

AN ECONOMIC ANALYSIS OF  
CONSUMERS' COOPERATIVE ORGANIZATIONS

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By

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CONSUMERS' COOPERATIVE ORGANIZATIONS

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## METHOD OF PROCEDURE

In making a study of consumer cooperation, it was found desirable to trace the development of consumer cooperatives in the United States, in order to have a clear understanding of its growth. The subject, therefore, has been divided into two main parts. Chapter I is an investigation into the development of consumer cooperation in the United States, in search of the reasons for the success and failure of farmer groups in their attempts to promote cooperative buying.

The second chapter includes the discussion of a specific consumers' cooperative, the Farmers Union Cooperative Exchange of Stillwater, Oklahoma. This in turn is divided into four principle divisions, namely: the history and development, analysis of business operations, summary, and conclusions. The information for the first part of this section was secured by interviews with charter members and present officers of the Exchange. The material for the second part was supplied from the bookkeeping records of the business.

It has been the purpose of this investigation of an individual consumers' cooperative store to discover practices which have aided and retarded the growth. It has not been the aim of this study to defend or denounce consumer cooperation.

## Chapter I

### CONSUMER COOPERATION IN THE UNITED STATES

Consumers have been cooperating since colonial times in an attempt to procure goods at what they considered to be a reasonable cost, but our widening markets and increased use of machinery have intensified this tendency. The colonists produced practically everything they consumed and the distribution of goods was a minor problem. As the country grew older, labor saving devices were constantly being introduced which led to greater production and a supply too great for home needs. The market for their commodities expanded and they naturally began producing the products that they could produce most efficiently. This specialization transformed the farmers of America from a position of independence to one of dependence. The resulting increase in trade presented many problems in the cost of distribution. A few of the farmers took advantage of bulk buying and some town consumers saved through buying staple commodities in large quantities. The early consumer cooperatives in this country were among isolated groups and only a few accomplished their purpose.

Cooperatives first made their appearance in Europe, and the United States is indebted to them for their sound principles.

The beginning of the Rochdale cooperative movement in the United States was in 1845 when a tailor in Boston organized a buying club which later became a store. Many other small stores followed, but they operated only a short time.

### NEW ENGLAND PROTECTIVE UNION

Cooperative interest spread rapidly over the country and organizations of all kinds began establishing stores. The New England Protective Union was organized on January 7, 1847, for the purpose of forming cooperative stores throughout the country. There were 106 stores in 1850, and by 1852 there were 403 stores in operation. In 1856 the movement was split into two divisions--the American Protective Union and the New England Protective Union. The two groups organized a total of 769 stores in New England, New York, Ohio, Illinois, and other mid-Western States. By the time of the Civil War, only three of these stores were still operating.

### THE NATIONAL GRANGE

The opening of new lands in the West and the coming of the Civil War caused a loss of interest in consumer cooperatives, but this interest was soon revived with the organization

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1 The pattern for effective consumer cooperation was set in 1844 by twenty-eight weavers of Rochdale, England. Because of low wages they decided to start a store of their own and divide the profits among them. The Rochdale principles are followed today and organizations that stray from these democratic principles usually perish.

2 J. P. Warbasse, Cooperative Democracy, P. 56.

3 "Cooperation in the United States," The Grain Dealers National Association, P. 8.

of the National Grange or the Patrons of Husbandry in 1867. Their first emphasis was placed upon social, fraternal, and intellectual benefits. After a few years, local granges became interested in pooling their buying power in order to receive price concessions through bulk buying. This action resulted in the organization of local, county, and state agencies for cooperative purchasing.<sup>4</sup>

The first permanent local was established in Minnesota in 1868 and within one year eight additional locals were established in the state. On February 23, 1869, representatives of these subordinate granges met in St. Paul and organized the Minnesota State Grange. Within two months after its organization they appointed a state purchasing agent, without the sanction of the National Grange, for the purchase of agricultural supplies for patrons. This seemed to have had much influence on the movement in Minnesota, and by the end of 1869 there were thirty-seven active granges in the state. Other state granges were experiencing similar growths. With this development the National Grange became wealthy with receipts from dues and sales. When the members became aware of the money held by the organization, they demanded a division of surplus among the various state organizations. The Charleston session in 1875 voted a \$50,000 loan to state groups, which was nothing more than a donation. This left the National Grange financially embarrassed and the various stores were not

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4 J. G. Knapp and J. H. Lister, "Cooperative Purchase of Farm Supplies," Farm Credit Administration, Bulletin No. 1, p. 10.

being operated on a sound basis. They were selling at prices as near cost as possible, which aroused the antagonism of neighboring merchants. Profits were distributed according to the number of shares of stock held, which gave no incentive for members to buy cooperatively if they could find a better price elsewhere. The cooperative feature contributed more to the growth of the Grange than anything else, and probably contributed more to its downfall. The numerous business failures resulted in much dissatisfaction. The members had just about lost faith in the Grange agencies by 1876, and thereafter the Grange limited its activity to the encouragement of cooperative stores.<sup>5</sup>

In 1875, the executive committee of the National Grange recognized the soundness of the Rochdale principles and other sound business practices. They made the following recommendations for cooperative stores within the order:

1. All cooperative associations should become incorporated.
2. Care should be taken that all records, accounts, and vouchers are properly kept.
3. Expose dishonesty and punish fraud.
4. Buy as far as practicable from the producer and manufacturer, and sell to the consumer, if possible.

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<sup>5</sup> S. J. Buck, *The Granger Movement*, P. 46, 260.

5. Never depart from the principle of buying and selling for cash.
6. Take account of stock and make settlements quarterly.
7. Neither fear nor court competition.
8. Choose only men of undoubted integrity and ability for your officers, and give them your confidence.

The rules provided that: each member must hold at least one share of \$5 stock which could be transferred only to another member, one member could not hold over one hundred shares, one vote to each member, all business on a cash basis, not over 8% interest on capital, and that profits should be divided according to the amount of patronage.<sup>6</sup>

The Rochdale system was a great help to the Grange cooperatives. By selling at ordinary prices, they gained the goodwill of fellow merchants. Stock was issued in small denominations and more farmers could become members. By giving only one vote to each member, the cooperative spirit was benefited. Profits were divided according to the number of purchases and patronage was encouraged. These principles managed to save a few of the Grange stores and give them successful careers, but most of them failed because of poor management. A summary of the operations of these associations in various sections of the country will be of value.

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<sup>6</sup> J. G. Knapp and J. H. Lister, "Cooperative Purchase of Farm Supplies," Farm Credit Administration, Bulletin No. 1 P. 10.

Large numbers of cooperative stores were established in the Middle West in the years 1874 and 1875. Most of them perished in a few years, but some continued to do business for a number of years under good management on their original plan of selling at cost.

In Ohio, there was a Grange store in practically every county of the state, but no record has been found of any of them continuing in business for more than a few years. In the late 1870's, however, a Cincinnati Grange Supply House was established to take the place of the state Grange which was being closed out. Their purpose was to serve as a general supply house for Granges and cooperative stores of Ohio, Indiana, Kentucky, and West Virginia; and establish tributary stores all over the Middle West. A branch house was established in Cleveland in 1883, but due to poor management and lack of patronage, it was necessary to appoint a receiver in 1886. Many cooperatives were organized throughout the Northwest, but the only ones that proved successful were the ones which followed the rules set up by the National Grange as closely as state laws would permit.

The Kansas Grange stores ceased operation about 1875, but in 1876 some of the Grange workers organized the Johnson County Cooperative Association at Olathe. It was based upon the Rockdale system of cooperation. In ten years, their capital rose from \$850 to \$40,000 and sales in 1883 amounted to \$270,000. A three story building was built at a cost of \$75,000 with a hall for the local Grange. Several similar stores were established

and were usually successful when they complied by the rules of the National Grange.

The South did not become interested in cooperative stores until after 1875. They followed the Rochdale plan as closely as the various state laws would allow.

Today, the Grange is actively supporting cooperative purchasing in a number of states, but it is their policy to act in a supervisory capacity. Their failures of the past may be attributed to a lack of federation, poor administration, undercapitalization, and overestimation of immediate benefits.<sup>7</sup>

#### THE FARMERS ALLIANCE

As the Grange waned in influence, about 1880, the Farmers Alliance movement developed rapidly, particularly in the Southern States. They did not profit by the experience of the Grange, and immediately began working for quick relief through political pressure. The Alliance not only accepted but promoted the system of local and state business agencies and exchanges, which led to the organization of state business agents in 1889. It was the duty of these agents to accept cash orders for goods, and buy from wholesalers, merely adding a commission to cover the cost of operation and not attempting to accumulate capital. There were 18 state agencies and exchanges represented at their annual meeting in 1890. At this meeting, they reported an annual business of \$10,000,000. There were many business ventures, but

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7 S. J. Buck, The Granger Movement, P. 260-264.

their contributions were much less important than those of  
the Grange.<sup>8</sup>

The farmers planned, through the Alliance, to dictate what prices they would pay for farm supplies. The first step toward this desirable condition was the organization of a Farmers Alliance exchange in Texas, in 1887. Their purpose was to sell farm supplies cooperatively through their headquarters in Dallas. The city promised them a building site and a subsidy of \$10,000. They decided they couldn't aid the farmer unless they gave him credit; this was their first great error.

Each sub-alliance group was to pool their needs and sign a note jointly, secured by crop liens. The Alliance thought these notes would be bankable, but they later discovered that they could only be discounted at a very high rate.

A four-story building was erected and they carried a \$50,000 stock. At the end of the first year, one million dollars worth of merchandise had been sold. At the end of twenty months, there were many notes outstanding and failure was almost certain.

They made a frantic effort to collect the two dollar annual assessments from the 250,000 members, but only fifty or sixty thousand dollars was collected. This sum and the ten thousand dollars paid by the city was their entire capital.

The manager was charged with robbing the Exchange of over one-million dollars. An expert accountant examined the books

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<sup>8</sup> J. G. Knapp and J. H. Lister, "Cooperative Purchase of Farm Supplies," Farm Credit Administration, Bulletin No. 1, P. 12.

and reported that only bad business methods were responsible. The profit charged on merchandise was not large enough to take care of expenses, and a capital of \$500,000 would be required to conduct such a business.<sup>9</sup>

These farmer organizations were organized at a time of great economic distress and it was difficult for the farmers to understand their problems clearly. Their failure may be attributed to over-enthusiasm, lack of leadership, and insufficient financial backing. These early efforts were just out-growths of the times, and it is not accurate to record them as economic failures.<sup>10</sup>

#### THE FARMERS UNION

The Farmers Union was an outgrowth of the Old Farmers Alliance, and was established in 1902. It grew rapidly in the Southern States and later shifted westward. In its early years the business agent was used, but gradually they adopted the Rochdale pattern of cooperation.<sup>11</sup> The various State agencies became very cautious about their business ventures and a careful study of cooperation was made. The Kentucky State Union listed the following essentials to successful cooperation:

1. Sufficient business a necessity.

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9 J. D. Hicks, *The Populist Revolt*, P. 135.

10 J. G. Knapp and J. H. Lister, "Cooperative Purchase of Farm Supplies," Farm Credit Administration, Bulletin No. 1, P. 12.

11 *Ibid*, P. 13.

2. The unit must lie in a restricted area.
3. A business simple in character.
4. There must be vital interests involved.
5. Members should have an intelligent understanding of cooperation and the "cooperative spirit".
6. Sufficient patience to build the organization gradually.
7. There must be loyalty to the association.
8. Quality and equality.
9. There must be sufficient capital.
10. The cooperative enterprise must be incorporated.
11. Competent and efficient management, a board of directors selected for fitness.
12. Business like in character.
13. Adequate system of accounting.
14. Careful auditing--absolute publicity.
15. Transfer of shares.
16. Good federation of cooperative societies.
17. The "fundamental principles" in the management of a society are found in the "Rochdale System".

These considerations were for the benefit of the local stores and attempted to discourage unnecessary business ventures.

The most notable developments in cooperative purchasing under the direction of the Farmers Union have occurred in

Nebraska, Oklahoma, Kansas, Iowa, the Dakotas, and Minnesota. Many of the early Farmers Union stores are still operating today and this movement should be labeled as one of the more successful attempts at consumer cooperation.<sup>12</sup>

#### AMERICAN SOCIETY OF EQUITY

The American Society of Equity has been of minor importance in the field of cooperative purchasing. It was organized in 1902, by the publishers of a farm paper, as a general farm protest movement. The most important developments have occurred in Wisconsin and Illinois.

Their main purpose was the establishment of cooperative elevators and creameries, and cooperative purchasing was carried on through these organizations. Orders could be placed at these associations and they would be shipped direct to farmer groups. Goods were paid for with cash and were distributed among the buyers as efficiently as possible. The most effective part of this work was in connection with dairy feeds, flour, twine, and coal.<sup>13</sup>

#### THE FARM BUREAU

The rapid expansion of agriculture during the world war was responsible for the establishment of many farmer groups. The American Farm Bureau Federation was organized in 1919 by

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<sup>12</sup> C. B. Fisher, "The Farmers Union," The University of Kentucky, Vol. 1., No. 2, P. 33-35.

<sup>13</sup> H. H. Hibbard, Marketing Agricultural Products, P. 238.

State Farm Bureau federations. Their first purpose was to promote agricultural extension work, but they later entered into the field of purchasing and selling cooperatively. The Farm Bureau was influential in the appointment of county agents, whose duty it was to educate farmers in the art of selling farm products and purchasing farm supplies. They could not, however, participate in the actual business transaction. Cooperative purchasing was done through the local organization in large enough quantities to warrant a discount. The commodities most commonly purchased were fertilizer, coal, binder twine, tile, fencing, harness, feeds, paint, salt, automobile tires, sugar, and insecticides.

The most important accomplishments have been made in Illinois, Michigan, Indiana, Ohio, and other States in the Middle West and South, where they have had strong Farm Bureau federations.<sup>14</sup>

#### INDEPENDENT COOPERATIVE PURCHASING ASSOCIATIONS

There has been a continuous growth in farmer organizations independent of any farmer movement. This movement has been intensified by the general agricultural depression since the World War. Cooperative oil associations have been the most successful group, but many retail stores have also had a rapid growth and successful careers.

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14 O. M. Kile, The Farm Bureau Movement, P. 134-139.

## COOPERATIVE OIL ASSOCIATIONS

The increased use of power machinery in farming has led to the rapid development of cooperative oil and gasoline associations. They have been a feature of cooperative movements since 1921. There are now hundreds of associations which distribute oil products cooperatively. The Farm Credit Administration reported 644 associations with a total retail business of \$31,900,000, in 1934.

The causes for the rapid growth of cooperatives in this field are:

1. Practically all farmers and a great many townspeople are consumers of petroleum products.
2. Only a small amount of capital is necessary.
3. Gasoline stations are easy to operate.
4. There is a wide margin between wholesale and retail prices.
5. The stations already in operation have had<sup>15</sup> a remarkable success.

One of the most successful growths has been experienced by a Noble County, Indiana oil cooperative. Farmers joined together and borrowed \$17,500 for a bulk oil cooperative at Albion. They paid \$100 for a membership in a wholesale cooperative at Indianapolis, and spent the rest for equipment. At the end of the first year, they had made a profit

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15 "Cooperation," Monthly Labor Review, Vol. 30, Jan., 1930, P. 77.

of \$6500 and refunded 12% on purchases. Today, 650 of the 2200 Noble County farmers are members and 700 others are buying memberships by letting their dividends pile up. At the end of 1936 they had paid off their loan and had a net worth of \$32,000.<sup>16</sup>

Seemingly, oil and gasoline associations have proved more successful than other types of consumer organizations. In 1936, four million dollars was returned to members, in savings in oil and gas alone.

#### COOPERATIVE STORES

The first of the modern consumer cooperatives was organized by a group of immigrant women in 1910. These Waukegan, Illinois women were dissatisfied with the price they were forced to pay for milk. Their husbands salaries had been cut and it became necessary for them to work out some scheme whereby they could save on their milk bill. They organized a small group with headquarters in a little basement, and ordered milk in large quantities. Today, the Co-operative Trading Company of Waukegan owns its own pasteurizing plant and has a fleet of delivery trucks; they also handle a complete line of groceries.<sup>17</sup>

The Finns have been an active foreign group in this country, because of their knowledge of cooperatives and a desire for special foods. One of their most successful

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16 "Consumers' Cooperation," Fortune, Vol. XV, No. 3, March 1937, P. 137.

17 Ibid, P. 140.

movements has been the Minnesota Cloquet Mercantile Company, which today has a membership of 2500 families in a town of 7000. They employ 65 persons with a monthly payroll of \$6000. Nine trucks are kept busy, and in 1936 their sales were over one million dollars. In 1917 they decided to organize their own wholesale. Their original investment of \$15 had grown to \$200,000 by 1935.<sup>18</sup> The Finns have generally been successful, but this was their most outstanding venture.

Interest in cooperative stores has been rapidly increasing since the World War, but until 1930 it was chiefly a farm movement. The recent depression led to the establishment of many city cooperatives. Employees of many types have been attempting to increase their purchasing power through cooperative buying.

#### CONSUMER COOPERATION TODAY

America has 6500 consumer cooperatives serving 2,000,000 families, in cities as well as the country. They did a gross business of \$500,000,000 in 1936, which was a \$75,000,000 increase over 1935. One and three tenths percent of the retail business in the United States was done cooperatively in 1936. This is very low when we consider 10% in Sweden, 15% in Denmark, 25% in Finland, and 15% in England.<sup>19</sup>

There was a considerable expansion in consumer cooperatives in cities during the years 1934 and 1935, with the

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<sup>18</sup> Ibid, P. 140.

<sup>19</sup> Ibid, P. 133-137.

major development occurring in the Northern States.

The present tendency is for consumer cooperatives to buy from cooperative wholesales. In 1936, according to the March, 1937 Fortune, there were 23 wholesale associations in the United States, the largest of which is located at Superior, Wisconsin. It ships goods to one-hundred and thirty member cooperatives and has an annual business of three million dollars. The wholesale cooperatives are owned and operated by their members the same as the retail establishments.

#### THE GOVERNMENT AND THE COOPERATIVES

The government's attitude toward cooperatives determines to a great extent their future. The United States government has officially recognized the possibilities of this form of business organization.

The government is interested in helping consumer cooperatives and has succeeded in supplying the properly organized cooperatives with credit at a low rate. During the past few years, much time and money have been spent investigating cooperation here and abroad, in an attempt to determine their usefulness and economic justification.

## Chapter II

THE FARMERS UNION COOPERATIVE EXCHANGE OF STILLWATER<sup>1</sup>

The westward movement of agriculture was closely followed by farmer organizations and cooperative buying. The National Farmers Union was established before Oklahoma became a state, but soon after statehood, local Farmers Union Associations began applying for charters under the laws of the new state.

Local Farmers Union Associations were responsible for the establishment of the Farmers Union Exchange of Stillwater. This store has been chosen for study because of its rapid growth and the abundance of available records. An effort has been made to trace the development of the store and to examine the present policies of the business.

The early history was supplied by Mr. Mitch Edmundson and Mr. Horton, who were charter members and very active in the organization, and Mr. Franklin, who was one time manager of the store. Information on recent development and policies was supplied by Mr. Chester Williams, the present manager and Mr. Gus Wilson, the auditor.

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1 Data used in this section is found in the appendix.

## I HISTORY AND DEVELOPMENT

The National Farmers Union was organized in 1902, and not many years later local associations began to spring up throughout Payne County. Nearly every school district had a local association of the Farmers Union. They held regular meetings for the discussion of important matters and it was not long before they became interested in co-operative purchasing of farm supplies. John Simpson, one time National President of the Farmers Union, organized several of these locals and contributed much to their strength and success.

Their first cooperative move was the purchase of farm supplies in large quantities. A young fellow by the name of Henry Horton, who had previously been engaged in the retail business, was well acquainted with the wholesale merchants and succeeded in obtaining goods at wholesale prices for members. The money was pooled and each farmer paid cash for what products he received. There was no necessity for a warehouse or office as the goods traveled directly from the railroad station to the farm, every farmer making his own delivery.

This cooperative bulk buying met with such success that the ten or eleven locals near Stillwater decided to consolidate and organize a retail store to handle groceries and farm products. They were also to engage in the purchase of farm produce, chiefly cream, eggs, and poultry. They were incorporated on January 20, 1921, with an authorized capital

stock of \$50,000. Members felt Henry Horton had so ably served them in their previous undertaking, that the board of directors elected him to manage the business. They purchased a store that was already in operation and paid the owner for the stock he had on hand. The former owner had been doing a wholesale business and it was necessary for them to go to a great deal of expense to remodel the building into a retail establishment. When they had made additional purchases and were ready to do business, only \$500 was left to serve as a reserve and carry on their transactions. They were taking a great risk by starting operations with such a small amount of capital.

About the middle of April, 1921, they opened the store for business. There were not enough clerks to handle the Friday and Saturday rush, as every union member did his trading there in addition to the numerous other farmers who were giving the store a trial. From Friday noon until Saturday night they purchased one hundred and fifteen cases of eggs, at a price four cents per dozen above the prevailing local price.

The Farmers Union Cooperative Exchange of Stillwater did an enormous business its first year in operation, but the second year did not prove so successful. The members in the neighboring town of Perkins organized a store of their own which took about one-third of their trade. The resulting shortage in cash and customers left them in a bad financial condition at the close of their second year. This

condition was climaxed by the shipment of two carloads of flour and feed. When the order arrived the manager had only fifty dollars in available cash. As these products were an essential part of the business and there was no supply on hand, the manager closed the store until some arrangements could be made.

The Exchange was in no condition to borrow from the bank so the responsibility fell upon the members. Ten members went together and borrowed \$1000 from the bank, each signing a note for \$100. A new manager, by the name of Mr. Yancy, was elected to manage the store when it reopened. Under new management, the store paid small dividends with annual sales at a quarter-million dollars. The board of directors voted to revise their plan of dividend payment. The plan was to pay 8% on capital stock outstanding, as they always had done, and the remainder was to be divided according to patronage. This was soon abandoned as they seldom earned enough to pay the 8%.

About 1926, they decided to open a branch store at Glencoe, Oklahoma. The farmers in that community seemed to be interested and they had no trouble in getting subscribers to stock. The new store was under the same management as the Stillwater store, having the same board of directors. Mr. Yancy's son-in-law was elected to manage the store. This adventure proved to be unsuccessful and the business was sold in 1930. The Stillwater store made all the stock good and paid off the members 100%.

Mr. Brock, who was formerly in the wholesale business, was made manager of the Stillwater store in 1929, but after one years service was dismissed. There seemed to be much discontent among the members, and the board of directors was not functioning properly. Mr. Franklin, who had been employed in the store for several years, was elected to take the management. The business, seemingly, was well conducted, but it was not making a satisfactory return. Mr. Franklin had only been manager one year when Mr. Williams, the present manager, was elected to take his place in May, 1931.

The business seemed to be doing better in 1932 and the Farmers Union Store moved to its present location at Eighth and Husband Street. They had a membership of about 235, but only a little over one-hundred of these were patronizing the store. The business was paying small dividends, but there was no incentive for the members to trade there as they were not paying patronage dividends.

The Farmers Union Cooperative Exchange had never been an outstanding success and had never been in a safe financial condition since its organization. In 1932, Mr. Williams formulated a plan of reorganization which he thought would be of substantial aid. The Rochdale principles of cooperation were accepted as the most effective pattern and the store was not following them as closely as it should. The board of directors saw the advantages, and changes were made at once to comply with the above mentioned principles.

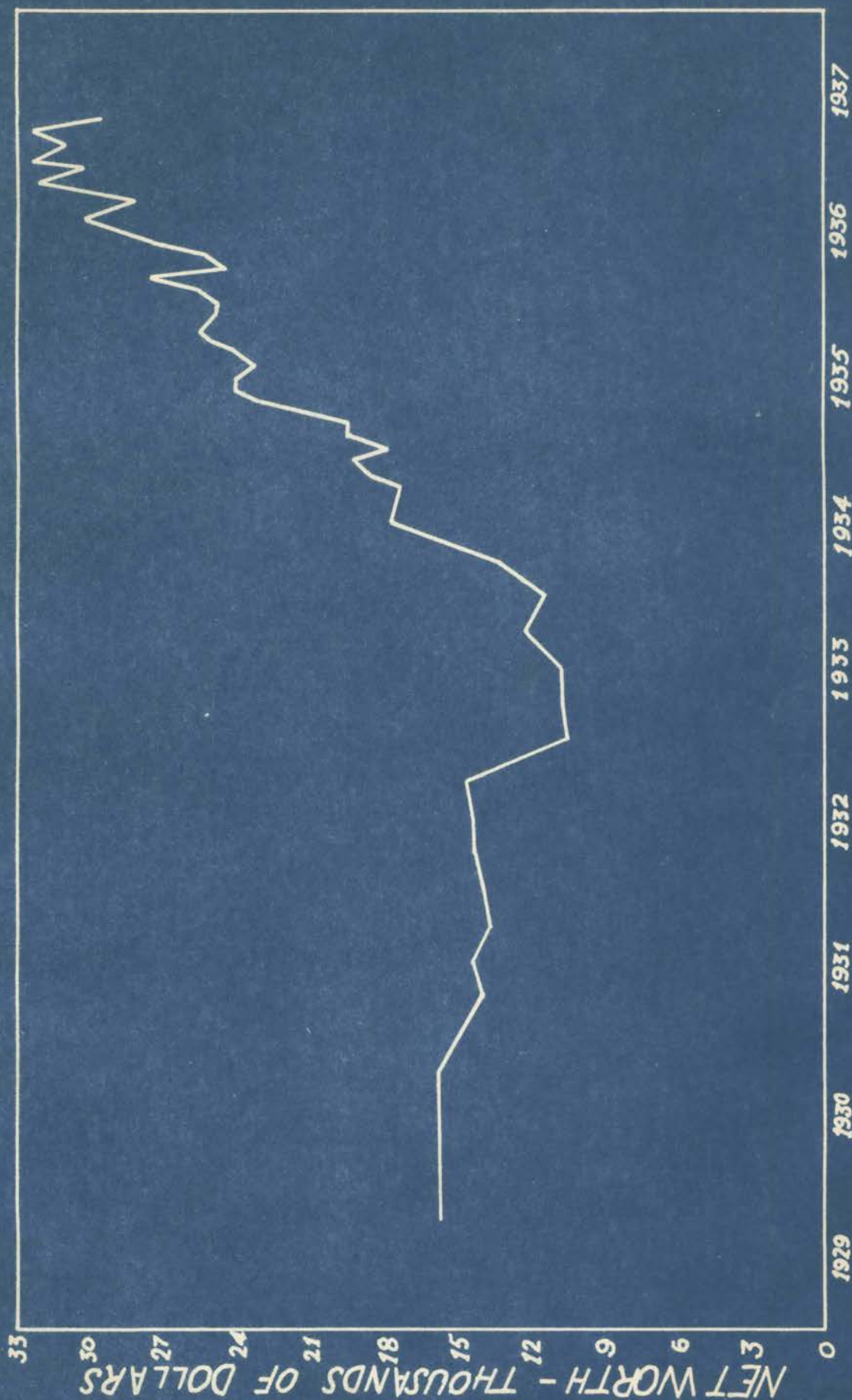
It was the practice to pay dividends in the form of 8% on the amount of stock held, membership was open only to farmers, and a farmer was required to hold a fully paid share of stock in order to participate in the earnings. Under the new plan, dividends were paid on the basis of patronage (no interest payment going to holders of common stock), and there was a greater incentive for members to patronize the store. Membership was open to all and the added volume of business would place the concern on a paying basis. Any person could subscribe to a \$20 share of stock for \$1 and complete payment by letting dividends pile up; more consumers could thereby cooperate. These changes caused an enormous increase in membership and sales, resulting in a large dividend payment in 1933 of \$2,688, making the organization a going concern for the first time in its history.

The Grocery and Farm Products Departments were showing such favorable gains that later in the year 1932 the Petroleum Department was added. The store was in a good location for such an addition (inasmuch as it was located on a corner of a busy intersection), and the Petroleum Department was profitable from the very beginning. The wide margin between wholesale and retail prices on these products makes it very desirable for cooperative enterprise.

The sales of the organization doubled from 1933 to 1934 (Table I) and, in keeping with the principles of cooperation, they added another department in 1934, the

FARMERS UNION COOPERATIVE EXCHANGE OF STILLWATER, OKLAHOMA

NET WORTH - 1929-1937



SOURCE: RECORDS OF CORPORATION

Automobile Department. This has been the most unprofitable department, but it has succeeded in giving members a good product at a discount.

Table I

Annual sales of and dividends paid by the Farmers Union Cooperative Exchange from 1929 to 1936.

Year	Annual Sales	Dividends Paid
1929	\$128,000	\$
1930	149,000	420
1931	119,000	662
1932	119,000	480
1933	123,000	2,688
1934	254,000	8,573
1935	356,000	10,831
1936	411,000	12,858

Source: Records of the corporation.

Today, the Farmers Union Cooperative Exchange is one of the biggest businesses in Stillwater, with annual sales of nearly one-half million dollars. It employs thirty full-time and ten part-time employees. As shown by Chart I, the net worth of the business has grown from \$16,000 in 1930 to over \$30,000 in 1937. The concern has not only grown in size, but the benefits to members have been increasing in somewhat the same proportions. Dividends have increased from \$420 in 1930 to almost \$13,000 in 1936 (Table I). In 1936, members received an average return of 3% on their purchases (Chart III). In view of these facts, we can fairly say that the Farmers Union Cooperative Exchange of Stillwater

has been successful in its attempt to give the consumers merchandise at a saving.

## II. ANALYSIS OF BUSINESS OPERATIONS

The Farmers Exchange is governed by its board of directors and they determine the personnel and policies of the organization. They are elected by the stock-holders and represent them in the business.

### CAPITAL STRUCTURE.

The original charter was granted authorizing a capital stock of \$50,000. A few years later, in order to save on capital stock tax, this was cut to \$15,000. The rapid expansion of the business in 1934 made it necessary for them to increase the authorization to \$35,000, \$20,000 in common stock and \$15,000 in preferred.

Common stock is issued in \$20 shares and may be subscribed to for one dollar; the remainder to be paid through the accumulation of dividends. When a subscriber pays \$1, he is entitled to all the privileges of membership and has one vote in the Exchange. On May 31, 1937, there were 468 paid up members and 385 in the process of paying for their stock, giving a total membership of 853.

Preferred stock was first issued in November, 1935, and in March, 1937 there was stock only to the amount of \$580 outstanding. In order to hold preferred stock, a member must also hold one share of common stock and he cannot dispose of his common stock and still hold the preferred.

The preferred stock has a first claim on the dividends and assets of the business, and pays 6% annually.

When the policy of patronage dividends was started in 1933, there was no necessity for any member to hold more than one share of common stock. In order to retire common stock without too much of a drain on the cash resources of the business, the common stock was made convertible into 6% bonds. If a member had more than two shares of common stock, the bonds were issued so that one would mature each year until paid. This plan was optional with the stockholders, but most of them took advantage of it.

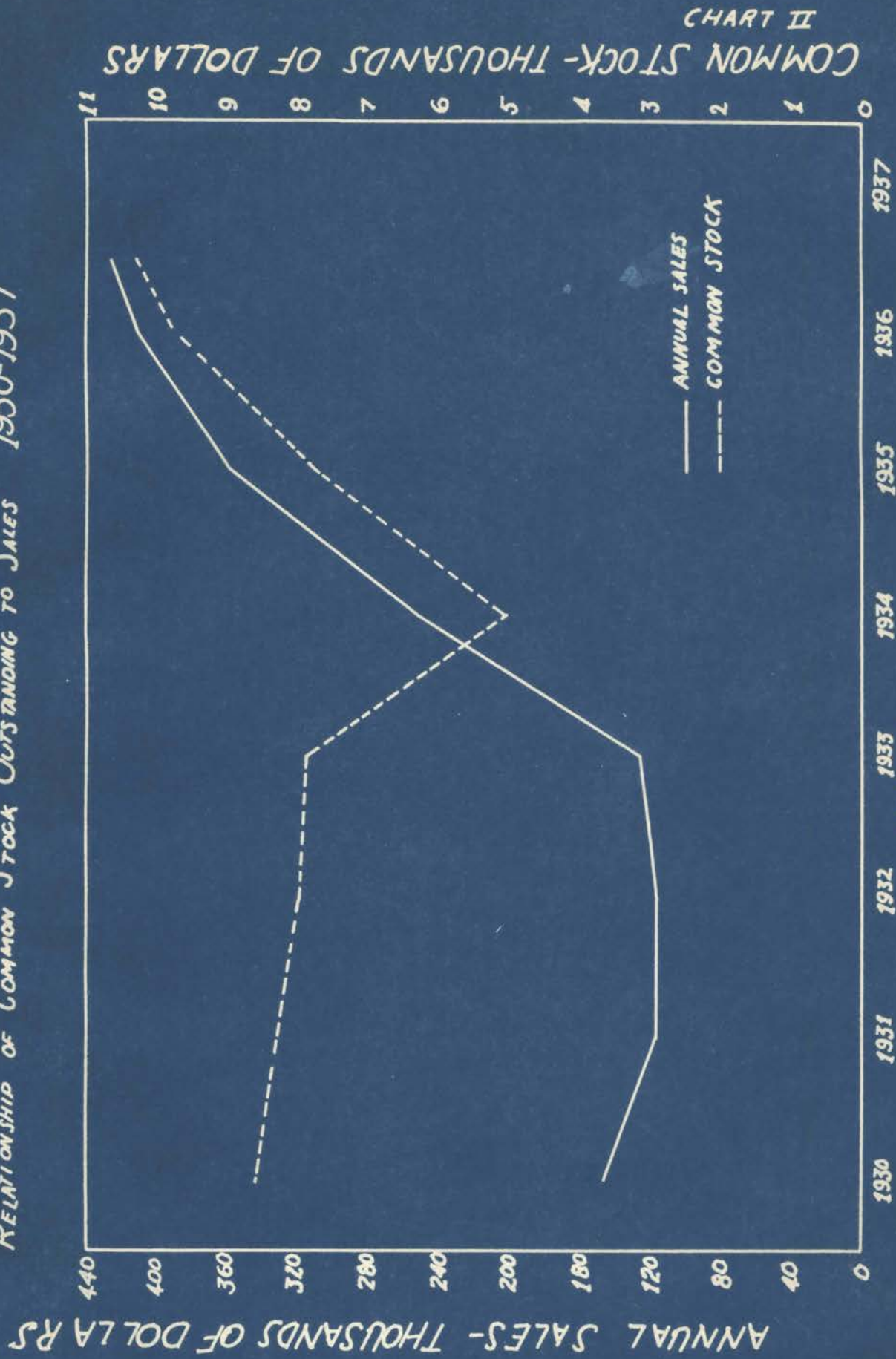
#### NET WORTH.

There has been a steady growth in the net worth of the business since 1929 (Chart I). There was a low period in 1933 when the first patronage dividends were paid, which was due to the conversion of stocks into bonds. The net worth takes a sharp drop at the end of each quarter because of the payment of dividends.

The net worth of the business, which is made up of capital stock and surplus, consequently is affected by the common stock outstanding as shown in Table II. The decline in the common stock in 1934 was due to the conversion of stock into bonds on the adoption of the patronage dividend plan. Since 1934, however, they have been moving in somewhat the same relationship.

# FARMERS UNION COOPERATIVE EXCHANGE OF STILLWATER, OKLAHOMA

## RELATIONSHIP OF COMMON STOCK OUTSTANDING TO SALES 1930-1937



SOURCE: RECORDS OF CORPORATION

Table II

Net worth, common stock outstanding, sales, and dividends paid--The Farmers Union Cooperative Exchange from 1930 to 1936.

Year	Net Worth	Com. Stk. Out.	Sales	Div. Paid
1930	\$14,042	\$8,600	\$149,000	\$ 420
1931	14,494	8,300	119,000	662
1932	10,927	8,000	119,000	480
1933	13,401	7,900	123,000	2,688
1934	20,906	5,100	254,000	8,573
1935	24,483	7,680	336,000	10,831
1936	29,469	9,780	411,000	12,858

Source: Records of the corporation.

Total sales have had a direct effect on the net worth. The added volume of business has been profitable to the organization, making greater efficiency in operation possible (Table II).

The amount of dividends paid has not affected the growth of the net worth, as is the case in many cooperatives. A large percentage of the dividends paid are applied on capital stock which accounts for much of the relationship as shown in Table II.

#### MEMBERSHIP.

Membership in the organization is open to all who are interested, regardless of occupation, religion, or race. Many college employees and townspeople have become active in the organization since the adoption of open membership. Very few new members pay for their stock in full, but most of them take advantage of the one dollar subscription plan.

The business has grown from a membership of 230 in 1932, to 853 in 1937.

There is a direct relationship between sales and membership. Chart II shows the relationship between sales and common stock outstanding. Common stock outstanding is a good indication of membership as only a few stockholders have more than one share. The fluctuation in 1933 and 1934 was caused by a change in policy. They began paying dividends on the basis of patronage and converted extra shares of stock into bonds. Previously there had been no form of patronage dividends.

The farmers are no longer the sole owners nor the most important group in the organization, but through open membership the volume of trade has increased so as to net them a greater return and give them a safer investment.

#### CREDIT POLICY.

One of the essentials of sound cooperation is to sell all goods on a strictly cash basis. The failure to comply with this principle has meant the downfall of many cooperative organizations. The Farmers Exchange does a big credit business, but has apparently been handled with reasonable precaution. As long as they continue to operate carefully little harm will result, but as soon as politics and allowances to members enter in, the business will cease to prosper.

Before customers are granted credit a credit application blank must be filled out. If the submitted information is

favorable, it is approved and an account is opened for the new customer. The accounts are aged quarterly to determine the trend on collections and to charge off uncollectable accounts.

Today, the Farmers Union Cooperative has over 1100 credit customers, but the accounts are in a very good condition. The accounts receivable account has been increasing with sales (Table III), which is a normal condition. The reserve for bad debts has also been increasing with increased sales, but in 1936 this account was almost cut in half as can be seen in Table III. Many old accounts have been written off and the business, seemingly, is on a satisfactory credit basis, with 85% of accounts receivable less than thirty days old.

Table III

Accounts receivable, sales, and reserve for bad debts of the Farmers Union Cooperative Exchange from 1930 to 1936.

Year	Accts. Rec.	Sales	Res. for Bad Debts
1930	\$ 7,893	\$149,000	\$2,460
1931	10,708	119,000	3,298
1932	8,836	119,000	3,418
1933	15,971	123,000	3,051
1934	20,683	254,000	3,481
1935	21,558	356,000	4,834
1936	27,785	411,000	2,607

Source: Records of the corporation.

Credit is given only on a monthly basis and it is against

their policy to accommodate a customer for more than thirty days. The management makes a careful monthly study of accounts receivable and as long as present practices are continued, there will be no evil effects.

#### DIVIDENDS.

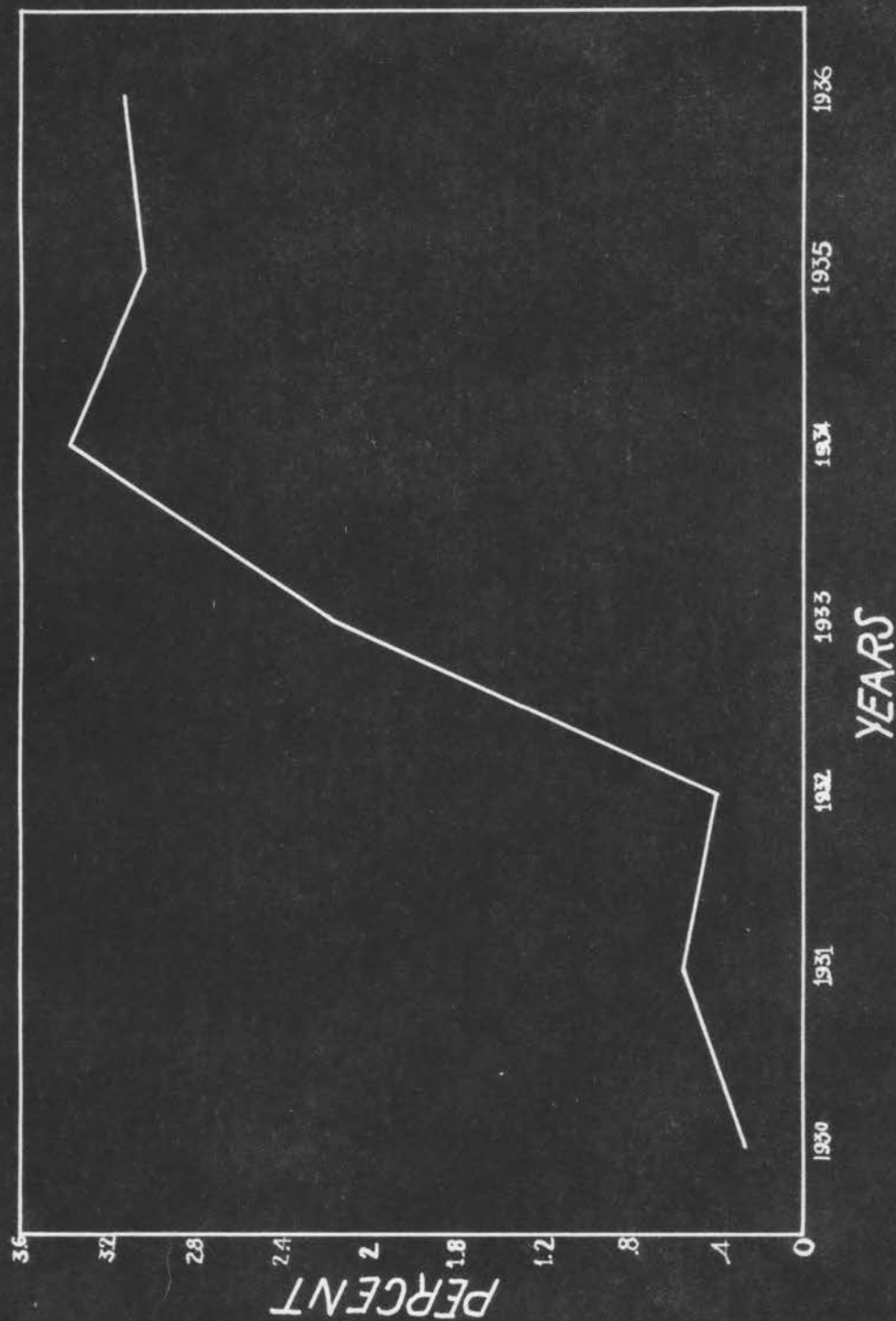
The savings through consumer cooperation are paid in the form of patronage dividends at the end of each quarter. The board of directors declares the rate which shall be paid each member. This policy of patronage dividends conforms with the statutes of the State of Oklahoma, by which the cooperatives are governed. The section pertaining to the payment of dividends, contained in the compiled Oklahoma Statutes 5648, Article XI states: "The directors, subject to revision by the stockholders, at any general or special meeting lawfully called shall apportion the net earnings and profits thereof from time to time at least once in each year in the following manner:

(1) Not less than ten per cent thereof accruing since the last apportionment shall be set aside in a surplus or reserve fund until such fund shall equal at least fifty per cent of the paid up capital stock.

(2) Dividends at a rate not to exceed eight per cent per annum, may, in the discretion of the directors, be declared upon the paid up capital stock. Five per cent may be set aside for educational purposes.

(3) The remainder of such earnings and profits shall

FARMERS UNION COOPERATIVE EXCHANGE OF STILLWATER, OKLAHOMA  
DIVIDENDS AS A PERCENTAGE OF SALES 1930-1936



SOURCE: RECORDS OF THE CORPORATION

be apportioned and paid to its members ratably upon the amounts of the products sold to the cooperative by its members, and the amounts of the purchases of members from the corporation: provided, that if the by-laws of the corporation shall so provide the directors may apportion such earnings and profits in part to non-members upon the amount of their purchases and sales from or to the corporation."

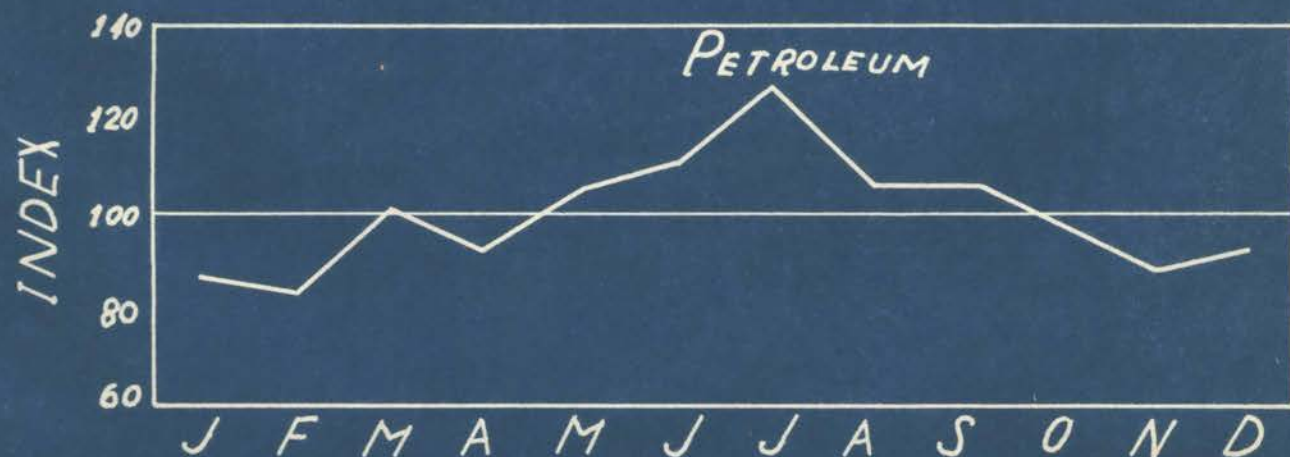
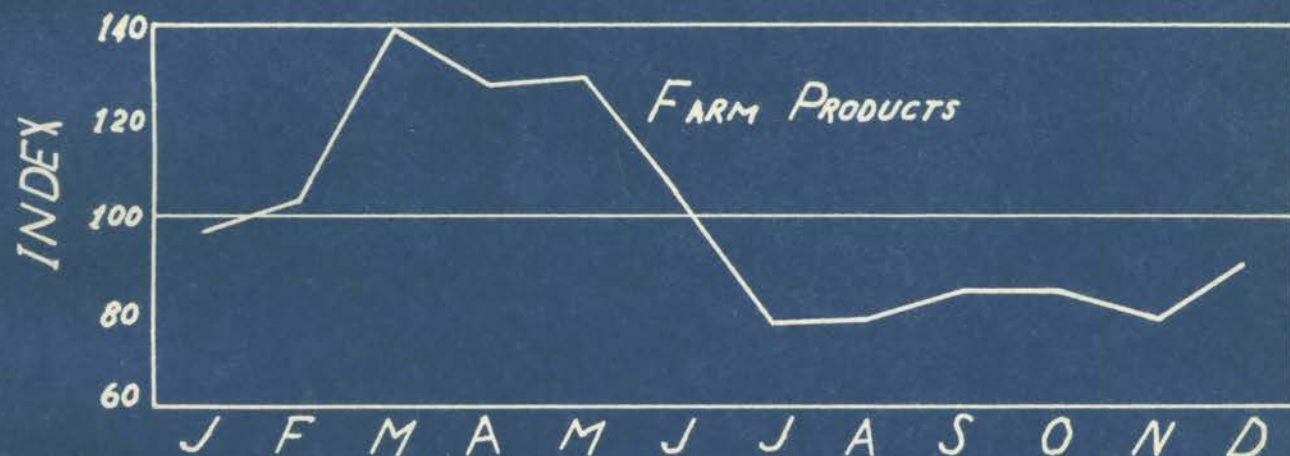
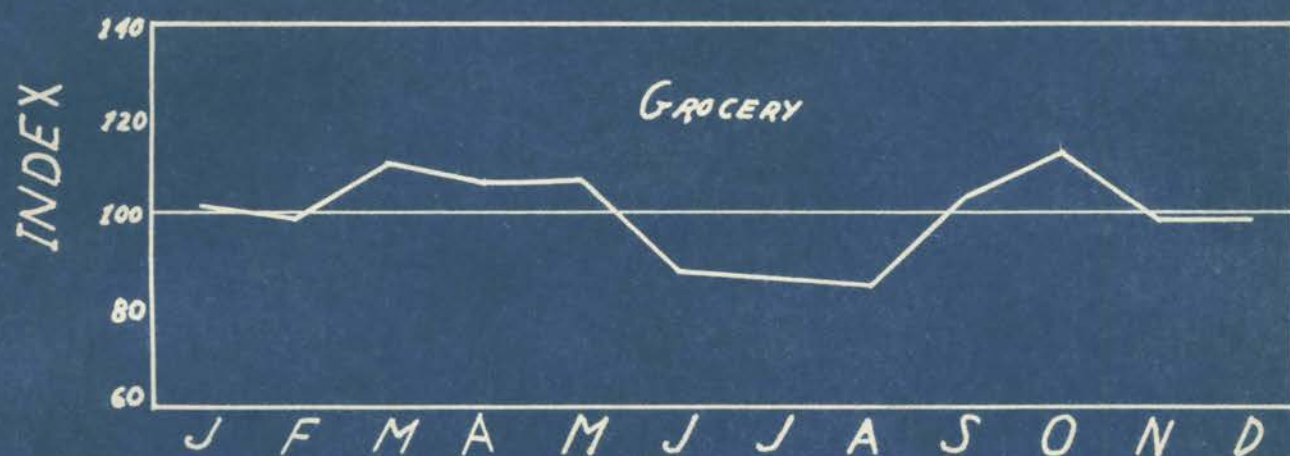
Through patronage dividends, members receive the earnings resulting from sales to non-members. In 1936, 37% of the total sales of the Farmers Union Exchange was made to non-members, as compared to 55% in 1935. The stock holder earns more than savings on the goods that he purchases, he also gets his share of the profit on non-member trade.

For the past few years, the dividend rate has been fairly well established. The various departments have been paying the following dividends: Grocery Department--5%, Farm Products Department--3%, Petroleum Department--12½%, Miscellaneous Department--5%, and the Automobile Department--1%. \$12,000 was paid in patronage dividends last year, which was an increase of \$2,000 over 1935 and a \$10,000 increase over 1933. Dividends were less than 1% of sales prior to 1933, but since then they have been 3% of sales (Chart III). The reason for the large percentage increase in 1933 was the adoption of the patronage dividend plan.

FARMERS UNION COOPERATIVE EXCHANGE OF  
STILLWATER, OKLAHOMA

SEASONAL VARIATION OF SALES - MONTHLY

CHART IV



SOURCE: RECORDS OF CORPORATION

When the consumer makes a purchase, he pays the regular retail price for the goods, and at the end of the quarter receives his saving in one lump sum.

DEPARTMENTAL SALES.

Each department is well defined and has its own head. The department heads are responsible to the manager and it is the manager's duty to supervise their activities. A separate ratio is set up for each department, which serves as a budget. Chart V shows the total sales of each department and the beginning and growth of each. The seasonal variation of sales in the Grocery, Farm Products, and Petroleum Departments is shown in Chart IV.

Grocery Department--The Grocery Department is the oldest part of the business and its sales are fairly steady throughout the year. Because of the college vacation, June, July, and August are the months of lowest sales (Chart IV). Sales in the Grocery Department amounted to \$120,000 in 1936 (Chart V).

Farm Products Department--This has always been a major department, because the farmers first step toward cooperation is usually in the purchase of farm products. The greatest sales during the year are made in March, May, and June (Chart IV) when the farmers are buying seed and equipment for the spring planting. Last year's sales amounted to \$120,000 (Chart V).

Petroleum Department--Sales in this department last year

SALES - THOUSANDS OF DOLLARS

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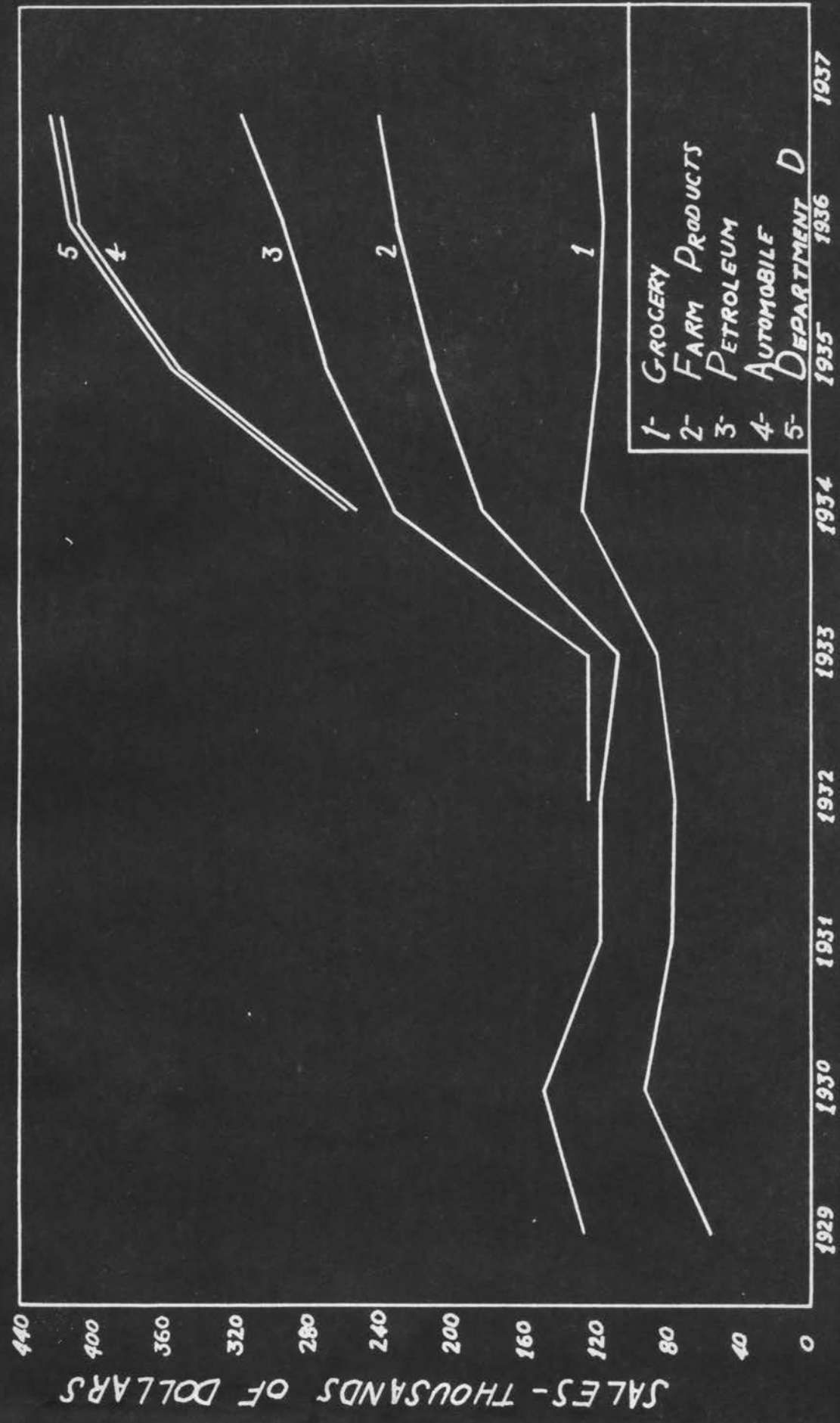
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Petroleum Department--Sales in this department last year

CHART V

FARMERS UNION COOPERATIVE EXCHANGE OF STILLWATER, OKLAHOMA

ANNUAL SALES - 1929-1937



SOURCE: RECORDS OF CORPORATION

amounted to nearly \$70,000 (Chart V). The months of June and July, when much traveling is being done, account for the biggest share (Chart IV).

Automobile Department--The Automobile Department was responsible for over \$90,000 in sales during 1936 (Chart V). Sales are erratic from month to month and a good seasonal index cannot be calculated, but the biggest sales in automobiles does occur when the new models are shown.

Department "D"--The miscellaneous department is responsible for only a small share of the total sales, as the goods are usually secured by order. Radios, washing machines, and refrigerators are handled through this department.

#### BOOKKEEPING RECORDS.

The Farmers Union Cooperative Exchange is divided into five departments:

- A. Grocery Department
- B. Farm Products Department
- C. Petroleum Department
- D. Miscellaneous Department
- E. Automobile Department

The purpose of this division is to determine the profitability of the various departments. The management can determine the size of inventories to be carried, amount and nature of expenses, and arrive at future policies.

A complete check of all sales tickets is made at the close of the day's business and a summary sheet is prepared

which classifies the various transactions. All transactions are entered daily.

The books are closed at the end of each month so that the management may always know the condition of the business. The operating and financial statements are prepared for submittal to the board of directors.

The Farmers Union Cooperative Exchange does comply with the pattern of good cooperation in this respect. Complete records and a careful audit are necessary for a business of this type.

#### EDUCATIONAL ACTIVITIES.

Constant educational and promotional work is necessary for the continued growth of a cooperative enterprise, as the public has not become acquainted with their principles.

The Farmers Cooperative has an educational fund which was started in September, 1934, with the deposit of \$7 in the account. This account has grown to \$663 by March, 1937. Dividend checks that are unclaimed, donations, and small appropriations are responsible for its growth.

The educational work that has been done by the cooperative has been paid for out of other accounts, but the expense has been very small. Plans are being made for the utilization of this fund. This is to be done by the distribution of cooperative information to members.

#### OBSTACLES TO GROWTH.

The other merchants of Stillwater have fought the Farmers Exchange since its beginning. This has probably aided the

business more than it has harmed it, as fighting an organization usually makes it stronger. By fighting the Farmers Exchange, they have caused the members to become more loyal and interested in the business, resulting in better cooperation. This factor has contributed considerably to interest in the cooperative, but its growth has probably been due to good management.

Lack of education along cooperative lines is the cause for some cooperative failures. The people of Stillwater are not lacking in this feature as the business men have kept the Farmers Cooperative Exchange constantly before the public.

The future of the Farmers Union Cooperative Exchange of Stillwater lies in its management. If the members and the board of directors have the foresight and ability to keep good management, the business will not fail.

### III. SUMMARY

The Farmers Union Cooperative Exchange of Stillwater was the result of a combination of a group of local associations near Stillwater. The charter was granted on January 20, 1921.

The first ten years were unsuccessful and the business showed no signs of development.

Since 1931, the business has experienced a very rapid growth and today, has five separate departments with annual sales of \$411,000.

### IV. CONCLUSION

Poor management and discontent among the members were

responsible for the early difficulties of the organization. The stockholders expected special favors from the managers and they did not understand the principles of cooperative purchasing.

The lifting of the ban on non-farmers for membership and the adoption of the patronage dividend policy, apparently, were responsible for the upward trend of the business.

On the basis of dividends paid and volume of business, the Farmers Union Cooperative Exchange has been successful the past three years. The granting of credit, which is contrary to cooperative principles, will probably not prove disastrous as long as it is kept under close supervision.

## APPENDIX

Table I

Data on the Farmers Union Cooperative Exchange of Stillwater,  
Oklahoma, from 1930 to 1936.

Year	Net Worth	Com. Stk. Out.	Sales	Div. Paid	Div. as % of Sales	Accts. Rec.	Res. for Bad Debts
1930	\$14,042	\$8,600	\$149,000	\$ 420	.28	\$ 7,893	\$2,460
1931	14,494	8,300	119,000	662	.56	10,708	3,298
1932	10,927	8,000	119,000	480	.40	8,836	3,418
1933	13,401	7,900	123,000	2,688	2.18	15,971	3,051
1934	20,906	5,100	254,000	8,573	3.37	20,683	3,481
1935	24,483	7,680	356,000	10,831	3.04	21,558	4,834
1936	29,469	9,780	411,000	12,858	3.12	27,785	2,607

Source: Records of The Farmers Union Cooperative Exchange of Stillwater.

Table II  
Departmental Sales of the Farmers Union Cooperative  
Exchange from 1930 to 1936.

Year	Grocery Dept.	Farm Products Dept.	Petroleum Dept.	Automobile Dept.	Department D
1930	\$87,557	\$ 51,578	\$	\$	\$
1931	80,005	39,455			
1932	77,745	36,036	7,832		
1933	92,606	31,060	24,697		
1934	130,320	68,358	51,088	23,629	2,547
1935	116,028	94,527	59,913	113,571	1,310
1936	120,357	124,112	67,705	95,821	4,140

Source: Records of the Corporation.

Table III  
Seasonal Index of the Grocery, Farm Products, and Petroleum  
Departments

Jan.	Feb.	Mar.	Apr.	May	Jne.	Jly.	Aug.	Sept.	Oct.	Nov.	Dec.
Grocery Department											
101.9	99.6	110.6	106.7	106.8	88.2	86.4	85.7	102.8	112.2	99.3	99.7
Farm Products Department											
96.7	102.3	140.8	127.2	128.9	105.8	78.0	79.0	84.3	85.0	79.9	92.1
Petroleum Department											
87.4	83.5	100.9	93.0	104.6	110.2	127.0	107.0	106.6	99.0	88.1	92.8

Base: 100, the average monthly business for the years 1934 to 1937.

Source: Records of the corporation.

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