we are considering a large organization, composed of a number of local units, and handling the product of an extensive industry, the answers are, perhaps, not quite so easily reached. Yet, by keeping in mind the fact that in a truly co-operative organization, no matter how large or how complex, the final authority rests with the individual growers, it will be clearly seen that the marketing policies devised for handling the product of any organization must rest ultimately upon the sanction of the individual growers as expressed by vote in their local associations. Even if some important movement originates in the central body, composed of representatives of the locals, its acceptance by the organization as a whole should be dependent upon its ratification by vote of the members in the various locals. The central body may suggest radical steps to be taken; but no power except a majority vote of the membership of a given local should bind that local to adopt new or unusual methods in the disposition of its crop, even when an emergency arises. The local association is the unit of organization; any new policies of importance it adopts should be based upon a majority vote of its membership. The central body should have power to advise, but not dictate, regarding changes in marketing policy to meet new conditions from time to time. If concerted action on a given point is taken by all the locals, it may then be made binding upon the organization as a whole, through formal vote of the representatives of the locals in the central body. So far as possible, the establishment of policies should anticipate, rather than follow, the occurrence of an emergency.

Having disposed of the question as to who should have authority to determine the marketing policies of an organization, in



case any radical changes from former methods may seem necessary, the next point to consider is: What special methods of disposition of the product may be resorted to in case of sudden increase in production, or other causes leading to an apparent inadequacy of previously employed methods to effect distribution of the entire product? Existing facilities for marketing may be extended, more agents employed, new markets entered, and special advertising to increase immediate consumption resorted to. But in spite of these efforts, the relation between supply (meaning in this connection, the total product for the season, except in the case of very perishable commodities) and demand (which may be greatly influenced by industrial conditions in the region of the principal consuming markets) may be such that it is impossible to dispose of the entire product in the customary manner at prices which will make it worth while to continue shipping to distant markets all grades of the product which have previously been disposed of in those markets. The cost of the box, packing, freight, refrigeration, and other fixed charges in connection with the marketing of a package of fruit are the same whether the fruit is high grade or low grade, and whether or not it sells for enough to pay for those costs. When fruit is abundant, and high grades are selling in a given market at a low price, purchasers become exceedingly particular, and low grade fruit is discriminated against much more severely than when the general level of prices is relatively high. This makes it very difficult to sell low grade fruit under the circumstances in question; and in order to effect sales at all, the price must be extremely low. The longer the fruit is held, the more it deteriorates; and unless market conditions change, the lower the price at which it must ultimately be sold. If under the existing conditions in an eastern market, a given grade of fruit must be sold at a price so low that it will not cover the costs of marketing, it might better never have been shipped—unless the growers' organization is to be considered as actuated primarily by philanthropic motives. From a business standpoint, the only logical course for the growers' marketing organization to pursue is to grade the fruit more rigidly than ordinarily, and to ship to the distant markets only such grades of fruit as seem to have a reasonable prospect of selling in the given markets for

a price sufficiently high to return to the grower some net proceeds after all marketing expenses have been deducted from the gross sales.

In a case of this kind, what should be done with the lower grades of fruit, which are not shipped to the distant markets? In the first place, all the local markets in the producing region should be kept supplied to their full capacity at low prices. The cost of marketing would be slight, for there need be no expense for packages or packing; and all inhabitants of a producing region should have an opportunity to feast on fruits when they are abundant. In the second place, all markets near enough to be reached without resorting to refrigeration, and large enough to handle fruit of the given kind in carload lots when the price is low, should be supplied by shipments of fruit made in lug boxes, without packing. In the third place, the growers' marketing organization should, if possible, find some outlet for its fruit in some form other than the fresh state. This has already been done in reference to certain fruits. For example, various kinds of deciduous fruits grown by members of the California Fruit Exchange are regularly sold to canneries, and only that portion of the crop shipped to eastern markets, which, under the existing and prospective market conditions, promises to net the grower a larger return per unit than could be obtained by selling to the canneries. That is, the crop of a given kind of fruit is handled with a view to securing for the growers the greatest possible total net return, under the existing market conditions, whether disposed of in eastern markets or in California, and the percentage of the crop shipped east will vary considerably from year to year. With citrus fruits, the situation is somewhat different; for up to the present, comparatively little has been done toward providing outlets for the fruit which cannot be sold for use in the fresh state at a price that will net the grower something above the actual cost of handling. However, a start has been made, in the establishment of a factory for the manufacture of citrate of lime by a subsidiary organization of the California Fruit Growers Exchange; and a few small factories have been established by private individuals or companies for the manufacture of other citrus by-products, with a view to utilizing the

grades of citrus fruits for which there is not some other more profitable outlet.

In seasons when the crop of a given kind of fruit is small, it will pay to ship lower grades to eastern markets than when the crop is large. It is merely a display of good business judgment to withhold from eastern markets all those grades of fruit which, under existing market conditions, would not be fairly certain of selling for a price that would be in excess of the costs of marketing. The local association of growers in a co-operative marketing organization is the proper body to determine what disposition shall be made of the lower grades of the fruit produced by its members, at any given time; and it should make the decision whether or not to continue shipping a given grade, in case of unfavorable conditions in eastern markets, as shown by information secured through the central organization with which it is affiliated.

It is perfectly clear that the interests of the growers will best be served if shipments of a given grade of fruit cease when a point in eastern market conditions has been reached at which the price is so low on that grade of fruit that disposing of this fruit in the producing region for some secondary use would bring the growers a larger net return per unit of the fruit.

In case the product is one which does not lend itself readily to secondary uses, and is also of a perishable nature, it is a somewhat more serious question as to what disposition should be made of that portion of the crop which, by reason of the lowness of its grade and the low level of prices in eastern markets, would not net the grower something above the cost of marketing. Growers as a class are extremely loath to destroy any food product whatsoever; their tendency is to be entirely too lax rather than too severe in their grading, and to include in their shipments lower grade products than should ever be sent to market; and their disposition as individuals is to continue shipping a given grade of fruit they have grown, even after the market price of that grade has reached a point that does not cover the expenses of marketing. Growers' co-operative marketing organizations have established standards of grading; the shipment of "culls" is not allowed; and if these culls cannot be disposed of more profitably in some other manner, they are fed to swine, used as

fertilizer for the fruit plantation, spread along the roadway to assist in laying the dust, or dumped into a ravine. And all these methods of disposing of culls have met the approval of all those who understand the wisdom of refraining from attempting to market a grade of product which the market does not desire. In short, the destruction of culls is sanctioned in all producing regions; and the absence of those culls from the market by reason of their destruction is a source of satisfaction to the purchasers of fruit, even though they may not know it.

From the standpoint of the producer the ultimate reason why culls are not shipped to market is because they would not sell for enough to cover the expenses of marketing; or in other words, because the crop, with the culls eliminated, will bring more net return to the grower than if the culls were included. If then, market conditions become such that the next grade higher than culls, as ordinarily classified, could not be sold for enough to cover marketing expenses, there would be the same reason for the growers to withhold it from shipment, as in the case of culls under ordinary conditions, even if withholding it from shipment necessitated its destruction because of the absence of any other outlet. When there is not sufficient demand for a given grade of fruit to result in its purchase at a price that will cover the expenses of marketing, either in distant or local markets, and no secondary uses for the fruit can be devised that will take care of the volume in question, it is more profitable (or less unprofitable) for the grower to allow this grade of fruit to rot on his ranch, than to incur expense in shipping it to market. People may complain about the social injustice of allowing food products to go to waste, when the poor of the cities are crying for food. Perhaps the grower might be expected to give away his product when unable to sell it; and doubtless he would be willing to do so rather than see it rot; but there is no justice in expecting him to *pay for the privilege* of giving the product away.

The above discussion applies primarily to products of a perishable nature and in which there is wide variation in quality and degree of perfection between the different specimens constituting the crop as it is harvested. The most striking example of a commodity of this character is the cantaloupe. Under certain

conditions of the crop, the weather, and the markets, the only recourse that will save the shipper from the necessity of paying freight bills on unsalable products is such severe grading that over half the specimens are discarded as unsuitable for shipment. If this rigid grading were maintained by all shippers in a region, there would seldom if ever be any occasion for suspending shipments to allow the markets a chance to dispose of their surplus stock. But if, in spite of these precautions, the markets should become temporarily congested, on account of the rapid ripening of the melons during excessively hot weather, an organization of growers would be justified in suspending shipments for two or three days rather than pay freight on more melons than the markets could handle before they spoiled.

In the case of relatively non-perishable products, such as raisins and dried peaches, which can be carried over until the next year, if necessary, there should be no occasion for allowing any of the product to go to waste; and a growers' organization would not be justified in destroying any portion of such a product.

Prices of horticultural products are determined by demand and supply. Most horticultural products are looked upon mainly as luxuries or supplemental articles of food, rather than necessities or staples. Therefore the demand for these products is elastic; and relatively small changes in price are likely to be accompanied by comparatively large changes in amounts taken. This being the case, people would curtail their purchases if the price were placed abnormally high in comparison with that of other commodities they might desire to purchase. It would therefore be impossible for a growers' co-operative marketing organization, even if it controlled the entire supply of a given horticultural product of the type under consideration, to sell its output at an arbitrary price fixed without reference to the available supply as compared with the demand in the markets. Before California growers' co-operative organizations undertook the marketing of the respective products, the law of supply and demand was hampered in its operation because too many middlemen and speculators intervened between the producer and the ultimate consumer. In striving for large profits per unit of goods handled, the middlemen curtailed consumption by making prices high to the consumer, and in some cases decreased production by forcing

the growers to accept a price below the cost of production. The individual grower, far removed from the real consumer, had little influence upon the price he would receive for his goods, and no influence upon the price the consumer would pay. Middlemen largely determined the prices to both producer and consumer. It is right that the grower should have some voice in determining the price at which he will sell his product. It is not right that the middlemen should make large profits in handling his products when part of those profits represent losses to the grower by reason of his being forced by the first middleman in the series to part with his goods at a price below the cost of production. While, on account of his semi-permanent investment in orchards, a grower may for a time continue to produce fruits which he is unable to sell at a price as high as the cost of production, he will not go on indefinitely producing fruit for which he is receiving less than the cost of production. Under the old régime, growers, as individuals, were powerless to change conditions; and conditions did not change of their own accord, for they were controlled by the middlemen. By organization, the growers have been enabled to shift their market one step nearer the consumer, and to obtain some voice in deciding the prices at which they will sell their products. This has made it possible for the growers to realize prices somewhat above the cost of production; but the very nature of their products makes it impossible for them to exact prices not warranted by the relation of the supply to the demand.

Co-operative marketing organizations of growers are not regarded as combinations in restraint of trade, as interpreted in the administration of the Sherman Anti-Trust Act (1890) and Clayton Amendment (1914), or the (California) Cartwright Act of 1907 as amended in 1909. They promote, rather than restrict, trade; and their influence has been on the side of reducing, rather than increasing, the cost to the ultimate consumer.

## CHAPTER VIII

### REDUCING THE COST TO THE CONSUMER

In spite of what influence co-operative marketing organizations of growers have been able to exert in the direction of reducing the cost to the consumer, the consumption of horticultural products, especially those of a perishable nature, is often greatly curtailed by reason of costly methods of distribution employed after the goods have reached the wholesale market.

Various investigations have been made to determine the cost of getting different products from the producer to the ultimate consumer, under prevalent methods of distribution, including the profits of the various factors through whose hands the goods ordinarily pass. Such investigations usually disclose the fact that the most important factor entering into the high cost to the consumer, as compared with what the producer receives, is the existence of a wide margin between the price paid by the retailer and the price he exacts from the consumer. This margin is likely to be especially wide in the case of very perishable products, and is sometimes looked upon as justified by reason of the risk of loss due to spoilage, in addition to the high cost of service demanded of the retail dealer by consumers under modern social conditions. It has been stated<sup>1</sup> that "retailers commonly charge twice as much for perishable fruits and vegetables as they cost, thus making their margins 50 per cent of selling price; sometimes they buy lettuce for 2 or 3 cents a head and sell it for 10 cents; and they take out similar margins on a few other highly perishable commodities." However, in seeking to protect himself from loss due to spoilage of perishable products while in his possession, the retailer adopts the very means that will tend to increase the volume of spoilage; to wit: fixing the price at so high a level that sales are slow, thus resulting in a portion of

<sup>1</sup> Weld, L. D. H., *The Marketing of Farm Products*, p. 434.

his unit of purchase remaining in his hands an unnecessary length of time, and greatly increasing the risk of deterioration and decay. That a moderate reduction in retail prices may greatly increase the sales and consumption of such a product as oranges, is amply proved by the experience of retailers who have followed the suggestions of the Dealer Service men of the California Fruit Growers Exchange and substituted a policy of large volume of sales at a smaller margin for their former policy of large margins per unit of sale. The reduction in loss due to deterioration and spoilage, by reason of the rapidity of sales, has been an important factor in increasing the retailers' profit under the new method. The goods are moved out before they have time to spoil.

However, many fruits and vegetables are very much more perishable than oranges, and under present methods of handling in most retail stores, the loss from deterioration is enormous. Lowering the prices would move the goods more rapidly and stop part of this waste; but something more is needed. Very few retail stores make any pretense at provisions for preserving the freshness of fruits and vegetables. Lettuce that has been shipped under refrigeration from California to Chicago or Pittsburgh at great expense, is unpacked and exposed to the warm dry air of a retail store in a neighboring suburb, where layer after layer of the wilted leaves is discarded from the heads remaining unsold as the days go by. Lettuce that has been perfectly preserved by proper precautions during its long journey from the Pacific Coast is allowed to deteriorate rapidly in the hands of the retailer because no attention is paid to providing facilities for its preservation. What is true of lettuce is true also of a number of other vegetables and of many fruits. Careful attention is given to providing every known means for their preservation from the time they are harvested on the ranch of the producer until they reach the store of the retailer; and then all precautions cease, resulting in a great economic waste. Products that with proper handling could be kept in good condition in the retail store for four or five days are practically worthless if carried by the retailer beyond the second day. Perishable fruits and vegetables arrive from distant producing points under refrigeration; wholesalers of such products provide facilities for keeping them cool; people equip their houses with refriger-



ators for preserving the food products after they receive them from the retailer; but the ordinary retailer takes no precautions whatever to preserve the freshness of fruits or vegetables while they are in his store. His failure in this regard vitiates to a large degree the value of the efforts expended by all other factors in attempting to place country products on city tables, in perfect condition.

The failure of retail stores to provide facilities for preserving fruits and vegetables in a fresh and sound condition is not without reason. Most retail stores that handle fresh fruits and vegetables carry them as an incidental line in connection with groceries and perhaps other commodities. Even the small grocery stores scattered through the residence districts of the medium-sized and smaller cities attempt to carry at least a meager line of fruits and vegetables. Stores which serve only a limited number of families and deal in staples rather than fancy groceries, do not handle sufficient quantities of perishable fruits and vegetables to warrant their incurring any considerable expense in providing facilities for the proper care of such products while in their possession.

Perishable fruits and vegetables will never be placed in the hands of consumers in uniformly acceptable condition, nor the economic waste that occurs in the hands of retailers eliminated, until the perishable nature of such products is clearly recognized by retailers in general, and their handling relegated to such dealers as will provide proper equipment for their preservation. There is no more reason for expecting every grocery store to handle fresh fruits and vegetables, than there would be for expecting it to handle fresh meats and fish. Only those dealers who have facilities for controlling the temperature and moisture conditions in certain portions of their establishments of sufficient size to accommodate their entire stocks of perishable products are expected to act as retailers of meats and fish. Until the same attitude is taken in reference to the retailing of perishable fruits and vegetables, the economic waste that occurs in the hands of the retailer cannot be wholly eliminated. There should be fewer retailers of fruits and vegetables in each city, and these should have their stores fully equipped with refrigeration facilities, and

other means for keeping their supplies in the best possible condition.

If the number of such stores in a large city were so small that each served several thousand people, it would be possible for the proprietors to purchase many of their supplies in large quantities directly from organizations of producers, and thus effect additional savings in the cost of distribution from producer to consumer, by reason of acting as their own jobbers, availing themselves of carload freight rates, and doing their own trucking from railway station to store.

It is probable that small cities would be best served if there were only one retail fruit and vegetable dealer in each. There would be no more likelihood of his charging exorbitant prices because of lack of competition than was true of the local butcher who in former years supplied a town with its meats; and he would be able to carry a better assortment of fresher stock than could a number of competing firms handling fruits and vegetables along with other table supplies. In a small town, where the demand for fruits and vegetables is insufficient to warrant the maintenance of an exclusive fruit and vegetable store, these products could be handled with much less waste and more satisfaction in connection with a meat market, with its refrigeration equipment, than in connection with a grocery store. Until the necessity of making fruits and vegetables prominent, if not exclusive, features in the stores that handle them is recognized, and facilities for their preservation are provided, the retailing of these commodities will continue to be attended with enormous waste.

If fruit and vegetable stores of the type suggested were started in the various cities under the proprietorship and management of capable business men, well-versed in the handling of the products in question, the superior condition of the products as delivered to the consumer, and the reduction in price made possible by the elimination of waste as indicated, should lead to the ultimate absorption of the retail fruit and vegetable trade of the respective cities by such firms, and the cessation of attempts to handle these products as side lines on the part of stores not properly equipped for such service.

In cases where private enterprise failed to grasp the oppor-

tunity for thus serving the needs of a community, the municipality might well afford to equip and operate a store or stores, as might be necessary properly to supply the needs of the city's inhabitants in reference to fruits and vegetables. This would relieve the grocers from the necessity of carrying a line of goods that, under usual conditions, is a constant source of annoyance, because of deterioration and spoilage due to the impracticability of providing proper equipment for the care of the small volume ordinarily handled in each retail establishment.

If, in addition to the concentration of the fruit and vegetable business of each city into a small number of properly equipped stores, an efficient, economical and sane delivery service were established, the costs of getting fruits and vegetables from the producer to the consumer could be very materially reduced.

The above discussion refers primarily to the handling of products which are shipped into cities from more or less distant sources. In the case of fruits and vegetables produced within hauling distance from the city where they are consumed, the cost of getting the goods from the producer to the consumer could be very much further reduced if the municipality would establish and maintain a system of properly equipped and organized public markets where producers could sell directly to consumers. However, the success of such an enterprise would depend upon the consumers being willing to give personal attention to their purchases, and attend to their own deliveries, except in the case of heavy articles bought in large quantities. For the handling of these, the municipality could readily maintain a delivery service operated in connection with the market, and managed along economical lines. To cover the cost of this service a slight charge could be made for each delivery.

In a municipal market of the type indicated, there would be practically no loss from spoilage, for fresh goods would be brought in directly from the ranches each morning the market was in operation, and any perishable goods remaining unsold would be hauled back to the ranches and diverted to secondary uses by the producers.

## CHAPTER IX

### APPLICABILITY OF CALIFORNIA CO-OPERATIVE MARKETING METHODS TO OTHER PRODUCING REGIONS

The great distance of California from the principal consuming markets of the country has been an important factor in emphasizing the necessity of organized methods of marketing her products; and the concentration of production of given commodities within limited areas has greatly facilitated the development of producers' co-operative marketing organizations; while the immense volume of certain types of her products has made possible the adoption of large-scale methods of distribution, including the maintenance of salaried representatives and the inauguration of nation-wide advertising campaigns. California's unique and commanding position among horticultural states, in that many of her important products are grown commercially in very few of the other states, has made feasible the development of a much wider marketing area than might otherwise have been expedient. With few exceptions, California's marketing problem has been to extend the use of her products, not by securing their substitution for similar products from other states, but rather by educating the consuming public to an appreciation of the advantages to be derived from using certain California products *in addition to* their customary purchases, or in some cases as substitutes for importations from foreign countries. For the most part, these commodities were not extensively used in America until California began to produce them in quantity, and was obliged to resort to special means for encouraging their consumption in eastern markets.

On the other hand, the important types of horticultural products of the eastern states other than Florida have been quite generally grown on the farms of New England, the Middle At-

lantic states, and the Mississippi Valley ever since agriculture became fully established in the respective regions; and eastern people have been accustomed to their use for generations. As manufacturing and trading centers increased in population, there developed within hauling distance of each one or more truck-producing areas which supplied the inhabitants with horticultural products of a perishable nature. As time went on and transportation facilities improved, the same kinds of products were grown farther and farther from the markets, the locations of the new producing areas being determined largely by soil and climatic conditions, in addition to transportation facilities. There was a special tendency to extend the producing regions southward for the sake of supplying the northern markets with given products earlier in the season than local-grown supplies were available. Thus it has come about that there are a large number of more or less widely scattered producing regions for each of the important horticultural products of the eastern portion of the United States, and that the various important producing regions depend mainly upon the same marketing centers for the disposition of their products. The difference in the time of maturity of the same perishable product in different regions makes it possible for the markets to be supplied successively from different localities; but since the ripening seasons in several localities overlap, and not infrequently coincide, each of the principal markets of the country is likely to receive supplies of the same product from a number of widely separated regions at the same time. This often results in great economic waste due to the transporting of goods much greater distances than would be necessary fully to supply the various markets if a more systematic method of distribution could be inaugurated.

In the case of the less perishable horticultural products also, especially those subject to winter storage, the various markets are supplied from widely scattered producing regions, without much apparent discrimination as to the relative locations of the respective producing and consuming centers. Here again the costs of distribution could be greatly decreased if each market were supplied with a given commodity from the most accessible producing regions for that commodity. It is true that production varies between wide extremes in the various produc-

ing regions from year to year, so that the same market cannot procure all its needed supplies of a given commodity from the same localities every year; but if each year the supplies were secured from the most readily accessible sources *that year*, it would be a great improvement over the present method of indiscriminate criss-cross shipments through the area in which the chief consuming markets are located.<sup>1</sup>

The question is: How could such a reform in distribution methods be instituted? Would it be possible to effect a comprehensive organization of a large proportion of the producers of each of the important horticultural products east of the Great Plains, and secure a distribution of the products from the various producing regions to the different markets of the country in a manner somewhat similar to that employed by the California Fruit Growers Exchange or some other of the California organizations?

Local associations of producers, organized on lines similar to those employed by local associations in California, are perfectly feasible under eastern conditions in localities where large quantities of a given product are grown. This is attested by the marked success of certain such organizations. Nevertheless, the various producing regions for a given commodity are in most cases scattered over so wide a territory that frequent personal contact and intimate relationship among the representatives of the different regions are impracticable. Without such contact and relationship it is impossible to bind together the various units into one comprehensive working organization, in which the interests of each and every local association can be given due consideration. The geographical distribution of the producing areas renders a general organization of the producers impracticable.

What, then, can be done to effect an improvement in the distribution of the products? As already stated, local associations of producers are perfectly feasible. In some regions, an affili-

<sup>1</sup> The above was written before the Food Administration was established or the railroads were placed under government control. The indiscriminate criss-cross shipment of certain commodities has since been eliminated by government order.

ation of neighboring local organizations could readily be effected, and might greatly facilitate the marketing of the product from the entire region. Yet, something more is needed if a comprehensive and economical distribution of the country's products is to be effected. The work of the Office of Markets and Rural Organization, of the United States Department of Agriculture, in gathering and disseminating information regarding crop movements and market conditions suggests that an extension of this service might be made the means of enabling the various producing regions to place their products more intelligently,<sup>2</sup> and the consumers in the various markets to take advantage of variations in the supply of given commodities.

Not only should the producers be furnished with information regarding the actual movement of horticultural products, the quantities in prospect in the various producing regions, and the conditions in the various markets; but consumers, also, should be given access to information that will enable them to be of the most assistance in the movement of perishable commodities. Such information would be especially effective in the case of commodities for which there are secondary uses in addition to their primary use in the fresh state. For example, the quantities of strawberries, blackberries, plums or peaches purchased in a given market will be much greater if considerable portions of the purchases are to be used for canning or preserving than if all are to be consumed in the fresh state. Consumers do not ordinarily purchase fruit for canning until the price at which it is offered is lower than that at which they would be willing to purchase an ample supply for immediate use. However, when the supply on a given market increases beyond the normal demands for use in the fresh state, the possibility of selling it for canning makes the price remain higher than it would be if no such outlet were available. Therefore, it would be a decided advantage to the producer, the dealer, and the consumer, if the fact were generally known among consumers a day or two in advance when large supplies of a given perishable commodity

<sup>2</sup> This service has been greatly extended since the above was written, and is rapidly becoming an important factor in the marketing of perishable products.

were expected in a given market.<sup>3</sup> The most feasible plan of furnishing such information to consumers would be to have it published in the daily press of the respective cities, the "copy" for publication being furnished by wire from Washington, and not subject to editorial alterations.

When furnishing information to shippers, the Office of Markets<sup>4</sup> could be of signal assistance in diminishing the economic waste in distribution, by pointing out to the shippers of each locality the desirability of supplying the needs of the particular markets to which their respective regions are naturally tributary, under the conditions existing at that particular time. This method of influencing distribution would be most effective where the growers are organized for marketing purposes and where the volume of shipments from the region is sufficient to warrant the Office of Markets in maintaining a man in the locality during the shipping season. As suggested in connection with the discussion regarding Imperial Valley cantaloupes, much depends upon the personality and resourcefulness of the men who are detailed by the government for such service. It is possible that the time may come when a corps of men employed by the government, and detailed to the various producing regions and consuming markets, will practically determine the distribution of perishable horticultural products, even though they issue no orders and assume no authority.

<sup>3</sup> In Providence, Rhode Island, the marketing of home grown vegetables (especially spinach) was greatly facilitated in the spring of 1917 by advising consumers in advance when heavy supplies were in prospect. This method has since been employed in other cities.

<sup>4</sup> Now Bureau of Markets.



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