



The Farmers' Cooperative Yardstick

Farmer and Consumer Cooperatives Structure and Classification

Lionel Williamson

A cooperative enterprise belongs to the people who use its services. Members control it, and its gains are distributed to the members in proportion to the use they make of its services. In Kentucky, an agricultural cooperative is a business with five or more producers, voluntarily owned and controlled by its member-patrons and operated for them on a nonprofit or cost basis.

Since cooperatives can be organized for any legal purpose, we can expect to find several types in operation. Cooperatives may be classified from several perspectives including:

- groups served
- size
- areas served
- functions performed
- types of membership
- legal status and financial structure.

This fact sheet provides classifications of cooperatives that should be helpful to co-op members, potential members, and others interested in agricultural cooperatives.

Cooperatives—By Groups Served

Cooperatives are a useful economic tool for many different economic groups. Farmers, consumers, workers, fishers, independent business people, and other groups have benefited through involvement in cooperatives.

Agricultural Producers—Perhaps the most important types of producer cooperatives in the U.S. are agricultural cooperatives. Cooperatives serving agricultural producers may be classified as marketing, supply, and service.

Marketing Cooperatives' primary business is marketing farm products for members. That is, more than 50 percent of their total dollar volume came from selling members' farm products.

Farm Supply Cooperatives are those whose farm supply business accounts for 50 percent of their total dollar volume. Such cooperatives can handle all types of farm production supplies and equipment such as feed, seed, fertilizer, petroleum products, farmstead equipment, and building supplies. Some also handle farm home items such as heating oil, lawn and garden equipment, and food. Their primary objective is to provide member-patrons with quality supplies and farm inputs at competitive prices.

Service Cooperatives provide member-patrons with needed services at competitive prices. Such services to farmers include: **(1)** The cooperative farm credit system which provides short-term and long-term credit to farmers, **(2)** rural electric and telephone cooperatives, **(3)** rural credit unions, **(4)** mutual insurance companies such as The Kentucky Farm Bureau Federation, **(5)** mutual irrigation companies, **(6)** dairy-herd improvement associations, **(7)** artificial breeding cooperatives, and **(8)** farm machinery-use cooperatives.

Agricultural bargaining associations also provide a service to member-patrons.

Consumer Cooperatives—Like agricultural producers, members of consumer cooperatives expect their cooperatives to provide them with a wide range of goods and services used in everyday living. Members hope to benefit from consumer cooperatives through favorable prices, high-quality products, and reliable services.

Consumer Goods Cooperatives were established because of dissatisfaction with prevailing retail prices and services. In the U.S., they find it somewhat difficult to compete effectively with established chain stores.

Credit Cooperatives—Credit unions are the most prevalent type of cooperative in the U.S.; more than 12 percent of the nation's population are members. The credit union functions both for savings and for loans. Loans are made to buy cars, furniture, and appliances and to finance education, vacation expenses, and household repairs.

Health Care Cooperatives provide medical services mostly under prepayment plans, often supplemented with fixed fees by doctors who are frequently direct employees of the cooperative.

Housing Cooperatives provide economic and good living space for member-patrons. Presently more than 1 million people live in cooperatively owned homes.

Mutual Insurance Companies are characterized by operations on a cost basis, with receipts above cost being returned to policyholders. Perhaps the best known is Nationwide Corporation, Columbus, Ohio.

Cooperatives—By Areas Served

Four types of cooperatives are classified by the area they serve: local, regional, national, and international cooperatives.

Local Cooperatives—They generally operate from a trading center and have individuals as their members.

Regional Cooperatives—Their territories range from several counties to several states. These co-ops primarily provide wholesaling and manufacturing services that local associations, because of limited size and resources, are unable to provide. Southern States Cooperative, Inc., Richmond, Virginia, is an example of a mixed type of regional cooperative.

National Cooperatives—They have been organized to handle certain specialized services so unique that even regional cooperatives are not able to provide them efficiently.

International Cooperatives—They operate on an international basis. Some have their headquarters in the U.S.; others, in foreign countries. An example of an international cooperative is Cooperative Fertilizer International (CFI). This organization was started by Americans to assist in the development of the Indian Farmers Fertilizer Cooperative. It is currently a joint effort of The Cooperative League-USA, Agency for International Development, the government of India, and others.

Cooperatives— By Functions Performed

Agricultural cooperatives perform one or a combination of the following functions for farmer-members:

- marketing
- purchasing
- services
- bargaining

Marketing—Local marketing cooperatives are generally the point of contact with producer-members. The cooperatives assemble products and often serve as the transportation or forwarding agent in moving members' products on to central markets or directly to processors.

Purchasing—Local retail cooperatives or branch units of regionals serve as local retail or distribution points. Cooperative wholesalers generally assemble the many production supplies and consumer items that local cooperatives distribute.

Services—These cooperatives provide members with such services as credit, insurance, health care, housing, irrigation, electrical and telephone, and a number of other services required by patrons.

Bargaining—These co-ops generally do not handle the products of members as would marketing co-ops. For such products as fruits, vegetables, and sugar beets, they usually reach agreements as to price and terms of sale that cover a given season. For livestock and poultry, established prices stay in effect until the time agreed upon for renegotiation. The price of milk or the method of determining it may be for an undefined period.

Cooperatives— By Types of Membership

When cooperatives are classified according to type of membership, four types are recognized: Local, Federated, Centralized and Mixed. A brief definition of these types of cooperatives is presented below.

Local Cooperatives—Farmers usually constitute membership in these associations. They usually perform a limited number of the first steps of marketing.

Federated Cooperatives—Membership consists of local associations and control rests with the locals. Locals elect directors and provide general operating guidance for their federations. Some benefits of the federated system are: **(1)** local control for better management responsiveness, **(2)** increased member understanding and loyalty due to more direct involvement, **(3)** more recognition by the member-patrons of need for adequate financing, and **(4)** equitable distribution of savings.

Centralized Cooperatives—Individual farmers make up the membership. However, unlike local associations, centralized co-ops usually operate over large geographic areas and have members in several states. They often provide more vertically integrated services such as processing farm products or manufacturing feed and fertilizer.

Mixed Cooperatives—Regional mixed cooperatives serve both local associations and member-patrons. Southern States Cooperative is an example of a regional cooperative that serves both the individual farmer and local agricultural cooperatives.

Cooperatives— By Financial Structure

Another way to classify cooperatives is according to their financial structure. Two types are recognized: Stock and Non-stock associations.

Stock Cooperatives—Stockholders' equity is represented by their owning shares of common or preferred stock. Stock cooperatives usually restrict members from transferring stock and from withdrawing from the association.

Non-stock Cooperatives—Ownership is represented by membership certificates. Some benefits of centralized cooperatives are: **(1)** better management control of purchasing and marketing, **(2)** more selective hiring of managers, **(3)** quicker response to changing conditions, **(4)** diversification of losses and gains, **(5)** less duplication of certain expenses, such as communication and annual meetings, and **(6)** consistency of pricing.

Cooperatives— By Legal Status

Legally, cooperatives may be classified as incorporated or unincorporated. Such classifications can be made regardless of size, area, and groups served and types of membership.

Incorporated Cooperatives

Generally, incorporated cooperatives are organized under special cooperative state laws. In Kentucky those statutes are found in Kentucky Revised Statutes-Chapter 272. These statutes specify: **(1)** minimum number of members required to be incorporated, **(2)** conditions to be included in the articles of incorporation and bylaws, **(3)** the state official and department with which the articles of incorporation are to be filed, **(4)** general powers, rights, and obligations of the co-op members, **(5)** voting rights of members, **(6)** terms and conditions of memberships, **(7)** non-member relationships, **(8)** general provisions with respect to distribution of savings or net margins, and **(9)** capital structure (stock or non-stock) and interest rate to be paid on capital.

Unincorporated Cooperatives

Unincorporated cooperatives involve a group of people acting together without a charter. They employ, to a greater or lesser extent, the forms and methods used by incorporated cooperatives, for some common enterprise. **(1)** When they are organized for business purposes, members are individually liable for any debts and obligations. **(2)** Without a statute, it cannot undertake any action in its own name but must sue in the name of its members. **(3)** Without a statute, it ordinarily cannot take or hold either real or personal property in its name. **(4)** Membership is not transferable unless the constitution or bylaws say that it shall be.

See your County Extension Office for the entire series of publications on agricultural cooperatives.

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