

South Dakota State University
**Open PRAIRIE: Open Public Research Access Institutional
Repository and Information Exchange**

Bulletins

South Dakota State University Agricultural
Experiment Station

9-1-1931

Essentials in the Success of a Local Cooperative Creamery

T.M. Olson

C.C. Totman

Follow this and additional works at: http://openprairie.sdstate.edu/agexperimentsta_bulletins

Recommended Citation

Olson, T.M. and Totman, C.C., "Essentials in the Success of a Local Cooperative Creamery" (1931). *Bulletins*. Paper 266.
http://openprairie.sdstate.edu/agexperimentsta_bulletins/266

This Bulletin is brought to you for free and open access by the South Dakota State University Agricultural Experiment Station at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Bulletins by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

Essentials In the Success of a Local Cooperative Creamery



A Good Type South Dakota Cooperative Creamery

Department of Dairy Husbandry

Agricultural Experiment Station

South Dakota State College of Agriculture and Mechanic Arts

BROOKINGS, SOUTH DAKOTA

OUTLINE PLAN OF PROCEDURE

In Organizing a Local Cooperative Creamery

- 1 Mass meeting of all who are interested.**
 - a Elect a temporary chairman and secretary.
 - b Secure a speaker who can explain the working of a cooperative creamery and answer technical questions concerning it.
 - c Invite discussion pro and con of the proposed organization.
- 2 Committees chosen by those interested. Vote by ballot and proceed in a business-like way.**
 - a Committee on cream available in trading area.
 - b Committee — Cost of Plant and Equipment.
 - c Committee — Location and site of proposed creamery.
 - d Committee — Plans for financing the proposed creamery
From three to five on each committee. A banker should be chosen as one member of the finance committee, a contractor on the building committee. The committees should be requested to secure facts and estimates from reliable sources.
- 3 Second Mass meeting.**
 - a Same chairman and secretary as at first meeting
 - b Call for report of various committees.
 - c Invite free discussion.
- 4 Proceed with permanent organization.**
 - a Elect by ballot five temporary directors. Authorize them to proceed to incorporate under the cooperative law of the state. Legal council should be employed in obtaining the necessary legal information and in preparing the papers for incorporating the organization.
The temporary directors should also formulate the by-laws. (A suggested form of by-laws from a successful cooperative creamery in South Dakota is given in the appendix)
- 5 Third Mass meeting to perfect cooperative creamery.**
 - a Call for report of committees on incorporation and by-laws.
 - b Vote on perfecting organization.
 - c Election of officers as prescribed in by-laws.
 - d Elect or appoint committee to solicit members.
 - e Proceed with construction of building, buying of equipment, hiring of manager.
 - f Board of directors in complete charge as prescribed in by-laws.

Essentials In the Success of a Local Cooperative Creamery

Thomas M. Olson and Claire C. Totman

Cooperative creameries are not new institutions in South Dakota. Many of the early cooperative creameries are still in existence and doing a flourishing business. A great many have fallen by the wayside. The failures have been obstacles in organizing cooperative creameries where the conditions were right and the probability for success for such an organization was favorable.

A cooperative creamery has for its principal objective the processing and marketing of the producers' cream. This is inherently the right of any group of producers, and if the creamery is properly managed its chances for success are good.

This bulletin calls attention to some of the features in cooperative creameries which may mean success or failure, depending on how they are executed. The writers are fully cognizant that it is far easier to direct attention to these features than to carry them into effect under what sometimes seem difficult, if not impossible conditions. However, it is believed that if these essentials to success are kept in mind there is less likelihood of impossible conditions arising.

MUST RENDER SERVICE

No organization is justified which does not fulfill a need and render service. The first question, therefore, which must be investigated in contemplating the organization of a cooperative creamery is the need for it in the community. Unless this question can be answered in the affirmative, the likelihood of success of a cooperative creamery, should one be organized, is uncertain. If there already exists a market for cream, which cannot be improved upon by a cooperative creamery, there is no need for it.

Therefore, the first consideration is a careful, thoughtful analysis of the present marketing facility. It is not sufficient to make sweeping generalizations regarding the inefficiency or the inadequacy of the present system. The functions which make for inefficiency or inadequacy must be analyzed, and studied in the light of how these functions can be improved upon, or rectified through cooperation. As an illustra-

tion, perhaps the present market will not, or cannot, pay for cream on a basis of quality, but pays all producers alike. If after investigating the cream supply, it is ascertained that a large volume of sweet cream is produced in the community, there would seem to be a need for a market which would pay for sweet cream, on the basis of quality.

Perhaps after a careful study of the present market, the conclusion may be reached that undue profits are taken by the present agency. If through cooperative effort the marketing expense can be decreased without affecting the service rendered to the producers, there would seem to be a need for a cooperative organization.

The point we wish to make clear is that before starting a cooperative creamery those responsible should determine whether a need exists for it. This need should receive careful analysis. There is grave danger of launching into cooperative creamery organization before giving sufficient attention to its need, and whether a cooperative creamery can fulfill this need better than the existing marketing agency, or any other which might be set up.

CONVICTION OF MEMBERS

It is not sufficient for a small number of producers or perhaps a promoter to be convinced of this need for a cooperative creamery, to replace the existing marketing agency. A large number of the producers who are to become members should understand the need, and agree that such need exists. The ultimate success of the cooperative creamery will depend upon the members, and unless they understand the purpose of the cooperative creamery and what it is trying to accomplish, they cannot be loyal. The need and purpose should be well defined, and the proposed members should understand these, and be convinced of their validity.

HOW TO PROCEED

If a need exists for a cooperative creamery, several preliminary steps must be taken before an organization can be perfected. Someone who is impelled by altruistic motives, or who wants to do something for the good of the cause, will have to take the initiative.

The first fact to ascertain is whether there is sufficient volume of cream in the trading area of the proposed creamery. This information can be ascertained in several ways. (1) By canvassing the cream producers in the trading area and ascertain how many cows are kept, and the approximate amount of cream which is produced. (2) By calling on the existing marketing agencies such as cream stations, and the local shipping points, to ascertain the approximate amount of cream being sold, or shipped out from the trading area. (3) By sending out a questionnaire to farmers in the trading area asking for information on the amount of cream sold etc. (4) This same information can probably be secured through existing cooperative organizations such as live stock shipping associations, cooperative grain elevators etc. (5) The schools in the trading area may also be a very effective means of obtaining this information.

VOLUME IS ESSENTIAL

It is futile to attempt the organization of a cooperative creamery unless there is sufficient volume of cream to justify its being. Sufficient volume of cream reduces materially the overhead expense per pound of butter made, because there is more efficient utilization of building, equipment and labor. For example, if a creamery is equipped with machinery and help to make 500,000 pounds of butter in a year and only gets enough cream to make 100,000 pounds of butter, neither the help nor the equipment can be utilized to its maximum efficiency.

Suppose a farmer had enough help and machinery on a 160 acre farm to run 640 acres of the same kind of land, the expense per unit of production would be exorbitantly high. A farmer operating with such a high overhead expense cannot compete with those with just enough machinery and labor to operate the farm to its maximum efficiency.

Competition in creamery work requires that the overhead cost per pound of butter manufactured be reduced to a minimum. Unless a cooperative creamery is operated just as efficiently as the competing marketing agency, its success is doubtful. Adequate volume of cream therefore is absolutely necessary to efficient operation of a creamery.

Volume of cream makes possible the installation of better equipment, which facilitates the manufacture of a high grade product. Volume also aids in the standardization of the butter made, a vital point in the price received for it. Volume of cream makes possible and practical the grading of cream and churning the various grades separately. Volume makes possible shipping at carload rates, thus effecting a material saving in freight costs. Large shipments of butter of a uniform and standard quality command a readier market and a higher price.

MINIMUM VOLUME NECESSARY FOR SUCCESS

It is difficult to express in definite figures the minimum number of pounds of fat a cooperative creamery must receive before it can be successful. Other factors enter which alter circumstances in the various creameries. However, most authorities agree that a cooperative creamery should be assured of at least 100,000 pounds of fat a year before the organization is attempted. This would represent about 300,000 pounds of cream, or the product from about 700 cows of the kind found in most sections of South Dakota. In sections where no distinct dairy breeds of cows or cows of dairy strains are kept, one should figure on 1000 or 1200 cows.

It is not sufficient to know the maximum volume of cream in the trading area, but to be definitely assured that the proposed cooperative creamery can depend on this supply of cream. It is interesting to note that of the cooperative creameries which have failed, about 85 per cent gave 'insufficient volume' as the principal reason.

COOPERATIVE CREAM SHIPPING ASSOCIATION

When the immediate volume does not seem sufficient to warrant the launching of a cooperative creamery, a cooperative cream shipping

station may be the proper organization. Such an organization will assure the producers of a market, and may be the means of increasing the volume of cream. The cooperative cream station may be an effective way of testing the cooperative spirit of the producers. Such a venture entails very little expense and is much more simple in its organization, and therefore more readily understood by the cooperators. It is very likely that if a cooperative cream station cannot be made a success, a larger and more intricate cooperative organization should not be attempted.

LOYALTY OF MEMBERS AND EMPLOYEES

Nothing should be done in a cooperative creamery that would in any way dissipate the loyalty of the members or prospective members. The loyalty of patrons and employees of a cooperative creamery is so important that every effort should be made to foster it, and nothing done that might endanger loyalty. It must be understood that only loyalty which comes from a complete understanding, and honest, sincere confidence in the organization will be enduring. Loyalty built on promises and misstatements concerning the organization cannot long prevail.

To gain the confidence, and later the loyalty, of the members it is necessary that they understand what is being done. Therefore those interested in a cooperative should have an opportunity to know the facts right from the beginning. Perhaps it may take a little longer to get under way when the essentials must be understood by all members, but the chances for success are vastly greater. The failure of more than one cooperative creamery can be attributed to lack of loyalty. The members are induced to sell or ship their cream elsewhere because of the promise of an increase in price, or test. When one member breaks away others soon follow. Competitors know this weakness of cooperative creamery members and resort to these means of breaking up what might be a successful cooperative creamery if the members were loyal.

Loyalty must not be construed to mean that members should tolerate mismanagement or dishonest practices in their own organization. If such practices are going on the cause of the trouble should be brought to light and the guilty person treated according to his misdeeds. If it is the fault of the manager he should be replaced; if it be the fault of the board of directors, another board should be elected, at all times proceeding according to the by-laws of the cooperative creamery. The first impulse of patrons and members who feel they have been wronged is to leave the cooperative creamery and ship or deliver their cream elsewhere, but obviously a successful cooperative creamery cannot be built on such a membership. That there will be opportunity for testing the loyalty of the members is a foregone conclusion. Every cooperative creamery will pass through these stages, and only those that have a loyal membership will weather the storm.

The loyalty of the employees is also important. Employees who are not in sympathy with cooperative creameries and the principles of

cooperation should not hold positions in a cooperative creamery. Lack of loyalty on the part of the employees will destroy the loyalty of the members and kill a cooperative creamery which might otherwise have been a success. Employees who are only passive on cooperative creameries are a source of danger. That is the type neither for nor against cooperative creameries. Only those who are full of enthusiasm and sincerely believe in cooperative creameries should be retained as employees. Such employees will pass their enthusiasm on to the members, and those members who are passive, or luke warm, on cooperative creameries will become imbued with the cooperative spirit.

Unless the members of a cooperative creamery and its employees, have confidence in their own organization, they cannot expect results and its duration will be brief indeed.

LOYALTY TO ALLIED INTERESTS AND LOCAL BUSINESS

Loyalty to ones own organization does not in any sense mean criticizing allied business. Members of a cooperative creamery need not feel called upon to criticize a privately owned or central type of creamery organization. On the contrary the good will of such creameries should be sought and fostered. If this amicable relationship cannot be obtained it should not be necessary at any rate to resort to knocking the business of competing organizations.

Loyalty of local business concerns, not directly allied to the cooperative creamery is likewise important. Their loyalty will gladly be given to any cooperative creamery which has for its motive the true purposes of cooperation. The time is past when other businesses look upon cooperative effort as a radical movement. It is generally recognized that cooperative creameries afford a method for marketing the producers cream, and are founded on sound, economic principles.

RESPONSIBILITY OF BOARD OF DIRECTORS

The success of any business or organization depends largely upon the personnel of its managing force. A cooperative creamery is managed by a board of directors chosen from its membership. The board of directors of a cooperative creamery therefore is responsible for the success of the creamery. They, through their methods of handling the problems put to them, will determine the success or failure of the creamery. One wrong or foolish decision may be the under-lying cause for the lack of success, and likewise, the right decision will be another prop in the foundation of a successful creamery.

It is not difficult to point out the characteristics of the successful type of director, but very hard to get an entire board which measures up to these characteristics. This is one of the "ifs" so often an obstacle in carrying out the principles of cooperation. The best any cooperative organization can do is to consider carefully all available members, and choose them as directors on the basis of their fitness for the job in hand, and forget about all other factors. A member may be proposed for the board because of his social and financial standing, church affilia-

tions, or just because he is a "good fellow." All of these **may be** assets to a good director, and frequently are, but if he does not possess the proper qualifications he is not the man. The qualifications of the man for the particular job in hand must be the test. Because of mistakes in judgment, the wrong men may be chosen, but if necessary qualifications are not uppermost in the minds of members when they elect the board of directors, the successful board will be the exception rather than the rule.

A successful director must be fundamentally sound on cooperation himself. If he is not interested or enthusiastic about cooperation he is not likely to interest others; neither is he likely to spend much time or thought in the interests of cooperation. Enthusiasm will make up for many shortcomings. A good director is a man of good judgment. Many important decisions have to be made which will influence the success of the creamery. For instance, the building site for the creamery must be chosen. The director who can weigh accurately all the points in favor of and in opposition to a certain site, and then arrive at a decision, will choose the most suitable site. One whose judgment is influenced by factors other than the best interest of the organization is likely to make a wrong choice, and be a handicap to the organization. Perhaps no one thing will indicate so well what a man can do as what he has done. A man who has shown good judgment in his private affairs is likely to do similarly in public affairs. Men should be chosen as directors who have indicated by their work that they can do things successfully for themselves.

The directors have grave responsibilities in handling the larger problems connected with a cooperative creamery, and usually do not have time, training, or experience in handling the details of the creamery operation.

In the choice of manager the board will perhaps have an opportunity to exercise its best judgment. Only a good man should be chosen, and after he has been placed in charge he should be manager in fact as well as in name. If a poor choice has been made, another manager should be chosen, rather than have the board assume some of the duties of the man already employed. The success of the manager should be determined on the basis of actual results, rather than on opinions of members of the cooperative creamery, or even the board itself. It is more important for a manager to be able to show from his records and work that he is managing the creamery successfully than to have the members praise his work, and think him a jolly fine fellow, or for others to condemn him as manager for not being as cordial, or as talkative as they would like him to be. The one thing for which the manager is hired is to make a success of the cooperative creamery. If his creamery records show that he has accomplished this, he is doing the work he was hired to do.

GOOD MANAGER IMPORTANT

No factor in a cooperative creamery is as important and necessary to success as the manager. A good manager can make a success

of a cooperative creamery under what may seem impossible conditions. All the factors previously mentioned as necessary to success will be greatly influenced if the right man is chosen for manager. Even the important matter of volume can be corrected. The right type of manager will make an effort to increase the volume, and in time will succeed.

Too much cannot be said in favor of the good manager. Many cases can be pointed to in South Dakota where creameries were all but lost when taken over and saved by a good manager. Other cooperative creameries can be pointed to which are dead so far as cooperation goes, being watched over by the board of directors, who are just waiting for the opportune time for a fit burial. Such creameries have been pulled out of their state of coma and made a real live, up and coming cooperative creamery by an efficient manager.

It is easy to point to the work of a number of successful managers, but to describe one, or to tell just what type of person he is, is not so easy. A good manager combines so many good qualifications that one is likely to overlook many of the essential ones.

No attempt will be made to list the qualifications in the order of their importance. What may be a very important qualification for success in one cooperative creamery, may not be of great importance in another. The ability to mix well, and be a good fellow may be a great asset in one community and of little importance in another community.

Every good manager must understand the creamery business and carry on his work in a businesslike way. Without business methods and business principles the manager of a cooperative creamery is doomed. He must know how to keep his records so that he can tell at any time whether the creamery is operating at a profit or loss. A good manager must also be able to put before the members, in a business like manner, the operations of the creamery. Records show the creamery where it is going.

A successful manager is honest, just, and fair. He has no favorites among his members, and deals honestly and fairly with all of them. Honesty and fair dealing are absolutely necessary to ultimate success. The unscrupulous manager can hoodwink the board and members for a time, but sooner or later he will be found out and when he is, he is through.

The manager who is trying to cover up some error in work or judgment is treading on dangerous ground. Honesty and fair dealing is an inviolable standard which must prevail in all transactions. There are many temptations to make figures and reports more attractive to the members. A 24.7 per cent overrun for the year, would be a better talking point than an actual overrun of 22.7 per cent. However there can be no question about which should be reported.

The manager of a cooperative creamery comes in daily contact with a great many people. Some are patrons, others are not. He comes in contact with both producers and consumers, rural and urban people. The ability to meet them all on their own ground, gain and hold their

confidence and respect is an invaluable asset in a manager. These contacts will build or destroy his success as a manager. Through such contacts the successful manager is able to widen his sphere of influence and bring other members into the organization.

In many small communities the creamery manager is a leader in affairs outside of creamery work. Initiative and ability to lead are assets in these cases which cannot be reckoned in a monetary way. There are innumerable cases where the manager of the cooperative creamery is the band leader, the choir leader, or head of other civic and social organizations. Interests in these activities, although not in any way a part of the management of a cooperative creamery, are a great asset in a manager.

Good cooperative creamery managers are not plentiful and when one is found who seems to possess the qualifications for the particular job in hand, the matter of a few dollars in salary should not stand in the way of engaging him. It must be clearly understood that high salaries do not necessarily make a good manager.

The procedure which should be clear is that the qualifications of the applicant for manager should be carefully studied in the light of the position to be filled, and when the right man is found a few dollars difference in salary should not stand in the way of hiring him. If the manager proves to be the right man for the position every effort should be made to keep him, and a wise board will not be niggardly in respect to salary. He is not being given anything, as he earns his salary, and much more if he is the right man.

QUALITY PRODUCT

Perhaps at no time in the history of dairying has there been such stress put upon quality of dairy products. No doubt the remarkable increase in consumption of whole milk in the past decade is at least partly due to the improvement in quality. Data on the consumption of butter in various cities in the United States indicate a larger consumption of butter per capita in cities which receive the better quality of butter. Competition in butter comes only from countries which are producing a high quality product. These facts indicate that quality in butter is vital.

It would be difficult to estimate the loss which comes to the dairy industry because of poor quality butter, or the reputation of producing a poor quality product. This being true, no effort should be spared in improving the quality of butter. Perhaps nothing can be done under existing conditions which will net the industry greater returns than improving the quality of the butter produced. If instead of shipping to market 89 or 90 score butter, a 92 or 93 score butter were shipped, the dairy industry in the state would take on new life.

All will agree that the quality of butter is largely dependent upon the quality of cream churned. The best quality of butter cannot be made from poor quality cream. It is true that methods of handling and processing the cream after it reaches the creamery have a great deal to do with the quality of the butter, but undesirable flavors when

once present in the cream cannot be changed to desirable ones by any known method of handling the cream. Undesirable flavors which result from unclean utensils, dirty barns, and unsanitary methods of handling cream, cannot be eliminated. Perhaps these flavors may be partially counteracted, or covered up for a time, by certain manufacturing methods, but the butter made from such cream can not score high.

The buttermaker who is careless in cleaning utensils, and in handling the cream after it reaches the creamery, should not be tolerated. It is safe to assume however, that poor quality butter is more often the fault of the producer of the cream, than of the buttermaker. The buttermaker is reminded every time he makes a shipment of butter what a difference of several points in score has upon the price, and naturally if he is conscientious, he wishes to get the highest price possible for his butter.

Quality product is more important to the success of a cooperative creamery than the centralized type of creamery. A cooperative creamery usually can not compete with the centralized type of creamery on basis of volume. The centralized type of creamery, because of its size and other relationships can usually provide a better market for its butter, and purchase supplies and equipment more favorably than an individual cooperative creamery. Therefore quality of product is the important basis on which the cooperative creamery can successfully compete with the centralized creamery. Cooperative creameries which have taken cognizance of this fact have been successful. The cooperative creamery lends itself most favorably to the building of quality because the producers of the cream have a direct interest in the creamery.

Producers should not be expected to expend additional labor in improving quality without receiving an increase in the price of cream. Cream cannot be cooled quickly and kept in good condition until delivered without additional labor and expense. Those who do perform this extra labor should be compensated for their efforts.

There are cooperative creameries in this region which pay from eight to ten cents more per pound of butterfat the year round than other cooperative creameries. An important reason for this condition is the quality of cream received, which is reflected in the price the producers receive for their cream. The lack of intensity of dairying in South Dakota is in part responsible for much of the poor quality cream. Producers with two, three, or four cows do not have enough cream to make it worth while to deliver the cream more frequently or install equipment necessary to properly care for cream. However, in districts where cooperative creameries are being built, this condition should not long prevail. The producer who is sufficiently interested to become a stockholder in a creamery should increase his dairy herd and make an effort to improve the quality of the cream produced. The other type of producer should be encouraged to seek other markets for his inferior grade of cream.

AN INFORMED MEMBERSHIP

A cooperative creamery to be successful must have an informed membership. Not only the board of directors but all the members should have an opportunity to know what the creamery is doing. It is true that many members will not understand all the details and the reasons for certain decisions, but if the fault for not understanding lies with the members rather than the creamery management, they will reflect their confidence in their more loyal support. Misunderstanding leads to suspicion, and no cooperative creamery can be held together when its membership becomes skeptical as to the manner in which the creamery is managed. There may be occasions when it is difficult to put one's cards on the table, but experience usually justifies this method of procedure.

There are many occasions when the membership can be instructed and enlightened as to the operation of the creamery, and it is good managerial policy to take advantage of these occasions.

The annual meeting, particularly, should be used to get all the information possible concerning the creamery before the members. This information should be put before the members in an honest, straightforward way. If mistakes have been made, these should not be covered up, but explained. These are occasions when the manager and board need to exercise the greatest tact, so as not to endanger smooth running of the organization.

A GOOD LOCATION IS IMPORTANT

One of the first decisions which the cooperative organization must make is the matter of locating the creamery. Experience has indicated that a creamery should be well located. In the small town this usually means on the main street and near the bank and other business houses unless property is too high in price. The creamery should, of course, be easy of access to farmers when they deliver their cream. A creamery which fronts the main street has an opportunity to display its butter, and interest the public in its sanitary methods of manufacture. The selection of a site for a commercial business is a very important consideration. A creamery is in the cooperative business of manufacturing butter and should be guided by the same principles as any other well managed business. The site must be selected where good drainage or sewer arrangements are easily available as well as abundant water supply and if possible, electricity for light and power.

THE BUILDING

A creamery is a building in which food will be handled, and it should, therefore, be so located and constructed that the product can be made and handled under rigid sanitary conditions. Materials used and construction should be such that sanitation and cleanliness are easily and thoroughly accomplished.

The building should be planned so that the arrangement is convenient and the placing of equipment is conducive to labor saving. The placement of the various pieces of equipment, cooling rooms, office, etc., may be a big factor in the cost of doing the work in the creamery.

As a rule most boards are inexperienced in creamery construction, and in the location of equipment in a creamery. A good manager can do much in advising and assisting at this stage of development, and would no doubt earn his salary. In other words, it would be advisable in most instances to hire the manager before the creamery is constructed and equipped, at least seek his advice and suggestions. That does not mean that the whole job should be turned over to the manager, but that he act as agent for the board. The board should be directly responsible. It is placing too much responsibility in the hands of the manager to expect him to build and buy the equipment necessary to operate even a small creamery. The board of directors must bear in mind that they are directly responsible to the members for the results and should act accordingly.

INVESTMENT IS CONSIDERABLE

The building and equipment represents considerable investment even in a small creamery and should be given very careful thought and study. It is usually a good plan to have the committee visit several good creameries which are in operation. During the visit the committee can make a rough plan of the creamery, get information on dimensions of the building and location of the equipment. Managers of cooperative creameries are usually glad to be of service to other creameries, and will volunteer information and suggestions on how their creameries can be improved. With this information before them, the committee has something tangible to work from.

After the temporary plan of the building has been completed and the cost of building and equipment ascertained, the committee is ready to present the findings to the members of the proposed creamery. This is the crucial test of the ability of the committee. It must make clear to the members the results of their decision, and win over the objectors. It would be easier to follow the line of least resistance at this stage of development, and proceed with the building without the approval of prospective members, but this would be violating the rule that all members should know as much about the business of the proposed creamery as they are capable of understanding.

When there is not sufficient capital available to build a new creamery building, it is usually a better plan to rent a suitable building, rather than buy an old building which is not suitable to creamery work nor located in a desirable place.

FINANCING A COOPERATIVE CREAMERY

Adequate financing of a cooperative creamery is very important, and this important matter should be carefully worked out before launching into the operation of a creamery. A poorly financed creamery is handicapped from the start and its survival in keen competition is doubtful. Too many cooperative creameries have been organized on shoe string financing and have come to grief. The failure of such an enterprise not only is costly to those who have invested, but it shakes the confidence in cooperative organizations. A cooperative creamery

to be successful must be organized and operated on the same sound business principles as a successful private creamery. Cooperation in itself is not a guarantee of success.

Obviously the first step in proper financing of a cooperative creamery is to ascertain what the total investment will amount to. The figures and prices used in arriving at these estimates should come from reliable sources, and preferably in writing. It is unwise to take the figures on estimates of irresponsible persons or enthusiastic organizers who may be well meaning, but who do not possess the proper information to advise on such important matters.

The estimates of costs of building, equipment, and supplies should be carefully itemized, and presented in such form that the prospective creamery members will know what it is all about. The members must foot the bill, and it is their right to know what constitutes the expense which they are called on to pay.

Many creameries in South Dakota have been financed by the sale of shares of stock, at a given par value. The par value of the share of stock should be high enough so that a stock holder who purchases one share feels he has sufficient money invested in the creamery to retain his interest and good will, yet not so high that producers who would like to become members of the cooperative creamery cannot afford to buy one share of stock. Under normal conditions it would seem that the par value of the stock should be put at \$50 to \$100 per share. However, if a larger group of producers will join if the shares are put at \$25 par value, this may be advisable. Prospective members who will not invest \$25 in their local cooperative creamery, either are not convinced of the need or feel pretty well satisfied with their present marketing agency. In either event they are members who, if they joined would be hard to keep in line.

If part of the prospective members cannot see their way clear to purchase one share of stock for cash, it may be possible to purchase a share by means of accumulated dividends. That is, the cream is delivered to the cooperative creamery, and the producer receives the door price for the cream. At the end of six months, or a year, when dividends are distributed, the non share holder allows his dividend to remain with the creamery until sufficient funds have accumulated to equal the par value of one share of stock. Many successful cooperative creameries have been organized and financed on this plan.

Obviously sufficient capital must be raised to finance at least a part of the cost of the building and equipment. This is often done by a few producers purchasing several shares each, with a view of selling the extra shares whenever new members can be interested. This plan is not entirely satisfactory, particularly if the burden of providing the funds falls on a relatively small number. If the cooperative creamery proves a success those members who have furnished the capital and assumed the greater risk are reluctant to sell their shares of stock at par value. On the other hand many new producers would become members if they could buy the stock at par value rather than the book value, which would be much higher in the case of a successful cooperative creamery.

Cooperative creameries have been organized in South Dakota where

members have signed individual or joint notes payable to the local bank, and the bank in turn has provided the necessary capital. This plan places too heavy a burden on a few members and is not as favorable to success as the sale of shares of stock to a large number of producers.

The experience of cooperative creamery management indicates that adequate capital is essential to success, and a cooperative creamery should not be started unless this is assured.

In Denmark no shares of stock are issued, simply certificates of membership. The necessary capital is secured from a savings bank by a loan executed by the association for which the members are jointly liable. The loan is paid off in annual installments, usually in ten or fifteen years. When the loan is paid off, a new loan is made, and the original members receive their share of the new loan. This plan of borrowing money and paying it off by installments goes on indefinitely. Thus new members are taken in on the same basis as the original members.

There are many reasons why such a plan is not adapted to financing cooperative creameries in the United States. It would be difficult, and in most cases inadvisable to allow members of cooperative creameries to pledge their individual credit for the entire financial obligations of the creamery.

There are a few local cooperative creameries in South Dakota that were organized by selling shares of stock to non producers, and business interests in the community. The success of this plan depends much on the non producers attitude toward the organization. If the attitude is wholly in the interest of the creamery and not for selfish pecuniary gains, the plan may work.

However, as a general rule this plan can not be recommended. Where this plan exists, the management of the creamery should make arrangements to get the stock into the hands of producers at the first opportunity. In communities where there are not sufficient producers to carry the financial obligations necessary to the organizing of a cooperative creamery, it may be better to organize a cooperative cream shipping association which involves only a small outlay of money.

No effort is made in this bulletin to explain in detail how a cooperative creamery should be financed, but merely to direct attention to the importance of proper financing. The local banker plays an important part in providing the funds, and he is in a position to give good advice on how the organization can be financed.

Sound Policy Necessary

A sound business policy in conducting the business of the cooperative creamery is necessary. The first essential to handling an organization in a businesslike manner is adequate records. Cooperative creameries are especially lax in this respect. Cooperative creameries which handle products valued at anywhere from \$50,000 to \$500,000 annually have records that are entirely inadequate. The board should see to it that the creamery has a satisfactory accounting system, and someone to keep the records complete and up to date.

The Board will find that a well defined business policy which is

understood and enforced will have much to do with the success of the creamery. A business policy will enable all to do their work to better advantage, each knowing just what he is to do and what his limitations in authority are. Such a policy will be of great deal of help to the manager, as he will know what authority he has in buying supplies and equipment, hiring help, selling butter, etc. There are too many examples where the authority of the board and the manager are not clearly defined or understood. This leads to misunderstanding and often great loss to the creamery.

The board that has a well defined policy will find that things will run smoothly with much less attention on its part, even when the manager is a mediocre man. It will also protect the organization against undue assumption of authority by any member of the board or anyone connected with the creamery in an official capacity.

LIST OF EQUIPMENT FOR A CREAMERY MAKING 200,000 TO 400,000 POUNDS OF BUTTER ANNUALLY

- 1—1000 pound churn
- 1—300 gallon cream vat.
- 1—5 ton compressor with other high compression side equipment.
- 1—refrigerating room of approximately 160 sq ft. floor space.
- 1—Brine tank and open air coil.
- 1—Steam boiler — 30 to 40 H. P.
- 1—Intake cream scale.
- 1—Tub scale.
- 1—Babcock tester (24 bottle size)
- 1—Set glassware for tester.
- 1—Buttermilk tank (12 to 15 bbls.)
- 1—Butter print table.
- 2—Wash sinks.
- 1—Brine pump.
- 1—Cream pump.
- 1—Butter print stand.
- 3 to 6—Butter boxes (90 lb.) Butter packer and ladles.
- 1—Butter milk pump or siphon.
- 1—4 wheel floor truck.
- 1—2 wheel barrel truck.
- 1—Cream test scale.
- 1—Moisture test scale and supplies.
- 1—Acidimeter.
- 1—Tub parafiner.
- 1—Set cream sample jars, belts, shafting, hangers, pulleys.
- 1—7½ H. P. motor for power.
- 1—7½ H. P. motor for compressor.
- 1—30 to 50 gallon starter can.
- 1—Can rinser.
- 1—Office desk, chair, table, safe, adding machine, record books, stationery. Other miscellaneous equipment and supplies, sanitary cream piping, tools, pails, cans, strainers, brushes, work bench, thermometers, acid measures, stirring rods, etc.

The cost of the above equipment at the present time would be approximately \$8000. The cost of installing must be added.

The cost of a suitable creamery building will range from \$2000 to \$10,000 depending upon the size, plan, materials used, and cost of labor. The total approximate cost of a suitable and permanent creamery building furnished with modern equipment, plumbing, ventilation and refrigeration is about \$15,000 to \$18,000.

In planning a creamery, such things as heat, ventilation, plumbing and sewage disposal must not be overlooked. A city sewer system offers opportunity for direct disposal. Where no system is available the means of disposal is through septic tanks with proper drainage outlets. In many instances where creamery waste is emptied into city sewers, city authorities have found the material objectionable in mains and filter beds and have required the creameries to install septic tanks for treatment of the disposal before it enters the city mains.

Since this bulletin was written an extension dairy marketing specialist has been added to the Extension force. His services in organizing and assisting creameries, can be had by calling on the Extension Department, Brookings, South Dakota.

Mr. Clarence Shanley has had wide experience in the management and operation of creameries, particularly cooperative creameries.

**SUGGESTED FORM OF BY-LAWS
FOR COOPERATIVE CREAMERIES**

ARTICLE I—Name

Section 1. This Association shall be known as the **Farmers Co-operative Creamery of** _____, South Dakota and shall be incorporated under the cooperative laws of the State of South Dakota; it shall conform with the provisions of the Federal Co-Operative Act, approved February 18, 1922, known as "An Act to Authorize Association of Producers of Agricultural Products;" and it shall comply with the rules and regulations of the Federal Revenue Act exempting co-operative organizations from federal income and capital stock taxes.

ARTICLE II—Objects

Section 2. The purpose for which this organization is formed is the manufacture of butter and other dairy products wholly from milk and cream and to do all business necessary or incidental thereto, also the buying and selling of poultry and poultry products when in the opinion of the Board of Directors this can be done co-operatively to advantage; to rent, hire, buy, build, own, sell, control and mortgage such equipment and buildings and other real and personal property as may be needed or desirable in the conduct of its operations; to encourage and perfect better and more economical methods and practices in producing and marketing dairy products; to do any and all things incident to, or necessary, or desirable, or convenient for the prosecution of its business; and to perform any other pertinent, legitimate and lawful service which may tend to the mutual benefit of its members and the general benefit of the dairy industry; provided, however, that the Company shall not deal in the products of non-members to an amount greater in value, during any year, than such as are handled by it for members.

ARTICLE III—Membership

Section 1. Any farmer or producer of milk or cream residing in the territory tributary to _____, South Dakota or tributary to any point at which the Company may now or hereafter establish a place of business, may become a member of this Company by agreeing to comply with the requirements of these by-laws and purchasing at least one share of capital stock of said company.

ARTICLE IV.—Fiscal Year; Meetings

Section 1. The fiscal year of the Company shall commence January 1 and end December 31.

Section 2. The annual meeting of the stockholders of the Company shall be held in the town of _____ South Dakota, the 3rd Tuesday of January, of each year, at 2:00 P. M.

Section 3. Special meeting of the stockholders may be called at any time by the President. He shall call such meetings whenever 50 per cent of stockholders so request in writing.

Section 4. Notice of the annual meeting of stockholders shall be mailed by the Secretary to each stockholder at least two weeks prev-

ious to the day of the meeting, and such notice shall be published in a newspaper published in-----South Dakota not less than two weeks previous to the date of the meeting. At least two weeks before the date of any special meeting of stockholders the Secretary shall mail notice of such meeting to every stockholder and shall state the nature of the business to be transacted at such meeting.

ARTICLE V—Quorum

Section 1. Twenty per cent of the stockholders shall constitute a quorum for the transaction of business at any annual or special stockholders meeting, except for such business concerning which a different quorum is specifically provided by law or by these by-laws.

ARTICLE VI—Directors and Officers

Section 1. The Board of Directors of this Company shall consist of seven members, each of whom shall be a producer of dairy products, and a stockholder in this Company. Directors shall be elected by the stockholders in annual meeting assembled, three for three years, three for two years, and one for one year. As the term of each member of the Board expires his successor shall be elected for a term of three years and shall hold office until his successor shall have been elected and qualified and shall enter upon the discharge of his duties.

Section 2. The Board of Directors shall meet within ten days after each annual election, and shall elect by ballot a President, a Vice-President, a Secretary and a Treasurer, from among themselves. They shall also choose three Auditors from the members, not Directors, Officers, Agents or Employees of the Company. Such Officers and Auditors shall hold office for one year, or until their successors are duly elected and qualified.

Section 3. A majority of the members of the Board of Directors shall constitute a quorum at any meeting of the Board of Directors.

Section 4. Any vacancy in the Board of Directors shall be filled, until the next annual meeting of the stockholders, by the remaining members of the Board of Directors.

Section 5. The compensation, if any, of the Board of Directors and the officers shall be determined by the stockholders of the Company at any annual meeting, or any special meeting called for that purpose.

Section 6. Any Director or Officer of the Company, may, for cause, at any annual meeting of the stockholders, or at any special meeting called for the purpose, at which a majority of the stockholders shall be present, be removed from office by a vote of not less than two-thirds of the members present. Such Director or Officer shall be informed in writing of the charges against him at least five days before such meeting and shall have an opportunity to be heard in person, by counsel, and by witnesses thereto.

ARTICLE VII—Powers and Duties of Directors

Section 1. The Board of Directors shall have complete management of the business and affairs of the Company, and may from time

to time, establish, amend or repeal such rules and regulations or issue such orders or directions as it may seem necessary or desirable, for the proper management and conduct of the business and affairs of the Company, and shall have authority to provide for the enforcement of such rules and regulations by contract or penalties or otherwise.

Section 2. The Board of Directors may employ and dismiss at will a general manager and other employees and fix their compensation. The General Manager shall have charge of the business under the direction of the Board of Directors.

Section 3. The Board of Directors shall require all officers and employees charged by the Company with the responsibility for the custody of any of its funds or property to give bond with sufficient surety for the faithful performance of their official duties.

Section 4. The Board of Directors shall have the power and authority and right to expel from membership any stockholder for cause, and to deny all further rights and privileges in the Company, and said Board shall have the right to establish and amend and repeal rules and regulations under which expulsion shall be effective; provided that in the case of expulsion, the Company shall purchase the shares of capital stock of said Company owned by the Stockholders expelled, and shall pay him therefor either the par or book value of same, whichever shall be the greater.

Section 5. The Board of Directors shall prescribe the form of the Company's seal.

Section 6. In addition to the meeting of the Board of Directors after each annual stockholders meeting, the Board of Directors shall hold at least twelve regular meetings during each year and at such times and places as may be designated by the Board. Special meetings of the Board of Directors shall be held upon the call of the President or upon written request of three members of said Board.

ARTICLE VIII—Co-Operation and Reciprocity

Section 1. The Board of Directors may co-operate with national or state or regional dairy, creamery or farm produce co-operative marketing associations or marketing agencies, or agencies organized for the advancement and improvement of dairy, creamery or farming interests, in any way that tends to carry out the purposes of the Company, and shall have power to affiliate and to co-operate, by membership or otherwise, with any other company having a like co-operative purpose, and to subscribe for and invest any of the Company funds in capital stock or membership in any such co-operative company, association or agency.

ARTICLE IX—Duties of Officers

Section 1. The President shall:

- (a) Preside over all meetings of the Company, and of the Board of Directors.
- (b) Sign as President, with the Secretary, all stock certificates, contracts, vouchers, notes, deeds, mortgages and other instruments on behalf of the Company, provided that all

checks shall be signed by him with the Treasurer, and provided further that the Board of Directors may set aside a fund for operating expenses and such other purposes as may be designated by it, in a bank designated by said Board, which fund shall be subject to the check of the Business Manager under such directions, rules and regulations as the Board of Directors may prescribe.

- (c) Call special meetings of the stockholders and of the Board of Directors.
- (d) Perform all acts and duties usually required of an executive and presiding officer.

Section 2. In the absence or disability of the President, the Vice-President shall perform the duties of the President.

Section 3. The Secretary shall:

- (a) Keep a complete record of all meetings of the stockholders and of the Board of Directors.
- (b) Sign as Secretary, with the President, all stock certificates, contracts, vouchers, notes, deeds, mortgages and other instruments on behalf of the Company, except as otherwise specifically provided elsewhere in these by-laws.
- (c) Serve all notices required by law and by these by-laws.
- (d) Keep a complete record of all the business of the Company and make a full report of all matters and business pertaining to his office to the stockholders at their annual meeting, and to make all reports required by law.
- (e) Perform such other duties as may be required of him by stockholders meetings or by the Board of Directors.

Section 4. The Treasurer shall:

- (a) Receive and disburse all funds and be custodian of all the property of the Company, except as herein otherwise specifically provided by the by-laws or by order of the Board of Directors issued in accordance with these by-laws.
- (b) Sign as Treasurer, with the President, all checks except as otherwise specifically provided in these by-laws.
- (c) Keep a complete record and make a full report of all matters and business pertaining to his office to the stockholders at their annual meeting.
- (d) Perform such other duties consistent with the nature of his office as may be required of him by the stockholders meetings or by the Board of Directors.

ARTICLE X—Duties and Powers of General Manager

Section 1. The General Manager shall perform such duties and have such powers as the Board of Directors may require or may delegate to him. He shall sit with the Board of Directors in an advisory capacity, in deliberation upon all matters pertaining to the general business and policies of the Company.

ARTICLE XI—Capital Stock

Section 1. The capital stock of this Company shall be -----
-----divided into -----
shares of the par value of -----each.

Section 2. The Board of Directors shall annually, or at such other times as it may seem advisable or desirable, determine and fix the book value of a share of stock of the Company, taking into consideration the value of the physical property of the Company, its reserves and such other items as may be pertinent. The sales value of a share of stock shall be fixed at the annual meeting of the stockholders and shall be the amount that must be paid by a non-member upon becoming a stockholder in the Company, by purchase of stock from the Company, or must be paid by a member increasing his stock in the Company; if stock is paid by credits of dividend on butterfat all deferred payments shall carry interest at the rate of -----per cent.

Section 8. No person or association shall become a stockholder of the Company, except by consent of the Board of Directors, and no stockholder shall transfer or dispose of his stock without first offering the same for sale to the Company. Upon receiving written notice from a stockholder of his intention to transfer, sell or otherwise dispose of his stock, the Company shall have thirty days thereafter within which to purchase and pay for the same. If within said period the Company shall tender to the holder of such stock an amount equal to the par value thereof, or, in the event that the book value thereof be greater than the par value, the sales value thereof, such stock shall thereupon become the property of the company. Should the Company fail to tender such amount to the stockholder within said period, the stockholder serving such notice, shall thereupon be free to dispose of the stock without restriction, except that no such stock shall be transferred or sold to any person other than one eligible for membership in this Company.

Section 9. Should any stockholder for a period of one year fail to do business with the Company, or at any time knowingly and intentionally violate the provisions of the statute under which the Company is organized, or the provisions of these by-laws, or do anything detrimental to the interests of this Company, his or its stock certificate or certificates shall be cancelled and upon the payment to him or it by the Company of the par values of such certificate or certificates, or the sales value in the event that be greater than the par value thereof, they shall be surrendered to the Company.

ARTICLE XII—Duties and Rights of Members

Section 1. At such times as the Board of Directors may indicate, each member shall report to the Company in regard to the products which he agrees to market through the Company, and each member shall furnish such information in this respect from time to time as may be requested by the Manager upon blanks furnished by the Company, and such contracts shall be made in regard to such products as shall be prescribed by the Board of Directors.

Section 2. Each stockholder of the Company shall be entitled to one and only one vote, no matter how much capital stock of this company he or it shall own. Voting by proxy shall not be permitted. Except in case of the removal of a Director or Officer, absent members may vote on specific questions, motions or resolutions by signed ballots, transmitted to the Secretary of the Company by mail and such ballots shall be counted only in the meeting at the time when such vote is taken.

Section 3. Any member having a grievance or complaint against the Company may appeal to the Board of Directors at its next regular meeting.

ARTICLE XIII—Refunds or Divisions of Earnings

Section 1. After the expense of the Company for operation, management or otherwise have been paid, and provision for compliance with contracts and agreements has been made, and after provision has been made for a sinking fund for discharging or retiring indebtedness, or providing for future improvements and extension, the Board of Directors shall apportion the balance of the earnings of the Company as follows:

1st. Interest shall be paid on the paid up capital stock of the Company in an amount of not more than_____per cent per annum, to be determined annually by the Board of Directors.

2nd. Ten per cent of the net profits per annum shall be set aside for a reserve fund, until an amount has accumulated in said reserve fund equal to the paid up capital stock.

3rd. Not less than one per cent nor more than five per cent of the net earnings per annum shall be set aside as an educational fund to be used in teaching co-operation.

4th. The balance of such net earnings, if any, shall be divided among the patrons of the Company who shall have done business with the Company during the period for which the distribution is being made, in proportion to the commissions charged to them during that period, or in accordance with the amount or value of the business done with the Company; provided that a non-stockholder patron shall be credited with his or its proportionate share of such net earnings until the amount of such credit shall equal the sales value of a share of capital stock of the par value of same, whichever may be higher, whereupon the Company shall issue or deliver to him or it a share of capital stock, and thereafter he or it shall have the same rights and benefits and be subject to the same regulations and obligations as other stockholders; provided further that a stockholder patron shall be credited with his proportionate share of said net earnings, until the amount of such credit shall equal the sales value of a share of capital stock, of the par value of same, whichever may be higher, whereupon the Company shall issue and deliver to him a share of capital stock, and this operation shall continue until the stockholder shall have become the owner of one share of capital stock. And no stockholder shall receive a cash distribution of his share of net earnings until he shall have become the owner of one share of capital stock.

ARTICLE XIV—Accounts and Auditing

Section 1. This Company shall install a standard system of accounts and provide other accounting appurtenances that may be necessary to conduct the business in a safe and orderly manner.

Section 2. A complete annual audit shall be made previous to the date of each annual meeting at which meeting this report shall be presented in full. Special audits shall be made upon the order of the Board of Directors, or upon a majority of the members at any regular or special meeting.

Section 3. The Company shall endeavor to cooperate with other Farmers Co-operative Associations in securing, if possible, the services of a competent accountant for its accounting and audit.

ARTICLE XV—Amendments

Section 1. These by-laws may be amended at the annual meeting or any other meeting of the stockholders called for that purpose by the Directors, by a vote representing two-thirds of the subscribed stock.