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Management Audit Oneida Agway Cooperative, INC.

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STAFF PAPER

MANAGEMENT AUDIT
ONEIDA AGWAY COOPERATIVE, INC.

By

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Don L. Long, and Donald R. Marion

March 1975

No. 75-6

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MANAGEMENT AUDIT
ONEIDA AGWAY COOPERATIVE, INC.

R. W. Hodgdon, Dennis R. Lifferth
Don L. Long, and Donald R. Marion*

Oneida Agway Cooperative, Inc. is an older, well-established organization located in Oneida, N.Y., about 25 miles west of Syracuse and 25 miles east of Utica. In addition to the main store in Oneida, there is a branch store in Canastota, about 5 miles west of Oneida. It attempts to serve both as a "wholesaler" of farm inputs (feed, fertilizer and other farm supplies) and as a retailer of home and garden merchandise for the local suburban area. (See Appendix.) Total sales for the Oneida store were \$1,749,327 in 1973 and \$1,029,113 for the first 6 months of 1974.

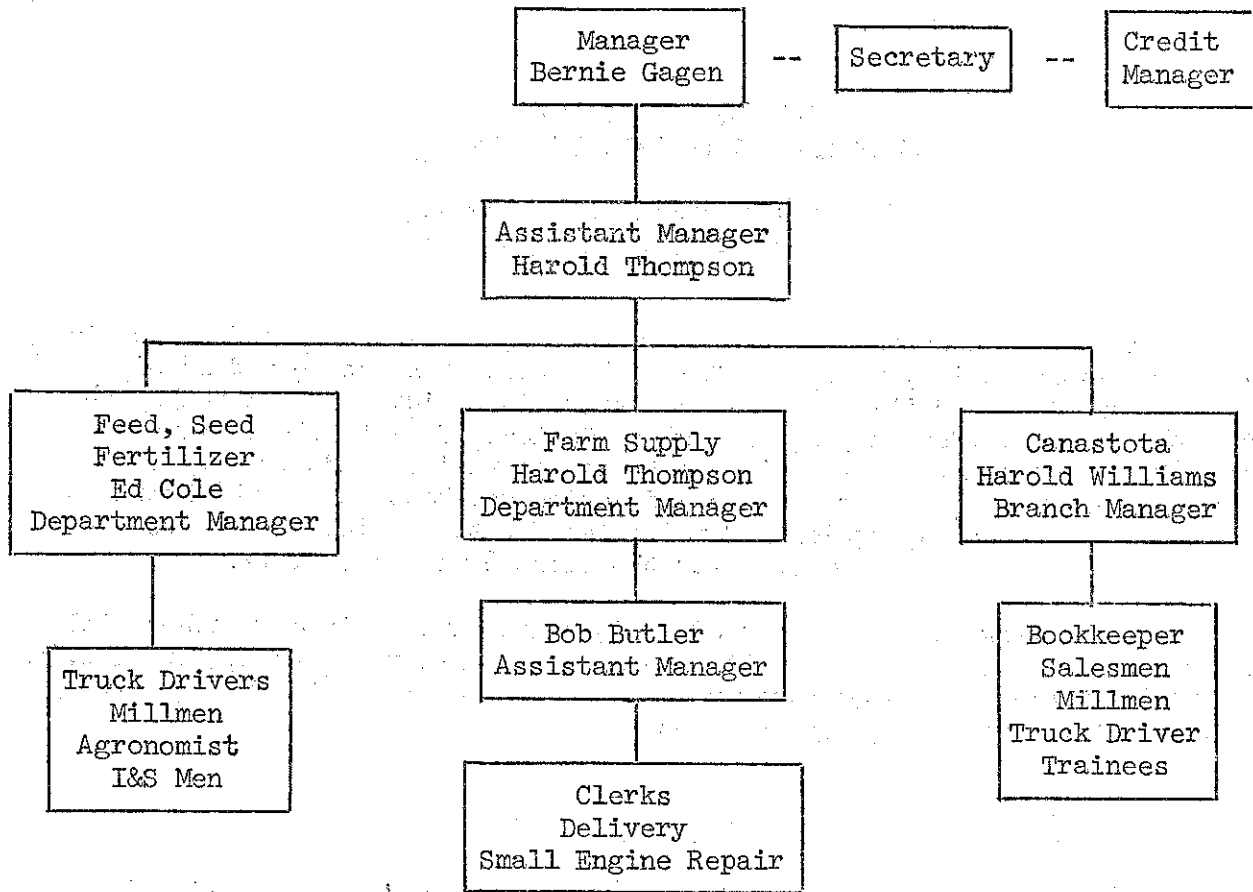
In evaluating the management of Oneida Agway two basic approaches will be followed. One, management will be evaluated relative to the Agway, Inc.'s job description for a store manager. Two, the management will be evaluated in terms of a total management concept.

Management Overview

Oneida Agway Cooperative, Inc. has two stores; the parent store in Oneida and a branch store at Canastota. Mr. Gagen acts as general manager for both stores. Basically, the total organization is broken up into 3 profit centers; the Canastota store, the feed and fertilizer portion of the Oneida store, and the farm supply portion of the Oneida store. There has been little attempt to establish a "profit center" for top management.

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The table of organization as it appears to operate is:



Essentially, each profit center operates autonomously although there is considerable informal coordination and cooperation. Bernie has delegated much of the responsibility and authority needed to operate each profit center to the department and branch managers. As a result, Bernie devotes much of his time to developing new accounts, to overall supervision, to credit management, and to customer and patron public relations. Much of the planning and development of advertising campaigns has been delegated to Harold Thompson.

Management Relative to Job Description

Agway, Inc.'s job description for a retail store manager reads:

Responsibilities

1. Manager retail feed, seed and farm supply store serving farmer-patrons within an approximate 20-mile radius.
2. Establish store prices, considering margins needed for profitable operations, institutional policies, and competitive situation.
3. Develop and supervise inventory control procedures.

4. Build volume, through use of advertising, store displays, employments of inside and outside sales personnel, and personally doing some selling.
5. Administer credit policies and procedures including establishment of credit limits, investigation of new accounts and collections.
6. Supervise the maintenance of store records and preparation of reports.
7. Investigate patron complaints, making proper adjustments, and advising supervisor of significant problems.
8. Supervise all facets of store operation including: unloading and warehousing of commodities, grinding and mixing, truck loading and delivery activities.
9. Administer Member Relations programs including dealing with the Store Committee and counseling with members on insurance matters, stocks and refunds, etc.

Supervises

May supervise any of the following:

| | |
|--------------------------------|-------------------------|
| Branch Store manager | Warehouseman |
| Farm Store Manager | Bookkeeper |
| Administrative Assistant | Mill Superintendent |
| Operations Manager | Mill Foreman |
| Credit Manager | Mill Operator |
| Farm Supply Department Manager | Order Desk Manager |
| Home and Garden Manager | Unloader |
| Appliance Manager | Bag Machine Operator |
| T.B.A. Manager | Grinder-Mixer Operator |
| T.B.A. Serviceman | Pellet Machine Operator |
| Service Manager | Bin Tender |
| Salesman | Mill Hand |
| In-Store Salesman | Mechanic |
| I & S Man | Millwright |
| Warehouse Foreman | Millwright Helper |
| General Assistant | Bulk Station Operator |
| Deliveryman | Marketing Man |
| Bulk Spreader Operator | Trainee |
| Mobile Mill Operator | Bulk Feed Deliveryman |
| Records Clerk | |

Direct supervision usually limited to from two to ten of the above positions.

In analyzing Oneida Agway Cooperative, Inc. relative to this job description, the audit team feels that:

- A. Responsibility 1 -- This is quite vague and, while an excellent catchall, offers little basis for evaluation.
- B. Responsibility 2 -- Mr. Gagen (and the profit center managers) stated and apparently really felt that they had the authority to establish and maintain their own pricing structure and were deviating somewhat from "suggested" retail prices. However, there was little deviation actually done either in terms of prices changed or amount of change.

In essence, there seemed to be little attempt to consciously devise and establish a pricing strategy tailored to local conditions. Such a strategy would entail market analysis (make-up market, total dollars available by product, competition and its strategy, etc.), relative cost-returns for product lines and individual products; community image desired, and margin desired.

- C. Responsibility 3 -- At the present time, two types of inventory control are being utilized. One is the quarterly inventories required by Agway, Inc., and the other is the "eye-balling" method in which personnel keep "looking" for out-of-stock, fast-moving, or slow-moving products.

The manager and personnel frequently alluded to the "over-inventory" which Oneida Agway Cooperative, Inc. currently held, indicating that they were aware of the problems and were concerned. However, the audit team was unable to determine any specific informational control system of plans for analyzing and managing inventory. Both of the present inventory control tools, while they do have merit, also present problems in furnishing information needed for management decisions.

- 1. Quarterly inventory reports -- this report, while useful for tax purposes, etc., has serious limitations relative to providing information for management decisions. Among these are:
 - a. It only provides information on physical quantities 4 times a year for feed, seed, fertilizer and large items and 2 times a year for farm supply items. As a result, actual product movement, shrinkage, and gross margin information is only available at limited times. In periods of rapid price fluctuations the practice of valuing inventory at retail makes it difficult to analyze shrinkage or monitor stocks.
 - b. The practice of valuing inventory at retail also has much merit but in periods of rapidly rising or falling prices makes it difficult to secure meaningful information relative to shrink. In such cases, it also distorts the effectiveness of the manager in managing inventory. In other words, a manager conceivably could be operating on the same or equivalent inventory but show either excessive or too little inventory on the books.
- 2. "Eye-balling," of course, is a time-honored method of inventory control. It still is indispensable to spot areas where automatic re-ordering and other mechanical systems have been in error. It does, however, pose certain problems: memories are unreliable; it is difficult to forecast seasonal peaks or slumps in demand; slow or

non-movers may just sit there when it would be better to take a loss and convert the space to profit generating items, out-of-stocks can easily occur in fast-moving items.

More complete utilization of Agway Inc's stickers furnishing order information would be a help in inventory. In addition, more analysis of product movement (number-wise, time-wise, and dollar-wise) would be useful. It would be useful for analysis both of inventory to be carried and the space to be devoted to it (both of which might be varied with the season); it would be useful in establishing margins (in other words to insure a product pays its space rent); it would be useful in evaluating products relative to adding or dropping from inventory.

Too, department heads need more information concerning just what does constitute over or under inventory, how each can affect net margin, and definite guides of procedures to help them control inventory. As previously stated, they did indicate they knew there was an inventory problem and that they were concerned. They also expressed frustration concerning what to do about it and just why it was a problem.

Using a total store-wide inventory turnover rate as a guideline for inventory management may provide misleading signals. A separate inventory turnover rate for the feed and fertilizer portion and another inventory turnover rate for the farm supply portion of the store would be an improvement that could be implemented without considerable effort.

- D. Responsibility 4 -- Oneida Agway, Inc. has experienced steady sales increases during the past 5 years. Some of this obviously was due to inflation but much was an actual increase. Mr. Gagen estimates that 2 percent of sales revenue are spent on advertising or promotion. In-store displays demonstrated that some merchandising techniques for increasing sales, e.g. seasonal items, expanding and contracting shelf space, streamers, POP materials, etc., were being utilized. The importance of friendly, helpful, and well-informed employees was recognized and stressed. A quick-serve cash register was effective with cash and in-a-hurry customers. Willingness to accept new ideas was very evident. In general, a good start toward a total merchandising program was evident to the audit team.

However, merchandising was not yet viewed as a total program. Part of the explanation could lie in incomplete formulation of objectives, goals, and values for Oneida Agway Cooperative, Inc. -- Who are (or will be the patrons); what image should we project; what margins do we need; what type of business are we really operating, etc.? As a result, there was little attempt to develop, for example, a year-round advertising program aimed at specific clienteles with clearly defined sales or net margin goals in mind. Co-op advertising was viewed more as a revenue producer than as a true merchandising tool. Specials, etc. could be better located to encourage more total store shopping by customers.

Accordingly, some detailed analysis of present customers, who they are, where they live, age, family composition, income, etc. would be an excellent starting place. Once you know where you are, you then can decide how to get to where you want to be.

- E. Responsibility 5 -- A manager operating a credit-granting business is torn between two objectives -- to increase sales and to minimize risk. At the present time, it appears that Oneida Agway Cooperative, Inc.'s credit operations are directed more toward objective one than toward objective two. Part of this seemed to stem from Mr. Gagen's experience as being more sales oriented than financial management oriented; part from an inevitable time lag in adjusting to Agway Inc.'s shift in credit philosophy from seeking internally-financed credit business to seeking credit financed by outside organizations; and part from a philosophy that patrons need the service of credit and a cooperative is to serve patrons. Credit management was adequate but some additional comments would be:
1. A local credit policy should be established by the Advisory Board. (It should, of course, be consistent with Agway Inc.'s credit policies.) This could have a distinct advantage in that it would permit management to gracefully limit credit without greatly jeopardizing performance relative to Responsibility 9. Too, it would give management definite guidelines from which to operate.
 2. Designate someone other than the general manager as the credit manager. (He still would retain the ultimate responsibility and authority.) Again, it is difficult to be both a "good guy" (Responsibilities 7 and 9 -- Public Relations) and a "bad guy" (cutting off credit, bill collection, etc.). Occasionally, this is necessary but the conflict could be minimized.
 3. Look upon and plan for credit to be a profit generating and merchandising tool. In fact, it might well be a profit center in itself. Too often, credit is viewed as a problem not an opportunity. The credit policy could be formulated so that it becomes a positive tool. Terms and procedures of credit should be devised so that the total costs of the credit sales can be compared with the total revenues of those sales as well as with non-credit sales.
- F. Responsibility 6 -- The audit team had little basis for evaluation concerning the maintenance and preparation of those reports required by Agway, Inc. It did, however, feel that some internal "reports" designed to provide additional information useful in making management decisions would be helpful. Among these might be:
1. Employee productivity reports (e.g. sales per man-hour, physical product handled/employee, etc.)
 2. Product movement reports (by time period, by dollar sales, by number of items, by space allocated).
 3. Cash-flow analysis (especially for planning credit needs).

4. Trends in area and in store (are they parallel?).
 5. Composition of customers.
- G. Responsibility 7 -- cursory evaluation by the audit team indicated that Oneida Agway, Cooperative, Inc. was highly responsive to patron relations. The repeated emphasis by all employees (backed up by actions so far as our personal observations could determine) on the philosophy of friendliness and helpfulness to customers were strong evidence that this responsibility was being met.
- H. Responsibility 8 -- One strong point of Oneida Agway Cooperative, Inc. was the amount of delegation of authority and responsibility which had been instituted. For example, the audit team met on several occasions with Mr. Gagen, and the department heads. Some of these meetings were an hour or more in length. Yet, they were free of interruptions from the telephone, from employees, or from customers.

In addition, the firm had been organized into 3 profit centers, each with well-defined products, duties, etc. All department heads expressed much the same definition of their duties, responsibilities and authorities as did Mr. Gagen of the same department heads.

In general, employee morale was good. "Agway is a good company to work for." "Mr. Gagen (and/or the department heads) are really good bosses." These were typical comments from employees.

However, this is only a start albeit a very important and very good start. Some additional steps which could be considered are:

1. Establish controls or standards by which to evaluate personnel. (Most employees indicated they seldom had a formal evaluation but felt they were doing a good job or they would have been told about it.) With this much delegation, management needs to be able at all times to know how a department is doing, its strong points, its weak points and what is being planned. Some of the reports discussed under responsibility 6 could help here.
 2. Create a total store concept. At present, each department head had some feeling that he was operating an independent business although under the same common name as the other department heads. More department head meetings to discuss total store policies, plans, procedures, etc. might be useful.
 3. A potential employee morale depressant is the present organization where a department head outranks a branch manager. Regardless of how Agway, Inc. views the relative rank or importance of the two positions, discontent could arise.
- I. Responsibility 9 -- Again the audit team had little basis on which to evaluate Oneida Agway Cooperative, Inc. Two items which might, however, be pointed out are that: (1) the annual meeting was well attended and interest among the patrons contacted by the audit team seemed high; and

(2) patrons seemed to feel free to come into the office and discuss business, both cooperative and personal, with Mr. Gagen. The information that was presented, however, was somewhat disappointing. Reading each line of a financial statement (to the last penny) means very little to most patrons. Presenting a few basic financial ratios and comparing them over time or with some other standard would be of help. A few minutes could be taken to explain the meaning of the selected ratios and any emerging trends.

Management Relative to a Total Management Concept

Another way to evaluate the management of a firm is in terms of a total management concept. This could be discussed in several different ways. This audit team has chosen to say that the manager of a farm supply store has 5 primary responsibilities: (1) labor management; (2) capital management; (3) operational management; (4) merchandising; and (5) public and membership relations. (Merchandising might well be included under one of the other topics but is of such importance that it was decided to discuss it as a separate topic.) Some points here will repeat comments made in the previous section but from a somewhat different point of view.

The strong points of Oneida Agway Cooperative, Inc. relative to the 5 responsibilities are equally important to the weaker ones. After all, they have been the basis on which a successful and profitable operation has been built. As a result, they should be recognized and strengthened as well as the weaker points. However, the audit team will concentrate more on the weaker points as they saw them.

A. Labor Management

A retail store manager is in the people business. He utilizes people to serve people. As a result, his labor management abilities are an important ingredient in his total management package. In Oneida Agway Cooperative, Inc. the audit team felt there were both strong and weaker points in labor management. Among these were:

| <u>Strong Points</u> | <u>Weaker Points</u> |
|--|---|
| Delegation | Lack of performance standards |
| Knowledge of jobs (including authorities and responsibilities) | Lack of evaluation |
| Good morale | Lack of planned training program |
| Good communications channels (friendly, approachable management) | Lack of total store concept (knowledge of what is really happening) |

Comments concerning the weaker points include:

1. Lack of performance standards and evaluation. It seems only fair that an employee know exactly what is expected of him and how well he is measuring up to these expectations. Unless these are well spelled out, differences of opinion between supervisor and employee can arise easily.

2. Lack of planned training. If certain standards of performance are expected of employees, it is a responsibility of management to provide the tools needed to meet these standards. Some examples here could be:
 - a. Merchandising training on how to create impulse sales, salesmanship, building displays, customer analysis, promotional "gimmicks," complementary sales, etc.
 - b. Product movement analysis and how to use it.
 - c. Employee motivation (for all in supervisory capacity).
 - d. Meaning of financial statements and how to use.
 - e. Product attributes.
 - f. Work methods.

It is not suggested that training in all of these (or any others which might be suggested) need be underway at any one time nor that they need be formal training programs. What is suggested is that management does have a responsibility for a planned program of training and development for each employee. It might involve letting an employee spend an hour or two at a competitor's (e.g. Sears) to evaluate their merchandising; it might involve a 1-2-day training session. The time span and formality of the training should be tailored to employee and firm needs relative to firm resources available to expend on the training.

3. Lack of total store concept. As previously indicated, there was a tendency on the part of profit center or department managers to view their segment of the Oneida Agway Cooperative as basically an independent enterprise operating under a common name. In other words, there was some lack of understanding or appreciation of the over-all policies and operations of the firm and how the individual profit centers meshed to make a whole. Some possible activities here might be:
 - a. Periodic department head meetings to review the total and profit center budgets.
 - b. In employee evaluations, stress contribution to total store success as well as to department.
 - c. Have employees trade jobs occasionally so they know how "the other half lives."

B. Capital Management

A farm supply store manager utilizes a sizable amount of capital in the operation of the business. There is investment in land, facilities, equipment, and inventory. There are the accounts payable and accounts receivable. There is the need for operating capital to keep the business

going from day to day. Managing all these plus many other aspects of capital management are a major responsibility of a manager.

Some aspects of Oneida Agway Cooperative, Inc.'s capital management were:

| <u>Strong Points</u> | <u>Weaker Points</u> |
|--|--|
| Desire to have strong viable organization | Little formal cost benefit analysis of investments (e.g. property across street) |
| Has been adding to net worth | Shows major concern with only 5 indicators of capital management (gross margin, inventory turns, net margin, AR's, and ROTA) |
| Keeps labor expense within reasonable limits | Little definite planning on how or when to improve ROTA, inventory, or AR situation (at least little expressed) |
| Is reducing AR's | Little appreciation or concern expressed regarding cash flow |
| Is maintaining inventory relationship to sales (but still is high) | Low net worth relative to total assets |

The audit team felt capital management was the weakest facet of total management of Oneida Agway Cooperative, Inc. They also felt this was only natural since the job description and the financing structure for the firm did not place much emphasis on manager participation on this facet. However, good capital management is an essential ingredient in the success of a business and so the management should be highly concerned and involved.

On the plus side, management was highly motivated to have a profitable, efficient business offering patrons good values for money spent. It was recognized that capital management, particularly in terms of accounts receivable, current operating expenses, inventories, etc. did play an important role in how profitable the cooperative was. Too, there was an expressed willingness to improve on this type of management if assistance could be provided in how to do it.

Few retail farm supply store managers have had much training in total capital management. As a result, many know what the income statement says but are less clear as to how they can make use of the information in them to provide information for management decisions. Ratios offer one method. Some commonly used ratios and possible uses are:

Asset Turnover

| <u>Sales</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
|--------------|-----------------|----------------------|
| Total Assets | 3 | 1.9 |

This is a test relative to efficiency of asset use. Obviously the more times capital is turned, the more efficient is the use of the capital employed. A common goal for the industry is 3; Oneida in 1974, had a 1.9. So, capital efficiency was only about 2/3 that

desired. With today's high cost of capital, an asset turnover of 3 would have major favorable impact on Oneida's financial picture.

Day's Sales in Receivables

| | | |
|----------------------------|-----------------|----------------------|
| <u>Accounts Receivable</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
| Average Daily Sales | 40-60 days | 96 days |

This also is a capital efficiency test. Again, unless credit has been consciously set up as a profit center and planned so as to be a profit generator, the high cost of capital makes a long credit collection period a very costly affair. Oneida has almost twice as long a period as is desirable.

Inventory Turn

| | | |
|---------------------------|-----------------|----------------------|
| <u>Cost of Goods Sold</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
| Average Inventory | 7 | 4.4 |

A total inventory turn is perhaps of little value. The mix of inventory and sales can drastically affect the optimum number of turns. A store selling largely feed and fertilizer should have higher turns than a store selling primarily farm supplies. It is estimated that the true cost of holding inventory runs 28-30 percent (and may even be higher now with current interest rates). So, any increase in inventory turns has significant effects on the financial well-being of the business. Oneida's inventory turns were only 4.4 compared with a standard of 7.

Net Worth Percent

| | | |
|------------------|-----------------|----------------------|
| <u>Net Worth</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
| Total Assets | 50 | 25 |

Two major implications of a higher percent of net worth are in (a) ease of getting and terms of borrowed capital, and (b) cash flow in terms of outflow for interest, etc. Oneida's net worth percent is only half the standard.

Current Ratio

| | | |
|-----------------------|-----------------|----------------------|
| <u>Current Assets</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
| Current Liabilities | 2-1 | 1.3-1 |

This is a test of a firm's ability to operate and pay its bills in a current time frame. It also is one indication of the cash flow situation.

Working Capital/\$100 Sales

| | | |
|------------------------|-----------------|----------------------|
| <u>Working Capital</u> | <u>Standard</u> | <u>Oneida (1974)</u> |
| Sales x 100 | 12-1 | 10.5-1 |

This gives information concerning flexibility of capital. With a higher ratio, the operation could be more easily shifted to meet changing conditions.

Labor Expense as a Percent of Gross Margin

| | | |
|---|------------------------|-----------------------------|
| $\frac{\text{Labor Expense}}{\text{Gross Margin}} \times 100$ | <u>Standard</u> 50% | <u>Oneida (1974)</u> 50% |
|---|------------------------|-----------------------------|

Again the optimum percent may vary considerably with the merchandise mix, the services offered, etc. However, if it deviates much from 50 percent, the labor situation should be examined closely. If too high, labor probably is under-employed. Too low a relationship may indicate poor service and loss of sales.

ROTA

| | | |
|---|--|-----------------------------|
| $\frac{\text{Net Margin}}{\text{Total Assets}}$ | <u>Standard</u> At least equal to total money cost | <u>Oneida (1974)</u> 7.2 |
|---|--|-----------------------------|

Unless return is at least equal to interest rate, a firm is basically in business for fun. Obviously, to really utilize this ratio requires much "pencil pushing." Is it a too low net margin or too high total assets figure which causes a lower than desired ROTA? What then has affected these factors? There are many interrelations involved in detailed analysis of ROTA. Oneida's is lower than desirable.

ROIC

| | | |
|--|-----------------------|------------------------------|
| $\frac{\text{Net Margin}}{\text{Net Worth}}$ | <u>Standard</u> 20 | <u>Oneida (1974)</u> 16.7 |
|--|-----------------------|------------------------------|

This tells you how your own dollars invested in the business are doing. The return should be at least equal to the return which could be obtained if the same dollars were invested in other businesses of similar risk magnitude. Obviously, the percent of net worth also plays a major factor here (both in ROIC but also in magnitude of risk and so the standard.)

In general, Oneida Agway Cooperative, Inc. falls below accepted standards with most of these ratios. With only limited analysis, it would appear that high inventories and high AR's would explain much of the under achievement. Some major effects of these are higher than desired interest costs, added indirect costs of holding inventory, higher than optimum total assets. The lower than recommended net worth percent may be due to inadequate net margins, overtime, higher than desirable patronage refunds, or both. All these are indications of under achievement.

While no analysis of cash flow was attempted, it is rather obvious that, if Oneida Agway Cooperative, Inc. were operating as a completely independent business, there would be some cash flow squeeze. High AR's, high inventory, rising prices for replacing present inventory, and lower than desired working capital/\$100 sales, each would adversely affect cash flow. Put them all together and the cooperative might very

well find itself in a cash flow bind, especially if credit sources were to tighten requirements. In addition, it increases the need for short-term credit and so operating costs.

Long-range capital needs (facilities, equipment, etc.) had received little organized planning. A case in point was the coal yard, (the recently purchased property at the rear of the "store"). While it may very well have been a good investment from the standpoint of long-time capital gains for expansion, the audit team found little in the way of detailed investigation or plans concerning ultimate use of the property, costs of holding the property in the meantime, and profit comparisons of this investment with alternative investments.

C. Operational Management

A large part of a retail farm supply store manager's responsibility is to see that the business operates efficiently and profitably on the day-to-day basis. Over-all, the audit team felt that operational management was quite good at Oneida Agway Cooperative, Inc.

Strong Points

Labor held to approximately 50 percent of gross margin
 Little overtime
 Profit center concept permits specialization
 Good acceptance of change
 Experienced personnel

Weaker Points

Little methods analysis or training
 Little planning relative to priorities, labor scheduling, etc. to get maximum efficiency
 Lack of inventory control (loss of time hunting item)

One excellent aspect of operational management has not been touched upon previously. This was the seemingly prevalent ready acceptance of change. A case in point was the installation of the NCR Fiche system during the time the audit team was at the store. The audit team was unable to detect any feelings that change was bad. This does not mean that there was wholehearted belief that it was the answer to a counter-man's prayer. What it does mean is that employees were quite ready and willing to be convinced that the system was good.

One weaker point was that there was little being done at the local level to improve work methods and labor efficiency. Considerable energy and time was being inefficiently utilized due to inefficient practices. Yet, as the "blue door" (a door a part-time employee suggested be painted blue to use as a reference point for customers), the fiche system, and the front-end checkout illustrated, the employees were willing to accept more efficient methods.

Essentially both the second and third weaker points reflect need for some improvement in organization. There was little evidence of detailed analysis of labor or equipment relative to scheduling either in terms of priorities or in terms of time span. It was recognized that customer service had first priority but there seemed to be little real effort to schedule other activities in terms of priority.

A fourth weaker point in operational efficiency was a lack of inventory control in terms of both quantity and storage or display area. Lack of definite knowledge led to both excessive amounts of an item (utilizing valuable space and capital); loss of time through hunting for items (either to find it or to find out whether they had it); and to duplication of stocks both in storage or in display because previous stocks had been "lost."

Although store personnel indicated little or no loss from pilferage, it is questionable whether they actually knew how much did occur. The practice of open-shed and open-dock storage is a potential problem. Without a physical inventory it is very difficult to know what (if any) has been pilfered or otherwise lost.

D. Merchandising

Obviously, merchandising is a key to the success of a farm supply store. Here again the audit team felt that Oneida Agway Cooperative, Inc. had an excellent start toward development of a total merchandising program. While the team had little experience with other Agway stores, the merchandising program of Oneida Agway compared very favorably with other farm supply stores with which they had worked.

Strong Points

Service (customer) oriented
 Helpful friendly attitude
 Willingness to accept suggestions
 Attempts to change display in time with seasons
 Delegation of advertising to one man
 Attempts to make attractive to women shoppers
 Attempts to make attractive to urbanites
 Attempts to stimulate impulse sales

Weaker Points

Little coordination between stores
 Housekeeping (probably above average but still needs improvement)
 Little product analysis (what and to whom)
 Little attempts to regulate merchandise mix to control gross margin
 Feed, fertilizer and seed personnel are basically order takers (not sales oriented)
 Not sure what image is or should be
 Unsure who should be serving
 Little organized training programs relative to merchandising

Many of the basic concepts of good merchandising were being utilized in lesser or greater degree. Basically, the weaker points were concerned with planning, analysis and training. Unless you know who your present customers are and who you want as customers, it is difficult to plan and implement a merchandising program. Too, if a staff is to effectively implement a merchandising program, they need merchandising training. They need information and guidance concerning potential audience and the desired results if advertising monies are to be most effectively utilized. They need training in salesmanship (how to meet customers, how to make a sale, how to suggest substitutes for out-of-stocks, and how to end a sale or conversation). Deciding on the total program and providing the proper tools is the job of management. Oneida Agway Cooperative, Inc. has made an excellent start but still has much to do.

Public Relations and Membership Relationships

The audit team had little basis on which to evaluate Oneida Agway Cooperative, Inc. concerning this management responsibility. There was strong circumstantial evidence, however, to indicate that the over-all picture was excellent. One sign pointing to this was the excellent morale of employees, an indication that the same thing would apply to customers. Another sign was the emphasis given over and over by all employees to service and friendliness. Too, the rapport between employees and customers seemed to be excellent.

All these signs indicated good public relations for Oneida Agway Cooperative with the public. Since an organization basically assumes the personality of the manager, it appeared logical to the team that public relations responsibility has been met very well.

There may be some lack of membership relations relative to the services, policies, etc. of the cooperative. (See Pages 7-8.)

Summary

In summary, Oneida Agway Cooperative, Inc. is a profitable, reasonably strong financially cooperative. The management is doing a good job with public relations, both with employees and patrons. Many excellent points of good management existed, among them the establishment of profit centers, delegation, the rudiments of a merchandising program, an attitude of willingness to accept change, and the ability to find time to manage.

Some areas which could stand improvement were establishment of labor and profit center standards (controls), development of a total store concept, more planned employee training and development, better financial controls, and development of a total merchandising program.

The audit team recognizes that it was evaluating the cooperative in terms of an ideal or optimum management. This is, of course, an unattainable goal. On balance, and especially relative to Agway Inc.'s job description for a manager, the management of the cooperative was doing a good job. Equally as important, management was interested in and working toward improvement.

APPENDIX

Wholesale vs. Retail Merchandising

An an appendage to the audit the audit team would like to present a thesis concerning merchandising programs for the retail farm supply stores. This is being presented both to stimulate discussion and to assist the audit team as they conduct future audits.

The thesis is this: The term retail farm supply store was in the past and, to some extent still is, a misnomer. In the past, the farm supply store has in fact operated as a wholesaler or jobber catering to businessmen (farmers). The farm part of a farm supply still operates as such. On the other hand, the business to such persons as suburbanites, etc. are true retail sales.

If this thesis is true, does it pose a major merchandising problem to management as to how do you devise a total merchandising program designed to attract and serve both a wholesale and a retail clientele?

Also, if this thesis is true, are many farm supply managers still attempting to utilize the farmer retail (actually wholesale) merchandising approach with those present customers who are really patronizing a retail store?

In other words, do managers recognize they are running both a wholesale and a retail business; do they recognize the needs and desires of each type of clientele differs; and do they recognize that a merchandising program designed for a wholesale clientele may not be appropriate to a retail clientele?