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Fort Collins, Colo.

T H E S I S

A STUDY OF THE COOPERATIVE OIL COMPANIES OF
COLORADO, WITH SPECIAL ATTENTION TO
CAUSES OF SUCCESS OR FAILURE

Cover

Submitted by
T. Emmett McDonald
for the Degree of Master of Science
Colorado Agricultural College
Fort Collins, Colorado
May 15, 1929.

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INTRODUCTION

The study of cooperative oil companies was undertaken as a part of a state-wide study of major types of cooperation in Colorado.

Cooperative selling of various products has been practiced in Colorado for several years. Retail selling of oil and gasoline cooperatives is a comparatively new field for this type of business effort. Because of the success of some of these companies, it was decided to investigate their methods of doing business.

It is not assumed that the business methods of the companies studied would be adaptable to any and all conditions where cooperation is to be tried. However, some pertinent points on organization will be stressed in the hope that they will be helpful in starting this particular type of business.

PURPOSE OF THE STUDY

It is the purpose of this thesis to make a study of the cooperative oil companies of Colorado. An investigation has therefore been made of two of the leading cooperative oil associations of the state.

The following organizations were studied:

The Consumers' Oil Company of Greeley, Colorado.
The Consumers' Oil Company of Colorado Springs,
Colorado.

These companies were chosen because they represented practically two different incentives for their initial organization.

The incentive for the start of most any business is either the desire for profit or the desire for service. In organizing a cooperative, the desire for service generally predominates. One reason for this study was to ascertain how much the desire for service had been adhered to in organization.

In any business there are certain fundamental causes which contribute to success. There are also some practices which cause failure. Cooperative oil companies have had more or less success, so it was desired that these causes be analyzed in order to benefit future attempts at organization.

In conducting a study of cooperation certain essentials for success must be kept in mind. These essentials, according to Jessness¹, are:

1. Necessity.
2. Volume of business.
3. Good management.
4. Adequate finance.
5. Membership loyalty and interest.
6. Business methods.
7. Service rendered.

1. The Cooperative Marketing of Farm Products, by O. B. Jessness, Chapter XIV. The Essentials for Success, pp. 176-184.

Whenever all of these essentials can be found, it is very nearly assured that the association will be successful. These points were therefore kept in mind in the study of these organizations.

In making the study no attempt has been made to restrict the term "cooperative", but the features of each company which meet the requirements of a cooperative effort have been emphasized. Particular attention has been paid to the following things, which are characteristic of these companies:

1. The early history of the association.
2. Methods of financing.
3. Organization and management.
4. Location and plant equipment.
5. The methods of operation -
 - a. General methods of business and accounting.
 - b. Membership relations and patronage dividends.
6. The financial success of the company.
7. The reasons for success or failure -
 - a. The general reasons for success or failure.
 - b. The special reasons for success or failure.

THE CONSUMERS' OIL COMPANY OF GREELEY, COLORADO

The necessity for the organization of this company was the high price of gasoline products which existed in Greeley and vicinity in the winter of 1921. This appeared to be the

result of an agreement among the local retail dealers to maintain a much higher price than was charged in competing towns. The prices fixed were also in excess of those required for a reasonable profit.

This condition led to an attempt by some of the farmers of the community to sell oil and gasoline at cost. These men were practical farmers and they foresaw the necessity of doing the preliminary work of organization without cost. They decided to finance the company by selling 500 memberships at \$5.00 each. The amount was deposited in a local bank and was to be returned if the necessary number was not sold. Teams were organized to secure members and each subscriber agreed to get another until this number was reached. This required several months, but by June 6, 1921 the company was ready to organize and begin construction of the retail plant. Construction of the plant began on August 1, 1921, and the gratuitous method which was used in securing members was followed. Most of the labor used in excavating and building was donated, and the association was soon ready to begin business.

Since The Consumers' Oil Company had been organized primarily to sell oil and gasoline at cost, this method was used in starting, but, to quote the secretary, the fact that "500 families were buying supplies soon caused a stir among the local retail dealers and a 'price war' began against the

association, which lasted long enough to demonstrate that the members understood its purpose and were not to be discouraged". This statement illustrates the importance and value of membership loyalty and interest.

The established retail price of gasoline was cut four cents per gallon and this was made the selling price of the cooperative company. This led to threats by local dealers to undersell the company unless it abandoned the "cost" price. Failing in this move, the line companies then resorted to diplomacy. It was suggested that the company abandon its present method, sell at the regular price, and refund to its members the difference between the wholesale and retail prices, less the cost of doing business. This suggestion was agreeable to the management, but it was unable to make the change until it was voted on at the annual meeting. This occurred on May 6, 1922, since which time the regular retail price has been followed, with the exception of the periods of time when there have been infrequent "gas wars".

This is but a brief review of the early history of The Consumers' Oil Company, but it shows some of the things that a new cooperative oil company may expect to face in entering the business field. The history of the associations studied shows that a new company may expect a "gas war" that will last at least long enough to test its strength. Therefore, adequate financing and a large and loyal membership are absolutely necessary.

The president of another very successful company said, "At the present time the initial amount of capital should be at least \$5,000.00". I would place the number of members required in a normal rural community at not less than 500. This should give a sufficient volume of business to enable the cooperative association to establish itself and to meet the stiff competition that is bound to ensue.

THE METHODS OF FINANCING

Adequate financing is an essential element of success in any form of cooperative effort. In general, it should be at least equivalent to that of a private or commercial business under similar conditions. In the case of this company, it is estimated that the work done in securing members and in construction was equivalent to \$1,000.00. This would equal an initial capital of \$3,500.00. Adequate financing is not only important, but the method of financing is also important because it is the buying power of the membership, or patrons, that will finally determine the success or failure of the cooperative company.

There are two reasons why an association which is financed by its members has an advantage over one financed by private capital. These are: first, membership loyalty and interest; and second, the saving of interest payments on capital invested. If we assume the other essential elements for success, it is membership loyalty and interest

that gives a cooperative organization whatever advantage it possesses over a private or commercial enterprise. Everything possible, then, should be done to encourage it, and this can only be done through rendering a service to its members, by the payment of dividends, or by an equivalent method.

ORGANIZATION AND MANAGEMENT

The Consumers' Oil Company was formally organized May 6, 1921, and its organization and management are marked by simplicity and economy. The association is unincorporated and meets the principal tests of a true cooperative as set forth by Jessness¹. These are: first, one-man-one vote; second, open membership; third, limited returns on capital. Each member has one vote. Elections are held annually, but special meetings may be called at any time. The members of the company elect the board of five directors, and they, in turn, elect the officers. The officers are the president, vice president, secretary, and treasurer. The board also elects the manager. There has been but a slight change in the personnel of the board since the organization of the association. Fred M. Mason, the manager, has served in that capacity since the company was organized. Meetings

1. The Cooperative Marketing of Farm Products by O. B. Jessness, pp. 4-5, Chapter 1. The Fundamentals of Cooperative Marketing.

of the board may be called at any time by the manager, who is also a member of the board.

The management of The Consumers' Oil Company is in the hands of the board of directors and the manager, who has marked authority. One of the main factors in the success of a cooperative association is the use of business methods. This factor is prominent in the conduct of this company. It began business on a modest scale. Its first purchase was a tank car of gasoline and a few barrels of oil. A moderate outlay in both building and equipment was made in the beginning. The labor expense was small; only one employee was hired in addition to the manager. Most of its present employees have been with the company for years, one of them since its beginning. Expansion has kept pace with the growth of the association, but has not preceded it. Service through patronage dividends has been the prime aim of the management. Good dividends have been paid regularly, but not at the risk of safety. The goal of the association, as stated by the secretary, is - "The members and the management have held constantly in mind the hope to make a successful enterprise in pure cooperation, and to do it with absolute regard for safe and ample reserves at all times. Under this policy and practice, the reserve has grown to include an expanded plant, as shown by the attached statement of financial condition dated December 31, 1928".

A strong essential of success in The Consumers' Oil Company is found in its reserve. The retail station has been enlarged, a large wholesale plant has been built, but the reserve has steadily grown and can with safety be utilized in part for future expansion if desired.

LOCATION AND PLANT EQUIPMENT

In starting a cooperative oil association, every effort to secure economy which is consistent with service should be made. One of the most important ways of securing this is through the location of the service station. It should be adjacent to railway trackage, if conditions permit. This effects economy in both storage and transportation charges. This company meets this condition. Its retail station is located close to two railway lines, and tank cars are unloaded directly into two underground storage tanks, with a gasoline capacity of 30,000 gallons, and one kerosene tank, with an 8,000 gallon capacity, since kerosene tank cars contain 8,000 gallons. Economy of time is further secured through the use of 15 gallon bowl pumps, which are more convenient in filling large cars.

The retail plant is located just off the main street of the city. It has a frontage of 125 feet, with a service space of 6,400 square feet. Most of this is cemented and cars can be serviced quickly.

The office contains four rooms, three of which have been added since the company started. These are suitably arranged for offices, oil containers, air compressors, supply room, and tube repair service. The office is well equipped with a cash register, which has been built especially for use of a cooperative oil company and which performs most of the book-keeping, adding machines, and other necessary office supplies.

The wholesale plant was begun in 1924 and has been enlarged until it compares favorably with similar plants of the line companies. To form a mental picture of this plant, imagine a wholesale plant of one of the standard companies. This will give you a fair comparison of its size and storage capacity. Located within a square block of the cooperative plant are plants of the three leading organizations operating in this district, and this plant does not suffer by comparison. It is a revelation to one unacquainted with the scope of the company's business and an inspiration to one interested in cooperative effort. It shows what vision, when backed by hard work and intelligent planning, can do in this field, and is a tribute to almost a decade of management efficiency.

The wholesale plant is located a short distance from the retail station and on one of the main lines of railway adjacent to it. The main building was erected in 1924 and enlarged in 1926. The size is 80 x 24 x 28 and it provides

space for storing oil, grease, and other supplies. Tank cars are unloaded into storage tanks with the following capacities: two gasoline tanks with a total capacity of 30,000 gallons; one distillate tank with a capacity of 15,000 gallons; one kerosene tank with a capacity of 12,000 gallons; and one furnace oil tank with a capacity of 17,000 gallons; making a total capacity of 74,000 gallons.

There are two loading platforms for filling tank wagons by gravity. The plant is electrically equipped for filling or emptying storage tanks. There is also equipment for steaming tank cars for unloading in cold weather. Two trucks, with a 1,000 gallon capacity, are used for both wholesale and retail trade.

In addition to the retail and wholesale plants, the company owns a modern garage, 80 x 45 x 15, which is leased for repair and battery service. The members get special rates on battery work.

A series of pictures of both the retail and wholesale plants are shown in the following pages and serve to emphasize the description already given.



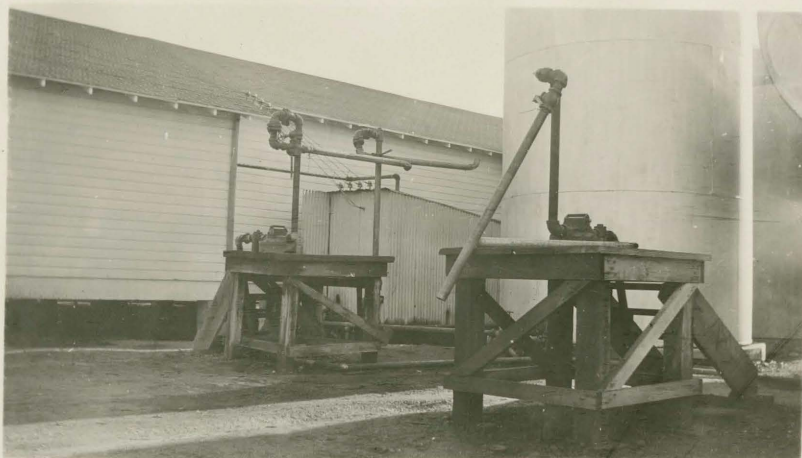
Retail plant.



Retail plant, showing cars being serviced.



Wholesale storehouse



Wholesale plant, showing loading
platforms.



View of tanks at wholesale plant.



View of tanks and storehouse at
wholesale plant.

THE METHODS OF OPERATION

It is in the methods of operation that the cooperative oil companies differ most from the private or commercial companies. This is especially true in the methods of paying patronage dividends.

Good management is one of the essentials for success in a cooperative association, and this is closely observed in conducting The Consumers' Oil Company.

(A) GENERAL BUSINESS METHODS

The general business methods of the company do not differ essentially from those of a well conducted private business. Supplies are bought from the standard and independent companies and only the best grades of products are handled. A cooperative oil association is a buying as well as a selling cooperative, and buying is an important factor. Products are bought in carload lots as far as the major products are concerned. Advantage is taken of all cash discounts and every possible buying economy is effected. The general business methods of the association meet the principal tests of a well conducted private or commercial organization.

Goods are sold at both wholesale and retail at the regular prices. The supplies handled are gas, oil, distillate, alcohol, grease, tires, and tubes. A tube repair

service is also maintained. A greasing rack is provided for the convenience of members and patrons. Only the main oil products are handled and only a limited number of grades are carried in each. Supplies are sold to non-members, but this represents but a small percentage of the sales. Coupon books of different denominations are sold at the regular prices. Most of the business is done on a cash basis, but some credit is extended, for which a slight additional charge is made. This helps defray clerical expense. The tank wagon price is three cents below retail price.

There is a slight charge for retail deliveries made at a distance from town. This is about one cent per mile for the first mile beyond the city limits and increases with the distance traveled. In the payment of dividends on wholesale deliveries, the difference between the wholesale and the retail prices is deducted from the regular amount which is paid on retail sales. Receipts are given for all purchases and form the basis of the dividend payments, or, in the case of non-members, are applied on the price of a membership.

(B) MEMBERSHIP RELATIONS AND PATRONAGE DIVIDENDS

Membership loyalty and interest are among the essential elements for success in a cooperative association. These can be achieved, in part at least, by the service which is

rendered members through the payment of patronage dividends, or through some other equivalent method. Another important factor is the volume of business, without which no organization can succeed, and this is best developed through a large and active membership.

The membership receipt which is issued by The Consumers' Oil Company represents the contract between the association and the member. It entitles the holder to receipts for all purchases and to the payment of patronage dividends. Receipts for purchases are also issued to non-members, but these apply only toward the purchase of a membership certificate until they become members.

The initial price of a membership was \$5.00, but, as these became more valuable with the growth of the company, they were raised from time to time until now they are worth \$25.00. This results favorably to the original members, who have made the increased value possible.

No attempt has been made to increase the membership since the company was formed, but it has grown steadily, due to the fine advertising powers of the patronage dividends, and is now about 1,450.

A record is kept of all members. If they wish to sell their memberships, they may do so, either personally or through the manager's office at a slight discount. Members are advised to retain their memberships, however, because they are now much more valuable than when first issued.

A large number of members is of great importance in developing the business volume and is one of the most important factors in the building of a successful cooperative. The method of applying receipts to the purchase of membership certificates is quite commonly used by cooperative associations and is particularly successful as used by the management of The Consumers' Oil Company. It is very effective in increasing the membership and the resulting business volume.

Patronage dividends are paid to the members quarterly on all purchases. The amount of the dividend is based on the purchases. This is shown by the value of the receipts which are presented for payment. The percent which is paid depends upon whether the supplies which were purchased were at retail or wholesale prices. About 20 percent is paid on retail sales, but, in fixing the dividends on wholesale prices, the difference between this and the retail price is considered. For instance, the tank wagon price for gasoline is three cents per gallon less than the service station price. This amount is deducted in determining the dividend paid. In addition to the regular dividend, an extra one has usually been paid at the end of the year. The patronage dividends are paid only to the heads of families or to persons authorized to receive them.

When receipts are presented by non-members, they are applied toward the purchase price of a membership until the amount equals \$25.00, at which time a membership receipt is issued.

(C) GENERAL ACCOUNTING METHODS

The main step in the accounting methods of The Consumers' Oil Company is performed by the cash register. To quote the secretary, George M. Houston, "Purchases by members are recorded by the cash register, and each member does his own 'bookkeeping' by preserving a sales slip, which he receives at the time of the transaction. Every three months there is a refund period, when patrons bring their slips and receive their refunds".

Second: A separate record is provided for all "time" sales, on which a slight charge is made.

Third: Each salesman keeps a separate record of his daily sales and these are checked by the bookkeeper daily.

Fourth: A special record is kept of each member and his quarterly dividends are entered with each payment. All transactions involving his membership are recorded.

Fifth: Sales or transfers of memberships are made in writing and entered on the books of the company.

Sixth: Membership receipts are issued to all members upon payment of membership fee.

THE FINANCIAL SUCCESS OF THE COMPANY

The financial success of The Consumers' Oil Company is shown by the financial statements for 1926, 1927, and 1928, and by the following additional data:

First: The increase in membership from 500 in 1921 to 1,450 in 1928.

Second: The dividends which have been paid. These range from 20 to 26 percent for the eight years of its operation.

Third: The average sales of gasoline per day for the year 1928.

January	- - -	2,815 gallons
February	- -	3,151 gallons
March	- - -	2,984 gallons
April	- - -	3,042 gallons
May	- - -	2,840 gallons
June	- - -	2,772 gallons
July	- - -	3,034 gallons
August	- - -	3,272 gallons
September	- -	3,375 gallons
October	- - -	3,031 gallons
November	- -	2,873 gallons
December	- -	<u>2,571</u> gallons
Total		1,043,466 gallons

Fourth: The total bank deposits by months for 1927:

January	\$26,438.49
February	26,532.27
March	28,718.27
April	29,577.38
May	32,361.31
June	31,250.58
July	34,934.79
August	34,504.18
September	35,908.84
October	40,016.09
November	30,012.30
December	<u>25,511.59</u>
TOTAL	\$375,766.09

Fifth: The yearly patronage dividend funds which have been paid since the company was organized in 1921 and extending through 1928:

1922	\$ 2,835.85
1923	18,614.33
1924	19,440.90
1925	37,435.00
1926	75,500.00
1927	58,000.00
1928	<u>80,141.38</u>
TOTAL	\$285,967.46

FINANCIAL STATEMENT

December 31, 1926

Assets:

Cash in bank	\$24,758.45
Cash on hand	250.00
Cash in dividend account	23,176.04
Accounts collectible	5,315.10
Gasoline and kerosene on hand (cost)	2,280.00
Oil at cost	4,945.60
Containers	543.25
Anti-freeze	353.60
Mdse.	75.00
Plant and fixtures	33,126.57
Tires and tubes	2,423.23
Total	<u>\$97,246.83</u>

Liabilities:

Memberships

800 at 5	\$4,000	
250 at 10	2,500	
179 at 15	2,685	
120 at 25	<u>3,000</u>	12,185.00
Outstanding coupons		467.50
State gasoline tax		170.10
Salary account		135.00
Manager's petty account		12.55
Surplus		<u>84,276.68</u>
		\$97,246.83

FINANCIAL STATEMENT

December 31, 1927

Assets:

Cash in bank	\$15,206.89
Cash in office	250.00
Accounts collectible	5,091.34
Gasoline, kerosene, dist.	4,128.27
Oils	3,954.23
Tires and tubes	9,850.38
Empty containers	580.00
Miscellaneous mdse.	125.00
Bills receivable	20,000.00
Plant and fixtures	<u>39,109.02</u>
Total	\$98,295.13

Liabilities:

Memberships

800 at \$5	\$4,000	
250 at 10	2,500	
179 at 15	2,685	
190 at 25	<u>4,750</u>	
<u>1419</u>		13,935.00

Balance due on real estate	10.00
Outstanding coupons	420.00
Road tax accrued	3,433.89
Accounts payable	59.61
Wages accrued	233.00
Surplus	<u>80,203.63</u>
	\$98,295.13

FINANCIAL STATEMENT

December 31, 1928

Assets:

Cash in bank	\$115,536.68
Cash in office	210.00
Tires and tubes	7,811.57
Gasoline	3,525.77
Oils and grease	2,659.25
Distillate	891.80
Gas-oil	428.75
Kerosene	873.00
Empty barrels and cans	778.00
Small merchandise	54.00
Plants and fixtures	41,229.27
Accounts collectible	8,415.78
Bills receivable	37,000.00
	<u>\$119,314.29</u>

Liabilities:

Memberships	14,435.00
Coupons outstanding	640.00
State road tax accrued	3,408.00
Manager's petty account	10.00
Balance on real estate purchase	10.00
Surplus	<u>100,811.29</u>
	\$119,314.29

THE CONSUMERS' OIL COMPANY OF COLORADO SPRINGS, COLORADO

The history of The Consumers' Oil Company of Colorado Springs, Colorado, is one of the most interesting to be found in the field of cooperative oil companies. It shows what resourcefulness and adaptation to local conditions can accomplish when properly applied.

Colorado Springs is one of the great tourist centers of the west and a noted health resort. The history of this company is closely related to local conditions.

About ten years ago, Mr. G. E. Michael, the manager of this company, came to Colorado to seek health and located in Colorado Springs. He had a background of successful business experience and engaged in the automobile business. After several years of service with one of the leading firms of the city, he decided to organize a cooperative oil company. One of the first steps to success in any undertaking is adequate financing, and this was accomplished by the sale of memberships among the business and professional men of the city.

THE METHOD OF FINANCING

One factor of success in any cooperative effort is adaptation to local conditions. Most successful cooperatives are composed of farmers and are found in rural communities.

In this respect, The Consumers' Oil Company differs from other companies. Colorado Springs is not located in a farming community and only about one percent of its membership is composed of farmers. In order to secure the confidence of the business and professional men of the city, the receipts from the sale of memberships were placed in trust with a local banking firm and were to be returned if sufficient funds were not raised.

After a careful investigation of local conditions, it was decided to raise a capital of \$2,500.00, which was accomplished by the sale of 500 memberships at \$5.00 each. These were sold by the manager with the assistance of other members. It required several months of effort before a sufficient amount was raised and the company was ready for organization.

ORGANIZATION AND MANAGEMENT

The Consumers' Oil Company is a co-partnership in organization and management, and is unincorporated. The company is managed and controlled by a limited number of co-partners, who receive a reasonable amount for their services in operating the association. After laying aside a reserve, a part of the net profits is divided among the members on a patronage dividend basis. The association is therefore private in organization and management, but cooperative in the

method of distribution of profits, which have been very satisfactory since its organization.

Another factor of success in a cooperative company is that of management. Since cooperation is one of the major forms of business effort, in order to succeed, it must meet the standards which are set by private business. The Colorado Springs association meets these requirements admirably. The employees are permanently engaged and every possible effort is made to meet the demands of the members and patrons. Courtesy and service are the watchwords of the management and it is difficult to see how these could be much improved.

PLANT EQUIPMENT AND LOCATION

The Consumers' Oil Company is an excellent illustration of a cooperative association which has applied the important principle of adapting itself to local conditions. Its success is partly due to its location. The retail station is attractively built and almost ideally located. It is intended to serve a city membership and is situated close to the business district and on an important national highway. Entrance is made from two directions and there is a cemented service space of 3,750 square feet. It is well equipped with automatic pumps, air compressor, aeromotor, and a rotary lift for greasing service. This lift is a valuable piece of equipment and yields good returns. The office is well equipped with a specially built cash register, oil containers, office supplies, etc.

The location of the service station is not only accessible to members and patrons, but it is also convenient to both local and transient tourist business. It is located on the right side of the highway leaving the city, which is an important item in attracting transient trade. Ten percent of the total business results from this class of patronage, and it is largely the effect of an attractive station and accessible location. The pictures which form a part of this study will emphasize the importance of the attractive station and its ideal location.

In addition, the company maintains a wholesale plant, which is located about two miles from the retail station. This plant has a 12,000 gallon storage tank. The plant is electrically equipped for loading and unloading tank cars, and for loading tank trucks. A 500 gallon truck is used to transport gasoline from the wholesale plant to the retail station and for making wholesale deliveries to members and patrons. The retail and wholesale locations are both leased, but the equipment of the plants is valued at \$5,000.00.



Retail station, showing car on rotary lift.



Retail service station.

METHODS OF OPERATION

One of the most important elements of success in a cooperative oil company is the method of operation. This involves many things which are not found in the conduct of a private or commercial organization. This is especially true of membership relations and patronage dividends.

(A) GENERAL BUSINESS METHODS

Gasoline is bought in carload lots and other supplies in lesser quantities. Advantage is taken of all discounts and every possible buying economy is effected. Only the best quality of products is bought and only a limited number of supplies is handled. Greasing service is also provided. Not only is the number of products purposely limited, but the number of grades in each product is also restricted. Only one grade of gasoline is sold, two of grease, and four of oil.

The business is conducted on a cash basis and the regular retail and wholesale prices are maintained. Goods are sold at both retail and wholesale, but the major part of the sales is on a retail basis. The wholesale or tank wagon price is three cents per gallon below the service station price. Coupon books, ranging in price from \$5.00 to \$25.00, are sold for the convenience of members at the

regular price. Sales are made to non-members, but these do not exceed ten percent of the total business of the company.

(B) MEMBERSHIP RELATIONS AND PATRONAGE DIVIDENDS

The relation of the members to the association is vital in the conduct of a cooperative company. In order to become a member, a membership card must be purchased. The initial cost was \$5.00, but it is now \$10.00. This entitles the purchaser to the right to receive receipts for all products bought and to patronage dividends on all purchases, at stated periods.

There are two ways of becoming a member: by the purchase of a membership card for cash, or by allowing patronage dividends to accumulate until they amount to this price.

If a member desires to sell or transfer his membership card, he returns it to the company for cancellation. A new card is issued to the purchaser without charge.

The principal service which is furnished by the cooperative oil companies is through the payment of patronage dividends. The basis for this payment is the sales-slip, or receipt, which is given with each purchase made by a member. These receipts are to be retained by the purchaser and presented quarterly for payment. The amount of the patronage dividend is based upon the value of the supplies

purchased during any period. The percent is determined by the net profits for that period and has run from 15 to 20 percent since the organization of the company.

Non-members, who have already applied for a membership card, have their patronage dividends credited to their accounts until they amount to the price of a membership.

METHODS OF ACCOUNTING

Since the business of The Consumers' Oil Company is on a cash basis, the accounting system is simple and most of it is performed by a built-to-order cash register. Receipts are issued for all purchases made by members or by those who have applied for membership cards. These are to be retained and presented for payment or credit, as in the case of applicants for membership, at the close of each quarterly period. When presented, they are paid or credited on membership and the amount entered on the books of the company.

A record is kept of the members, and when membership cards are sold or transferred entries are made of the transaction. When coupon books are sold to employees of members, an order for payment is detached and presented for collection on the following day. The order for payment is a part of the regular coupon book and may be detached and presented for payment at time of sale.

THE FINANCIAL SUCCESS OF THE COMPANY

The financial success of The Consumers' Oil Company, like that of any other similar organization, can be measured only by the results which have been accomplished during the period of its operation. This company began business on April 1, 1927. It has therefore been engaged in the distribution of oil and gas but little more than two years. During this time it has paid seven dividends to patrons and members. Five of these have amounted to 15 percent each and two of them to 20 percent each. The 15 percent dividends were in part the result of a "gas war" which was general throughout the city, but which was not particularly directed toward the cooperative association. At about this time, there was also a reduction in the price of gasoline, which reduced the spread between the tank car price and the retail price. The two 20 percent dividends were the first and last dividends paid.

The financial success of the company is further shown by the total amount paid during the two year period of its operation. The total capital investment is about \$5000.00. In this time the association has earned \$30,000.00, paid the salaries of the manager and three employees, absorbed a large unforeseen expense caused by leasing difficulties, and distributed \$15,000.00 in patronage dividends.

The changes in membership personnel are naturally more variable than they would be in a community or city where the membership is largely made up of farmers. The growth, however, has been steady, and at the present time the company has about 700 members. Since a considerable portion of the membership is composed of families and corporations with two or more cars each, this makes for increased buying. This statement is also true of the other company studied.

The Consumers' Oil Company has proven that a cooperative can be operated under the conditions which result from city competition. It has earned the right to the financial success and business standing that the above statement conveys.

THE CAUSES FOR THE SUCCESS OR FAILURE OF COOPERATIVE OIL COMPANIES

The causes for the success or failure of cooperative oil companies are closely related to the essentials for success which have been considered throughout the study. These are: necessity, the volume of business, good management, adequate finance, membership loyalty and interest, and service rendered. This study shows how each company has met these essentials.

(A) General Causes of Success or Failure

There are many reasons for the success of cooperative oil companies. Some of these are inherent in the commodity. Others are the result of local conditions and have a vital connection with the method of management.

Some of the most successful cooperative associations are those which are connected with a certain commodity. This is illustrated by the success of the California Fruit Growers.

The cooperative oil companies are excellent examples of a form of cooperative effort which succeeds because of the nature of the commodity. Some of the reasons for this success are:

Spread Between Retail and Wholesale Prices

At the present time there is a spread of approximately six cents a gallon between the wholesale and retail prices of gasoline, which is the main product handled by such companies. It is true that there is less margin in summer than in winter, but gasoline is becoming less and less of a seasonal product. This is partly due to the increased building of hard surfaced roads, the development of interstate truck and bus lines, and the growth in the use of enclosed cars.

The report of The Consumers Oil Company of Greeley indicates only a slight variation in its sales volume in the different seasons of the year. This is shown in the report of 1928, which gives the sale for every month. The cost of gasoline under economical operation should not exceed three cents per gallon. The cost of retailing in the companies studied is less than this amount. In this connection, it is interesting to note that the average line company pays its station managers three cents per gallon on their gasoline sales. If we assume a sufficient volume of business and other necessary elements of successful operation, it is possible to estimate the profit.

A Comparatively Small Amount of Capital Required.

Compared with other major lines of business, the initial investment is small. This does not mean that success is possible without adequate finance, but that the initial capital is less than in lines of endeavor with similar returns. The original investment of the companies studied was nominally \$2,500.00. However, in the case of one of these companies, the amount of voluntary service rendered in securing members and in constructing the retail plant would make the initial investment much higher. To quote the president of a very successful company, which

is not included in this study: "At the present time, the capital should be at least \$5,000.00". I consider this a conservative figure.

Another reason for comparative economy of operation is that stations and equipment can be leased, with the privilege of purchase. In starting a cooperative oil company, a large investment of fixed capital should be avoided. One of the most successful companies to be found in the cooperative field started with a very modest equipment and is now in a position to expand with safety.

Perhaps the greatest reason for economy of operation in the sale of oil products is the rapid turn-over compared with other lines of business. The shrinkage is also small. Under proper conditions, it should not exceed two percent. The former state road tax on gasoline sales allowed for a shrinkage of one percent, but the new tax law which became effective May 1, 1929 allows a shrinkage of two percent on gasoline. This practically eliminates the element of shrinkage.

The Volume of Business

It is difficult to limit the causes of successful co-operation to the two or three most important factors, and impossible to confine it to a single one. One factor that must be considered is volume of business. This is absolute-

ly essential. It can only be secured through the buying power of a large and loyal membership, and this, in turn, can only be secured, in the beginning at least, by rendering some substantial service. This service is usually rendered in the payment of patronage dividends, or some equivalent form. With all other necessary conditions for success present, without a sufficient volume of business failure is bound to result.

The Service Rendered

The private or commercial organizations exist primarily for profit, while the matter of service is secondary. The cooperative associations exist for service, while profit-taking is secondary. This service may be rendered, as in the case of the cooperative oil associations studied, by the payment of patronage dividends. It may also be offered by the sale of goods at cost, or at a near cost price. This is an important point often overlooked even by the members.

The history of the companies studied shows that a cooperative oil company may reasonably expect a prolonged period of price cutting at the time of organization. It may also expect the same condition for shorter periods at other times. This is when membership loyalty and interest are of most importance. It is a cardinal principle

of cooperation that patronage dividends be paid only from savings.

A "gas war" may be met by a cooperative in two ways: it may charge the regular retail price and refund to the members, or it may cut the price to compete with the other local dealers, stopping the dividend payments during the period of price cutting. In either case, the cooperative association renders service to its members. If necessary, it may even close its doors during the time and allow its members to buy elsewhere at the reduced price, reopening again when conditions become normal. If the "price war" is the result of starting a new cooperative oil company, it is rendering a service to its members through the medium of the lower price, even though it ceases to operate temporarily.

(B) SPECIAL CAUSES FOR SUCCESS OR FAILURE

Other causes for success in cooperative oil associations are found in the local conditions and are usually connected with management and location.

The management of both companies studied is of a high type, and in each case is particularly adapted to the local conditions.

Mr. Fred M. Mason, the manager of The Consumers' Oil Company at Greeley, is well equipped for efficient management.

He has a large acquaintance with the farmers of Weld County and the business men of Greeley. He has a peculiar knack of running a cooperative company, knows how to get business and to hold it, and is progressive, yet conservative. The company has paid large dividends. In addition, a reserve has been built up to a point where a program of expansion could be undertaken with safety. It is difficult to estimate the value of his management to the company.

From the standpoint of location, The Consumers' Oil Company of Greeley has a large opportunity for development, both in membership increase and in the volume of business.

The manager of The Consumers' Oil Company of Colorado Springs, Mr. G. E. Michael, is equally well fitted for conducting the work of his company. His previous business experience was in a similar line of work. He was associated with an automobile firm in the city for several years, which gave him an acquaintance with the business and professional men. This was invaluable in securing the necessary initial membership. His personality enables him to get new members and tourist trade. His method of management is peculiarly adapted to the local conditions. Management is one of the big factors in the success of this company.

Colorado Springs is a tourist center, and good judgment was shown in establishing a cooperative oil association

there. The station is attractively located and is accessible and convenient for tourist service. This is an important cause of its success.

Since both of the companies studied have proven successful, it is unnecessary to discuss the causes of failure. In general, failure would arise from opposite conditions, resulting largely from poor management, inadequate financing, an insufficient volume of business, lack of business methods, lack of necessity, lack of membership loyalty and interest, and the failure to render service.

CONCLUSION

These companies have been chosen for study because they represent two distinct types of cooperative oil associations, operating under different conditions of location, organization, and membership personnel. Each has been very successful, but their success has been exceptional. Similar organizations planning to enter this field should consider the conditions of competition in their particular community, good management, the number of members which may be secured, the probability of securing an adequate amount of capital and a sufficient volume of business, the possibility of expansion, and the probable reduction of the spread between the wholesale and retail prices of gasoline and the other major oil products.

Under favorable conditions, the future development of cooperative oil companies should steadily continue. To quote from a similar study made in Wisconsin and Minnesota,¹ "We do not believe that a sound co-operative, exercising due care in keeping expenses down, can be put out of business by anything short of a long-continued price war that would drive all the private independent oil jobbers to the wall also. The whole history of oil marketing down to the present demonstrates that this will not take place for many years to come, if ever".

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1. Co-Operative Oil Marketing in Wisconsin and Minnesota in 1926, by D. E. Montgomery. (August, 1928).