COOPERATIVE MARKETING OF HORTICULTURAL PRODUCTS

BY J. W. LLOYD

URBANA, ILLINOIS
INTRODUCTORY NOTE

Professor J. W. Lloyd, while in California on leave of absence from the University of Illinois (1915 to 1917), made an exhaustive, first-hand study of marketing methods employed in the handling of California horticultural products. The results of his studies were published in the University of Illinois Studies in the Social Sciences, Vol. VIII, No. 1, under the title "Cooperative and Other Organized Methods of Marketing California Horticultural Products."

The supply of the above publication has become completely exhausted, yet the demand for the information contained therein is persistent and urgent. Arrangements are being made for the republication of the complete work. However, this will occupy considerable time; and it is deemed especially important that some of the main points in this monograph be made immediately accessible to the farmers of Illinois and other states. At my suggestion, therefore, Professor Lloyd has prepared the present paper, which is a series of extracts from the original publication.

While the subject is presented from the standpoint of marketing California horticultural products, the discussion of methods employed and the statement of principles involved will be helpful in working out marketing methods for other products and other localities.

E. Davenport,
Director

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By J. W. Lloyd, Chief in Oléiculture

ADVANTAGES OF COOPERATIVE MARKETING

Three methods of marketing California horticultural products may be noted: (1) outright sale to speculative buyers, (2) consignment upon a commission basis, and (3) sale thru a growers’ cooperative marketing organization.

Each of these methods has characterized certain periods in the marketing of the various California products. In the early eighties of the last century, California fruit was usually purchased outright from the growers by speculative buyers who shipped it to a few of the larger markets. California fruit in the eastern markets was then looked upon as a luxury to be indulged in only by the wealthy, and the limited shipments were sold at exorbitant prices. During this period, the buyers paid good prices to the growers, and at the same time made large profits for themselves.

Within a few years, however, with increased production, the markets seemed to be easily oversupplied, and the former buyers refused to purchase fruit from the growers, but were willing to handle it upon a commission basis, in addition to a fixed charge for packing. This arrangement relieved the shipper of all risk and insured him a profit, but placed the grower at the mercy of an uncertain market, and finally resulted in such low returns that the entire fruit industry of the state was threatened with ruin. The crisis was reached during the financial panic of 1893. For a few years previous to that date, efforts had been made by growers to devise some better method of marketing their products; and in a few places small local associations had been organized. A special impetus was given to the formation of fruit growers’ cooperative marketing organizations in 1893, particularly among orange growers in the southern part of the state.

Besides the citrus fruit growers, producers of deciduous fresh fruits, raisins, dried peaches, walnuts, almonds, apples, berries, and cantaloupes, have formed marketing organizations which are at the present time in active operation.

A study of the accomplishments of these organizations indicates that growers’ cooperative marketing organizations handling California horticultural products are capable of:

1. Reducing the cost of marketing
2. Improving the distribution of the product
3. Increasing the demand for the product
4. Standardizing the product
5. Protecting the individual grower
HOW MARKETING COSTS HAVE BEEN REDUCED

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

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

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

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

In the orange growers' organizations, not only the cost of packing, but also the cost of selling, was materially reduced when the growers took their business into their own hands. The customary commission charge seems to have been 10 percent on the gross sales, tho 7, 8, and 12 percent have also been mentioned. "The Exchange charges the growers only actual cost for . . . selling the fruit which . . . [in 1895 was] about 4 percent, a saving of a full $150,000 this year to the growers." In a feature article in the Los Angeles Herald, June 27, 1897, based on data furnished by the officers of the Southern California Fruit Exchange, the statement was made that, "Under the Exchange system the cost [of selling the fruit] the past season has
been only 7½ cents a box. The old [commission] system of charging would be about 25 cents a box on Navels and about 17 cents a box on seedlings. Here is a saving of 17½ cents a box on Navels and 9½ cents a box on seedlings."

The low cost of selling instituted by the "Exchange system" in the early days has been consistently maintained to the present time, even tho the service has been vastly extended and improved. December 20, 1911, B. A. Woodford, General Manager of the California Fruit Growers Exchange, issued a statement that "prior to the formation of the Exchange . . . the growers paid the California shipper 7 to 10 percent on the gross proceeds for selling the fruit. Now, a better service is open to all growers for less than 3 percent." The annual reports of the present general manager, G. Harold Powell, show that the cost of selling citrus fruits thru the California Fruit Growers Exchange, from 1912 to 1916, has been less than 3 percent on the gross sales. In this selling cost has been included the cost of maintaining a comprehensive advertising campaign each season. The continuance of this low cost of selling in spite of the greatly improved service has been made possible by reason of the large volume of business transacted, the thorou organization of all departments of the service, and the employment of salaried agents in place of brokers in the principal markets of the country.

The California Fruit Growers Exchange has also been able, in its transactions, to reduce greatly the losses due to freight overcharges or damages in transit, and to bad debts or failure of purchasers, which losses might otherwise constitute an important item in the cost of marketing.

Losses due to bad debts and similar causes have been practically eliminated by having personal representatives in all the leading markets, by conducting the business on essentially a cash basis [requiring settlement in full for every car of fruit within 48 hours after the sale is consummated], and by using local banks as depositories for funds, thus avoiding the possibility of loss due to failures while checks were being transmitted to and from California. "In thirteen years the Exchange has returned to California $192,500,000, and during this period the losses from bad debts and from all other [similar] causes have amounted to only $7,688.56 . . . This business represents transactions with 2,500 jobbers in the United States and foreign countries."

**How the Distribution of the Product Has Been Improved**

Before the formation of growers' cooperative marketing organizations in California, the fruit shipped to points outside the state was sent almost entirely to a few of the larger markets, and difficulty was experienced in disposing of the crops to advantage, under the methods
then employed, when the total annual shipments of oranges, for example, were only about 4,000 cars. The shipping was done by a number of firms, each acting independently of the others. The result was that some markets were oversupplied and others undersupplied. This occasioned a great disparity in prices. Reports of low supplies and high prices in a given market incited such heavy shipments to that market that the best market might quickly be made the poorest market.

The returns to the growers were so low that the cry of "overproduction" was set up, and in some cases large areas of fruit plantations were uprooted because the crops were netting the growers less than the cost of production.

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

One of the first and most important changes in marketing policy instituted by the cooperative organizations of growers was a widening of the distribution of their products, both as to time and place. For example, the marketing season for lemons was formerly confined almost exclusively to the hot summer months; now lemons are shipped from California twelve months in the year. Oranges were formerly used principally during the winter and early spring, and shipping ceased entirely during the summer months; now they are handled the year round. Both these results have been brought about largely thru the efforts of the California Fruit Growers Exchange in persistently calling the attention of the consuming public to the winter uses of lemons and the summer uses of oranges.

The area of distribution for their respective products has been greatly extended by nearly all the large cooperative marketing organizations of California growers, by establishing business connections in practically every city in the United States and Canada which is large enough to handle the given product in carload lots.

**How Demand for the Product Has Been Increased**

The production of California fruits, particularly citrus fruits, has been increasing much more rapidly than has the population of the United States. "The population of the United States increased 20.7 percent from 1890 to 1900; the shipments of citrus fruits increased
195 percent during the same period. From 1900 to 1910 the population increased 21 percent, while the shipments increased 292 percent during the same period."

Foreign markets, particularly those of Canada, have been developed to help take care of this increased production; but the disposition of the greatly increased quantity of citrus fruit has been made possible largely thru an increase in the per capita consumption of oranges and lemons by the people of the United States. This increased per capita consumption of oranges and lemons by the people of the United States is the direct result of systematic effort to that end by the California Fruit Growers Exchange. "There is no other force as powerful in increasing the use of citrus fruits as educational advertising to consumers. For seven years the [California Fruit Growers] Exchange has been advertising . . . continuously, the organization realizing that in times of financial depression advertising is a necessity, and that in times of prosperity it is an opportunity."

Following the success of the California Fruit Growers Exchange in advertising as a means of promoting the consumption of their products, some of the other marketing organizations have adopted essentially the same methods. The California Associated Raisin Company commenced advertising their product in 1914, and spent $117,452.64 in connection with the advertising campaign and other publicity work in disposing of the 1914 crop. This was equivalent to spending $1.64 in advertising for each ton of raisins sold, but was looked upon as a very good investment, since it was considered the direct cause of increasing the sales of seeded raisins to bakers from 750 tons in 1914 to 7,300 tons in 1915, and also laid the foundation for future sales.

**STANDARDIZATION OF THE PRODUCT**

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

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

Previous to the formation of the Sebastopol Apple Growers' Union, there was little uniformity in the grading or packing of apples in that locality. One of the principal objects in organizing the Union was to bring together the products of the numerous small orchards and standardize the pack. This has been accomplished by entirely eliminating orchard packing, and handling the whole crop under one management thru the four packing houses operated by the Union. So successful has this method been in securing a uniform pack that now the phrase "Fancy Sebastopol Gravensteins" conveys a definite meaning to the trade, and these apples are eagerly sought in the markets of Chicago, New York, and Liverpool.

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

**Protection of the Individual Grower**

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

However, by combining their interests, and forming cooperative marketing organizations, the growers of various California products have been able to change the situation entirely. At relatively slight expense per member, or per unit of fruit handled, a large organization can secure reliable information regarding the peculiarities of given markets, and the condition of the crops, both domestic and foreign; and can maintain during the marketing season a thoroughly organized telegraphic service that will enable it to know the exact condition of each market every day.

It is the custom for the manager, or other representative, of each of the large organizations, to visit the various markets at least once a year, to confer with the "trade" and secure first-hand information regarding any peculiar requirements of a given market. It is not unusual for an organization to send a representative to foreign lands in order to ascertain the condition of given crops and the probable extent of competition from such sources. Telegraphic service that will give dependable information regarding the exact condition of the various markets from day to day can be maintained only by such organizations as have personal representatives in those markets. Probably the most efficient service of this character is that of the California Fruit Growers Exchange, which maintains salaried agents in 77 of the leading markets. These agents represent the growers in the selling of the product and the transmission of any information that will be helpful to the industry. They are in constant touch with the trade, and wire back to California daily reports citing the exact conditions.

Thus the likelihood of oversupplying certain markets, while others are left undersupplied, is greatly reduced. Furthermore, if supplies
from other sources depress a given market, cars originally intended for that destination can be diverted to other markets, even after arrival and inspection. The presence of the personal representatives of the growers in the various markets to determine the condition of the fruit upon arrival and wire for instructions in case of a depressed market, greatly facilitates the expeditious handling of the fruit, and avoids severe losses that might otherwise occur. Thus the Exchange growers are protected from the low price that might ensue from an inadequate method of distribution.

In addition to this protection, the individual grower is protected from any severe loss in case certain cars of fruit should deteriorate in transit or for any reason be sold at a lower figure than the average price for which fruit of the same grade was selling during the same period; for all fruit of the same grade contributed by the different growers in a given local association during the same period is pooled, and each grower receives for his fruit the average net returns for the period. The element of chance involved in individual shipments of perishable fruits to distant markets is thus eliminated. In the case of the less perishable products which are harvested within a limited period, but for which the marketing season may extend over a considerable length of time, it is customary to make only one pool for the whole season and to place in the same pool not merely the product of a given local association, but the product of all the associations which compose the general organization. Thus no matter at what time during the season a given grower's product is sold, he receives the same price for the same grade as does every other grower in the organization. This eliminates the element of speculation and assures to each grower the average price for the season.

**Purchase of Supplies**

In addition to performing its function as a marketing agent, a cooperative organization of growers may serve its members by acting in the capacity of purchasing agent in securing orchard or other supplies needed in large aggregate quantities by the growers. The chief advantages of such purchases are that by purchasing in large quantities under contract, the organization is able to secure the goods at lower prices than could one individual; and that because of the large quantities purchased, the organization can afford to take time and incur expense to investigate thoroughly the sources of supply of a given article and the relative merits of different offerings before placing its orders, thus insuring the grower against inferior quality or exorbitant prices.
FUNDAMENTAL PRINCIPLES OF COOPERATIVE MARKETING

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

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

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

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

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

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

6. The benefits accruing from membership in the organization should be distributed among the members in proportion to the value of the products handled for each.
7. In a properly-constituted growers' cooperative marketing organization, it makes little difference whether the voting power is based upon individuals (one-man, one-vote), volume of product, or shares of stock.

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

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

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

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

RELATION OF GROWERS' COOPERATIVE MARKETING ORGANIZATIONS TO CONTROL OF PRODUCTION, DISTRIBUTION, AND PRICES

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

First, should a growers' cooperative marketing organization have the right to control production; that is, to determine or limit the acreage of the given crop which each or any member of the organization shall be allowed to plant? None of the growers' cooperative organizations operating in the state of California at the present time, so far as known to the writer, have any provision for limiting acreage or assume to exercise any control over the amount of land which shall be planted to a given crop by its respective members. The success of the various organizations in marketing the crops produced by their members has led to large increase in acreage, planted partly by growers already members, and partly by new growers seeking membership by the time their plantations have come into
The policy of the cooperative marketing organizations has been to welcome this increased acreage, whether it represented new plantings by existing members or the acquisition of new members with their new plantings. The door to these organizations has always been open; and they have undertaken to handle the product of whatever acreage their various members, acting as individuals, without restriction, might see fit to plant. This is as it should be. The function of a growers’ cooperative marketing organization is to promote, rather than restrict, production; to make increased production profitable by reason of its efficiency as a marketing medium, rather than to increase profits to a favored few or per unit of product, by curtailing supply. With each increase in production, the respective organizations have extended their facilities for marketing, stimulated demand by special appeals in advertising or in price, and effected the distribution of the goods, instead of wasting their energy in contemplating means of restricting production.

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

The next questions for consideration are: (1) Who should determine the methods to be employed in disposing of the crop? (2) What special methods of disposition may be resorted to in case of sudden increase in production? (3) Who should determine when resort should be made to these special methods and what portions of the product should be disposed of in each of these various ways?

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

**Prices**

Prices of horticultural products are determined by demand and supply. Most horticultural products are looked upon mainly as luxuries or supplemental articles of food, rather than necessities or staples. Therefore the demand for these products is elastic; and relatively small changes in price are likely to be accompanied by comparatively large changes in amounts taken. This being the case, people would curtail their purchases if the price were placed abnormally high in comparison with that of other commodities they might desire to purchase. It would therefore be impossible for a growers’ cooperative marketing organization, even if it controlled the entire supply of a given horticultural product of the type under consideration, to sell its output at an arbitrary price fixed without reference to the available supply as compared with the demand in the markets.

Before California growers’ cooperative organizations undertook the marketing of the respective products, the law of supply and demand was hampered in its operation because too many middlemen and speculators intervened between the producer and the ultimate consumer. In striving for large profits per unit of goods handled, the middlemen curtailed consumption by making prices high to the consumer, and in some cases decreased production by forcing the growers to accept a price below the cost of production. The individual grower, far removed from the real consumer, had little influence upon the price he would receive for his goods, and no influence upon the price the consumer would pay. Middlemen largely determined the prices to both producer and consumer. It is right that the grower should have some voice in determining the price at which he will sell his product. It is not right that the middlemen should make large
profits in handling his products when part of those profits represent losses to the grower by reason of his being forced by the first middleman in the series to part with his goods at a price below the cost of production.

While, on account of his semi-permanent investment in orchards, a grower may for a time continue to produce fruits which he is unable to sell at a price as high as the cost of production, he will not go on indefinitely producing fruit for which he is receiving less than the cost of production. Under the old regime, growers, as individuals, were powerless to change conditions; and conditions did not change of their own accord, for they were controlled by the middlemen. By organization, the growers have been enabled to shift their market one step nearer the consumer, and to obtain some voice in deciding the prices at which they will sell their products. This has made it possible for the growers to realize prices somewhat above the cost of production; but the very nature of their products makes it impossible for them to exact prices not warranted by the relation of the supply to the demand.