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COORDINATED MARKETING PROGRAMS OF SELECTED FRUIT AND VEGETABLE COOPERATIVES

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MARKETING RESEARCH REPORT NO. 826 FARMER COOPERATIVE SERVICE U.S. DEPARTMENT OF AGRICULTURE

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMER COOPERATIVE SERVICE
WASHINGTON, D.C. 20250

Farmer Cooperative Service conducts research; advises directly with cooperative leaders and others; promotes cooperative organization and development through other Federal and State agencies; and publishes results of its research, issues News for Farmer Cooperatives, and other education material.

This work is aimed (1) to help farmers get better prices for their products and reduce operating expenses, (2) to help rural and small-town residents use cooperatives to develop rural resources, (3) to help these cooperatives expand their services and operate more efficiently, and (4) to help all Americans understand the work of these cooperatives.

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September 1968

SUMMARY

The increasing demand by today's fewer and larger buyers for an assured volume and variety of quality products, as well as additional marketing services, presents serious problems to some small suppliers of food products. They not only have difficulty in filling the orders of large customers but also experience problems related to product development, brand acceptance, rising distribution and accounting costs, and changing consumer demands.

In an effort to improve their operating efficiency and marketing effectiveness, fruit and vegetable growers and their cooperatives are showing increasing interest in the potentials of a coordinated marketing program.

To provide interested producers and cooperatives with some basic information on coordinated marketing, Farmer Cooperative Service made a study of sales arrangements used by five fruit and vegetable cooperatives. This report, based on that study, discusses the development, organizational characteristics, and operating methods of each. Based on management appraisal, guidelines have been developed for cooperatives and other firms interested in a coordinated marketing program.

The five organizations studied were California Canners and Growers, San Francisco, Calif., Pro-Fac and Curtis-Burns, Rochester, N.Y., American Farms, Inc., Waupun, Wisc., Mutual Vegetable Sales, Salinas, Calif., and North Pacific Canners and Packers, Inc., Portland, Oregon.

The steps taken by these firms are two approaches to developing an integrated, large-scale production and distribution program. One approach is illustrated by California Canners and Growers and the Pro-Fac and Curtis-Burns complex. These organizations expanded their operations by acquiring well-established processing plants. The absorbed plants lost their individual identity, and operations are conducted under a single management system.

Another approach to developing an integrated production and distribution program is illustrated by American Farms, Inc., Mutual Vegetable Sales, and North Pacific Canners and Packers. These organizations expanded their operating and marketing ability by consolidating sales. Each organization retains its individual identity, and operates independently in all areas except marketing.

Regardless of the method selected, grower organizations involved in developing an integrated production-marketing system should do the following:

1. Give the sales manager final authority for all sales decisions.
2. Establish and adhere to a uniform quality control program from the farm level to the finished product.
3. Strive for a program which includes a combination of association labels and buyer labels.
4. Consider feasibility of cooperatively owned or leased trucks for shipping produce to nearby markets.
5. Appraise members' interest in and possible support of a coordinated program to purchase production and marketing supplies.
6. Develop a centralized accounting system and supply members with periodic statements.
7. Have regular membership meetings, and issue a newsletter periodically to assure a better understanding between members and management.

A coordinated fruit and vegetable marketing program is therefore defined, for purposes of this report, as an organizational procedure

which enables participating firms to enlarge and strengthen their market position and to obtain benefits they could not realize from individual efforts. The resulting arrangement aims to lend greater stability to the processing industry and return a fairer margin to grower owners from the sale of processed products without disturbing the grower-processor relationship.

Other possible benefits accruing through coordination of marketing functions might include lower unit sales and promotional costs; adequate financing by aggregating resources; better market distribution; more orderly marketing of total production; higher total sales value of production; improved standardization of products and packs; and reduction in transportation and distribution costs.

COORDINATED MARKETING PROGRAMS OF SELECTED FRUIT AND VEGETABLE COOPERATIVES

By Richard S. Berberich
Cooperative Marketing and Farm Supplies Program
Crops Division

Over the years there has been an increased concentration in processing and retailing. Twenty firms, for example, currently account for more than one-half of the volume of the canning industry. The same number account for more than two-thirds of the total output of frozen products. Fourteen percent of all retail food stores account for 71 percent of all food sales.

The necessity for sizable group action by fruit and vegetable growers is evident. The demand by today's large buyers for an assured volume and variety of quality products, as well as increased marketing services, presents serious problems to some small fruit and vegetable suppliers.

There are basically two ways fruit and vegetable organizations can improve their operating efficiency and marketing effectiveness. They can merge with or acquire other firms and operate under a single management system, or they can coordinate their sales operations.

Both alternatives result in a coordinated program that can better serve the needs of large-scale buyers, lessen competition among individual firms, and improve the bargaining position of growers and their associations. A coordinated marketing program is a plan which enables participating firms to strengthen their market position and to receive benefits they would not receive from independent operations.

OBJECTIVE AND METHOD OF STUDY

The objectives of this report are to furnish information on the organizational structure and operating methods of selected coordinated marketing cooperatives, and to propose guides to producers and associations interested in organizing a coordinated marketing program.

Five fruit and vegetable firms that expanded their production-marketing ability were selected for study. Three of the organizations are classified as joint sales agencies. The other two are grower-processor organizations that used the acquisition method to coordinate production and sales.

Data were obtained through personal interviews with directors and managers of the five associations. Additional information was obtained from annual reports and other records of the organizations.

Each association was studied with respect to organizational and financial structure, facilities, operating methods, sales arrangements and outlets, charges, and services performed.

As the experience of these organizations can attest, there is no sure, fast, or easy way of increasing coordination among growers,

processors, and retailers. In addition, no set procedure can be recommended that applies to the development of a coordinated activity, since conditions vary from area to area and in individual circumstances. Certain guidelines, however, can be established and modifications made in the criteria in the light of prevailing conditions.

COORDINATED MARKETING THROUGH ACQUISITION

The fruit and vegetable processing industry includes a large number of small to medium-sized plants located near their source of supply. Competition among these plants in procuring raw supplies and selling finished products is often keen.

Rather than building new canneries or freezing plants and developing new markets, some cooperatives have acquired well-established processing companies, combined them into a single management system, and operated them on a farmer-owned and controlled basis. This was the approach taken by California Canners and Growers and Pro-Fac and Curtice-Burns. The coordinating procedure and the retention of qualified management and operating personnel of the acquired companies are distinguishing characteristics of these cooperative processors.

California Canners and Growers

California Canners and Growers (Cal Can) was organized and incorporated as a cooperative in 1957 as the outgrowth of several years of study and research by grower groups interested in better ways to process and market their crops. California Canning Peach Association of San Francisco was the principal sponsor. Considerable assistance was also provided by the California Canning Pear Association of San Francisco, California Tomato Growers Association of Stockton, and California Freestone Peach Association of Modesto.

The initial membership of 473 growers invested approximately $1 million in the organization. The money was used as a down payment for acquiring two processing organizations in 1958--Richmond-Chase Company, San Jose, and Filice and Perrelli Canning Company of Richmond, California. Cal Can purchased Thornton Canning Company of Thornton, Calif., in 1959; San Jose Canning Company, San Jose, Calif., in 1960; and Schuckl and Company, Inc., Sunnyvale, Calif., in 1963. Wyandotte Olive Growers Association of Oroville, Calif., was merged into the organization in 1966.

Each of these six companies had successful, well-established canning operations in strategically located areas. Their acquisition by Cal Can resulted in a diversified operation with real potential for maximum processing efficiency.

The association now has approximately 1,100 grower members and has steadily increased its total sales of canned fruit and vegetable products. Cal Can's sales volume of over $100 million makes it the largest grower-owned canning business in the world.

Organizational Structure

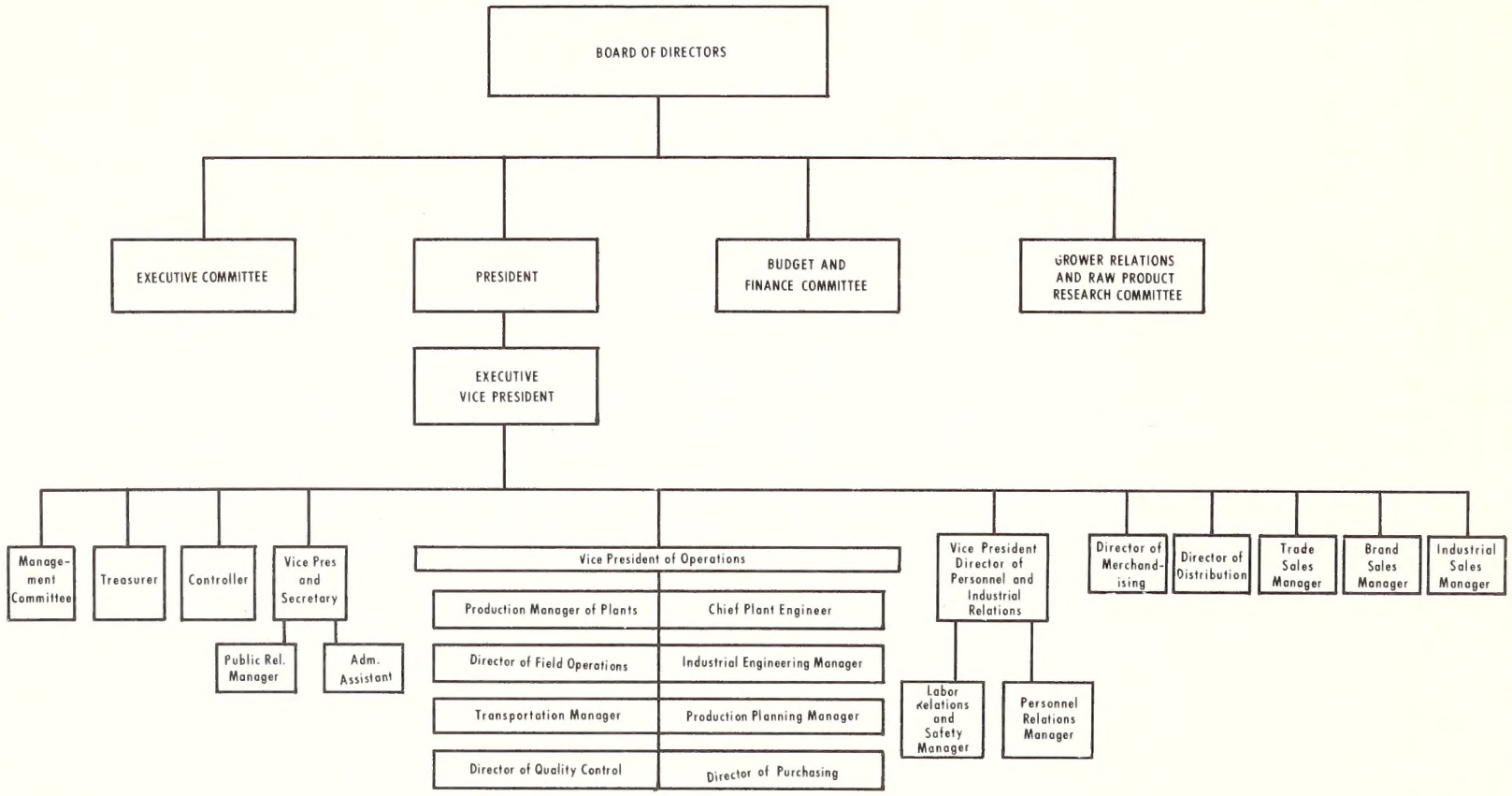
California Canners and Growers began its operations in 1958 with the purchased canning companies functioning as subsidiaries, each retaining its own management and board of directors and each reporting to the board of directors. This arrangement provided growers with qualified management and an efficient operation for the next 5 years.

On June 1, 1964, all divisions and subsidiaries were merged into a single operating company, and a management group was selected from the previous operating staffs. The merger included the consolidation of Cal Can's five former independent food processing firms; their nine modern canning plants; and all administrative, marketing, and accounting personnel. Figure 1 shows the current management structure as provided by the association.

San Francisco was chosen as the new headquarters because of its accessibility to the growing areas, canneries, food buyers, sales outlets, and financial institutions.

FIGURE 1

CALIFORNIA CANNERS AND GROWERS
GENERAL MANAGEMENT



Eligibility for membership.--Any producer of agricultural products that are processed, marketed, or handled by the association is eligible for membership.

An applicant's request for membership is reviewed in light of the association's marketing requirements, and long-range raw product projection needs by commodity, variety, and crop location. He is then screened to determine his financial stability, the quality of fruits or vegetables he produces, and his production capabilities.

Growers admitted to the association must sign a membership agreement for a minimum of 3 years, and agree to leave a portion of net proceeds from each year's crop production in the company as working capital.

Voting.--Members' voting rights are basically one vote for every $5,000 worth of business, in terms of raw product value, with a minimum of one vote per member.

Crop purchase and membership agreement.--The membership agreement specifies that the member agrees to sell and deliver to the association all products produced or furnished by him. The association, in turn, agrees to purchase and receive these products.

The member agrees to conform to the rules and regulations of the association and to accept its grading standards and established classifications.

The term of the agreement is for 15 consecutive years. A termination clause in the contract can be exercised by the member at the end of the third year, or any anniversary date thereafter. The association can exercise its option on any anniversary date by giving 1 year's advance notice.

Financing.--Cal Can was organized without capital stock. The initial capital of approximately $1 million was obtained through the growers' investment in equity certificates. The individual grower investment represented about 15 percent of the per ton value in 1957 of each of the commodities for a given area.

In 1962, members voted to eliminate the investment requirement for new members and now obtain necessary financing through retains from the total net returns of the association. At the end of each fiscal year, 80 percent of net returns are retained in a revolving fund. Both capital contributions and capital retains are revolved at the discretion of the board of directors.

Management.--Cal Can is managed by a board of 25 directors. Twenty are grower members elected by members and five are directors at large appointed by the board of directors. The board, by majority vote, may elect any person, whether a member of the association or not, as a director at large with the same powers, rights, liabilities, and duties of all other directors. For example, one of the directors at large presently is the president.

Grower members on the board of directors limit themselves to decisions of broad policy, and management determines how returns to growers can be maximized in production and marketing. The board of directors elects the president, vice presidents, secretary, treasurer, and other administrative officers.

Committees appointed by the board are the executive, budget and finance, grower relations, and others as needed. The executive committee consists of seven board members, including the president, which may on occasion act for the board and perform other duties delegated to it by the board. The budget and finance committee reviews the budget and financial programs prepared by management. The president appoints the management committee, which consists of the president, executive vice president, vice presidents and other top executives, the treasurer, comptroller, and director of industrial relations. The committee meets once a week to review operations and discuss production and marketing decisions.

The association employs approximately 7,500 workers during the peak season and maintains approximately 1,200 full-time employees.

Policies.--Cal Can's primary objective as a processor and marketer of food products is to provide growers a return over and above the estimated commercial value of the raw

product. Commercial market value is the price most frequently paid by the industry.

The association strives to increase the yearly return to grower owners. It also attempts to minimize the impact of fluctuations in the price of individual commodities by operating on a single pool basis. Net returns realized from the various processed products supplement returns paid growers for their raw products.

Cal Can strives to coordinate the growing of quality raw products with processing and marketing requirements. Long-range policy stresses quality and the development of new products.

Operations

Through its consolidated operation, Cal Can handles the marketing of 11 major California crops, including cling peaches, freestone peaches, Bartlett pears, tomatoes, apricots, spinach, asparagus, cherries, grapes, figs, and olives.

Royal Anne cherry canning line in Sunnyvale plant. This plant, one of nine processing locations of the co-op, turns out more than 4 million cases of canned goods yearly and has a total payroll of more than $2.6 million.

The association determines its sales potential for each marketing season and plans its pack accordingly. Twice each year analysts prepare projections on market requirements and potential. Production may be contracted to persons other than members if market requirements exceed available supplies.

Pooling.--All fruits and vegetables marketed by Cal Can are handled in one single pool, and final returns are prorated to members according to the relationship that overall returns bear to the estimated commercial market value. The cooperative pays its members 60 percent of the estimated commercial value of the raw products at time of delivery. The balance is paid in three installments in percentages determined by the board of directors. When commercial raw product value has not been determined at harvest time, payment is based on the average commercial price the preceding 4 years.

Table 1 illustrates how growers' proceeds were allocated in a year when the net was 21.6 percent above the estimated commercial value of the delivered raw products. Growers would have incurred a proportionate loss had net proceeds been below the commercial value.

Raw product research.--Cal Can provides a research service for its grower members. Information developed by the company's research staff and gathered from

Close contact between grower and fieldman is listed as a must in operations of California Canners and Growers. Here a member discusses his spray rig with a field representative. The fieldman also has a cling peach orchard.

Table 1.--California Canners and Growers: Distribution of proceeds from crops processed for fiscal year ending May 31, 1966

Crop[1]	Estimated cash value 100%	Net proceeds		Total proceeds 121.6%
		Cash 4.32%	Retains 17.23%	
	Dollars per ton			
Cling peaches	69.00	2.98	11.92	83.90
Freestone peaches	40.00	1.73	6.91	48.64
Bartlett pears	135.00	5.83	23.33	164.16
Round tomatoes	34.00	1.47	5.87	41.34
Grade apricots	75.00	3.24	12.96	91.20
Spinach	26.00	1.12	4.49	31.61
Royal Anne cherries	400.00	17.28	69.12	486.40
Grapes	50.00	2.16	8.64	60.80
Figs	150.00	6.48	25.92	182.40

[1]Asparagus omitted because pool is split between two fiscal years.

universities and experiment stations is passed on to growers and fieldmen. This is aimed at helping produce crops above average in yield and quality.

Sales

Cal Can's total sales more than doubled in less than a decade and exceeded $100 million during the 1965-66 season. Canned fruit products account for about three-fourths of the sales and vegetables the remainder.

Markets served.--More than 600,000 tons of fruits and vegetables were packed by the association for sale throughout the United States and in foreign countries during the 1965-66 season.

More than one-half of Cal Can's sales are made east of the Mississippi River. New York, Chicago, Philadelphia, and Boston are very important markets. San Francisco is the association's most important western market.

The cooperative has made good progress in recent years in developing foreign markets. Approximately 7 percent of its processed fruits are sold in major foreign markets, including the United Kingdom and West Germany.

Selling methods.--Cal Can sells directly to chains and institutional buyers and through food brokers. Average returns per case from direct sales and sales made through brokers are quite comparable, in view of the service provided.

About 60 percent of the sales of products with no brand label are made to chainstore buyers, with the remaining 40 percent equally divided between wholesalers and institutional buyers.

Cal Can is one of the leaders in setting the price pattern for canned fruit and vegetable products. Opening prices are based on a careful analysis of the supply and demand conditions.

Brand policy.--Cal Can markets about one-third of its products under the well-established brand names of the companies that formed the association. Private label packing is done for the wholesale and chain grocery trade.

Some major brands are Diet Delight low calorie fruits and low sodium vegetables, F & P fruits and vegetables, Heart's Delight nectars and freestone peaches, Redpack tomato and tomato products, and Aunt Penny's prepared sauces. These brands, with few exceptions, are not restricted to a specific type of buyer or a given market.

Promotion.--All advertising media, plus promotional arrangements with retailers, are important facets of the company's promotion program. Television has been used successfully in brand promotion. In general, the type of promotional media used depends upon the products to be promoted and the areas to be covered.

Quality control.--Recognition of the importance of quality has stimulated Cal Can to set up high quality control standards. Inspection by its own permanent quality control staff is supplemented by that of USDA inspectors and seasonal quality control personnel.

Operating efficiency.--Cal Can's program stresses efficiency to reduce processing costs. An example of cost reduction through vertical integration was Cal Can and Tri-Valley Growers' joint purchase of two plants to make their own cans.

Management's Appraisal of Sales Situation

Cal Can's selling operations reflect the competitive nature of the canned fruit and vegetable business. The company's volume and quality and variety of pack have good selling appeal to the large direct buyers. Sales made directly to large chain buyers supplement the sales made through an extensive brokerage organization.

Suggested Guides for a Coordinated Marketing Approach

The experience of Cal-Can suggests that individuals and firms interested in setting up this type of coordinated marketing program do the following:

1. Carefully identify the problem area and evaluate all pertinent factors before making a final decision.
2. Plan to have a large organization with facilities to handle volume production.
3. Screen membership to determine financial stability and the quality and volume of product represented.
4. Hire experienced management and assure them a free hand in making marketing decisions.

Pro-Fac and Curtice-Burns

Representatives of three relatively small fruit and vegetable processing firms from western New York met in 1958 to discuss ways of increasing their company's effectiveness and improving their competitive position in the industry. These firms were Curtice Brothers Company of Rochester, Burns-Alton Corporation of Alton, and Haxton Foods, Inc., of Oakfield. They were faced with a need for new capital, as their limited net returns would not permit the necessary plant expansion. Also, the companies were cutting each other's prices in competing for business under their predominantly buyer label packs. A possible solution was to consolidate or merge the companies.

The officers of the three companies could not find a mutually acceptable method of merging as a proprietary stock corporation. To determine whether fruit and vegetable growing for processing and processing itself were potentially profitable, the corporate heads consulted the management of the Cooperative Grange League Federation, Inc. (GLF), Ithaca, New York.[1] Following several meetings in 1958 and 1959, GLF decided to explore the possibilities of encouraging a joint venture of farmers and processors under the control of farmers.

When Haxton Foods, Inc., temporarily withdrew from the discussions, Curtice Brothers and Burns-Alton reaffirmed their desire to proceed without bringing in a replacement.

Farm leaders of western New York were contacted by representatives of the GLF to determine their reaction to the proposed farmer-controlled processing venture. The survey showed that farmers strongly approved of further study on how to establish such an organization.

[1] Cooperative GLF Exchange joined the Eastern State Farm Exchange to form a new cooperative, Agway, of Syracuse, N.Y., as of July 1, 1964.

Spearheaded by a GLF committee, an intensive evaluation was made of all phases of production and processing alternatives. Special emphasis was given to developing a corporate organization best adapted to meet the needs of prospective members. Based on study findings, it was decided to consolidate Curtice Brothers and Burns-Alton into a new operating company whose facilities would be cooperatively owned and controlled by farmers.

Pro-Fac Cooperative, Inc., was formally organized in October 1960. By March 31, 1961, over 500 fruit and vegetable growers had purchased common stock in the new cooperative in direct proportion to the tons or acres of product they wished to pledge for delivery to Pro-Fac for a minimum of 3 years.

In accord with the master plan, the corporation of Curtice-Burns, Inc., was then established to process and sell products grown by members of Pro-Fac. This arrangement vertically integrated growers into food distribution.

On April 1, 1961, Pro-Fac acquired ownership of the plants and equipment of the Curtice Brothers Company and Burns-Alton Corporation at a price of approximately $3 million, to be paid over a 10-year period. Included in the transaction were Curtice plants at Bergen, Mt. Morris, and South Dayton, N.Y., and the Burns plant at Alton, New York.

Later a study was made to explore the feasibility of acquiring Haxton Foods, Inc. Involved in this study were engineers, accountants, experienced food processing and market experts, as well as key members from Curtice-Burns and Pro-Fac. This comprehensive study indicated that the acquisition was feasible.

Pro-Fac purchased Haxton Foods, Inc., in June 1962 for $1.5 million, exclusive of inventories, to be paid over a 10-year period.

An aerial view of the Alton, N.Y., plant, which cans snap beans, beets, apple sauce, and sour cherries.

Included in the transaction were the processing plants at Oakfield, Wyo.; Le Roy, Barker, and Waterville, New York.

Since 1962, four of Pro-Fac's smaller and less efficient plants have been closed and sold to improve its economies in operation.

The Empire State Pickling Company was purchased by Pro-Fac in 1965. Unlike the earlier mergers and acquisitions, this company, with headquarters at Phelps, N.Y., is operating as a division of Curtice-Burns. Production facilities, including three plants in Ontario County and one plant in Orleans County, are in the center of the country's most productive areas. Empire also manufactures its own cans for the division's sauerkraut pack.

In 1965, Pro-Fac built two can-manufacturing plants in Alton and Le Roy, New York. As a result of a 2-year, in-depth study of the company's distribution costs and customer service, Pro-Fac's board authorized the construction of a large canned foods distribution center in Le Roy, N.Y., the same year.

The center, completed in 1966, is a building of 140,000 square feet which is capable of storing 2 million cases or more. Unlabeled fruits and vegetables, in tin cans and glass containers of all sizes, from the company's 10 processing units are assembled at Le Roy. The building houses the division headquarters and the traffic department, and is the center for the company-owned, contract, and commercial truck fleets.

Central headquarters and sales contact are maintained with direct wire and teletype systems. The distribution center is in close proximity to the company's largest can-manufacturing facility.

An aerial view of the Shortsville, N.Y., plant, which processes cabbage for kraut.

In 1967, with the acquisition of the P. J. Ritter Company of Bridgeton, N.J., and its subsidiary, Brooks Foods of Mt. Summit,

Ind., Pro-Fac expanded its operations beyond New York State. This purchase keeps the company's 5-year plan on schedule, which currently provides, among other things, for internal sales growth of at least 5 percent compounded and an overall growth of 87.5 percent over the next 5 years.

The Ritter-Brooks acquisition accomplished several other corporate goals:

1. The addition of other commodities and other growing areas spreads weather and product risks. The major commodities added were asparagus, tomatoes, peppers, and canned dry beans.

2. Approximately 75 percent of the Ritter-Brooks sales were made under their own promoted labels. The acquisition will increase the Curtice-Burns percentage of sales under their controlled label to about 40 percent for the 1967-68 season. The goal is 60 percent.

3. Two distribution centers were added to the recently constructed facility in Le Roy, N.Y. Curtice-Burns and subsidiaries now can offer to their customers distribution service from St. Louis, Mo., and Bridgeton, N.J., in addition to the services of the western New York operation.

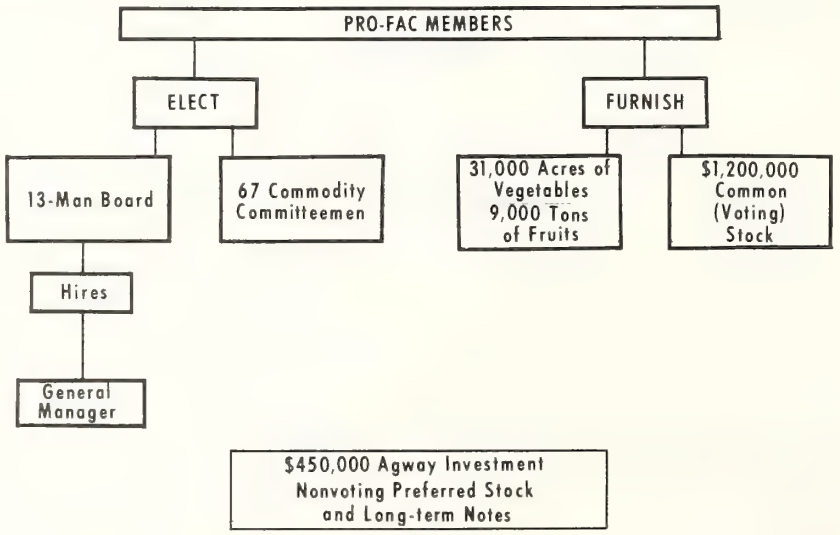
Organizational Structure

Grower members of Pro-Fac elect the board of directors, deliver their fruits and vegetables to the association, and provide a substantial portion of the cooperative's capital requirements. Important features of the association are shown in figure 2.

Eligibility for membership.--Persons producing agricultural products and cooperative corporations of these producers are eligible for membership. Prospective members must acquire common stock and be certified by the membership committee as being qualified under conditions prescribed in Pro-Fac's certificate of incorporation and bylaws. A

FIGURE 2

IMPORTANT FEATURES OF PRO-FAC COOPERATIVE



formula is used to determine the amount of common stock required by growers of various commodities. The formula is weighted by such factors as the average price and yield of the crop during a base period.

Voting.--Every member of Pro-Fac has one vote as a stockholder and is entitled to one additional vote for each $5,000 worth of business transacted with the cooperative up to and including $50,000.

Marketing contract.--Pro-Fac agrees to handle and arrange for processing and marketing members' fruits and vegetables through a management contract with Curtice-Burns. Other important points in the association's agreement with its members include the operation of a combined marketing pool, a scheduled payment program, and technical assistance in farming practices.

Members agree to appoint Pro-Fac their exclusive agent for processing and marketing the commodities committed under contract, and to accept the recommendations of the cooperative on horticultural practices and delivery schedules.

Financing.--The cooperative's sources of financing include sales of common and preferred stock, mortgage bonds, commodity loans from banks, revolving retains from growers, and deferred payment for crops.

Pro-Fac's common stock, approximating 240,000 shares at $5 par value, is wholly owned or subscribed for by grower members. The 3,000 shares ($100 par value) of noncumulative preferred stock of the cooperative are owned by Agway.

Pro-Fac obtains its seasonal commodity loans, medium-term loans (5 to 10 years), and long-term loans (15 to 20 years) from the Springfield Bank for Cooperatives. Curtice-Burns finances its operations by selling common stock and obtaining loans from Pro-Fac and commercial banks.

Agway owns approximately 58 percent of the 151,000 outstanding shares of common stock ($10 par value) of Curtice-Burns, Inc. The balance of the stock is owned by officers and employees of Curtice-Burns. When all phases of the P. J. Ritter Company acquisition are completed, the 240,000 outstanding shares of common stock will be owned in the same proportion. As with the other acquisitions, employees of Ritter and its subsidiary, Brooks, will purchase Curtice-Burns stock. The current price is $16 a share.

Board and management.--Pro-Fac's board of 13 directors is elected for a 3-year period (after the original nominations were staggered in 1-, 2-, and 3-year terms) by stockholders from each of the six regions. The number of directors per region approximates the relative amount of produce marketed from that area.

The president, vice president, and secretary-treasurer of the association are elected from members of the board. The board is a policy-making group. It delegates corporate management to the general manager. The general manager is also an officer of the Curtice-Burns management team.

Committees appointed by the board are the membership, commercial market value, commodity, and special committees appointed as needed. The membership committee is responsible for recommending to the board actions or changes affecting membership, including applications for membership, disciplinary action against members, and changes in members' acreages.

The commercial market value committee advises the board on prices to be paid for members' raw products. Commercial market value is the weighted average price paid by buyers in Pro-Fac's operating territory or competing areas for a similar product used for a similar or related purpose.

The commodity committee advises management on policy matters affecting specific crops. It makes available to members the policies established by the board and represents the board in arbitrating disputes which may arise between management and a member of a local plant.

Special committees, appointed by the board from time to time and terminated after accomplishing their purpose, include the annual meeting and finance committees.

The board of directors of Curtice-Burns consists of 15 individuals selected for 1-year terms. It functions primarily as a policy group and hires management to operate the business. The board is responsible for the election and supervision of officers, including the president, executive vice president, vice president, secretary, and treasurer.

Curtice-Burns, although a separate business entity from Pro-Fac, has representatives from Pro-Fac and Agway on its board of directors.

Committees appointed by Curtice-Burns include the budget, long-term finance, nominating, commercial market value, and special committees appointed when the need arises.

Policies.--The major objective of the Pro-Fac and Curtice-Burns management is to improve returns to fruit and vegetable producers by enlarging operations to achieve the most efficient use of facilities and an increasingly important voice in the market place for Pro-Fac members. Curtice-Burns is dedicated to returning commercial market value to Pro-Fac membership and acquiring adequate retains for the successful operations of both companies.

Operations

Curtice-Burns leases the plants owned by Pro-Fac and is responsible for processing the crops of Pro-Fac's grower members, selling the finished products, and paying Pro-Fac from the proceeds.

Pro-Fac grower members supply the major share of crops processed and sold by Curtice-Burns. Members' principal crops are green and wax beans, corn, beets, green peas, cabbage, asparagus, tomatoes, and apples. Other crops include spinach, carrots, peppers, red sour pitted cherries and lima beans.

Products processed and sold for Pro-Fac members include both canned and frozen fruits and vegetables. Canned vegetables account for about three-fourths of the total pack.

Pro-Fac delivers to Curtice-Burns farm produce for which it is paid a price equal to the average commercial market value plus the net proceeds, or minus the losses, from the sale of finished products processed from the raw produce.

Curtice-Burns pays Pro-Fac members 50 percent of the raw product value at time of delivery. Growers receive an additional 25 percent of the value at the end of the next 4 months, with the final payment, if earned, being received after the completion of the fiscal year. In addition, Pro-Fac distributes to members at the end of the fiscal year any net margins received from Curtice-Burns. Twenty percent are paid in cash and the balance in class 1 retain certificates. Net margins are allocated in proportion to the total commercial market value of products delivered by each grower. Retains are used by Pro-Fac as working capital.

Curtice-Burns has continued to expand its non-Pro-Fac operation, such as the production of carbonated beverages. The enlarged operation keeps its plants operating over a longer period of time and results in improved efficiency and reduction in average costs chargeable to Pro-Fac crops.

This type of integrated operation gives growers an opportunity to share in possible proceeds over and above the value of their harvested crops. Also, it spreads the risk of loss when overproduction forces market prices down. Each year Pro-Fac and Curtice-Burns develop production schedules that fit the sales department's normal expected sales volume. This procedure helps to keep the cooperative from producing beyond sales potential.

Pooling.--Pro-Fac operates on a multicrop, single pool basis. The pool is closed at the end of each fiscal year. The single pool includes all stock-supported crops delivered in a fiscal year. Proceeds are allocated to the crops on the basis of commercial market value as determined by the board of directors.

Net sales and net margins.--Curtice-Burns doubled its net sales from $13.1 million in the first season's operation, 1961-62, to $26.3 million in 1965-66. Sales have reflected an increased volume each year and the outlook for continued growth is promising. It is estimated that sales will exceed $31 million for

the year ending March 31, 1967 and $47.5 million for year ending March 31, 1968.

Pro-Fac's net proceeds of $795,734 for the 1965-66 fiscal year ending March 31 was more than double the previous year's return of $358,281. For the same period, Curtice-Burns' net earnings before taxes totaled $742,221, as compared with $375,022 for 1964-65.

Markets served.--The organization packed about 160 million pounds of processed fruits and vegetables for sale in the United States during the 1966 season. Sales outlets include an area bounded on the west by Chicago, on the north by Portland, Maine, and on the south by Miami. Approximately one-half of the total volume of produce is shipped to five large cities--New York, Chicago, Boston, Philadelphia, and Pittsburgh.

Selling methods.--Curtice-Burns sells approximately 60 percent of its volume directly to buyers; 40 percent is handled by brokers. Most direct sales are made to retail store buyers, predominantly chains, with the balance handled through wholesalers and the institutional trade. Curtice-Burns representatives claim that neither type of sales has a price or cost advantage over the other. However, they do believe that direct selling results in better service and a closer tie-in with the company's sales organization.

Brand policy.--Curtice-Burns sells most of its products under chainstore labels. About 20 percent of its volume is marketed under company-owned labels. Approximately 40 percent will be sold under company-owned labels during the year ending March 31, 1968.

The parent company's major brand, Blue Boy, includes fancy quality packs for all commodities handled except kraut. Silver Floss has wide and excellent reception as one of the Nation's major promoted kraut brands. Other brands include Blue Label and Burns in the fancy grade and Empire, Three Brothers, and Altmore in the extra standard grade.

Sales of the Blue Boy brand are restricted to advertised areas from Erie, Pa., to Utica, New York. Sales of Blue Label and Empire brands are largely restricted to the New England States. In general, none of these brands are restricted to particular buyers in the limited areas.

Promotion.--Curtice-Burns uses radio, television, and newspaper features in its promotional program. In addition, allowances are given retail stores for special promotions and for advertising brand products. Company salesmen help store managers push brand products by assisting with display arrangements and merchandising techniques.

The company's management believes that products can be promoted most effectively by hiring experienced, personable salesmen; supporting them with a variety of merchandise of good quality; and having a competitive pricing policy. Curtice-Burns strives to have some type of promotion underway each month of the year. This policy is expected to be maintained in all future promotions.

Market information.--All pertinent material from trade journals, newsletters, and reports of the U.S. Department of Agriculture (USDA) is analyzed by the sales manager and vice president of sales. This market information is passed on to the sales force, including the brokerage contacts. Daily market information is obtained from brokers' reports and from major buyers.

During the planting, harvesting, and packing seasons (mid-April through December) the production department of Curtice-Burns issues a weekly bulletin to the sales department and management which summarizes information on the previous week's production and gives short-term crop forecasts. The sales department issues a report to the production department outlining the sales picture of the previous week and highlighting any major changes from normal sales operations which are likely to occur in the future. Grower members are also kept fairly well informed on supply and demand conditions for major commodities.

Services provided.--Curtice-Burns gives its customers conventional trade discounts for cash and spoilage allowances. In addition, the company notifies its customers 10 days before any price rise is to occur. The com-

pany guarantees product delivery within 48 hours of receipt of shipping instructions.

The operating company has an experienced field department that provides growers with information on orderly planting and harvesting of crops to avoid temporary gluts at the plants. Fieldmen supply growers with a complete soil test and advice on the use of fertilizers and adaptability of fields.

Quality control.--Curtice-Burns strongly believes in supplying quality merchandise, and uses all the tools of quality control to assure a good reputation for Pro-Fac's products.

Federal and State inspectors examine the raw products on delivery.

In addition to some USDA continuous inspection, the company has its own quality control department with representatives in each plant as well as in the central office. The personnel of this department are responsible solely to the vice president of operations, and follow through on label inspection at shipping time.

Rigid quality control is maintained for the products with private labels which have been consistently rated in the top 25 percent of quality merchandise in the areas serviced.

To maintain this quality level, company representatives travel to cities twice a year to select samples of actual deliveries of both private label and brand products and of competing deliveries. Quality control personnel remove the labels, code the cans, and compare the products according to USDA grading standards.

Operating problems.--Management of Pro-Fac and Curtice-Burns constantly copes with many production, processing, and marketing considerations. Some of their continuous responsibilities are the following:

1. To develop markets for processed crops as rapidly as members are increasing yields per acre.
2. To maintain company earnings at a sufficient level to purchase new machines and facilities in order to avoid obsolescence in the processing operation.
3. To make sure growers annually add sufficient capital to keep the equity loan ratio in proper balance.
4. To provide sufficient earning power and fringe benefits, including profit participation plans and adequate provisions for retirement, to attract new, young "back-up men" and at the same time satisfy current line and staff personnel.
5. To analyze crops of the producing area to have assurance they can remain competitive in cost of production with competing areas.

Management's Appraisal of Sales Situation

A fair division of sales proceeds is essential to success. The equitable method devised by Pro-Fac and Curtice-Burns is (1) to pay grower members of Pro-Fac for their crops on the basis of commercial market value, and (2) to prorate any net margins at the end of the year between the two corporations. Pro-Fac gets at least 50 percent but never more than 70 percent of these net margins for distribution to its members.

The management of Curtice-Burns believes that the increase in direct buying of processed fruits and vegetables has reduced its selling problems. The company can offer a greater quantity of any specified pack than most of its competitors. This sales factor has a strong appeal to large direct buyers such as chainstores.

A large processing and marketing company such as the Pro-Fac Curtice-Burns complex, can afford to have continuous inspection of its products. The cost of a complete quality control program is practically prohibitive for a small processing operation.

Demands of buyers for increased varieties of pack can be readily handled by the corporate complex, as its canning plants offer an excellent variety of products.

Some buyers resist purchasing a large portion or all of a given commodity from any one supplier. This resistance has become less noticeable each year. Some purchasers had previously been able to bargain more effectively with the individual canning companies that Pro-Fac absorbed by pitting one against the other.

Suggested Guides for a Coordinated Marketing Approach

The combined experience of Pro-Fac and Curtice-Burns suggests that organizations or companies setting up a coordinated marketing program do the following:

1. Identify factors contributing to a sound business policy and adhere to them. Only relatively successful growers and basically sound processing plants should be considered in organizing this type of operation.
2. Require grower members to make a substantial investment in the organization at the outset and to continue to invest in the form of products marketed and retained earnings.
3. Obtain experienced professional managers who are responsible only to the board of directors through one individual.
4. Organize the operation with sufficiently large units in both farming and processing so that it will be in the top 30- to 40-percent size range of all fruit and vegetable processing and marketing firms.

COORDINATED MARKETING THROUGH JOINT SELLING

Fruit and vegetable firms that recognize a need for improving their competitive sales position but desire to maintain their organizational identities should consider a joint sales approach for enlarging and strengthening their market operation. This type of coordinated marketing is done by American Farms Cooperative, Inc., Mutual Vegetable Sales, and North Pacific Canners and Packers.

American Farms Cooperative, Incorporated

Small independent packers of canned fruits and vegetables in Wisconsin experienced a struggle for survival in the 1950's. During this period, the total number of firms declined from 123 in 1950 to 74 in 1959. In the crucial period from 1956 to 1959, about 30 fruit and vegetable canning firms closed down or sold out to larger companies. Problems of small canners, such as competition with larger, more diversified companies, and the need for low-cost financing, led to a growing realization that some form of joint action among the smaller processors would be necessary to strengthen their economic position.

Considerable thought and preparation were devoted to the merits of having a jointly owned corporation handle the processed fruits and vegetables before actual formation of American Farms. The first formal meeting to work out plans was held early in March 1959. At this meeting, the decision was made to appoint committees from Wisconsin packers to confer with counterpart committees from both the tri-State (Delaware, Maryland, New Jersey) and Ohio areas to work out the final details for a cooperative. These committees were requested to study and prepare reports on various problems which arise when organizing and operating a national marketing cooperative. Committee members visited marketing and joint sales agencies in selected States and studied their methods of operation. In spite of all the study and preparation, the committee was unable to get a sufficient number of packers committed to the proposed cooperative to justify an operation on a national scale.

Recognizing a need for some form of joint action to improve their competitive market position and strengthen their ability to obtain adequate financing, a small group of independent Wisconsin canners, who had taken the initiative in earlier meetings, organized

American Farms Cooperative, Inc., in the spring of 1959. Headquarters for American Farms was originally in Evanston, Illinois. During the next 4 years, the cooperative, under the part-time management of a canned foods marketing specialist, pursued a somewhat limited coordinated sales program under which it marketed its products under private and controlled labels. It arranged for loans to interested members through the St. Paul Bank for Cooperatives.

At the beginning of the 1963 season, the general manager resigned to devote full time to his brokerage business. In consultation with the board of directors, he agreed to develop a brand program in which members of American Farms would be primary sources of supply. Consequently, members of the cooperative reappraised their organizational structure and objectives, including consideration of a more comprehensive centralized program under the direction of a full-time general manager. This general manager was succeeded in 1965 by a second full-time general manager who resigned in the spring of 1967. American Farms is currently managed by its president, who, together with the board of directors, has delegated extensive sales responsibilities to brokers dealing in canned products.

Organizational Structure

American Farms Cooperative, Inc., is a joint sales organization whose members produce and market fruits and vegetables. This producer-owned cooperative, incorporated under Wisconsin law, has its executive headquarters in Waupun, Wisconsin. Membership currently includes nine companies that are affiliated with 14 individual canneries. In some instances, the associated canners qualified for affiliation with American Farms by forming a farm corporation which is the actual member of the cooperative. In other instances, members qualified by being actual producers or grower-owned cooperatives. When eligibility requires a farm corporation to be formed, the ownership of the farm corporation is the same as that of its affiliated canning corporation, and capital stock is held in the same proportion as in the affiliated cannery.

Typically, the farm corporation enters into leasing arrangements with individual farmers for the needed crop acreages. The leasing arrangements generally require the landowner to include one plowing; the rest of the farm operation can be handled by the farm corporation. A few members supplement leased acreage with production from owned farms. In the case of three cooperative members, existing grower relationships are not changed.

The associated canning company processes the crop usually on a "cost plus" contractual basis. Title to canned food inventories remains with the individual farm corporation, producers, or member cooperative, but may be transferred to American Farms Cooperative, Inc., if a commodity loan is to be requested from the Bank for Cooperatives. American Farms Cooperative takes title to the canned food inventory from the member and pledges it as security for the loan. This loan is then disbursed to the member.

Eligibility for membership.--Any person, firm, partnership, corporation, association, or cooperative engaged in producing agricultural or horticultural products that acquires one share of common stock of the association, executes a marketing contract, and meets other conditions prescribed by the board of directors is eligible for membership in American Farms.

The board of directors acts upon the request for membership and through majority vote accepts or denies the application. However, the board may delegate to a committee the final decision.

Voting.--According to Wisconsin's State law for cooperatives, every member of American Farms has one vote.

Marketing contract.--American Farms uses a contract which permits each member to make its own decisions on production and sales. The association agrees to make every effort to sell the products of the producer as rapidly as practicable at the price and on the terms established by the producer. The current marketing contract is for a 1-year period and is automatically renewed unless one of the

parties notifies the other in writing, by registered mail, at least 60 days before the end of the period.

Capital structure.--The cooperative is organized on a capital stock basis. The organization's capital stock outstanding as of March 31, 1967, consisted of nine shares of common stock at $500 a share and 125,581 shares of preferred stock at $1 a share.

Bylaws grant the board of directors authority to sell preferred stock as a means of acquiring and maintaining adequate capital to finance the business. Each new member company subscribes to preferred stock approximating 2 percent of its annual sales. Arrangements can be approved by the board of directors for acquiring this stock on installments. Capital funds obtained from the sale of American Farms stock are used in the factoring process by which the cooperative remits to its members the net proceeds of each sale promptly after receiving the invoice or a copy thereof.

Currently, 0.5 percent of the members' sales proceeds are charged as an administrative fee to defray the members' pro-rata share of all costs of operating and maintaining the cooperative. The board of directors has authority to determine any change in this administrative charge.

Revolving fund.--The bylaws of American Farms Cooperative, Inc., state that the association may establish and maintain a revolving fund to acquire and maintain adequate capital to finance its business. The upper limit for the revolving fund retains is 2 cents a case. Although a revolving fund has not yet been established by the association, the bylaws explain the procedural requisites, including investment in the fund, operation, repayment, and transfer.

Financing members.--Members have available to them the same credit sources available to all business organizations. In addition, they have the opportunity of obtaining financing through American Farms Cooperative from the St. Paul Bank for Cooperatives. The loan agreement with the St. Paul Bank provides that American Farms Cooperative is to purchase class C stock of this bank aggregating 15 percent of interest paid on the loan. Members participating in the proceeds of the loan, advance funds in proportion to their interest charges.

Management.--Management of the association consists of the board of directors, elected corporate officers, and various committees. Directors are elected for 1-year terms at the annual membership meeting. The board of directors has appointed an executive committee consisting of the president, secretary, and treasurer, and a financial committee, including the secretary and treasurer.

Officers include a president, vice president, secretary, and treasurer, who are all elected from the board of directors.

Policies.--The current policy of the cooperative is to coordinate the marketing and financing of its members and to expand sales through increased tonnage and product diversification.

Members have a choice of selling their products directly to customers, through brokers, or through the cooperative. The cooperative sells directly and through brokers.

The cooperative makes sales for nonmembers in an effort to keep a full line of canned merchandise available for the customers.

The membership favors a program for gradually strengthening the cooperative's activities, such as increasing the volume sold by the cooperative itself, establishing a supply procurement program, and developing a strong recruitment program for new members.

Operations

The marketing operation of American Farms includes handling canned fruits and vegetables processed by its associated canning companies. Major crops produced by members include green and wax beans, beets, cabbage for kraut, carrots, corn, lima beans, sweet peas, cranberries, cherries, apple products, and potatoes. Products sold for nonmembers include mushrooms, mandarin oranges, pickles, pineapple, citrus products, tomatoes, seafood, and dry pack items.

The association's current marketing efforts stress providing a wide variety of products in containers of various sizes to its customers. However, the producer member may market any portion of his products through, or to others than the association, providing that he bills such sales on the association's invoices, furnishes the necessary copies at the time of sale, and pays the association 0.5 percent of the gross sales proceeds. Exemptions from payment of the 0.5 percent have been granted to producer members on sales to the Federal, State or local governments secured on a bid basis, and on sales of products purchased for resale.

Method of paying members.--Standard terms of payment in the canning business call for a 2-percent trade discount if payment is remitted upon receipt of the invoice, and a 1.5-percent discount if an invoice is paid within 10 days. Most buyers of canned goods are unable to pay immediately because of time delays involved in verifying, preparing, and processing the accounts. American Farms uses its funds to immediately pay members and to capitalize on the differential in discount rates. The following example illustrates the procedure involved.

A member sends the original invoice to the customer and copies to American Farms and the broker handling the sale. On the basis of a $10,000 sale, the cooperative, on receipt of the invoice, immediately remits $9,800 to the member selling ($10,000 less 2-percent discount). Within 10 days, American Farms receives $9,850 from the buyer ($10,000 less 1.5-percent discount). The $50 difference in discounted values ($9,850 less $9,800) is used to cover administrative costs.

Members usually pay the brokerage fee. When American Farms retains the broker, it deducts an appropriate charge from the amount due the member and remits it to the broker.

American Farms does not receive a commission on sales to Government agencies or on products purchased for resale by members.

Sales.--As shown in the following tabulation, the sales volume of American Farms increased 258 percent during eight operating seasons and exceeded $11 million in 1967.

Year	Volume of sales[1] ($1,000)
1960	3,254
1961	4,095
1962	6,666
1963	6,926
1964	7,058
1965	8,041
1966	8,235
1967	[2]11,667

[1] Net sales for the 12-month period preceding fiscal yearend.

[2] Total includes exempt sales and sales for nonmembers.

Markets served.--The association and its members sold about 110 million pounds of canned fruits and vegetables during the 1966-67 season. Canned vegetables accounted for about 80 percent of the total.

Principal receiving markets for the association's brand products are in the Midwest, with Minneapolis, Minn., being the most important. Some members prefer to sell only in the Midwest, while others prefer the eastern markets, including Boston, New York, and Philadelphia.

Selling methods and expenses.--Sale through brokers has been the predominant method of moving the cooperative's products into the channels of distribution. Approximately 90 percent of the agency's volume is handled by brokers; the rest is sold directly to buyers.

About two-thirds of the volume sold by members on their own behalf is marketed through brokers; the remaining one-third is sold directly to buyers. The relative importance of brokerage sales versus direct sales varies considerably on an individual member basis.

Chainstores are the most important outlets for the cooperative's products, accounting for about half of the total sales. About 25 percent of its volume is distributed by institutional wholesalers or Government agencies

and the remaining 25 percent by nonchain food wholesalers.

Total selling expenses of individual member farm corporations--including brokerage fees, cash discounts, advertising expenses, labels and label allowances, labeling and shipping labor, salaries, traveling expenses, insurance on stock, and spoilage allowances--normally account for more than 10 percent of the total dollar volume.

Brand policy.--About 85 percent of the products handled by American Farms are marketed under buyer labels. The remaining proportion is marketed under a program whereby, through a supply arrangement, the first general manager of American Farms controls and promotes the sale of the Shamrock brand (all items), Peter Piper brand (all items except pickles), and Old Favorite brand (all items).

Promotional arrangements.--Since the inception of American Farms' first marketing program in 1959, management has recognized the need to supply consumers with the widest possible selection of canned products under a common brand. The Shamrock program serves this need by combining the products of individual members into coordinated shipments of a widely diversified line of goods. Early in 1967, Shamrock labels were available in 146 sizes and varieties of canned fruits, vegetables, seafoods, and so forth.

Since the bylaws of the association prohibit the use of stockholders' equity for promotional purposes, initial funds for financing the Shamrock program were obtained from outside sources. This debt has been retired and funds for the activity are now provided by one of the members.

Market information.--Canners affiliated with American Farms receive their market information from various sources, including releases of the National Canner Association, trade journals, Federal-State Market News Service, and brokers. They supply information to prospective customers through media such as weekly newsletters and price lists.

Customer service provided.--American Farms provides several services for its customers, such as allocation of incoming orders to member producers, prompt billings, and consolidation of shipments.

Individual canners who sell directly to customers provide the conventional trade discounts and allowances for normal spoilage of produce. Their customers are also guaranteed quality products and prompt deliveries.

Quality control.--The marketing contract of American Farms Cooperative specifies that the association shall adopt rules and regulations prescribing standards and procedures for quality control. The producer members, in turn, agree to observe the rules and regulations, including the one requiring the maintenance of books and records.

Members' products must meet the prescribed quality standards when sales are negotiated by the association. American Farms does not enforce quality regulations for products sold directly by members to their own customers. Enforcing a quality control program for all associated canneries would place the association in a stronger selling position.

Each farm corporation enters into leasing arrangements for crop acreage with individual farmers. These arrangements vary among the members but basically afford control and ownership over the crops for processing. In general, members maintain control at the canneries by employing experienced personnel to cut samples regularly to assure quality and standardization of products.

Operating problems.--The principal problem faced by members relates to the sales program. The current method of selling on both an individual and joint sales basis does not permit the cooperative to function adequately in a market environment characterized by fewer and larger buyers who have more rigid specifications for product quality, quantity, and associated services. There is also a critical need for a more effective joint sales program under which all sales negotiations will be centralized at the association level.

Members' Appraisal of Sales Situation

All members interviewed stated that the smaller independent processor with a limited line of products will find it increasingly more difficult to sell them. There is a greater demand for diversified products and for 12-month continuity of supply. The number of buyers of canned goods bearing private labels is decreasing but individually these buyers are handling larger quantities of products and demanding more promotions and services. Members believe that the small independent operator cannot survive in this economic climate, especially during periods of overproduction of specific commodities.

While members are not wholly satisfied with the present sales arrangement, all agree that too rapid a transfer of the sales function to a central agency might jeopardize established trade outlets. Some members fear loss of individual identity in the market place before a universally favorable image of cooperative identity can be established in the minds of buyers.

It has been said that if a producer cooperative can survive the continued prosperity of its members, it is on the road to economic success. Members of American Farms believe their association is responding in this light. They wish it functioned better, but they know it works well within the framework of limitations which the members themselves have imposed.

Suggested Guides for a Coordinated Marketing Approach

Members of American Farms believe that the uniqueness of their pioneering effort offers possibilities to other small processors faced with increasing competition by large national organizations. They suggest that firms planning to develop a joint sales agency consider the following points:

1. Requiring members to provide a constant flow of income to the cooperative regardless of whether or not they avail themselves of the association's services.
2. Furnishing services in addition to sales. For example, success in obtaining working capital will encourage other processors to participate in a joint sales effort. Consolidating shipments of assorted products of members and assembling these products at appropriate shipping points without charge to members will also encourage participation.
3. Acquiring a reputation in the trade for handling quality merchandise before undertaking an expensive promotional program.
4. Having a long-range goal of centralizing the sales function in the hands of the association. Allow members sufficient time to shift from their existing sales method to the centralized approach.
5. Establishing a training program to assure continuity of qualified management.
6. Furnishing members with professional assistance through the cooperative's legal counsel, auditing firm, and sales advisors.
7. Using newsletters, membership relations meetings, and information discussions to keep the lines of communication open between the cooperative and administrative and executive personnel.

But most of all, the experience of American Farms suggests that a coordinated marketing approach can be successful only if it "gives the customer what he wants."

Mutual Vegetable Sales

Mutual Vegetable Sales, Inc., Salinas, Calif., was organized as a marketing cooperative in 1961 by seven vegetable shippers. The cooperative is essentially a carlot lettuce sales agency carrying on other activities only as a courtesy to members and customers. Other crops handled include celery, cabbage, and cauliflower.

The seven members currently associated with the agency include six corporations, which produce a major part of their committed acreage and output, and one cooperative.

Organizational Structure

Mutual is the exclusive sales agent for members' lettuce. Other crops may be sold through the agency at the option of both parties.

The agency rents its office space and most of its equipment. Headquarters are at Salinas, California. Seasonal sales offices are operated at Blythe and El Centro, Calif., and Yuma, Arizona.

The basic tool of Mutal is fast communication to prospective buyers. The Salinas office utilizes two telephone circuits, the Market News Service teletype wire, and a private market wire. In addition, five of the members have radio service direct to the field.

Eligibility for membership.--Membership is open to persons, firms, partnerships, corporations, or associations, including other cooperative marketing associations. Members must produce perishable agricultural commodities handled by the association, execute a marketing contract, and meet other conditions prescribed by the board of directors.

Voting.--Each member of Mutual has one vote.

Market contract.--The market contract specifies that the member must deliver to the association all lettuce grown, owned, or controlled by him which is suitable for marketing. The member must also furnish the association any requested data on acres planted and time and location of plantings. The association, in turn, agrees to do its utmost to sell the produce of its members.

Financing.--Members originally advanced their association sufficient funds to cover organizational cost and other expenses. The advance equaled 0.5 cent per carton of lettuce grown, owned, or controlled by a member during the 1961 lettuce season. The initial advance was set up on a revolving fund basis and has been returned to members in proportion to their contribution.

The association deducts 5 cents a carton for all produce handled to cover operating and sales costs. At the end of each calendar year, actual operating costs are determined, and any payments in excess of actual operating costs are refunded to the members on a pro-rata basis.

Management.--The business of the association is controlled by a board of directors consisting of seven representatives. A representative from each member company is elected for a period of 1 year. The board of directors meets within 10 days after their election to appoint the association's president, vice president, secretary, and treasurer.

An operating committee elected by the board assists the manager in his daily work routine.

Employees.--The association employs eight full-time and four part-time employees. This total includes a sales staff of five persons who were principally former sales managers of the member firms.

Policies.--An important objective of Mutual is selected distribution of merchandise according to type of market. Mutual's quality program offers a broad selection of kinds, sizes, and labels to meet the requirements of its many buyers throughout the country. Mutual's policy is to sell at a price in line with the average industry price. The association realizes that it cannot develop a profitable operation by regularly selling for more than the competition. The goal is to benefit members by more consistently obtaining the average market price for their products.

Another important consideration in carlot lettuce sales is fast and accurate communication with buyers. Mutual's excellent direct telephone and wire service to the industry is a key to its operation.

Operations

Members of the association retain their identity and operate independently in every area except marketing. They plan their own harvesting schedules, pack under their own labels, and select their own cooling plants.

Mutual's responsibility is to obtain a firm price commitment from buyers, make the sale, and handle all necessary paperwork. It assumes its responsibility at the cooler, where it advises the personnel on how to load the product for shipment to market. The agency promptly supplies its individual members with a copy of the sales invoice and remittance for each transaction.

Mutual sends to each member that ships produce a daily report of its sales, with average comparisons for all sales. The report also includes the expected pack for the next day, classified by lot, label, and estimated quality, as well as current market information.

Members are invited to use all available information posted daily in the company's sales room. Data posted on one board include the quantity of lettuce cut from specified fields, labels under which produce are packed, and a description of the product's appearance and quality. Mutual's inspector posts his ratings of the produce on another board. A third board lists produce shipments, track holdings, arrivals and unloads, and market quotations for Salinas Valley and competing districts.

In handling about one-fourth of the total lettuce shipments from the Salinas and Brentwood areas, the agency exerts a stabilizing influence on the sales price through an orderly marketing program. The principal results of the cooperative's marketing methods are reflected in better returns to the growers over the long run.

Table 2 shows the total volume and selling price of selected produce handled by Mutual during the 1963-64 season.

Sales room of Mutual Vegetable Sales, Salinas, Calif., where the sales personnel transact their business with the assistance of the daily posted market information.

Table 2.--Volume and selling price of selected produce handled by Mutual Vegetable Sales, 1963-64 season

Area	Lettuce	Celery	Cabbage and cauliflower	Total	Selling price (at 5 cents per unit)
	Cartons or crates				Dollars
Salinas, Brentwood	4,526,652	343,267	66,658	4,935,577	246,779
Imperial Valley	946,240	---	44,742	990,982	49,549
Total	5,471,892	343,267	111,400	5,926,559	296,328

Sales.--The following tabulation shows that Mutual's total sales nearly doubled from $8.3 million in 1962-63 season to $16.3 million in 1966-67.

Season	Volume of sales (1,000 dollars)
1962-63	8,300
1963-64	11,000
1964-65	10,000
1965-66	15,000
1966-67	16,300

Markets served.--Mutual ships members' produce to all 16 major terminals listed by the market news service. The four major markets are New York, Philadelphia, Los Angeles, and San Francisco.

Shipments of the association's volume are evenly distributed between rail and truck.

Selling methods.--Approximately half of Mutual's sales are handled by brokers and one-half are direct sales. The agency delivers about 75 percent of the direct sales to corporate chain buyers and the remaining portion to wholesalers.

A breakdown of Mutual's expenses for the 1963-64 season is shown in table 3.

Brand policy.--Mutual markets virtually all of its produce under members' labels. The remaining small percentage is marketed under buyers' labels. The agency has no immediate plans to market produce under its own brand, but it is considering the possibility of doing so at some time in the future.

The labeling practices of members permit them to package produce of three grades.

Market information.--The association has a teletype machine to keep itself posted on market demand. Additional sources of trade information are the USDA's market news service, trade papers, radio, television and direct phone contacts with the trade.

Quality control.--Mutual has its own inspector who tours the coolers and checks every lot of members' produce. He rates the produce on the basis of quality factors such as weight, solidity, color, and appearance. These ratings are then posted on a board for use by the sales staff.

Table 3.--Expenses of Mutual Vegetable Sales, period ending March 31, 1964.

Item	Total expenditure (dollars)
Salaries	$ 143,378
Telephone and telegraph	28,584
Sales adjustments, etc.	19,027
Living expenses	17,326
Travel, etc.	14,152
Rent--office and equipment	12,225
Office supplies and postage	9,633
Payroll taxes and health insurance	8,990
Auto allowances and expenses	5,193
All other [1]	8,624
Total	$267,132
Less interest earned, margins on purchased produce, and recovered cost	32,598
Net selling costs	$ 234,534

[1] Includes advertising, depreciation on equipment, legal and accounting service, insurance, taxes, licenses, dues, subscriptions, donations, and organization expenses.

Operating problems.--Mutual's management believes that lack of communication between the members and the sales organization has been the major operating problem. Members should be cooperative and maintain good communication with the central sales organization. Consequently, the agency has developed a program under which it makes a daily report to its members and permits them use of its information facilities. This type of program should help create the needed harmonious and lasting ties in membership relations so essential for a cooperative joint sales business.

Management's Appraisal of Sales Situation

Mutual's management believes that the joint sales program has eased the selling problems of individual members. Without the joint sales

arrangement, each shipper would be in a weaker bargaining position and have fewer marketing opportunities.

The association's shipments are sufficient in volume to satisfy the needs of large direct buyers. The various grades and types of lettuce demanded by the trade are more readily available. Mixed loads and wrapped lettuce can be shipped as the need arises.

Suggested Guides for a Coordinated Marketing Program

The management of Mutual Vegetable Sales, Inc., believes that an effective coordinated marketing program requires the following:

1. Strong support from members.
2. A sufficient volume of business to be a factor in the market.
3. Competent management hired at a competitive price.
4. An assured steady supply of produce for customers.

North Pacific Canners and Packers, Incorporated

North Pacific Canners and Packers of Portland, Oreg., was formed in 1932 as a mutual sales agency representing six small fruit and vegetable packing cooperatives in Oregon and a packing corporation in Washington. These packers decided that centralized selling would enable each participant to market more effectively and efficiently.

In 1963, one of the members withdrew from the sales agency. Two years later three of the processors merged into United Flav-R-Pac Growers, Inc., to improve their efficiency and achieve maximum economy. This new firm has continued its affiliation with North Pacific Canners and Packers.

Currently there are four active members of North Pacific, including three cooperative processors and one private corporation. In addition, four associate members supply, under contract, items unavailable locally. This patronage enables the association to furnish buyers with a more complete line of products.

Organizational Structure

North Pacific Canners and Packers is the exclusive sales agent for members' products. It delegates the selling, promotional, and advertising activities to a brokerage partnership. This brokerage firm has established a reputation for obtaining a satisfactory price for the association's products. It charges the association 4.5 percent of all sales for handling labeled products and 1.5 percent for selling bulk and buyer-label products.

For administrative purposes, the association operates under two separate divisions: a marketing division, which handles sales, promotion, and advertising activities; and a warehouse division, which takes care of all other activities or services.

In 1955, the association constructed a 160-carload warehouse for handling, storing, and consolidating shipments of members' Flav-R-Pac products. Consequently, the Flav-R-Pac products handled by North Pacific Canners and Packers are shipped from one location, which results in better service and lower handling costs. During 1966, additions to both the dry storage and cold storage areas were completed, giving the co-op about 1.1 million cubic feet of storage space.

The association's service charge for storing the products of participating members is 35 cents per hundredweight for the first month and 15 cents per hundredweight for each month thereafter. This is somewhat less than the going commercial rate. Savings above the cost of operations are returned to members in proportion to their use of the storage facilities.

The association added a research and development laboratory in 1960. It is fully equipped and has a specially built pilot plant with heat processing and freezing equipment. This permits the cooperative's technicians to experiment with new processes for quality improvement and to develop new products and packaging techniques.

Sales office and warehouse facilities of North Pacific Canners and Packers, Portland, Oregon.

Warehouse and loading platform for Flav-R-Pac products of North Pacific Canners and Packers, Portland, Oregon.

Eligibility for membership.--Any person, firm, partnership, cooperative association, or corporation engaged in the commercial production of any agricultural product is eligible for membership. Prospective members must acquire one share of common stock, sign a marketing contract, and meet such other conditions as may be prescribed in the bylaws and by the board of directors.

The board of directors requires that an applicant be (1) an established processor of fruits, vegetables, or both, (2) financially solvent, and (3) of known integrity.

Voting.--Each member of the cooperative is entitled to one vote.

Marketing Agreement.--The marketing agreement between the member and the association assures the cooperative of member support and a predetermined volume of fruits and vegetables for the season's operation. The contract also specifies certain other rights, duties, and obligations of the two parties.

This agreement designates North Pacific as the exclusive sales agent, both domestic and foreign, of members' fruit and vegetable products. The association agrees to market members' products under its brand labels, providing that members meet the required quality standards. It also markets members' private label products in specified quantities. The agreement remains in effect as long as the member belongs to the association, and is automatically terminated if membership ceases.

Financing.--The organization acquires equity capital by selling common stock and equity certificates, and making capital retains. Preferred stock is provided for in the articles of the association. However, there is none outstanding at the present time.

In 1955 and 1956, members advanced about $221,000 to the association as partial payment for constructing an office building and warehouse. The balance was obtained from the Bank for Cooperatives in Spokane, Washington. The bank also financed an addition to the warehouse in 1966. Packer members loaned their association a total of $30,000 for equipping the research and development laboratory located adjacent to the sales office. Members' loans are secured by equity certificates which will be returned to them on a pro-rata basis.

Net margins from operating the warehouse are retained by the association. These retains will be returned to the members in proportion to their patronage. The payment period will be determined by the board of directors.

Management.--The board of directors has general supervision and control over the business of the association. This board consists of 12 members elected for 1-year terms at the annual meeting of members.

The president and vice president of the association are elected from the board of directors. The secretary and treasurer need not be members of the board. The secretary of the association is also the warehouse manager.

Warehouse, advertising, and research and development committees are appointed by the board of directors. The principal function of the committeemen is to supervise the operations in their respective areas.

Employees.--In addition to the warehouse manager, the association employs eight warehousemen, three office girls, and one full-time and one part-time laboratory assistant.

The brokerage firm employs 50 people, including sales, traffic, and invoicing personnel, as well as the laboratory manager. The personnel are paid from the sales commissions on products sold.

Policies.--The current policies of North Pacific are to develop sales at fair market prices, promote interest in members' products, coordinate the distribution of members' packs, and help stabilize market conditions.

The prime objective of the sales program is to sell the products of member packers at a satisfactory price. The brokerage firm has direct contacts and brokerage connections throughout the country.

The coordinated sales approach provides members of North Pacific with a better

understanding of the market potential for their products, and affords prospective buyers a wider variety of products. In addition, the cooperative can assure buyers of top quality merchandise through its jointly owned Flav-R-Pac label.

The association's output and dollar volume have shown strong upward trends during the past two decades. The association's policy is to maintain these trends by handling a greater volume of products of existing members, as well as a large volume provided by reliable new members.

North Pacific's marketing policy is designed to create for its buyers an image of an organization that handles quality products, so as to stimulate sales. Rigid quality control has been a major factor in satisfying regular buyers as well as in developing new ones.

Operations

North Pacific's members and associate suppliers handle a large variety of canned and frozen fruits and vegetables. Frozen products now approximate 80 percent of the cooperative's sales. These include vegetables--asparagus, lima beans, Italian beans, wax beans, broccoli, brussels sprouts, cauliflower, okra, onion rings, peas, peas and carrots, potatoes, spinach and squash; and fruits--cherries, peaches, mixed fruit, rhubarb, and all types of berries. In addition, associate members furnish grape juice, lemonade, apples, melon balls, and pies. Canned products supplied by members are asparagus, beans, beets, carrots, corn, mixed vegetables, cherries, pears, plums, and a full line of berries. Associate suppliers furnish peas, sauerkraut, apple sauce, and fruit cocktail.

Members retain ownership of their products until the invoice is sent to the distributor. The sales office personnel invoice all merchandise, collect payments, and remit payments to packers.

Members' products are sold on an individual account basis. Labeled products are shipped from the association's central warehouse. The rest, consisting of bulk and buyer label products, are shipped from members' plants.

North Pacific assures each member an equitable distribution of sales by coordinating the output of members' plants with prospective sales.

The association plans its sales schedule at monthly meetings attended by the management staff of the sales office and all plant managers. Estimated sales for the season are prorated among members in proportion to their sales the previous season. Excess production is sold only after sales commitments have been fulfilled.

Services provided.--North Pacific provides its members with a number of valuable services.

The primary responsibility of the sales office is to sell the products at a satisfactory price. The sales office retains a law firm to advise packers on city, State, and Federal food regulations. Additional services include cost accounting, invoicing and collecting payments for merchandise sold and delivered, issuing sales contracts, and mailing price lists and market letters to the trade.

The traffic department makes arrangements for pooling merchandise and shipping products to the customers.

The frozen and canned product research development laboratory provides beneficial services to members and buyers. Research in quality control and processing methods has resulted in product improvement and production efficiencies.

The association assures its customers of prompt delivery on its relatively complete line of products guaranteed for quality and priced competitively.

Sales.--An important factor to consider in evaluating the potential of a joint marketing activity is volume. Adequate volume permits both efficiencies in handling and lower per unit selling and advertising costs. Volume is also needed if the products are to be widely distributed on a year-round basis.

The sales volume of North Pacific increased from $24.3 million in the 1960 season to $49.7 million in 1965. Table 4 shows the organization's sales volume for its canned and frozen products during this 6-year period.

Table 4.--Sales of frozen and canned products (including juices), North Pacific Canners and Packers, 1960-65

Year	Sales		
	Frozen products	Canned products	Total
	1,000 dollars		
1960	18,850	5,409	24,259
1961	19,608	5,223	24,831
1962	19,559	5,741	25,300
1963	28,700	7,275	35,975
1964	32,000	8,000	40,000
1965	40,507	9,218	49,725

North Pacific's sales of canned products increased moderately during the last three decades; however, its sales of frozen products increased considerably. The following tabulation shows the volume increase in the company's frozen products for selected years since 1933.

Year	Quantity (1,000 pounds)
1933	2,600
1936	6,000
1941	18,000
1946	34,000
1949	45,000
1952	52,000
1958	80,000
1960	107,000
1961	127,000
1962	175,000
1963	173,000
1964	204,000
1965	240,000

Markets served.--North Pacific ships a fairly complete line of products to every major city in the country. Important receiving centers include San Francisco, Los Angeles, Chicago, New York, St. Louis, and Washington, D.C.

Rail shipments account for about 60 percent of the delivered volume; the remaining 40 percent is shipped by truck.

Sales methods.--Slightly more than one-half of the volume of products handled by North Pacific Canners and Packers is sold through brokers. The remaining proportion is sold directly to customers.

About 70 percent of the direct sales are made to corporate chain buyers, about 20 percent to institutional buyers, and 10 percent to wholesalers.

Brand policy.--North Pacific has made considerable progress in marketing labeled products. Approximately one-half of its total volume is packed under the association's labels, one-third under buyer labels, and the balance is sold unlabeled in bulk.

The association initiated its Flav-R-Pac, Wes-Pac, and Nor-Pac labels in its first 3 years of operation. In 1946, a decision was made to establish brand merchandise and develop Flav-R-Pac into a complete line of high-quality frozen and canned products. In addition to Flav-R-Pac, the association packs frozen grade B products under the Wes-Pac and Super-Market labels. A limited quantity of frozen and canned vegetables is also handled under the Nor-Pac label.

By adopting a progressive marketing policy and promotional program the joint sales agency succeeded in increasing its share of the retail food market. For example, the second largest supermarket chain in California, with stores also in Washington and Arizona, gives preferred attention to Flav-R-Pac products.

Promotion.--Newspaper advertising stressing product quality and brand has proved to be the company's most effective method of promotion. Consequently, a major share of the

allotted promotional budget is allocated to newspaper advertising. The remainder is prorated among billboard advertising, display materials, trade papers, and radio and television.

Market information.--North Pacific obtains market information from various sources, including trade journals, Federal and State agencies, and brokers who handle its products.

The association keeps members well informed on latest crop and market conditions through monthly meetings, frequent contacts by phone, and periodic sales reports. Prospective buyers are supplied semimonthly bulletins on product availability, crop conditions, and prices.

Quality control.--The four processing firms employ inspectors from the U.S. Department of Agriculture. One or more inspectors make continuous in-process checks on preparing, processing, and packing operations at each member's plant.

The association's food technicians assist plant personnel with quality control problems. This includes developing objective methods for determining and evaluating raw product quality and formulating procedures for establishing bacterial and chemical residue control measures.

Operating problems.--A challenge to North Pacific has been maintaining a cooperative atmosphere. At times, some of its members have had reservations as to whether they were getting an equitable distribution of the sales handled by the central agency. For continued success, the members must be willing to work out their problems with their sales agency.

To assure operating efficiency, the management of North Pacific believes that it must continue to function with the sales manager having absolute responsibility for the sales program.

Management's Appraisal of Sales Situation

Management of North Pacific believes that the increase in direct buying and the decrease in the number of buyers in the market have made selling fruits and vegetables less difficult. The association's experience suggests that buyers are becoming better informed and have a more intelligent approach to their needs for specific products.

The added emphasis on uniform grades and standards has helped the organization because the sales program is based on quality merchandise.

The increased demand by buyers for a variety of products has occasionally caused some concern to the sales staff. Although North Pacific is in a good position to offer a variety of merchandise, there have been times when the supply of some products was a problem.

The type of pack specified by buyers has presented no particular problem to the sales agency in filling orders. The association instructs its members to pack produce in the best and most attractive containers.

Suggested Guides for a Coordinated Marketing Approach

1. Management of North Pacific believes that a coordinated marketing program requires strong support from members.
2. Important requirements for membership should include financial stability, and a favorable cooperative attitude among members, and between members and the sales organization.
3. A good sales program needs volume commitments, quality control, packaging specifications, and ability to deliver on order.
4. The association's sales staff maintains that successful marketing arrangements demand competent sales management and sales personnel.

CONSIDERATIONS IN DEVELOPING A COORDINATED MARKETING PROGRAM

A good sales organization, a product development program, and top caliber management are within the reach of producer groups who are willing to coordinate their activities through an effective marketing operation.

Interested members should appoint a study committee to appraise the chances for a successful operation. The committee should study present operations, changes that have taken place, and the potential of a coordinated program for adapting to changes and correcting current weaknesses. Emphasis should be given to volume, quality, and other specifications; needed supplemental services as they may become feasible with added volume; financing; and other considerations.

After the economic need for the organization has been determined, answers to the following questions should assist the committee in evaluating the objectives, method of operation, member participation in the program, methods of financing, and other factors.

Objectives of the program

What priority will be given to gaining higher returns, reducing marketing costs, and getting wider sales distribution?

Method of marketing

What plans can be agreed upon for making the transition between the current marketing method and the proposed method? Special consideration should be given to the status of brands and programs currently in operation.

Which sales outlets will be served by the coordinated effort?

1. Estimate the minimum volume needed to satisfy sales outlets by geographic regions.
2. Determine the geographic distribution of the agency's brand.

Membership participation

How will control and ownership of the organization be determined?

What will be the procedure for admitting members?

What will be the provisions of the marketing contract? Ascertain the willingness of individual members to commit all of their products to the agency. Duration of the contract, termination features, and degree of permanency in the relationship should be clearly understood. A key part of the contract should be effective requirements for quality standards and quality control.

Method of financing

Can the various costs of facilities, sales, and merchandising be reasonably approximated?

Will the operating and overhead costs be met by initial capital, a percentage of sales, a per unit charge, or a combination of these?

What will be the effect of volume on costs?

Other factors

Who will furnish the leadership for the new program?

What sales methods and sales commitments are now in effect?

Can all products be included in the proposed program?

Should a uniform cost accounting system be established for the organization?

Will quality standards be uniformly adopted for all products?

Will returns be made on a net pool, individual lot basis, or both?

Will the organization own or rent equipment and facilities?

Will trucks be owned or leased?

Findings of the survey committee should be presented to all prospective members. If they decide to establish a coordinated marketing operation, they should select a committee to organize and set up the program.

The organizing committee should retain the services of an attorney familiar with the State's cooperative law to assist them in drawing up the organization's legal papers. These include the articles of incorporation, bylaws, and marketing agreement. These documents should be broad enough to provide operational flexibility.

In developing the plan of operation, special attention should be given to the following factors: market development, quality control, brand development, transportation, purchasing, accounting, and member relations.

Market Development

An effective coordinated marketing operation should involve centralization of sales negotiations. Prospective members should consider setting up a sales department with primary responsibility for handling member sales in the most economical and effective way.

As the association increases in size and potential, additional sales personnel with proved ability and broad industry contacts should be recruited. Experienced personnel of this type can furnish the association and members an improved sales program and help assure the success of the coordinated sales venture.

Many marketing cooperatives have found that extensive contacts between sales personnel and buyers help increase direct sales.

It is imperative that the sales manager maintain good working relations with members. This is basic to the coordination of orders and supplies. An effective marketing program requires that the sales department have accurate knowledge of the volume available for distribution. The program should include advance planning and good estimates of the volume to be marketed.

A good start towards obtaining realistic estimates of future volume is through a marketing contract. To the extent that an association is provided with advance information on members' planting intentions, and to the extent that members abide by their contract terms, the job of anticipating volume for sale is made easier.

Quality Control

A successful sales organization must be able to assure customers of uniform quality merchandise. To fill the requirements of different classes of buyers, the agency must use objective grading standards and controls.

An association should consider setting up a uniform quality control program, including enforced standard quality control for products processed. A qualified person is needed to administer the program and to be responsible to the general manager of the agency for coordinating the quality control programs at the plants.

The quality control program should begin at the farm with the use of good seed. Standards should be established to assure comparable cultural practices and orderly harvesting procedures.

If an association decides to implement a quality control program for the processing facilities, it should consider using the U.S. Department of Agriculture's official inspection service. This voluntary service is offered on a fee-for-service basis through the Fruit and Vegetable Division of the Consumer and Marketing Service. USDA's inspectors will inspect a product and issue a certificate of quality based on official USDA grade standards or on specifications of the association.

The U.S. standards that provide yardsticks of quality as well as a common trading language are as follows: Grade A or Fancy, top or best quality; Grade B, Choice, or Extra Standard, good quality, suitable for most purposes; Grade C or Standard, lower quality than Choice or Extra Standard and a thrifty buy where appearance is not too important.[2]

[2] Agricultural Marketing Service. Processed Fruit and Vegetable Inspection. U.S. Dept. Agr. AMS-484, Sept. 1962.

The most thorough type of inspection offered by the U.S. Department of Agriculture is continuous inspection. This means that one or more inspectors will be assigned to the processing plant to make continuous in-process checks on preparation, processing, and packing operations. The inspectors observe the preparation of raw material and plant conditions under which the product is prepared, processed, and packed. Frequent line checks are made, and samples of the finished products are examined to determine whether they meet specifications.

Brand Development

The experience of coordinated marketing agencies suggests that a sales program should include use of both association and buyer labels. A diversified product line permits an organization to serve the needs of different types of buyers. It also provides an outlet for products of different qualities. The cost of operating such a program will depend on whether it is local, regional, or national in scope.

Quality products, a continuous supply, satisfactory delivery schedules, and competitive prices are essential, regardless of the labeling program adopted.

Transportation

Transportation rates and services are important considerations in determining how, when, and where products are marketed. The organizers of the proposed agency should appraise the feasibility of jointly owning or leasing trucks for shipping members' products to nearby markets. The per ton mile rates for transporting products decrease as distance increases. However, the truck rates are most competitive with rail rates for markets within a 200-to 300-mile radius.

Another alternative to be considered is the possibility of using the transporting equipment of other cooperatives in the area to haul the processed products to market as back haul tonnage.

Purchasing Program

An additional service which should be considered in a coordinated program is the purchase of production and marketing supplies. One aspect of any proposed operation in this area deserves emphasis.

Most cooperatives have found it to be a sound practice to charge members competitive local prices for supplies. At the end of the operating season, any accumulated savings may be returned to members as patronage dividends.

Purchases for the members could include farm supplies such as seed, fertilizer, and petroleum products, as well as cans of various sizes and other necessary materials.

A good program can bring about savings through relatively large purchases of supplies on a group basis. Production supplies can provide a more completely integrated program with a basis for broader financing. Another important objective is to obtain supplies that will best help the members produce merchandise of uniform quality for the market.

An illustration of the type of service an association might include in its purchasing program is in connection with the handling of fertilizer. The association could make recommendations on the correct application of fertilizer and checks on crop growth, as well as samples of soil. The inclusion of such related services in the purchase program should help knit a close relationship between members and the parent association.

A basic consideration in determining whether to proceed with a purchasing operation is the degree of member support as evidenced by commitments to purchase supplies through the association. A purchasing program might be operated most effectively through a separate purchasing department in the organization.

Accounting System

A coordinated system of accounting is essential to the successful management of a large marketing operation. Members and directors need comprehensive, well-organized financial statements, accompanied by supplemental reports to base policies and control operations.

To guide the activities of an association, the board of directors, as well as employed management, must set up controls to check on how well policies are being carried out. For example, budgets on various phases of the cooperative's activities can be developed. Management can determine an association's progress by periodic review of the budget and by other indications such as costs, ratios, and measures of efficiency.

Analysis by comparison is a common business procedure. A comparison of financial statements of one company with those of others in the same industry may provide useful measures of relative efficiency. Comparison of current monthly operating data with those of related months in previous seasons, and comparison of the current annual report with previous annual reports reveal sales, costs, and margin trends. A comparison of present details of operations with planned and budgeted figures helps management enforce its policies, locate strong and weak points in the operating organization, and maintain a running control over expenditures.

A coordinated marketing organization should consider establishing an accounting department with a uniform cost accounting system. Such a system would help in accurately determining both the quantity and price of a cooperative's processed products stored at various locations.

As a minimum, all members should receive a copy of the association's annual report prepared in sufficient detail to provide an accurate appraisal of operations. Supplementary reports could also be used to disseminate financial information to members. The financial information should be in an easy to understand format. Members' understanding can be improved through the use of charts, graphs, and photographs.

An accounting department under the supervision of the general manager could enhance a cooperative's prestige and be of considerable assistance to the management and the members, even with a limited budget and part-time personnel.

Membership Relations

There is no best way to develop good relations among members. Techniques aimed at encouraging active member participation, such as committee assignments, contribute to improved relations. But in the final analysis, good relations are dependent upon the organization's ability to achieve results that merit support.

A fieldman employed by the association can help improve member relations or solicit new members. In addition to coordinating production and sales and helping with specific technical problems, the fieldman is in a good position to disseminate other information to members, as well as nonmenbers, and to relay information to the cooperative.

The association should consider the use of a newsletter. An informal newsletter is a useful device for giving members a more complete understanding of the cooperative. It is a good supplement to personal contacts.

Another good practice is that of having regular meetings of members to assure a better understanding between them and association officers.

Suggested Organizational Structure

The organizational structure for coordinated marketing arrangements should be flexible, based on services provided, and as simple as possible. For example, a brokerage organization needs no elaborate structure. In contrast, a highly sophisticated program including warehousing, repacking, transportation, and financing would require a well-developed organizational structure.

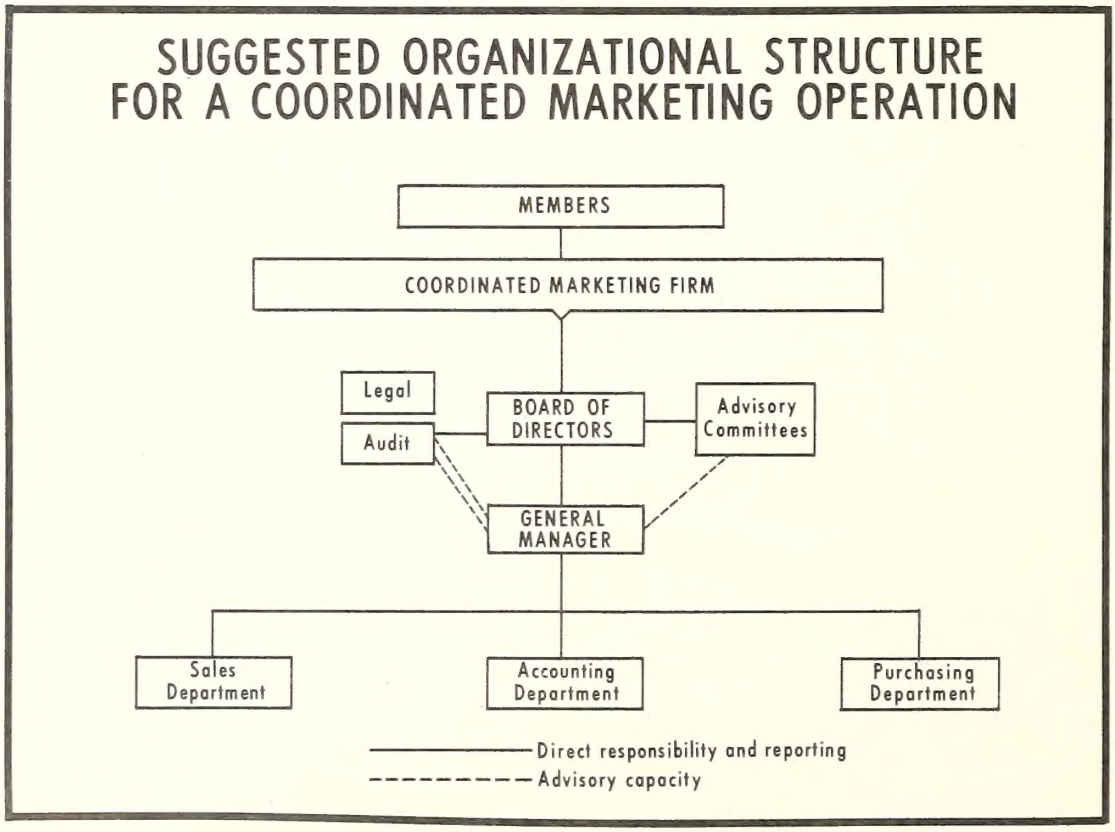
In planning a coordinated marketing program which includes the diversified selling

of products and handling of farm supplies of producer members, we suggest setting up distinct departments for sales, accounting, and purchasing. Personnel in these departments would be responsible to the general manager. The general manager, in turn, would be responsible for carrying out the policy directives of the board of directors. Figure 3 shows a diagram of a proposed organizational plan which incorporates these suggestions. Cooperatives generally look to professionals for verifying qualifications under the Capper-Volstead Act, for legal and engineering help, and for assistance in such areas as quality control, management, tax, and financing.

The responsibility of organizational policy in a cooperative is delegated to the board of directors by the members. Directors should be primarily concerned with broad policy considerations, and the manager with implementing the policies through day-to-day decisions. Through the elective process, their contacts with directors, and their decision to extend or withhold patronage, members should represent the true governing force of the association. Therefore, the extent to which an association can achieve the objectives or goals of its membership will largely determine the ultimate success or failure of the cooperative enterprise.

To be most effective, policy should be clearly defined and in keeping with the basic philosophy of the organization. It is highly desirable to put policy matters into written form. This approach, in addition to forcing management to consider and crystalize its thinking on objectives and procedures, allows competent employees to make decisions consistent with stated aims. It also permits comparisons of individual opinions of the association's operations with the written objectives.

As the operation of an association becomes more complex, the directors may find it desirable to hire the services of professional consultants.



OTHER PUBLICATIONS AVAILABLE

How to Start a Cooperative. Educational Circular 18.

Sample Legal Documents for New Cooperatives. Educational Circular 19.

Improving Management of Farmer Cooperatives. General Report 120.

How the Revenue Act of 1962 Affects Farmer Cooperatives. General Report 105.

Pooling and Other Grower Payment Methods as Used by Local Fruit, Vegetable, and Tree Nut Cooperatives. General Report 67.

Fresh Fruit and Vegetable Marketing Organizations in the Northeastern and Central States. General Report 84.

Copies of these publications may be obtained upon request from--

Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402

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