

A SUCCESSFUL METHOD OF MARKETING VEGETABLE PRODUCTS.

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INTRODUCTION.

In order to discuss satisfactorily any improvement on or modification of the present method of marketing perishable crops, such as vegetables, it is necessary to review briefly existing practices. The present method of marketing vegetables may be spoken of as that of independent action. In a country like the United States any criticism or suggested modification of a system of independent action would seem to be a criticism of the fundamental principles of our Government, but a criticism of the method of independent action in connection with the marketing of a perishable product is by no means a criticism of our system of Government. The system of independent action, so far as it applies to the marketing of vegetable crops, is open to the following criticism: Independent action means wide variation in types of packages, as is exemplified in our markets at the present time. Packages of all sizes and descriptions are received in the markets from various districts, so that a quotation on a basket, hamper, or container in one market may mean little in another section. The packing of the product is done according to the ideas of the individual directing the work; the grades are founded upon his personal notion of what constitutes a first, second, or third grade, judged by the product he himself handles and not by any market-standard.

Shipments are, for the most part, by local freight or express. Sometimes a grower is able to load a few cars from his own field, but this is the exception rather than the rule. The result is that any brand which he may adopt appears in the market at uncertain intervals, remains but a short time, and disappears until the succeeding year. It is very difficult under such conditions to build up a reputation for one's product and to establish a standing for a brand or style of package which will serve to assist in the sale of the crop the following year. Such shipments must, of necessity, be consigned to commission merchants, and in some instances are sold at auction

and in others at wholesale in the regular channels of trade. A new, untried, or unknown brand, no matter how good it may be, is at a decided disadvantage in auction sales and at a slightly less disadvantage in the regular wholesale trade. As a rule, large lots of recognized grade and brand can be sold at the early auction and return greater profits than small lots which have to wait for the later trade.

A product, after it has reached the city and before it is ultimately delivered to the consumer, may go through any or all of the following agencies designed to promote trade: After reaching the commission merchant or receiver, it may be purchased by a jobber or handler, or go to a broker, by whom it is sold to a retailer, from whom it goes to the consumer. The receiver, jobber, broker, or retailer may, however, place the product in a warehouse or in cold storage. The factors, therefore, which may enter into the ultimate cost of the product to the consumer are:

(1) Cost of transportation, including (a) freight or express; (b) terminal or switching charges, and (c) drayage; (2) commission; (3) jobber's or dealer's profit (change of ownership); (4) storage charges; (5) distributor's profit (change of ownership); (6) the cost of growing, packing, and hauling to the shipping point is never taken into account in determining the cost of the product to the consumer, except in so far as the return made by the commission merchant, jobber, or dealer affects this price. The farmer has an investment in land, labor, and product which is never considered in modern trade because he is never a party to any transaction, unless, perchance, he is able to sell his product f. o. b. shipping point, and even then he does not fix the price, but simply accepts or rejects the price offered. The question of the cost of production plus a fair profit is not taken into account in agricultural transactions as in other productive enterprises. In fact, farmers themselves, with few exceptions, have no idea of the cost of producing many of the crops they offer for sale. The cost of production in any single year should not, however, be taken as the basis for the cost of a given product. Seasonal variations are so great that the only just basis for determining the cost of any product is its average cost on a given farm over a series of 5 to 10 years.

A careful analysis of trade conditions indicates that from 33 to 36 per cent of the price which the consumer pays for a perishable product reaches the producer. This must cover the cost as well as the risk of growing, and must also provide the profit on the "know how" and money invested. About 26 per cent of the cost to the consumer is required for transportation and from 5 to 10 per cent for commission. Dealers' profits range from 50 to 100 per cent, for it is maintained that every time perishable goods change hands the

selling price must double the purchase price in order to meet losses. As the retailer receives the goods he again adds 100 per cent or thereabouts to the cost to the consumer. It is easy to see how high costs necessarily follow such methods of marketing. If, in addition to these costs, terminal-storage and cold-storage charges are added, as is often necessary in order to maintain even distribution, and the retailer sells the goods by telephone and delivers them by horse or motor vehicle, all of these so-called conveniences must ultimately be paid for by the consumer. Under the present system it is possible for some of the common perishable products to carry eight distinct charges before they reach the consumer, all of which are legitimate; and as these charges on perishable products must be high in order to fortify the owners against loss, the reason for high prices for standard vegetable crops is easily explained. So long as society is constituted as it is and demands the services it now requires of the tradesman, little relief can be expected after the products are delivered to the dealer.

THE COOPERATIVE SYSTEM.

REGULATION OF PRODUCTS.

A system of marketing, based on cooperative action rather than on independent action, has been developed in some localities and at the present time is attracting much attention in others. Up to the present cooperative activities have been confined almost exclusively to the fields of production, transportation, and first sales. It is difficult for the producer to go beyond the first change of ownership unless he has a cooperating consuming public. Now that the consumer really feels the stress of high prices and has come to realize and appreciate some of the factors which enter into them, it is clear that the task of solving the problem of cheaper food products lies with him as much as with the producer.

Cooperation among growers solves the problems of the package by making it uniform and standard, it guarantees the pack by employing competent inspectors, and insures uniformity of grade. Cooperative action enables the cooperators to act as an independent individual, and since they employ a uniform package, a standard pack, and uniform grades a given product of a community can be shipped in carload lots at a lower rate than is possible by local freight or express, thus effecting a decided saving. A uniform package and a standard pack and grade give a product a standing in the market which enables it to be sold for what it really is, because the guaranty of the association is behind it.

Another advantage which often follows is a local or direct sale, f. o. b. shipping point. In the eastern portion of the country the

f. o. b. sales have been made on the basis of New York prices current. The distribution of products to many consuming centers rather than congestion in a few is one of the most valuable results secured by cooperative action. Cities which are large enough to handle a single commodity in carload lots when it is purchased from the producer receive their goods direct rather than by a diverted shipment or by reshipment. The product reaches the market quicker and in better condition, and as the dealer in the small town must of necessity pay for the reshipment of the product from the distributing center it is quite as economical in most instances to purchase the product f. o. b. shipping point and pay freight as it is to purchase f. o. b. distributing point and pay freight. The price to the consumer or to the handler in the small town is reduced by one freight charge and sometimes also by the cost of commission or jobber's profit. One association has been able to sell over 90 per cent of the truck handled by it f. o. b., and this has resulted in a saving of over \$150,000 annually on a \$2,000,000 business. In other words, the freight charges were paid by the purchaser instead of by the producer, thus saving to the community the cost of transporting their products to the centers of consumption or distribution.

Towns too small to handle "straight" cars of a single commodity, with the possible exception of potatoes, can be served in the same manner as large towns by a system of loading which has been devised by some of the railways receiving products from the trucking districts. This system consists in loading mixed cars to order, so as to supply the needs, as near as may be, of the town to which the shipment is made. This method of handling mixed cars accomplishes a very desirable result, in that it widens the distribution of the product by reaching towns too small to handle solid cars of a single commodity and enables the dealers to purchase direct from the producer, thus insuring all the advantages of direct shipment possible by any other system of carload shipments. By the adoption of a carefully planned cropping system in the several producing centers from which such shipment is to be made a very satisfactory arrangement for both the producer and the consumer can be worked out.

If the products of various centers are to follow in succession to the same markets and are to be handled on the basis of sales f. o. b. shipping point, the producers must not only maintain standard packs and grades which are uniform, but they must also be in touch with the markets in such a way as to insure prompt and satisfactory disposal of their products. At present this is accomplished by wide-awake, active dealers who know the markets and the producers as well, and by purchasing in one locality in January, in another in February, and so on from season to season, thus keep their customers supplied from the beginning to the end of the period. Neither inde-

pendent producers nor associations of growers with fixed fields of production can do this. They reach the market only during the period their crops are moving. What is accomplished by the independent dealer might, however, be accomplished by cooperation among various local associations of producers. Through a federation of such associations a marketing expert might be maintained who would move with the season from one center to another. By so doing the markets would deal continually with the same individual, the grades and packs would be calibrated, because censored by the same authority at each loading point. In this way the community might accomplish for itself what is now taken advantage of by shrewd and wide-awake dealers.

REGULATION OF PRICES.

Under the system of independent action producers are creatures of circumstances over which they have no control. At harvest time they have little conception of the competition they will have to meet in the market, unless the crop is so short that it has become a matter of comment. As a rule the dealers see to it that the reports on crop prospects are high enough to enable them to buy the harvest at a reasonably low figure. It is never discovered that the crop is a little short until after it has all left the hands of the grower and is safe in the storerooms of the dealers.

Dealers keep an accurate forecast of the crop and as a rule have a good basis for their action. Growers have not done this except in a few instances, and then with marked advantage. Cooperative growing associations should establish through some central organization a plan by which accurate forecasts of crop prospects can be furnished. These forecasts should begin with the acreage in each crop zone and end with a statement of the harvest. These reports should be made at frequent intervals and should be based on accurate personal canvass by competent judges. A few seasons' records for any given locality will suffice to furnish a basis for determining the safe acreage for that section and to fix the planting and harvest dates, as well as to indicate the normal product which may be expected from a given acreage. Statistics of this character would provide a basis for working out a rational system of crop rotation and crop production.

Cooperative action with products which can be stored enables the producer to distribute the product throughout the consuming period in such a way as to meet the requirements of the market without overloading it and depressing prices. With vegetable products, such as Irish potatoes, sweet potatoes, and squashes, this is a very important consideration; the trade quickly determines the center of supply, and as soon as the markets create a

demand the supply can be forthcoming in a regular, systematic manner, so as to cause the least loss to producer, handler, and consumer. Under this system storage products should never be compelled to beg a market; the demand will always find the supply. The chief advantages, therefore, of cooperative action are standard grades, standard packs, uniform packages, shipment in carload lots, f. o. b. sales, a controlled rate of dispersal, predetermined destination, dispatch in the settlement of claims, and regulation of rates of transportation and of sales, so as to give each producer a standard price for a standard product.

To accomplish this is a difficult task. Human nature is the most variable and the least controllable commercial commodity. Cooperation means united action, and true cooperation in the sense in which it is used in this connection means united action for the benefit of all concerned—the producer as well as the consumer. Experience has demonstrated that the results derived from true cooperation are sufficiently important from a commercial standpoint to justify the method even though no other result were obtained.

COOPERATIVE ORGANIZATION.

Cooperation which involves financial risk and financial responsibility has never proved successful when based on fraternal agreement alone. To succeed in any business enterprise which requires the concerted action of individuals of different training and different temperaments, there must be a common bond of union of sufficient importance to give them a common interest. This can be secured in the business world only through a money consideration. In order, therefore, that cooperative action involving the growing, handling, transportation, and sale of perishable products may be successful it must carry a financial obligation sufficient to command the interest of the cooperators. It is true that in an association of this character the participants place at stake the return of their labor in the form of the crop produced, but in order to insure the patronage and the loyalty which is necessary to the stability of any cooperative action a membership requirement must be made sufficiently large to prevent a member withdrawing from the association for slight cause. A method which has been successfully used in some of the associations is to require a cash membership fee sufficient to raise the required capital for conducting the business of the association.

The amount of capital stock will vary with the character of the association, whether it be a growing and distributing organization or a growing, distributing, and purchasing organization. In order to purchase supplies for its members the organization will require a much larger capital than will be necessary for a growers' and distributors' association only. The minimum capital for a growers'

and distributors' organization would be in the neighborhood of \$2,000, while the stock necessary to add the purchasing and handling feature must be from \$10,000 to \$50,000. The cash membership fee should in few instances be less than \$25. If the requirements of the association demand larger capital the membership fee must be increased proportionately. In addition to the cash membership requirement a bond should be given in the form of a promissory note executed by each member in favor of the association, this bond to be held in trust as long as the member remains in good standing, to serve as a guaranty for faithful adherence to the constitution and by-laws of the association. If the organization be a producing and distributing one only, this bond will never need to be used except for the purpose of personal guaranty. If, however, the organization purchases supplies for its members, these personal bonds may be used by the association as collateral to guarantee short-time loans which from time to time may be needed to cover the expenses of purchasing fertilizer, packages, or other consumable supplies.

The association should in no instance lend money to its patrons or members for permanent improvements. Its business should be confined to providing consumable supplies. By this method the community represented by the association becomes security for the loan which is needed, and by this method so-called dynamic money or short-time loans can be secured for the benefit of persons who at the present time can secure money only with the greatest difficulty and at the highest rate.

Besides the benefits to be derived from cooperative growing, marketing, and purchasing, there might also be included banking and cooperative insurance, which is already an important factor in many rural communities. The bond which has already been mentioned in connection with the obligation of members can be used as the basis of the reserve or guaranty fund for the insurance feature. In a community where the cooperative insurance plan is already in operation the other features needed by the society might be gathered about it, as the parent society. Where cooperative growing and marketing organizations exist, they can be extended to include the purchase, loan, and insurance features. In most instances it will probably be wisest to inaugurate one feature of this comprehensive plan and develop it to a high state of perfection before adding the others.

The benefits of cooperative action in growing, transporting, and selling farm products can not be fully realized unless the members of the association each and severally consider themselves delegated to protect the interests of the association from criticism or dissension from within which would tend to limit the usefulness of the association, and they should also safeguard their community interests by discouraging the formation of competing associations. Cooperative

competition is equally as destructive as individual competition. Unfortunately, in some instances growers have not realized that the formation of competing organizations, although each of them is cooperative in its nature, is destructive to the best interests of the community as a whole. In fact, the organization and development of factional or competing associations in a community have been one of the favorite devices of those antagonistic to the success of the cooperative movement.

BUSINESS METHODS.

The basis on which the association secures its revenues is an important consideration, as is also the method of settlement with its members. Revenues are essential to meet salaries and legitimate operating expenses. The income of the association may be derived from a commission on sales or from a flat rate per package for goods handled. Either of these systems will prove satisfactory. The one which seems to meet best the requirements of a particular association should be adopted. Purchases should be treated the same as sales. The price to members should include first cost, transportation, handling, and a sufficient profit to yield the necessary revenue to cover the expense to the association. Even when this is done experience proves that a very substantial saving can be made. In some instances the moneys received from the sale of products, less a commission or deduction for the charge of selling, are returned direct to the individual furnishing the products. In other instances, where the products are given a uniform brand and are sold on grade so that the individual's product is lost sight of, the returns for a given period are pooled and are prorated among those contributing to the sales during that particular period. In most instances it will be found best to sell products under brand and grade, and to pool the shipments for a given period—the period necessarily being short, not to exceed two or three days—and to prorate the sales among the shippers on the basis of the number of packages and their grade during that period.

A short pooling interval is desirable in order that growers who succeed in producing early crops, which often command a higher price, may be given the benefit of this advantage. A long pooling period would give the tardy harvest the advantage of a portion of the reward which should go to the early crop. This difficulty in the distribution of the returns, even where crops and returns are pooled, can be overcome by a short pooling period.

The business of the association should be handled by a manager under the direction of a board of directors who really direct. Important transactions should be governed by the concerted judgment of the board of directors and the manager, rather than be left to the judgment of the manager alone. An association which does not

maintain a board of directors of, say, three persons who really manage the business should never find fault if that business is not well transacted. The officer of the association upon whom responsibility devolves should be paid a liberal compensation for the services rendered. The business ability, foresight, and energy of the business manager, under the control of a board of directors, determine the success or failure of any cooperative enterprise as surely as the business ability of the head of any firm determines the success or failure of that firm. The business manager employed should, therefore, be the best man obtainable, and the salary compensation should be adequate to command his entire thought and energy.

Since high-grade talent must be secured in connection with the successful development of the cooperative-marketing system, most organizations have found it advantageous to extend the activities of the institution to the purchase of consumable supplies—in dairy districts, to the purchase of grain and feed; in fruit and truck areas, to the purchase of packages, fertilizers, implements, etc. The object is to provide profitable continuous employment for a competent manager, rather than to attempt to operate on an intermittent plan. Competent executives can not be had except on a permanent basis. It is evident, therefore, that unless the activities are extended few associations will be able to afford high-grade management. All officers' handling moneys for the association should be bonded and made responsible in every possible way.

SCOPE OF OPERATION.

The activities of cooperative associations should be extended to cover all important money products of the community, and the territory included should be the extent of the zone or district, as determined by some natural boundary, rather than by arbitrary or community lines. Products which are grown in restricted areas are more easily handled by local exchanges than commodities having a general distribution. With products such as Irish potatoes, cereals, and forage crops, State-wide or district organizations can be made more effective than small local units. The local unit is necessary, but it should be affiliated with and receive its general direction from a central organization, through which the total production of a large area is handled. This will overcome any competition which might arise between small cooperative units. It would prevent the use of methods which, the writer is sorry to say, have been employed by unscrupulous dealers in attempting to disrupt cooperative organizations. Rivalry and competition are not cooperation. Nothing pleases the unscrupulous dealer better than to stimulate competition where there should be cooperation, and nothing is so destructive to the interests of the community as a whole as the competition which

exists where the independent method of action is in vogue and where competition can be stimulated between local cooperative organizations. To avoid this, all local cooperative organizations should affiliate with community-wide or State-wide organizations.

SUMMARY.

Experience proves that it is within the power of the producer to cooperate in the sale of vegetable crops to the extent of standardizing the pack and the package and guaranteeing the grade, to reduce the cost of transportation by shipping in carload lots, and to reduce the cost of sales by establishing a reputation for a product, so that it can be sold f. o. b. shipping point.

Cooperative management facilitates business with common carriers and expedites the settlement of claims against both carriers and dealers.

Cooperative action between producers and distributors insures a quicker delivery and decreases the cost to the consumer by saving one freight charge and sometimes also commission or brokerage.

Cooperative interests enable growers to purchase consumable supplies, to secure short-time loans, to provide their own insurance, to conduct a system of crop reporting which will give them an accurate idea of the condition of the crop and of the market at any time, and, when conducted on a broad basis, to prevent depression of the market by unwise distribution and untimely shipments.