

Rural COOPERATIVES

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2012
International
Year of



Cooperatives

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Co-ops: A vital source of rural jobs



By Dallas Tonsager, Under Secretary
USDA Rural Development



It's hard to live in rural America without being touched almost daily in some way by cooperatives. Farmers and ranchers across the nation use co-ops to process and market their crops and livestock and to provide them with essential production supplies and services. Electric and telecommunications cooperatives supply rural America with a reliable, affordable source of energy and communications technology, including phone and Internet services.

While these are the two cooperative sectors we work with most often at USDA Rural Development, there are many other types of producer-, user- and worker-owned co-ops across the nation that are helping to meet the myriad needs of rural and urban people and businesses. These range from co-op food stores and daycare centers to credit unions, insurance companies and hardware and building supply co-ops, among many others.

Having just concluded observing Cooperative Month in October, it is fitting that we focus special attention on cooperatives as a key source of jobs. Co-ops are playing a role as our nation strives to reduce high levels of unemployment by providing good jobs for tens of thousands of people in the farm sector alone.

According to USDA's recently released economic survey of farmer cooperatives for 2010, U.S. agricultural and fishery cooperatives created 7,000 new jobs in 2010, boosting the number of jobs to 184,000 at the nearly 2,400 agricultural co-ops surveyed. This survey also shows that ag co-ops had their second best year on record for sales at \$170 billion. Pre-tax net income of \$4.3 billion was also the second best year ever for agricultural and fishery co-ops.

Because co-ops are locally or regionally owned by their members, a larger percent of these dollars "stay local," circulating in the rural counties and towns where their members live and work. These dollars also support other local businesses and generate tax revenues that in turn support schools, police and fire services and other local government services.

While 7,000 new jobs, or even 184,000 total jobs, may not

sound huge, remember that in rural areas especially, every job can be a crucially needed job. A grain and farm supply co-op, for example, with 30 or 40 employees will often be the leading employer in a rural community.

When one such co-op adds just three new jobs, it can be big news in a town of 800 or 900 people. It may translate into three more houses having "sold" placards placed on the real estate sign in the front yard and commission checks for a real estate agent to deposit in the local bank. It could mean eight or nine new students in a rural school — maybe enough to justify hiring a new teacher, resulting in another house sold. It can mean a dozen or more new consumers to help support a rural grocery store and a surge in new business for the local barber or hair stylist, and so on.

Rural utility co-ops are also major employers in many rural communities. This co-op sector provides an additional 162,000 fulltime jobs nationally, according to a 2009 survey conducted by the University of Wisconsin Center for Cooperatives, with support from USDA. This survey looked at 17 co-op subsectors of the economy, finding that the co-op economy as a whole accounts for 853,000 jobs and \$500 billion in annual revenue.

Focusing again on the agricultural sector, the job growth among co-ops is due in no small part to the continued strong prices for a number of key commodities, most notably in the dairy and livestock sectors. Indeed, 2010 marked the fourth consecutive year of strong sales performance by farmer co-ops, which is helping to fuel the upward employment trend.

The bottom line here is no great mystery: when American agriculture, utilities and industry are strong and thriving, it translates into more jobs and more economic vitality for the nation. Cooperatives — as a business model that puts the needs of member-owners and community first, and which help to keep more sales dollars and profits working close to home — are a key cog in the nation's economic recovery efforts.

I believe that the potential of cooperative businesses to help more Americans improve the quality of their lives is almost unlimited. We at USDA will continue to foster co-op development and will strive to help improve co-op operations because — as was the theme of this year's Co-op Month celebration — Cooperative Enterprises Build a Better World. ■

Features

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ON THE COVER: The declaration of "2012 International Year of Cooperatives" by the United Nations is being looked upon as a golden opportunity to help call more attention to the cooperative system of business. See page 10. USDA graphic by Stephen Thompson



Why do members participate in ag co-ops?



Co-op members place orders at a Texas farm supply co-op. Farmers may feel positive about the principles of cooperative organization, without necessarily believing collective action is the best strategy for all farmers. USDA photos by Dan Campbell

By Thomas W. Gray, Ph.D.

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Editor's note: The author welcomes feedback from readers on farmers' cooperatives, member involvement, and participation. Comments can be sent to: Thomas.Gray@usda.gov.

The Council on Food, Agriculture and Resource Economics (C-FARE) held a conference in Washington, D.C., on Aug. 4 titled: "Agricultural Cooperatives: Economics, Opportunities and Structure in a New Era of Food, Fiber and Fuel." Five areas were specified for discussion: finance, strategy, governance, communicating the value package and new cooperative development.

One area of discussion was member participation in co-ops. Member participation involves a series of activities that include patronage, membership in cooperatives, attending

meetings, serving on committees, serving in elected offices, voting and recruiting other members, among other activities.

In 1970, in a North Central Research Publication, *Farmers' Organizations and Movements*, these questions were asked:

- What motivates farmers to join and participate in cooperatives?
- What causes low attendance at meetings?
- What explains differences in degree of membership participation, and why do some farmers never join any group?

Dynamic factors such as globalization, privatization, consolidation among cooperatives and farms, and rural outmigration have shifted the character for much of U.S. agriculture during the past several decades. But questions about participation continue to persist. The recent C-FARE conference demonstrated the continuing relevance of these issues.

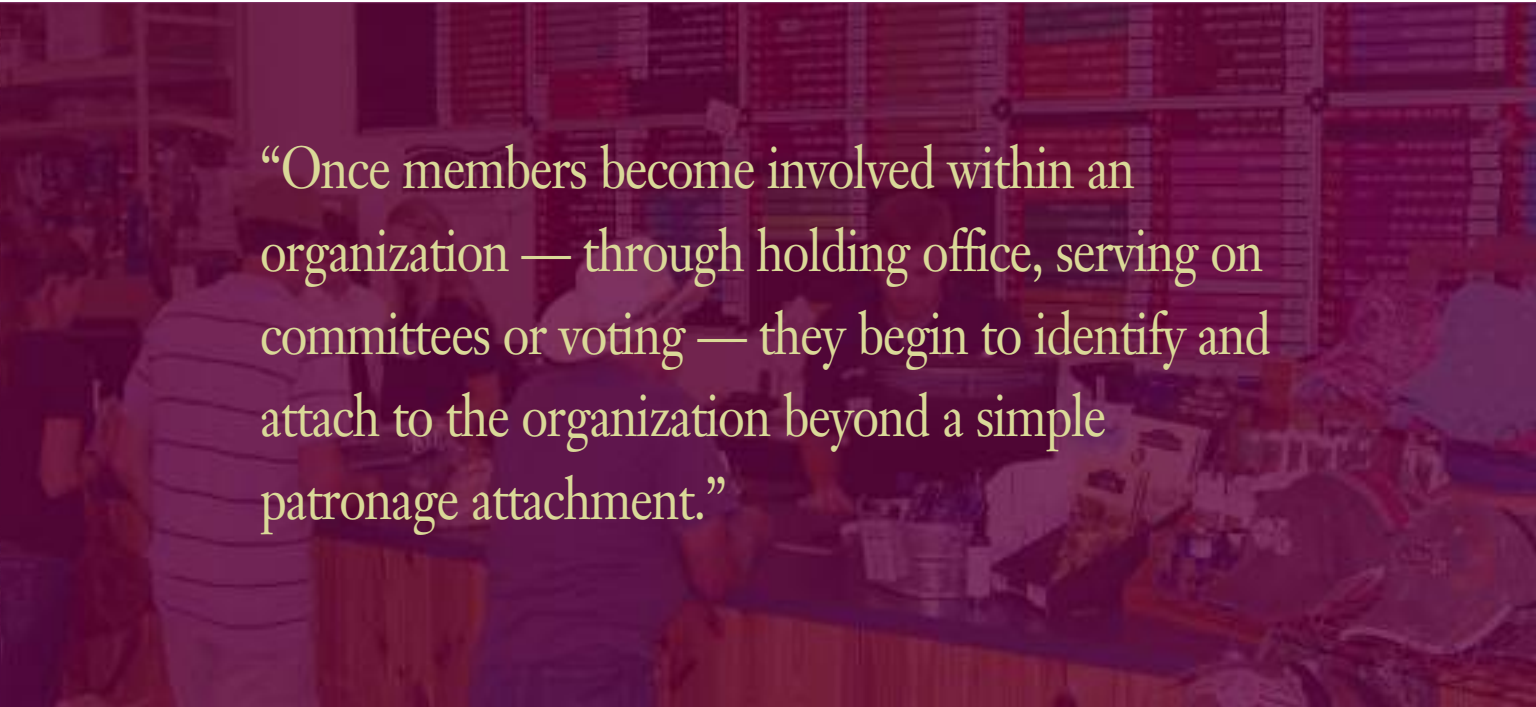
This article lists determining factors that were previously

found to be important in influencing participation in co-ops. They include: (1) cooperative principles; (2) positions on collective action; (3) identification with the cooperative; (4) satisfaction with farming and farm life; (5) member influence; (6) understandings of equity and impartiality; (7) member demographics and farm characteristics.

These measures are presented here, in a survey format, as if members were being asked whether they agree, disagree or

promote co-op education for members; (4-b) Agricultural cooperatives should support co-op education efforts directed at the public; (5) Agricultural cooperatives should work with other agricultural cooperatives.

Earlier work by this author found that co-op members were generally supportive of all of these principles, though less enthusiastic about the open membership (“accept any farmer”) principle. Given the cyclical difficulties of excess



“Once members become involved within an organization — through holding office, serving on committees or voting — they begin to identify and attach to the organization beyond a simple patronage attachment.”

are indifferent to each statement or position. This permits educators and others to “pull” items out of the article directly for use in their own member relations workshops or surveys.

Ultimately, the goal of this article is to suggest some “levers” that might be used to encourage members and potential members to participate in a cooperative.

Cooperative principles

Member beliefs in cooperative principles can influence how readily a member or a potential member might join or participate in a cooperative. Some sources list as few as three principles, others seven or eight. Five will be listed here, and (as stated above) are presented in the manner of a survey question asking for agreement or disagreement: (1) Agricultural cooperatives should accept any farmer who wants to join; (2) Agricultural cooperatives should practice one-person, one-vote democracy; (3) Members should receive patronage dividends in proportion to the business they do with the organization; (4-a) Agricultural cooperatives should

production and low prices in agriculture, it is not surprising that members would feel less positive about open-membership.

Collective action

Farmers may feel positive about the principles of cooperative organization, without necessarily believing collective action is the best strategy for all farmers. Examples of attitudes that would test a farmer’s predisposition to collective action include such statements as: (1) “Farmers must stick together in order to get things done, even if they have to give up some of their individual freedoms;” (2) “A basic cause of agricultural problems today is that too many farmers want to go their separate and individual ways without regard for other farmers;” (3) “An individual farmer can usually make better marketing decisions than a group of farmers can;” (4) “Members receive benefits from doing business the cooperative way;” (5) “It is only through agricultural cooperatives that farmers can assume an

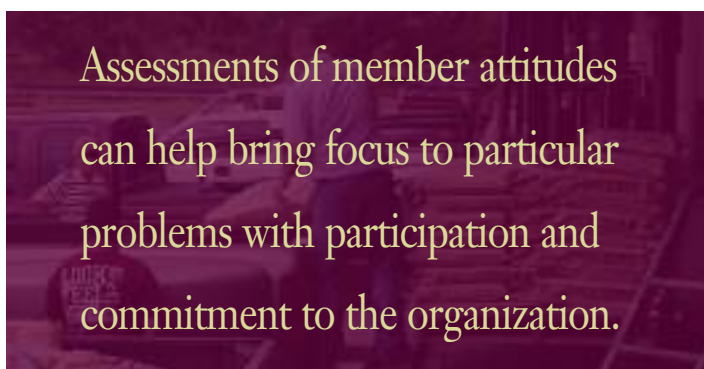
appropriate role in the marketplace;" (6) "Members of agricultural cooperatives have a competitive advantage in the market place."

Measures of such sentiments can help determine if farmers place collective interest higher than individualistic orientations. Karen Hakelius, in her study of 1999, suggested that with Western cultures becoming increasingly centered on individualism, participation based on reasons of collective action are becoming less evident.

Identification with the cooperative

"Identification" refers to the degree of attachment a member may feel toward an organization. Possible measures of identification include such perceptions as: (1) "I feel I am part owner of the cooperative;" (2) "Belonging to the cooperative is an important part of my identity as a farmer;" (3) "The cooperative is my agent in the marketplace;" and (4) "The cooperative is just another place to do business."

These measures position members' loyalty and commitment — based on their sense of ownership and



connection to the cooperative — against a more passive, "It's just another business" orientation.

Participation research suggests that prospective members may not have any particular identification with an organization. "It's just like any other business," they may feel. In fact, members who only participate with economic patronage tend to often hold such a perception.

However, once members become involved within an organization — through holding office, serving on committees or voting — they begin to identify and attach to the organization beyond a simple patronage attachment. Membership participation tends to engender more participation.

Satisfaction levels

Co-op participation levels may correspond to measures of satisfaction, as indicated by such statements as: "I am satisfied with: (a) "farming as a way of life;" (b) "farming as a way to make a living;" and (c) "the income my family makes from farming."

Members could stay away from their cooperative because they are unsatisfied with the income gained from their patronage, or they may join a co-op because of poor returns

earned elsewhere. These questions might be honed more sharply if designed for office holders and managers. Key perceptions of the co-op can be gauged by asking: "How satisfied are you with your elected officers?" "How satisfied are you with your cooperative management, and please specify which officers, which managers?"

Assessments of this kind can help bring focus to particular problems in participation and commitment to the organization, particularly around dissatisfaction with officers.

Member influence

Cooperatives are organized around principles designed to provide member influence and organizational control. Member impressions of their personal influence upon an organization — and their views of members' influence generally — can be measured by whether they hold such perceptions as: (1) "Cooperative members have a great amount of influence on how the cooperative is run;" (2) "Cooperative members have too much say about how the cooperative is run;" and, a more personal measure, (3) "I am satisfied with the amount of influence I have on how the cooperative is run."

Earlier farmer participation studies identified member influence as having an active dimension, by asking: "How much control do members perceive they actually have," and, a more passive dimension: "How much control do they perceive they could have if they were to exercise it."

All of these measures can be important in the sense that the more members feel in control of their cooperative, or hold an opportunity to be in control, the greater the likelihood they will participate in the organization.

Equity/impartiality

Farmers come together, or unify, in a cooperative organization to gain market power and/or gain a service (broadly defined) to enhance farm operations. In some sense, farmers are equals struggling together in a market context that has not often favored them historically.

Once in an organization however, difference among farmers in terms of scale of their respective production units and volume of business done with the cooperative can raise questions about equality and equity. Contention can play out around differences in voting rights (one-person, one-vote vs. votes based on the business volume done with the cooperative,) and patronage (better prices and discounts based on volume).

Such differences can cause tensions among members along differences in size of farms and volumes produced. Assessment of these issues and perceptions can be gauged by asking members: (1) "Does the cooperative primarily benefit large farms?" or the inverse (2) "Does the cooperative primarily benefit small farms?"

When there are different commodities produced by different classes of members, it can cause splits in membership loyalties and commitments as well. For example,



dairy cooperatives often have both Grade A and Grade B producers within their membership. Difficulties may be revealed when members make, or agree with, statements such as: “The cooperative benefits Grade A producers more than Grade B producers.”

Once identified, the cooperative may be able to address participation difficulties due to these differences.

Member demographics and farm characteristics

There are a series of other considerations that can help explain how farmers participate in a co-op. These measures include age of the primary owner(s), education levels, off-farm employment, income levels, debt load, type of products produced and gross farm sales, among others. This author found that when the spouse of a dairy cooperative member is employed off the farm, participation in cooperative meetings was lower. There was simply no family member with enough free time to attend a co-op meeting.

Age of the primary operator might provide the cooperative business some indication about future product flows and member retirements. Any of these considerations, when examined carefully, might reveal an influence, and an answer to the whys of member participation.

How these predispositions play out among farmers likely varies by type of commodity, geographically by region and country, and by volume of production. This article suggests some possible measures to gauge member attitudes, such as: What motivates farmers to join and participate in cooperatives, the differences in degree of membership participation and why some farmers never join a cooperative. These suggestions are only a narrow band of possibilities that tend to focus on the social-psychological predispositions of participation.

Scholars from other disciplines — economics for example, or geography — would likely come up with a different series of considerations to approach the complexity of membership. Earlier research has shown the several items reviewed here are relevant to the seemingly enduring questions of how members participate in a co-op, and for what reasons.

Author's note: For further reading on this topic, refer to reviews of the literature in Sanjib Bhuyan's 2007 article, “The People Factor in Cooperatives,” in the *Canadian Journal of Agricultural Economics*, and Peter Osterberg and Jerker Nilsson's 2009 article on “Members' Perception of their Participation in the Governance of Cooperatives,” in *Agribusiness*. ■



Upward Spiral

Once on the ropes, Minnesota food co-op bounces back



One of the co-op's original founders in Hastings, Minn., Angela Olson still shops at Spiral Natural Foods Cooperative twice a week. Photos by Ginger Pinson

By Kevin Edberg, Executive Director
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It was late 2010, and the remaining board members of a small food co-op knew they were coming to a crossroads. “If it means saving the co-op, are you willing to deal with your management issues and relocate the store?” their consultant asked. This is the story of how they answered that question.

Spiral Natural Foods Cooperative serves the community of Hastings, Minn., an old “river town” of about 22,000 on the Mississippi, just southeast of Minneapolis-St. Paul. The co-op opened for business in 1979, originally capitalized with about \$10,000 in sales of member stock and substantial donations of equipment, fixtures and renovation labor.

Typical of the time, the store ran on a system of annual membership dues, product discounts and all-volunteer labor. The co-op built a core trade from the sale of supplements and bulk food, moving twice to larger spaces over the next decade. In 1992, it rented a storefront in the historic downtown on a month-to-month basis.

About that time, the co-op changed from a dues-and-discounts system to an equity-based system in which individuals paid \$100 to become owner-members. But the transition did not go well: only 50 members made the equity investment.

Ups and downs

The co-op continued to plod along for more than a decade, under-capitalized and with stagnant sales. There were major concerns about both its management and the co-op’s long-term viability.

In 2008, with a membership of only 67 and working on a shoestring budget, the board engaged Bill Gessner of CDS Consulting Cooperative to help them revitalize the store. He listened and asked questions: “What’s your vision for

this store? Does the community share that vision? Could you increase membership to 200?”

He connected co-op leaders with a promising young business consultant, which began an effort to better equip the board to reinvigorate the co-op. By spring 2010, things were looking better. The co-op had more than 100 members, a new marketing and merchandising position had been created and some physical improvements had been made to the store.

However, the co-op was still renting month to month — and management issues still needed to be addressed. By fall 2010, vendors were holding back orders; the situation was looking grim.

It was clear that either the store



Jennifer Johnson drives 30 minutes from Welch, Minn., to Hastings, where she loads up her shopping cart with bulk staple items, including flour and grains, at Spiral Natural Foods.

would close, or the board would need to find new management. The new general manager would need to raise member loans quickly to infuse cash into the business and to get the landlord to sign a lease.

The board terminated the manager and a new general manager was soon on the job. But the property owner decided to put the building on the market, and by 2011 the building had been sold, forcing the co-op to move by late summer.

Three-phase revival plan adopted

Gessner helped the board develop a three-phase revival plan. The first step was to develop a vision for a relocated store, do pro forma projections and

engage the membership and community to raise \$14,000 to plan the relocation. Second was to raise additional member loans to generate equity and secure long-term bank loans. Third was to execute the plan and open the new store that summer.

The planning for the new store took shape. Cooperative Development Services (CDS) used USDA Rural Cooperative Development Grant (RCDG) funds to provide staff time to develop the project strategy and attend member information meetings. As a 501(c)3 nonprofit, CDS could also let co-op members make tax-deductible contributions that paid for consulting needs for the relocation.

The Agricultural Utilization Research Institute also provided RCDG funds on a matching basis to pay for financial projections, store design services and other technical assistance. The phase-one planning goals were soon met.

The phase-two member loan campaign was launched in June. Membership, which stood at 67 in 2008, was up to 385 in July and topped 400 in September. In just five weeks, members pledged \$200,000 in loans. Several local food co-ops made member loans to support the project, and others have helped secure a \$160,000 loan for the project.

The new store opened Sept. 2 (the old store had closed in late August). In two months of operations, the new store is on track to achieve projected first year sales that are almost twice those of 2010. Employment has also increased from three full-time and two part-time jobs in the old store, to five full-time and five part-time jobs in the new store.

What had seemed almost unimaginable at Christmas 2010 was a reality by Labor Day 2011. All was made possible by a board and management team that could create a compelling vision, that had timely access to key advisors, some modest funding for technical assistance and a community willing to invest in itself. ■

Shine a light

*International Year of Co-ops is
unique chance to put co-ops
in spotlight*

By Dan Campbell, editor
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Cooperatives are not only a major force that help fuel the U.S. economy, but also a driver of economic development around the globe. Still, the ultimate potential of co-ops has barely been tapped, many believe. It is therefore fitting that the United Nations General Assembly has declared 2012 as the International Year of Cooperatives (IYC), highlighting the contribution of cooperatives to socio-economic development worldwide.

With the theme of “Cooperative Enterprises Build a Better World,” the IYC celebration seeks to encourage the growth and establishment of cooperatives. The event also encourages individuals, communities and governments to recognize the role of cooperatives in helping to achieve internationally agreed upon economic development goals.

Global force for advancement

Few know better than the U.S. farmer just how interconnected world economies have become and the role co-ops — domestic and foreign — play in the international marketplace. When a U.S. farmer harvests a crop — be it

grain, oilseeds, cotton, fruits, nuts, vegetables or livestock — it could wind up being exported almost anywhere on the planet. It might even be sold to consumers at a co-op food store or at a grocery store that is itself a member of a retail buying co-op. The seeds and fertilizers for the crop may have come from a farm supply co-op. The crop may have been planted, cultivated and harvested by equipment purchased with a loan from a co-op financial institution. The processing and sale of the farm products may have been performed by a producer-owned marketing co-op. Further, the electric power on the farm and at the co-op elevator, packing shed or processing plant may have come from a consumer-owned utility co-op.

U.S. farmer co-ops and countless volunteers from among their members have been leading advocates for the development of cooperatives overseas to help lift people out of poverty and eliminate the scourge of hunger — just as farm, utility and credit co-ops have helped rural Americans drastically improve their own standard of living.

But far too few people, here and abroad, understand just how much can be achieved through the power of uniting in cooperatives to achieve a common goal. Many co-op leaders thus see IYC (which has also been endorsed

by the U.S. Senate) as an excellent opportunity for helping to shine the international spotlight on the cooperative way of doing business.

“IYC provides a once-in-a-lifetime opportunity to come together under one brand and one message to showcase the cooperative difference,” says Paul Hazen, president and CEO of the National Cooperative Business Association, which represents the United States in international planning for IYC. “This is a wonderful chance to raise the profile of cooperative enterprise, demonstrate the strength of the model and tell the world why cooperatives are the best business model for economic and social development.”

Under Secretary Dallas Tonsager of USDA Rural Development says he hopes all co-ops will consider getting involved in IYC. “We have an incredible story to tell about what has been achieved with co-ops, and how much more can be accomplished through this producer- and user-owned form of business. No one can tell that story better than the member-owners of our co-ops themselves.”

Bill Cheney, president and CEO of Credit Union National Association (CUNA), is also urging credit unions around the nation to help promote IYC. “The International Year of



2012
International
Year of
Cooperatives



“Cooperatives are a model of self-reliance and an example of people working together to improve their quality of life.”



The United Nations General Assembly Resolution (A/RES/64/136) “encourages all member states, the United Nations and all relevant stakeholders to take advantage of the IYC to promote cooperatives and raise awareness of their contribution to social and economic development and promote the formation and growth of cooperatives.” (Also see sidebar.)

Many of the same types of events that co-ops use to observe Co-op Month — such as open houses, school visits, proclamations signed by state governors, press releases and op eds — can be used to promote IYC while simultaneously providing an opportunity for a co-op to increase public awareness of what it does.

NCBA is creating an online “toolkit” that will have numerous ideas for how co-ops can help promote IYC; it can be accessed at: www.ncba.coop.

NCBA says goals for IYC are to:

- Increase public awareness and raise the profile of cooperatives so that Americans will seek out co-ops for products or services, for business development and community solutions;
- Educate and engage all levels of government to develop policies, programs and services that create a “level playing field” for co-ops in the economy;
- Promote co-ops to the media,

Cooperatives gives us all a chance to spotlight what we are, how we operate — and the difference credit unions make for their members, cooperatively,” Cheney says. “So...throughout 2012, take time to celebrate cooperatives and your credit union’s place in the cooperative movement.”

“Cooperatives are a model of self-reliance and an example of people working together to improve their quality of life,” says National Rural Electric Cooperative Association (NRECA) CEO Glenn English. NRECA represents more than 900 consumer-owned electric cooperatives that provide power to about 42 million people in 47 states. The International Year of Cooperatives coincides with the 50th anniversary of NRECA

International Programs, a partnership among America’s electric co-ops that, since its creation in 1962, has assisted with electrification efforts that have improved the quality of life for about 100 million people in more than 40 nations.

Celebration launched in NYC

The IYC celebration kicked off in earnest Oct. 31 at the United Nations General Assembly Hall in New York City. A daylong series of events was held, starting with a roundtable discussion addressing the theme: “Cooperative Enterprises Build a Better World: Contributions to Sustainable Development.” In the afternoon, IYC was officially launched during a General Assembly plenary session.

especially in international and business press;

- Support objective studies that demonstrate the economic value of co-ops;
- Improve access to co-op businesses in the United States by building the only comprehensive, online directory of more than 29,000 U.S. co-ops of all types.

U.N. website encourages co-op participation

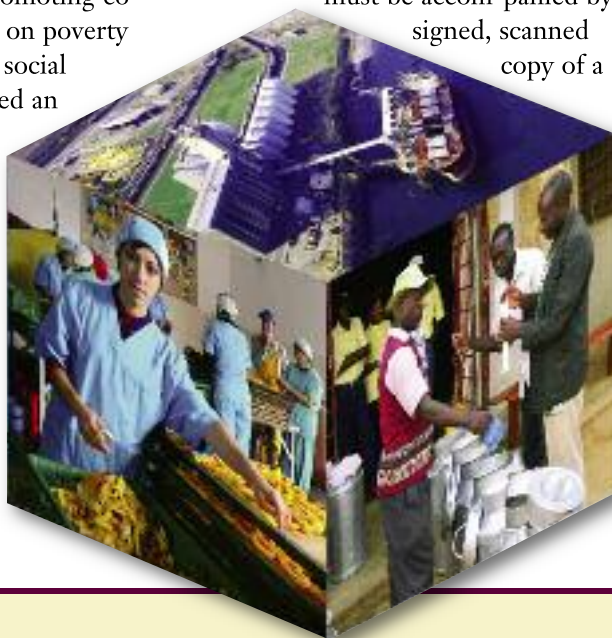
The United Nations — which is particularly interested in promoting co-ops because of their impact on poverty reduction, job creation and social integration — has established an IYC website at:

<http://social.un.org/coopsyear>. The website includes a number of ideas about how co-ops can help to promote IYC, including:

- Participate in the U.N. “What Cooperatives Are”

campaign. This effort encourages co-op members to tell about their co-op and why they belong to it. “Tell the world what cooperatives are, where they are and what makes them unique!” the website says. The effort will use YouTube, Facebook, Twitter and a U.N. blog, all of which will be featured and hyperlinked on the IYC website. Co-ops are being urged to post photos, video clips (not to exceed five minutes), informational blurbs (of 300 words or less), data and news highlights (no more than 500 words). Materials submitted

must be accompanied by a signed, scanned copy of a



waiver of liability (the form is posted on the website), which must be e-mailed to: coopsyear@un.org.

- Submit IYC-related events for inclusion on the U.N.’s official IYC calendar of upcoming events. Announcements about your event can be posted at: www.social.un.org/coopsyear/events.
- Co-op photos can also be posted on the U.N.’s Picassa Photo Gallery. Photos should be e-mailed to: youth@un.org, with the subject line reading “IYC Photo Sharing.”
- Co-op videos can be sent to: coopsyear@un.org; the subject line should read: “IYC Video Sharing.”
- The U.N.’s Facebook page promoting IYC activities is at: <http://www.facebook.com/CoopsYear>.
- The U.N. Twitter page promoting IYC activities is at: <http://twitter.com/#!/CoopsYear>. ■

The International Year of Cooperatives resolution

The International Year of Cooperatives (IYC) resolution adopted by the U.N. General Assembly says, in part, that the IYC is a time to:

- Recognize that cooperatives, in their various forms, promote the fullest possible participation in the economic and social development of all people — including women, youth, older persons, persons with disabilities and indigenous peoples — and that co-ops are becoming a major factor of economic and social development, and contribute to the eradication of poverty;
- Encourage governments to keep under review the legal and administrative provisions governing the activities of cooperatives in order to enhance the growth and sustainability of cooperatives in a rapidly changing socio-economic environment by...providing a level playing field for cooperatives... including appropriate tax incentives

and access to financial services and markets;

- Create a supportive environment for the development of cooperatives by developing an effective partnership between governments and the cooperative movement through joint consultative councils and/or advisory bodies, and by promoting and implementing better legislation, research, sharing of good practices, training, technical assistance and capacity-building of cooperatives, especially in the fields of management, auditing and marketing skills;
- Raise public awareness of the contributions of cooperatives to employment generation and to socio-economic development, promoting comprehensive research and statistical data-gathering on the activities, employment and overall socio-economic impact of cooperatives at the national and international levels.

Crash course in cooperation



*Rural auto body shops form co-op
for group purchasing, information
sharing*

By Stephen Thompson, Assistant Editor
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Small, rural auto body shops in the Upper Midwest have discovered that the cooperative model

can help them improve productivity and raise profits. The Key Choice Collision Center network brings together 18 non-competing collision repair shops to share knowledge and resources in promoting better business practices.

Auto body shops, especially in rural areas, are often archetypal small businesses: single-location proprietor-ships. Their small size can be a disadvantage when it comes to buying supplies and operating efficiently, says John Magowan,

proprietor of Ernie's Auto Body in the village of Hayward, Wis. "You don't get much of a discount when you're buying less than \$50,000 worth of paint a year," he says. Moreover, deciding what items to use in your shop, and how to use them, can be a daunting task.

There is a huge range of auto refinishing products available. Preparing a vehicle for painting and applying the finish is a lot more complicated than simply sanding it down and spraying the paint.

Modern automotive finishes are made up of layers of fillers, primers, sealers, color coats and finally clear coats, all of which must be compatible with one another. There are literally millions of possible combinations, and various components have different characteristics that must be taken

into account when they are applied.

Not knowing the proper procedure for using a component, or using the wrong one, can lead to the loss of valuable time correcting problems and also wasting expensive materials. In the worst case, a technician might have to sand off the new finish and start over.

To make matters worse, individual technicians may have developed their own ways of doing things which are not ideal for the materials being used. There is also the "we've always done it this way," syndrome, which can hinder workers and managers alike from adopting new and better approaches to getting the job done.

"These and other factors can be addressed by adopting "lean manufacturing" methods, which seek to maximize efficiency, enabling a business to operate at the lowest

possible cost while offering a high-quality service or product. But how does a small proprietorship gain access to the information it needs to adopt lean manufacturing successfully?

Twenty Group evolves into co-op

One method adopted in the auto body business is the so-called “Twenty Group.” A concept borrowed from auto dealers, Twenty Groups are gatherings of non-competing small business owners and managers to exchange information and ideas and work out solutions to common problems. Twenty Groups usually meet several times a year, typically with a guest speaker. Discussions occur under protection of a confidentiality agreement.

Magowan joined a Twenty Group in 1997 and found it a useful source of information. But about five years later, he and some other members decided to take it a step further. “We wanted access to resources not available to a small body shop,” he says. The result

was the Key Choice Collision Center Network, a purchasing and service LLC that operates as a co-op, now with 18 members in seven Midwest states.

“It was fairly easy to set up,” says Magowan. “The core group had all been friends for years. We went to a business attorney we’d used in the past for legal help.”

The slow economy has resulted in little growth in revenue in recent years for most small auto body shops, so better profits have to come from cutting costs. Key Choice uses its purchasing power to negotiate much better deals with suppliers than individual shops could manage. A percentage of the purchase amounts is tacked on to cover administrative costs of the cooperative.

“The discounting is huge,” Magowan says. “But a shop that does a million dollars’ worth of business a year is going to spend about \$45,000 on paint. At the end of the day, it’s not going to make a huge difference to your bottom line.”

Cooperation leads to higher efficiency

The key to better profits, says Magowan, is making your operation more efficient; the cooperative has proven to be a valuable tool to achieving that goal. The first step to rationalizing its operations was to adopt a common paint system.

“We contracted with one company, Sherwin Williams, which came in and set up a product line for us,” says Magowan. “We all use the exact same products. We don’t have anyone trying out the ‘flavor of the month.’ That rules out a lot of issues.”

The paint-system commonality means that each shop’s paint technicians can be trained together in the same methods by representatives of the paint supplier. The close relationship with the supplier also keeps the co-op up to date on cost-saving improvements and innovations. Painters with problems can discuss them with other painters from their own or other member shops and get good advice based on common



A technician sprays a fender in the paint booth at Ernie’s Auto Body. Adopting a common line of finishing products makes possible better efficiency and lower costs for members of the Key Choice Collision Center Network.

training and experience. Together, those factors help ensure consistent, satisfactory results.

That consistency is also a marketing plus. “Having a network like this makes it easier for us to deal with insurance companies,” says Magowan. “They know what kind of results to expect, because we have consistent products and techniques.” Bus tour companies also know that they can have damage repaired at any of the 18 Key Choice locations and expect a high quality, cost-effective job. The Key Choice logo is displayed on exterior signs and on business cards.

Using the same paint was only the first piece of the puzzle. Improving work flow and time management and eliminating waste are just as important to a successful operation. Lean manufacturing principles, derived from Japanese production practices, seek to minimize waste in materials, manpower and other resources, while keeping quality as high as possible. They emphasize constant effort to find and eliminate waste and improve efficiency, adaptability, and always being ready to change any aspect of the operation that can be improved.

“‘Lean’ is a huge buzzword in the auto body industry,” Magowan says. “But some people are successful at accomplishing a ‘lean’ operation, and some are not. I’d say about one in ten actually makes it work. If someone tells me his operation is ‘150 percent lean,’ I’m pretty skeptical.”

Collective problem solving

Magowan says he and other members study lean manufacturing techniques and together work out ways to apply them to their operations. The cooperative takes a systematic approach to this. When a problem or goal is identified, five members are delegated to address the issue. Research and discussion are documented, and the “group of five” develops a solution, which will be presented to the membership.

All co-op members vote on whether to adopt the measure. If it’s accepted,

the new method or process is put in use by all the members. Members also informally discuss individual issues



among themselves, offering each other advice.

The result, says Magowan, has been “tremendous net growth.” One example of this is an overhaul of the workflow in the shop. “A traditional shop has a body department and a paint department,” he says. “The techs work on commission. Each is assigned jobs, and each job has a number of labor units assigned to it, according to the amount of time expected for it to take. Typically, a tech is paid according to the number of units assigned, whether it actually takes two hours or ten.”

In the traditional setup, if a vehicle is still being prepared in the body department and the paint tech has no other work, he or she may be idle until the job is ready. The cooperative worked out a system in which labor hours are pooled and divided between everybody working in the shop. That means that everyone has an incentive to get jobs done as quickly as possible. A technician who is not working on an assigned job will thus help with other parts of the repair.

“We’ve set up a standard operating procedure that allows anyone to work where most useful at the time. As a result, I’m doing the same amount of business as I was three years ago — with four fewer people.”

Another innovation cuts down on unnecessary foot traffic in the shop. “We had three techs in the paint

department,” says Magowan. Techs had their own individual setup and would get supplies from the inventory room as needed. “We put up a sign-up sheet at the door to the inventory room to find out how many trips to the room were being made.”

The results were surprising — a great deal of time was being lost in trips to replenish supplies. Not only that, there was a lot of duplication in

materials being held by the technicians, meaning more money tied up in inventory.

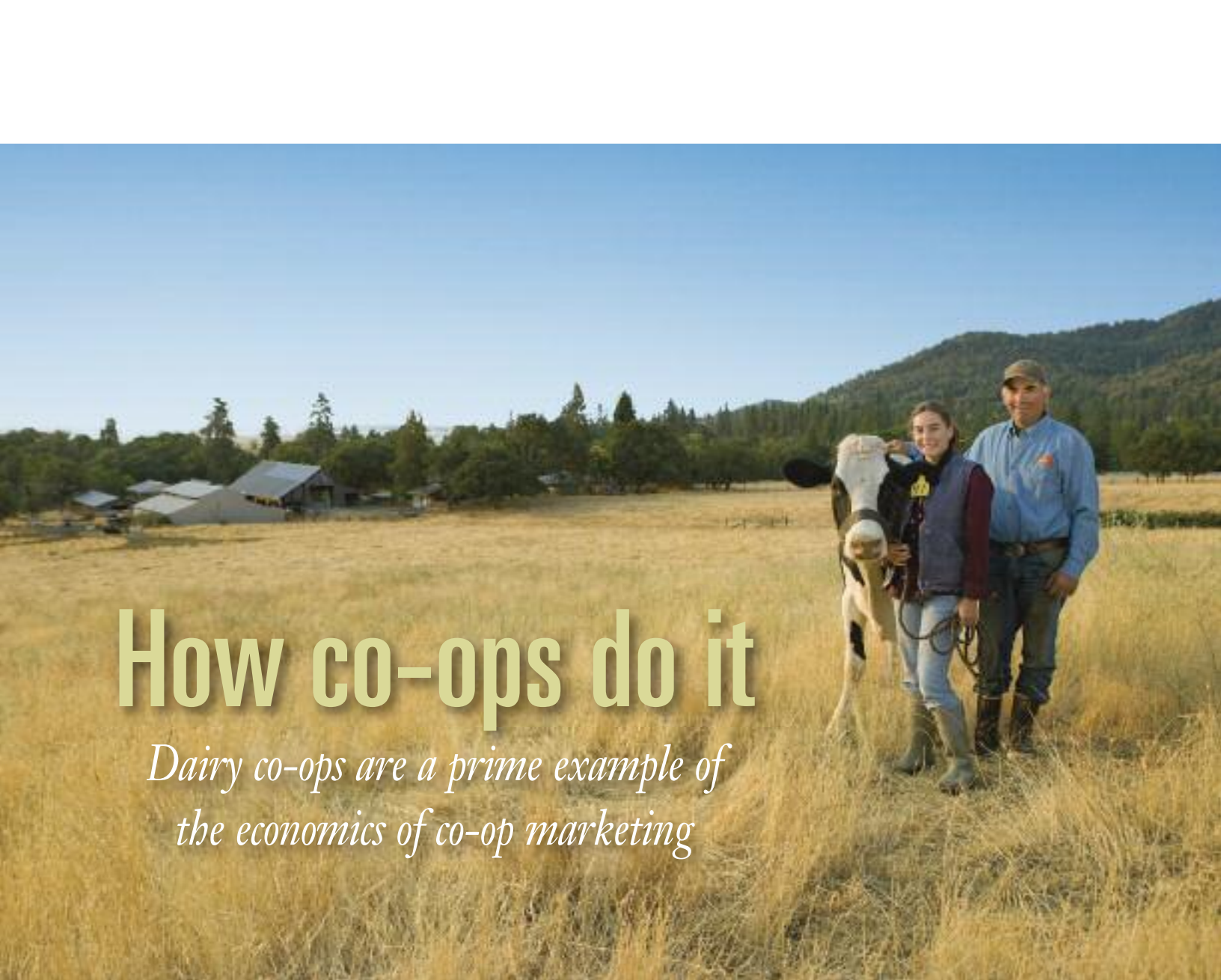
The answer was to bring the supplies to the technicians with an inventory cart. Every morning, the cart is replenished with supplies.

“Everything they need is right there,” Magowan says. “They rarely need to make an extra trip.” The result is more efficient use of time, and, as a bonus, a reduction in inventory. “We don’t have so much cash tied up in our supply room,” he says. “That makes a difference when you consider that a box of sandpaper can cost \$75.”

“Small steps like that add up to huge improvements,” says Magowan. He emphasizes that innovations are not rigidly applied. Each shop has its own conditions and physical layout, and measures must be tailored to work well in each situation. The key is flexibility, he says.

“You need to be able to put things together with what is already in place.” In fact, flexibility and being ready to make changes are a vital part of the lean manufacturing approach.

The cooperative is already looking ahead to new challenges, one of which will be possible future government requirements to change from a solvent-based to a water-borne paint system. “We’re already studying that,” Magowan says. “When the time comes, we’ll be ready.” ■



How co-ops do it

Dairy co-ops are a prime example of the economics of co-op marketing

Photos courtesy Darigold

By K. Charles Ling, Ag Economist
USDA Co-op Program

Note: This article is a sequel to “What Cooperatives Are (and Aren’t),” “What Cooperatives Do,” and “Dairy Co-ops: What They Are and What They Do,” Rural Cooperatives, Volume 76, Number 6, November/December 2009; Volume 77, Number 2, March/April 2010; and Volume 78, Number 2, March/April 2011, respectively. Past issues are posted on the USDA Rural Development website: www.rurdev.usda.gov.



In our free-market economy, the cooperative is a unique business model in that it is an aggregate of individual economic units. In the agricultural sector, a cooperative is an aggregate of member-farms.

Using the dairy sector as an example for this article, the cooperative takes whatever milk volume is produced by members and then acts as their exclusive marketing agent. Members’ farming operations are not under the

cooperative’s administrative control, and the cooperative cannot dictate how members operate their dairy farms.

This operating mode entails its own unique economics that comprises the following elements:

- When milk price goes up or down, the milk volume a farm may produce depends on the financial objective of the farm: whether it wants to attain maximum total profit (minimum loss in a loss situation), maximum total revenue (up to the break-even point), or minimum average cost.

- Production input cost changes do not change a farm's rated capacity, but instead shift the farm's cost curves straight up or down. The milk volume that the farm produces, again, depends on the financial objective of the farm. (Cost curves refer to a typical, simple diagram showing how milk production costs vary in relation to production volume. See figure 1.)
- Depending on how farmers respond to milk price and input cost changes, the milk volume the cooperative has to handle may continually fluctuate.
- Likewise, milk production is a biological process and is subject to daily and seasonal fluctuations.
- The seasonality of milk production generally does not match the seasonality of fluid milk demand. This mismatch requires cooperatives that supply milk to the fluid market to balance seasonal supply with seasonal demand and handle the inevitable seasonal surplus milk volume at a substantial supply-balancing cost.

A fuller explanation of the unique economics of dairy cooperative operation is facilitated by the focusing on a model dairy farm.

Model dairy farm

A farm is constructed with its dairying infrastructure to accommodate a dairy herd of a certain size. It has a rated capacity of producing a certain number of pounds of milk per day. When the farm produces milk at the capacity volume, the average cost of milk production per hundredweight (cwt) should be at a minimum. If milk price for the month is the same as the minimum average cost, then the farm's milk production for the month is at capacity and the farm is said to be in "equilibrium."

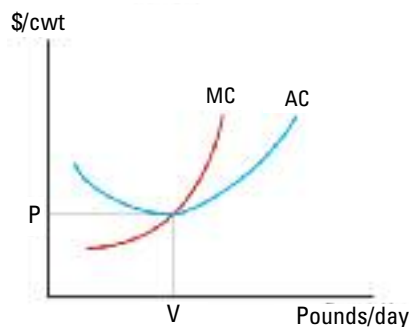
Milk price variation

If milk price is lower than the minimum average cost, the farm will incur a loss for every cwt of milk it

produces. According to textbook optimization theory, the farm would minimize its total losses by producing milk at a volume where milk price (marginal revenue) equals marginal cost.

However, although marginal cost is a useful concept, its "real-life calculation" has many complications and, therefore, it is not readily available for practical day-to-day operational decision-making. For such decisions, the time-

Figure 1: Average cost (AC) and marginal cost (MC) vs. milk production volume



honored business practice is to use average cost in the profit-and-loss estimation.

In the present case, it is very likely that the dairy farm will still strive to attain the lowest average cost by producing milk up to its rated capacity, even though doing so would incur a higher loss. So, depending on which cost concept a farmer uses, milk volume produced by the dairy farm may be somewhere between the two amounts just mentioned.

When milk price is higher than the minimum average cost, the farm will enjoy a profit. The farmer may decide to attain the lowest average cost by producing at its rated capacity. Or, the farmer may want to achieve maximum total profit by producing a milk volume where milk price (marginal revenue) equals marginal cost, if the latter is actually known.

Alternatively, the farmer may strive

for maximum total revenue and increase its production up to the volume where the farm will break even. Thus, when milk price is higher than the minimum average cost, the amount of milk produced by the dairy farm may be somewhere in the range framed by the three possible milk volumes just given.

Replicating the model dairy farm ten, a hundred or even a thousand times, depending on the size of a cooperative, the aggregate milk volume produced by its members is certain to fluctuate. The cooperative may know with certainty the aggregate volume of members' rated capacity, which would logically be the basis for planning its milk handling capacity.

However, the uncertain volume of actual delivery means on some days the cooperative will have slack capacity, while on other days it may have to scramble to make sure every drop of milk has a home. Also in response to the fluctuating volume, milk hauling may have to be rerouted for most economical coordination.

It should be noted that because a cooperative is formed to market whatever the aggregate volume of milk produced by its members, it does not have its own milk production functions, milk production cost curves or milk supply curves.

Milk production input cost variation

Suppose milk price remains the same as the minimum average cost given at the rated capacity volume, but the cost of production input, such as feed or fuel, has increased. Because the infrastructure and the size of the dairy herd do not change, the rated capacity of the farm will stay the same.

However, the average cost curve and its associated marginal cost curve will shift upward. The farm will suffer a loss, and it may want to minimize its total losses by producing milk at a volume where milk price (marginal

revenue) equals marginal cost.

Short of knowing the marginal cost, it is very likely that the dairy farm will work to attain the lowest average cost by still producing milk at its rated capacity. When production input cost increases, milk volume produced by the dairy farm may be somewhere between the two milk volumes just referred to.

On the other hand, if production input cost decreases, the average cost curve and the associated marginal cost curve will shift downward and the farm will reap a profit. The farm may still decide to produce milk at its rated capacity. Or it may increase its production up to the break-even point that will return the highest total revenue.

Alternatively, the farm may want to achieve maximum total profit by producing at the milk volume where milk price (marginal revenue) meets marginal cost. When production input cost decreases, milk volume produced by the dairy farm may be somewhere in the range framed by the three volumes just articulated.

Again, the aggregate volume of member milk faced by the cooperative is rather uncertain, depending on how members make their day-to-day production decisions in reaction to production input cost changes.

The discussion thus far shows the challenges a dairy cooperative faces in handling fluctuating milk volume when either milk price or production input cost changes. When both price and cost changes are considered at the same time, the picture is even more complicated.

Still, this is a highly simplified scenario. In real life, not every farm is like the model dairy farm; in fact, no two farms are alike. They are not likely to be of the same size and make the same production decision. That means the volume variation may be even more uncertain than what has been described. In addition, the seasonality of milk production further aggravates milk volume uncertainties.

Table 1—Indices of seasonality of producer milk deliveries and fluid demand

Month	Producer milk deliveries	Fluid demand
	-----Percent-----	
January	100.1	101.9
February	101.8	100.6
March	103.7	100.9
April	105.4	98.2
May	106.0	98.1
June	103.4	94.0
July	97.8	94.2
August	97.0	98.1
September	96.3	105.2
October	95.4	104.6
November	95.0	102.8
December	<u>98.1</u>	<u>101.4</u>
Annual average	100.0	100.0

Source: Ling, K. Charles. *Cost of Balancing Milk Supplies: Northeast Regional Market*, U.S. Department of Agriculture, RBS Research Report No. 188, October 2001.

Note: Different regions of the country may experience different seasonality, and seasonality may change over time.



Seasonal production variation

Milk production is affected by a cow's physiological condition, which is subject to seasonal changes. The seasonal nature of milk production is best portrayed by the index of seasonality, such as shown in table 1, which is based on milk deliveries to the Northeast regional market and documented in an earlier USDA research report. The table shows that the first six months of the year is a period of higher-than-average milk deliveries, with May being the peak.

The index of 106 indicates that May is 6 percent higher than annual average daily deliveries. Milk deliveries decline sharply from June to July and stay relatively low throughout summer and fall. Deliveries are usually lowest in November.

With an index of 95, November is 5 percent below annual average daily deliveries. Deliveries recover in

December and increase steadily through winter and spring. The drop from May to November is 11 percentage points.

Seasonality of milk production, in essence, shifts a farm's cost curves downward to the right during a seasonally high production month or upward to the left during a seasonally low production month. During a seasonally high production month (seasonality index is more than 100), since the same infrastructure and the same herd size will produce more milk, the farm's capacity should be higher than originally rated.

Also because the same fixed cost is spread over a higher milk volume, the average cost of producing milk should be lower. The combined effect would shift the cost curves rightward and downward.

On the other hand, during a seasonally low production month (seasonality index is less than 100), since

Table 2—An example of a cooperative's milk in excess of demand by fluid milk and manufacturing processors¹

Month	Member milk deliveries	To fluid milk processors	To manufacturing processors	Co-op milk in excess of sales
-----Million pounds/day-----				
January	10.0	4.1	2.5	3.4
February	10.2	4.0	2.5	3.7
March	10.4	4.0	2.5	3.8
April	10.5	3.9	2.5	4.1
May	10.6	3.9	2.5	4.2
June	10.3	3.8	2.5	4.1
July	9.8	3.8	2.5	3.5
August	9.7	3.9	2.5	3.3
September	9.6	4.2	2.5	2.9
October	9.5	4.2	2.5	2.9
November	9.5	4.1	2.5	2.9
December	9.8	4.1	2.5	3.3
<i>Annual average</i>	10.0	4.0	2.5	3.5

¹Items may not add to totals due to rounding.



the same infrastructure and herd size will produce less milk, the farm's capacity should be less than originally rated. And because the same fixed cost is spread over a smaller milk volume, the average cost of producing milk should be higher. The combined effect would shift the cost curves leftward and upward.

The net effect of shifting seasonal capacity and cost curves means that the members' milk volume the cooperative has to handle will fluctuate seasonally throughout the year. This further compounds the challenges of marketing members' milk.

Seasonal demand variation

On the milk demand side, seasonal variation is mainly caused by fluid (beverage) uses. This is because the milk volume required by fluid processing plants is directly and instantaneously derived from

consumers' demand of fluid products, which is highly seasonal. Manufacturing plants that make storable products such as cheese are different. They tend to maintain a throughput volume at or near plant capacity in order to achieve least-cost operations.

The example in table 1 shows that fluid demand is highest in September and maintains a higher-than-average, though declining, level through fall and winter until March; fluid demand is lower-than-average from April through August. The peak in September (seasonality index = 105) is 5 percent above annual average daily consumption.

The lowest fluid consumption month is June, with an index of 94, or 6 percent below the annual daily average. The June low is a drop of 11 percentage points compared with the September peak.

Thus, seasonality of fluid demand

usually runs counter to the seasonality of milk production. Fluid demand tends to be high during those months when milk production is low, and tends to be low when milk production is high. The mismatch of supply and demand is a major challenge the cooperative has to handle, as shown in the following example.

Suppose that on an annual daily average basis, the cooperative's members deliver 10 million pounds of milk a day, and the cooperative markets 4 million pounds to fluid milk processors and a constant 2.5 million pounds to dairy product manufacturing processors.

Suppose further that milk production and fluid demand follow the seasonal patterns given in table 1. In May, the cooperative's members will produce 10.6 million pounds of milk a day, while fluid plants will use 3.9 million pounds

continued on page 40



Co-ops saluted as 'vital economic force' at USDA event

A cooperative of Hispanic immigrant business owners that has created an authentic Latin American marketplace in Minneapolis and an online “virtual food hub” that helps local food co-ops expand their customer base in Virginia were among the co-ops saluted at USDA headquarters on Oct. 19 as part of its annual Co-op Month salute. The event was held to help increase awareness of the vital role co-ops play in the nation. In attendance were leaders and staff of many of the nation’s major co-op associations, as well as USDA employees, many of whose work includes serving and supporting co-ops.

Cooperatives are producer- and user-owned businesses that give their members a stronger position in the marketplace by multiplying the power of one by the power of many,” Judith Canales, administrator for the Rural Business-Cooperative Service of USDA Rural Development said, reading from the Cooperative Month Proclamation signed by Secretary of Agriculture Tom Vilsack. Further, co-ops “represent democracy and capitalism at their best” and “play a vital role in improving economic opportunity and the quality of life in rural America,” she said.

USDA Deputy Under Secretary for Rural Development Doug O’Brien focused his remarks on co-ops as a source of jobs. “Co-ops are playing a role as our nation strives to reduce high levels of unemployment by providing good jobs for tens of thousands of people in the farm sector alone,” he



Clockwise from above: Judith Canales, administrator for the Business-Cooperative Programs of USDA Rural Development, presents a certificate honoring Paul Hazen (center) for his support for USDA Co-op Programs (he will be stepping down as president of the National Cooperative Business Association). At right is Chad Parker, the new deputy administrator of USDA Cooperative Programs; Matthew Mullen provides information about USDA’s Rural Business-Cooperative Service to Liz Bailey of the Cooperative Development Foundation; Jamie Villalaz (left) and Enel Espinoza of the Latino Economic Development Center discuss efforts to help Hispanic immigrants form new co-ops in Minnesota; Kathleen Heron and Kaitlin Campbell pass out samples of farm co-op products at the National Council of Farmer Cooperatives booth. USDA photos by Dan Campbell



said. U.S. agricultural and fishery cooperatives created 7,000 new jobs in 2010, boosting the number of jobs to 184,000 at the nearly 2,400 agricultural co-ops surveyed.

O'Brien noted that through a number of USDA programs — including Rural Cooperative Development Grants; Value-Added Producer Grants; support for Small, Socially Disadvantaged Farmers and Ranchers; and support for 1890s universities — USDA Rural Development is continuing to meet the needs of rural Americans, create the opportunity for new jobs and support the cooperative business model.

“During the new fiscal year, and in coming years, we will partner with other federal agencies — such as the Small Business Administration — to link cooperatives with potential investors, secure access to capital to help fund growth and use opportunities created by the Rural Council (headed by Secretary Vilsack) to network effectively and promote opportunities for cooperatives to thrive,” he said.

Jamie Villalaz and Enel Espinoza of the Latino Economic Development Center (LEDC) in Minneapolis discussed a number of efforts their organization is spearheading in Minnesota to help immigrants develop and expand their own businesses. Mercado Central Co-op, for example, is a thriving marketplace created by about 45 Hispanic business owners. The business owners eventually used their success with

Mercado Central as a springboard to form LEDC, Villalaz said.

Other LEDC efforts include helping to forge marketing links between an organic farm and a group of Mexican food restaurants looking for more local produce. LEDC also has an active outreach program that strives to make Hispanic people more aware of the co-op business model and how it can help them achieve their goals through group action.

Molly Harris described how local food producers and co-ops in the Richmond, Va., area are able to post their product availability online and take orders from customers using the LuLu's Local Foods website, which she created and runs. Member-producers also take an active role in education and community outreach. Farmers speak in classrooms and stage “meet and greet” sessions on their farms to explain production methods, food sustainability and nutrition issues.

The growers also work with a number of churches that sponsor “Food and Faith” programs to help provide nutritious food to needy people. LuLu's Local Food and LEDC have each been helped with financial and technical assistance programs of USDA Rural Development.

Jennifer Bond provided an overview of eXtension, a Cooperative Extension effort that has created an online “cooperative community of practice,” which is developing into a major “idea exchange” platform for academic researchers, co-op and business development specialists, co-op leaders, teachers and all others with an interest in developing and improving cooperatives.

USDA's Co-op Month event was also used to pay tribute to one of the co-op world's best friends: Paul Hazen, who recently announced that he is stepping down as president of the National Cooperative Business Association. Canales and Chad Parker, the deputy administrator for USDA's Cooperative Programs office, presented Hazen with a special certificate recognizing him for: “25 years of exemplary service to, and support of, USDA Rural Development Cooperative Programs in promoting the positive benefits of the cooperative business model.”

Hazen said he will be devoting much of his time during his final months as NCBA leader to helping promote the worldwide observance of 2012 as the International Year of the Cooperative.

Worldwide, Hazen said there are more than 1 billion members of cooperatives, including 29,000 co-ops in the United States with 120 million members. ■

Co-op Education

It's Everybody's Business



Co-ops 101: An Introduction to Cooperatives (CIR 55)

Probably the most-read co-op primer in the nation, this report provides a bird's-eye view of the cooperative way of organizing and operating a business.



Do Yourself a Favor: Join a Co-op (CIR 54)

Perfect as a handout to the general public or for classroom visits, this 10-page brochure provides a succinct definition of what co-ops are and the benefits they offer to their members. It discusses how benefits are proportional to the use of a co-op, and how co-ops differ from nonprofits.



Understanding Capper-Volstead (CIR-35)

The Capper-Volstead Act is the legal foundation of the American farmer marketing cooperative movement. This brochure is required reading for many co-op boards and is beneficial for all co-op members who seek a better understanding of the legal underpinnings of farmer co-ops.



Co-op Directors: Asking Necessary Questions (CIR 62)

Cooperative directors, especially those with limited business experience, may find themselves in a quandary as to what to ask managers, staff, auditors, other directors and other outside resources about the status of their cooperative. This report guides directors in asking the necessary questions to invoke informative responses.



How to Start a Cooperative (CIR 7)

This guide outlines the process of organizing and financing a cooperative business. This publication represents the most important elements to consider when forming a cooperative. It lists what special expertise is necessary and where to look for help. Note: You may also request the condensed, 4-page version: CIR-45, Section 14.



The Circle of Responsibilities for Co-op Board Members (CIR 61)

All boards of directors are under increasing pressure to perform well and justify their decisions. Cooperative boards are no exception. This series of articles, originally printed in USDA's *Rural Cooperatives* magazine, lays out fundamental guidelines for cooperative directors to follow.

Whether for explaining basic co-op concepts to prospective members of a new or existing co-op, to help co-op board members better understand their responsibilities, as a hand-out at a co-op meeting or for classroom use, these publications can help. More than 100 other co-op publications are also available from the Cooperative Programs of USDA Rural Development the nation's No. 1 source of co-op educational materials. Our mission is to help increase understanding and use of the cooperative, producer- and user-owned form of business.

All publications are free, and can be ordered by sending an e-mail to: coopinfo@wdc.usda.gov, or by calling 202-720-7395. They are also available on the Internet at: www.rurdev.usda.gov/rbs/pub/newpub.htm.



Director Liability in Cooperatives (CIR 34)

This study surveys and discusses sources of liability faced by cooperative directors and suggests practices and behavior that may help avoid liability risks. The common law sources of liability are described.



Co-ops in Agribusiness (CIR 5)

Provides a brief history of cooperatives and discusses their relationship with agribusiness. Different types of cooperatives and their structural and organizational characteristics are discussed, as well as how they are governed and financed.



Sample Policies for Cooperatives (CIR 39)

Policies help cooperatives attain established goals and objectives. This booklet provides directors and managers of farmer cooperatives with guidelines for writing, adopting and implementing policies.



Sample Legal Documents for Cooperatives (CIR 40)

A cooperative must have a set of organizational documents that is uniquely crafted to its particular situation. This report will assist persons organizing new cooperatives, managers and directors of existing cooperatives and their professional advisers to develop and update the important legal documents of cooperatives.



Co-ops: What They Are and the Roles of Members, Directors, Managers and Employees (CIR 11)

This educational guide explains what cooperatives are and examines the responsibilities and roles of cooperative members, directors, managers and employees. It is frequently used as a teaching tool, both in classrooms and co-op settings. PowerPoint slides are also available from USDA.



Shared Services Cooperatives (CIR 49)

This brochure explains that the goal of shared-services cooperatives is to buy or provide products and/or services for their members at a total cost less than the combined costs of individual members buying or providing for themselves.

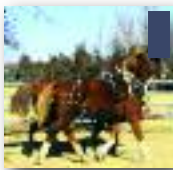
Mission-driven marketing



Rocky Mountain co-ops expand opportunities for sustainable food production

By Jennifer Keeling Bond, Kellie Enns and Bill Brockhouse

Editor's note: Bond and Enns are assistant professors in the Department of Agricultural and Resource Economics at Colorado State University. Brockhouse retired in July as a co-op development specialist with USDA's Cooperative Programs.



In response to the growing demand for locally grown and sustainably produced foods, two cooperatives have taken root in the Rocky Mountain region. The High Plains Food Cooperative (HPFC) serves member consumers and producers in a virtual marketplace, using Internet-based sales. The Colorado Farm and Art Market (CFAM) builds relationships through fostering personal contact between growers and buyers at bi-weekly farmers' markets.

In this article, we share the stories of how these organizations came to be, what philosophies link the organizations and how they created vibrant local foods communities through cooperation.

High Plains Food Cooperative: *Finding solid ground in a virtual marketplace*

In 2004, a group of mostly organic, fresh and specialty produce growers in Rawlins County, Kan., began to discuss ways of coping with the physical distances between potential customers and their farms. Growers had to travel long distances to reach numerous farmers' markets along the Front Range, which was inefficient, expensive and resulted in a larger "carbon footprint" than the environmentally minded growers desired.

The group considered teaming up with a local food distributor to access larger retail markets. However, doing so would have maintained the physical

distance between the growers and end-consumers while potentially reducing profit margins. A solution was needed that would allow growers to foster close relationships with customers while growing and marketing their products in a sustainable manner.

How to achieve these marketing objectives came into clearer focus after founding co-op members Chris and Sherri Schmidt attended a regional agricultural marketing workshop hosted by leadership from the Kansas Farmers Union and Ogallala Commons.

The workshop showcased the Oklahoma Food Co-op (OFC), an online community of producers and consumers that is dedicated to supporting local growers. Inspired by the OFC example, the Schmidts and a growing team of interested stakeholders began to firm up plans for what would become the High Plains Food Cooperative (HPFC).

Like the Oklahoma cooperative, HPFC would have an online presence

aimed at uniting interests in locally grown food and locally made products. However, in addition to supporting local producers, HPFC would also reflect the desires of the original Rawlins County growers to promote food that was grown in an environmentally sustainable manner

fee of \$100, or an annual payment of \$40, the 150 HPFC consumer-members have access to a catalogue of value-added products that can be shipped to the buyers' home or delivered to a nearby drop point for an additional fee.

HPFC also has a physical distribution site in north Denver,

cultivating farmer-consumer relationships and enhancing rural sustainability. "On the website, we have to write a story about our products — why someone would want to buy them and what's the advantage," says Laura Reeser, a co-op member who sells herbs and eggs. "This allows me to actually

Nearly 61 percent of responding fresh produce growers in Colorado are interested in joining a cooperative to assist with reaching new customers...



Facing page: Serah Trobridge checks out an herb garden that is yielding products for the High Plains Food Cooperative (HPFC); above: Anna Morton buys carrots at the Venetucci Farms booth at the Colorado Farms and Art Market (CFAM) in Colorado Springs. Photos courtesy HPFC and CFAM

and to support socially responsible business practices of stewardship and cultural diversity and member empowerment.

Consumer-centric philosophy

Three years after opening the co-op's "virtual doors" in 2008, producer-members now span three states (Colorado, Nebraska and Kansas) and the co-op's online marketplace offers a tremendous variety of seasonal products. For a one-time membership

coincidentally at the confluence of three neighborhoods designated as "food deserts." Food deserts are areas without access to affordable, fresh food and are common in many low-income urban areas. The distribution site location underscores a problem identified by the initial founders of the HPFC: that people need and deserve access to quality, fresh food.

In addition to striving to provide healthful products for consumer-members, HPFC is committed to

develop a relationship with the customers."

In a sense, the website creates a "virtual bridge" between producers and consumers that encourages interactions and transactions while also educating buyers on sustainable production practices.

Benefits of virtual marketing

While links with customers are strengthened through HPFC, the website has also assisted in fostering the breadth of connections between isolated producers and markets. The Denver metro area includes 2.7 million people with a wide variety of niche tastes. The presence of HPFC's network in the region has allowed some producers to grow their businesses.

Barbara Cooper, owner of Cooper Kitchens in rural McDonald, Kan., says the co-op affiliation and web presence enabled her to "expand my production by 25 percent because of all the orders that come in from Denver. The website gives us the opportunity to reach some of those urban markets and sell our fresh items, something we couldn't do by ourselves."

Reeser found similar results. She was able to triple the size of her egg and herb business, working through the co-op. Consumers in her local market were not only very price sensitive, but they

also didn't have a "taste" for some of her gourmet herbs, such as epazote, sorrel, lime thyme and lovage. In the Denver market, she found food connoisseurs with more sophisticated culinary pallets and a desire for her specialty products.

Beyond market access, the online cooperative provides a method for simply staying in business and connecting consumers to production agriculture. "The co-op is an opportunity for people to stay on the farm...and for consumers to know what food tastes like," says Jo Hagney, current HPFC treasurer and founding co-chair of the co-op.

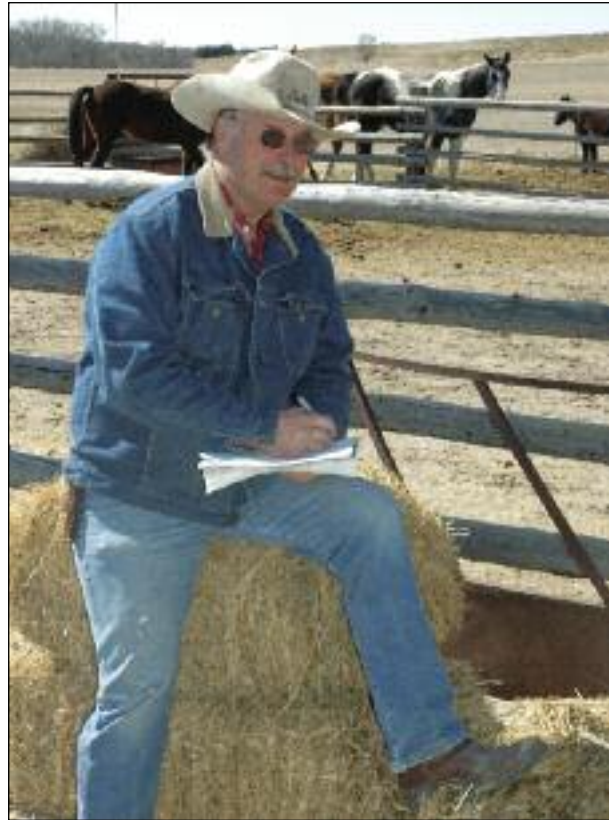
"We realized that even though maybe we couldn't produce a lot of products, we had neighbors who could," adds HPFC President Chris Schmidt. "By being able to market food products to people either in the Front Range or elsewhere in Colorado, HPFC is a way of increasing our income and helping out with the financial situation in our area."

Seeds of success

Key personnel who are willing to sacrifice and serve the co-op are essential to building a successful business endeavor. "We started with eight or so very dedicated people who were interested in trying to get something going — not for personal gain, but to be able to help out neighbors and friends by marketing a product they have," says Chris Schmidt, reflecting on the dedication that has allowed the fledging cooperative to stay in business and grow in a crowded market. The same individuals are still supporting the cooperative and form the organization's "backbone," he notes.

Mutual support is a unifying factor for many of the co-op's producers. Their philosophical outlook, which is widely promoted by the organization's founders, serves to strengthen connections between the growers and create a network of environment- and health-conscious producers who are enthusiastic about sharing nature's

bounty with the public. Members are so passionate about the organization's



Dan Fields of Double Beaver Hay and Cattle company (also seen driving a horse-drawn wagon on facing page) works on a list of his upcoming deliveries. He and his wife, Yvonne, have been a driving force in the High Plains Food Cooperative. "Be patient – it takes a while to build up customers and find other producers," says Yvonne.

objectives that many volunteer their time to ensure that deliveries are made, bills are paid, and the day-to-day jobs associated with running the cooperative are completed.

In addition to a set of core values, the founding members attribute the organization's early success to a variety of strategic business decisions and a realistic outlook. When asked what advice they'd offer a producer who is interested in forming a marketing cooperative, Hagney cautions: "Find a support system, because you cannot do it all by yourself."

While it may be challenging to organize a complex new business and difficult to wait through periods of market adaptation, Yvonne Fields of Double Beaver Hay Cattle offers

encouragement to others considering establishing a new co-op. "Be patient," she says, "it takes a while to build up customers and find other producers." According to Hagney, cooperative entrepreneurs should also keep in mind that "just about anything is possible, if you have the dedicated people who are willing to put the effort forth to develop the market."

For many fresh and specialty food growers along the Front Range, HPFC serves as an example of how to successfully merge philosophical and economic interests in a way that supports the growing local food movement. With consumer demand for value-added food products on the rise and growing interest in sustainable agriculture, HPFC appears poised to capitalize on market momentum and create real member benefits

from a virtual marketplace.

Colorado Farm and Art Market: Market with a mission

Frustrated with a lack of managerial support for local and organic producers at a popular Colorado Springs market, growers banded together to form a new organization in 2003 that would promote their distinctive products. The mission of this new association would be to educate consumers about local food systems and promote the message of sustainable agriculture while putting a "face" on area farmers.

In the early days of the market, growers were approached by a group of Southern Colorado artisans and asked to form a joint venture. The proposed organization would showcase not only

fresh, locally grown produce, but also high-quality regional art in a variety of media, providing a multi-sensory experience that would appeal to a wide range of patrons.

This meeting of the minds resulted in the formation of what is now called the Colorado Farm and Art Market

atmosphere of learning and discovery at the market. The Colorado Springs Slow Food chapter is part of an international group of food enthusiasts who are dedicated to “sustainable local agriculture” and to “counteracting fast eating and a fast food lifestyle.” Members encourage others to literally

information on this program, visit: www.rurdev.gov, or call 800-670-6553).

While seeking technical assistance, Hobbs and other members solidified their business philosophy. An educational mission was selected with the goal of informing consumers of the differences between store-bought

“Start small and follow your dream.

If you believe in the concept,
get in there and push for it.”



(CFAM), a cooperative of 40 vendors and numerous consumer-members.

Community of customers

On a typical Wednesday afternoon in September, a wide cross-section of Colorado Springs residents can be found shopping at the CFAM in America the Beautiful Park. The market is easily accessible from Interstate Highway 25 and draws crowds from nearby downtown, the University of Colorado-Colorado Springs, the U.S. Air Force Academy and local neighborhoods. Young families, students, “urban-hipsters” and retirees mingle among booths overflowing with the season’s offerings.

Anna Morton, a student, explains that she prefers local, fresh produce and feels that local farmers create a welcoming experience. To better serve their growing customer base, CFAM’s board of directors organized an additional Saturday market that is now held in northern Colorado Springs. The Saturday market attracts a great number of families and patrons, who, on average, are slightly older and have higher incomes, relative to the downtown market goers.

The Slow Food Movement and Colorado State University Extension are among those that make regular appearances and contribute to an

slow down to enjoy the food they eat and participate in local food traditions. The group regularly offers samples to CFAM patrons using locally grown products available for sale at the market, thereby promoting vendors’ goods and providing education on serving suggestions.

Member outlook:

Dan Hobbs

Grower Dan Hobbs helped to found CFAM in 2003 as a new kind of farmers’ market, one that was “democratic and sold organic food direct from those that produce it locally.” A fifth-generation Coloradoan who farms organic vegetables and open-pollinated seeds in Avondale, Hobbs is also executive director of the Organic Seed Alliance and a former cooperative specialist with the Rocky Mountain Farmers Union (RMFU).

He brought a wide range of experience and expertise to CFAM. In particular, through his role with RMFU, Hobbs was able to assist the group in forming a business and marketing plan while also finding legal help to get the group incorporated. The Rocky Mountain Farmers Union Cooperative Economic Development Center provided in-kind assistance and helped CFAM to secure a USDA Rural Business Enterprise Grant (for more

produce and locally grown, organic products that are purchased direct from the producer.

The commitment to supplying value-added produce sets CFAM apart from other area farmers’ markets that offer conventional produce. Not surprisingly, the produce available at CFAM often commands a premium. Through education and the building of personal relationships, Hobbs says consumers are “more willing to pay a higher price for locally grown and organic produce that is not sourced from a grocery store chain.” In this manner, the educational mission serves to support small-scale farmers and to contribute to sustainable agriculture.

Area chefs who are attracted by the desire to support local agriculture and sourcing fresh, diverse products are patronizing CFAM in increasing numbers. The strengthening relationship between restaurants and market vendors has led to a chef’s tour and increased direct sales.

Despite these positive developments, Hobbs believes that wider acceptance of local and organic produce is hindered by growers’ inability to supply fresh product year-round. As such, distribution has primarily been limited to “white tablecloth” restaurants that specialize in seasonal dishes and/or strongly promote local partnerships

with producers.

To capitalize on demand during the limited growing season, Hobbs and other vendors try to keep abreast of trends in consumer taste and preferences. Recent interest in “open-pollinated” or “true-to-type” produce offers a promising opportunity for growers, such as the multiple varieties of heirloom garlic marketed by Hobbs.

Other areas of potential growth include biodynamic, or so-called “beyond organic,” produce, grass-fed beef and raw milk. Although consumer interest has been somewhat limited, at least one producer believes that through education, patrons will come to appreciate these value-added products in greater numbers.

Member outlook:

Doug Wiley

For more than 20 years, Doug Wiley has farmed on his family’s Larga Vista Ranch in Boone, Colo. As proponents of sustainable agricultural systems, Wiley and his wife, Kim, strive to create an agricultural ecosystem that is in harmony with the natural environment and surrounding community. “The greatest gift we can leave our kids is productive and fertile soils,” says Wiley.

Educating consumers about the benefits of biodynamic produce, grass-fed beef and milk is a passion for the Wiley family. As CFAM members, they are able to tap into the organization’s resources to help share information about sustainable agriculture and the “need to develop markets for local foods.” Enhanced local and national awareness of the benefits of value-added and locally grown products has increased the number of consumers demanding the Wiley’s goods, and they service a growing and loyal customer base.

To make food pick-up more convenient for their primarily Colorado Springs-based customers, the Wiley family now brings raw (or unpasteurized) cow’s milk to CFAM during the market season. By state law, raw milk can only be provided to cow-

share owners who purchase a portion of a cow’s production in advance.

By selling at CFAM and direct to restaurants and visitors at the ranch, Wiley is able to create personal relationships with customers and to teach them about the importance of respecting the environment and supporting local growers. Through education, he has found that customers have come to appreciate the Wiley’s products even more and that they in turn share what they have learned with friends and relatives.

This grassroots marketing campaign has been an effective way to grow demand. However, Wiley has found that seasonality and limited supply create natural restrictions on the scope of Larga Vista’s operations. As a small farmer, it is “hard to make ends meet,” he says.

With limited production of organic produce and grass-fed beef, the Wiley’s operation is too small to attract orders from grocery stores. While restaurants can provide an additional source of demand, sales through CFAM and direct from the ranch are the most important sources of revenue.

“It is the people that make the difference and make the work worthwhile, says Wiley, reflecting on the hard work necessary to make Larga Vista Ranch profitable.

CFAM’s community of customers

In the years since CFAM’s formation in 2003, the market has succeeded in sustaining itself in the midst of strong competition and in educating a loyal and growing customer base. In particular, board members take pride in their efforts to reach out to low-income families and the market’s ability to spread a philosophy of food as pleasure and sustainable agricultural systems as a means of building stronger communities.

Associations with like-minded groups, such as the Slow Food Movement, have assisted the young market to gain distinction as have relationships with area restaurants that promote local and organic food.

Growing consumer knowledge about the benefits of eating healthier, purchasing locally and supporting environmentally friendly agricultural practices have also assisted the cooperative. However, it is the “community of customers” that sustains the organization and to whom the board looks to for continued success.

Growing markets through education and access

Despite differences in business models, HPFC operates “virtually” while CFAM markets take place at multiple locations in the Colorado Springs area; both cooperatives share a desire to promote healthful eating and closer connections with the land and farming families.

HPFC markets products from a diverse multi-state area, giving the organization an advantage over traditional farmers’ markets that draw vendors from relatively smaller geographic areas. CFAM strives to provide in-depth food education and sensory experiences for market patrons and to build community among patrons and vendors. Significant increases in market sales have demonstrated that the different approaches taken by the co-ops have resulted in similar positive outcomes.

Growing popularity with market patrons may, in part, be a result of increased producer participation. Both HPFC and CFAM have added many growers to their membership roles in recent years. New members may be inexperienced and looking to break into the local foods movement or established enterprises seeking new outlets for their products. Regardless of background, partnering with either cooperative has the potential to leverage individual marketing efforts.

A recent USDA Rural Development-funded study (conducted by the authors of this article) found that nearly 61 percent of responding fresh produce growers in Colorado are interested in joining a cooperative to assist with reaching new customers, while more

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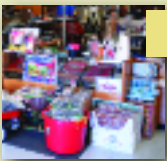
Is 'local' enough?



Keeping customers happy in farmer co-op stores

By Norbert Wilson, Thomas Hall, Deacue Fields
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***Editor's note:** Norbert Wilson is associate professor and Deacue Fields is associate professor and Extension economist in the Department of Ag Economics and Rural Sociology at Auburn University in Alabama. Thomas Hall is Extension economist with the Alabama Cooperative Extension System and formally with the Alabama Farmers Cooperative.*



In the fall of 2007 and spring of 2008, we traveled around Alabama to talk with managers of Alabama Farmers Cooperative (AFC) member cooperative stores. We were on a mission to understand why and how some of the farmer co-op stores had converted to retail stores.

At the time, we knew of co-op stores that had made the transition to more retail-oriented stores because they had a large percentage of non-farm clientele. In addition to the traditional feed and farm supplies, these facilities handled some combination of a garden center supplies, pet supplies, farm clothing, lawn equipment, hunting supplies, etc. The stores also offered such additional services as pet grooming and lawn and garden equipment maintenance and repair.

As we met with the managers, we learned a great deal

about the evolving customer base of these stores. Many of the new customers were part-time and hobby farmers. Some were new members of the community with little experience taking care of a few of acres of land. These customers were coming to the stores with problems and questions. Wildlife enthusiasts, for example, came in looking for salt licks, seed and fishing products. The renovations were an effort to keep up with these new customers.

While the customer base was evolving, farmers still played an important role in the life and membership of these cooperative stores. As we talked to more managers, we heard a refrain about the importance of customer service. The managers knew that the needs of the customer were important, especially in light of the diversity of competitors, including the "big box" retail stores and the Internet, cropping up around their stores. These retailers offered tough competition on prices. As one customer said, AFC member cooperative stores are preferred because they are local.

However, is local enough to keep customers coming back? In our discussions, none of the managers mentioned conducting efforts to evaluate customer satisfaction or customer service. They mentioned a great deal of anecdotal evidence, but nothing empirical came to light. We began to see this dearth of information as an opportunity for us to contribute to the well-being of farmer cooperative stores in

our state.

We thus refocused our investigation on a more expansive concept than just customer service. Through an analysis of service quality in farm retail stores, we hoped to better assist stores in meeting the needs of their customer base.

Alabama Farmers Cooperative background

Our test case, Alabama Farmers Cooperative (AFC), was established in 1936 and represents one of three regional, state-based cooperatives still in existence in the United States. AFC currently has 37 member cooperatives with 90 retail locations. Despite numerous challenges, AFC has consistently used innovative approaches to maintain competitiveness.

AFC is a regional, federated supply and marketing agricultural cooperative that provides its members with products and services. AFC has a long tradition of being deeply involved with the farmers of Alabama and the panhandle of Florida. Since its beginning, AFC has grown to include more than 2,300 employees and has become one of the largest farmer-owned agriculture-related businesses in the Southeast, with annual revenue of more than \$300 million (Allen 2009, AFC 2009).

Service quality

Yes, the customer is always right — and in every way! According to research findings, service quality is multifaceted and subsumes the concept of customer service. Customers perceive services — which includes everything that a business offers customers — in terms of its quality and how satisfied they are with their overall experience (Zeithaml, 2000). For example, service quality includes having a product, when a customer wants it, at the price that she or he expects.

Likewise, service quality includes having staff members who are knowledgeable, competent and courteous and who can assist customers with their purchases. Service quality also includes store policies on credit cards and hours of operation that meet the customers' needs. All of these factors and more constitute service quality. Given the breadth of the concept of service quality, all store employees, managers and cooperative board members should be interested in evaluating service quality, not just customer service.

A firm's prerequisite for success is its ability to deliver superior service (Parasuraman et al., 1988). To gauge a firm's service quality, one must be able to measure consumers' perception of quality. In order to have an objective approach to measure perceived quality, Parasuraman and colleagues developed an empirical method dubbed SERVQUAL.

Originally, SERVQUAL was not oriented to retail establishments, so Dabholkar et al. (1996) developed and empirically validated a scale to measure retail service quality. In developing the instrument, these researchers interviewed customers in retail establishments and recorded the thought process of these customers during shopping (they followed customers around the store as they shopped).

In combining these findings with the work that had been done in the past with SERVQUAL, they created the Retail Service Quality Scale (RSQS). RSQS includes 28 items, of which 17 were derived from SERVQUAL and the additional 11 items were added from existing literature and qualitative research. Dabholkar and colleagues concluded that RSQS was suited to measure a mix of services and goods, like those found in a specialty or department store.

RSQS has five dimensions:

1. Physical aspects: Store layout, appearance and convenience;
2. Reliability: Keeping promises and performing services correctly (doing it right);
3. Personal interaction: Personnel being courteous, helpful and inspiring confidence in customers;
4. Problem solving: The handling of returns and exchanges, as well as complaints; and
5. Policy: Policy on quality of merchandise, parking, operation hours and credit cards.

In light of this model development, we developed a study that sought to provide management of local farm supply cooperative stores with suggestions that can help them meet the service quality needs of their customer base. Going into the study, we believed that certain customer segments had different perceptions of service quality. Hence, perceptions were examined relative to demographic and socioeconomic characteristics of the member-patrons. We measured the customers' perceptions of service quality by using a scale instrument containing items from the RSQS.

Questionnaire

With approval from AFC member cooperatives and Auburn University, we sent out surveys based on RSQS. The survey contained 28 items from the RSQS scale, as proposed by Dabholkar and colleagues. An additional item was added which asked the respondent about patronage paid to the patron from the local cooperative. A seven-point Likert scale — where "7" signified "Strongly Agree" and "1" signified "Strongly Disagree" — was used with the 29 items.

Respondents were asked to provide demographic and socioeconomic information. For example, we asked respondents: "When you shop at this co-op store, what best describes you?" The respondent was to check one of four options: farmer, hobby farmer, homeowner or wildlife enthusiast.

Our findings

A total of 301 surveys were collected out of the 5,000 mailed. Of those, 276 were deemed usable, which equates to a usable response rate of 5.5 percent. Of these 276 survey responses, 92.7 percent said their race was white. The youngest respondent was 25 and the oldest was 87. Of the respondents, 85.5 percent were male. The median age was 60 for men, 55 for women.

For education level, 34 percent said they had either a

policies and reliability.

Recommendations

Based on the groupings and tendencies of the customers within these groups, we have developed recommendations for farmer co-op stores.

Homeowners who shop at AFC member cooperative stores tend to be most interested in high-quality customer service and personal interaction. These member-patrons, relative to others, tend to place greater emphasis on individual attention from employees who are courteous, professional, prompt and knowledgeable. These

member-patrons also want high-quality merchandise and interactions with staff resulting in error-free sales, returns and exchanges. Given the dominance of this group, emphasis on maintaining high-quality customer service and personal interactions is the clearest “takeaway” from this study.

College-educated customers and farmers who are dependent on farming for income, prefer stores that are clean, accessible and convenient. As this group is not as dominant as the first, appearance and accessibility may not be the top priority for a store.

The least dominant group includes wildlife enthusiasts and older member-patrons who tended to be more concerned about store policies and reliability as important components of service quality. A core feature of this interest is to have convenient operating hours, the ability to use major credit cards, availability of financing options and to receive adequate patronage. However, this group and the “appearance and accessibility” group are less dominant, leaving “service quality/customer service and personal interaction” as the key area for co-ops to focus on.

Not only is the customer right, but so are the managers that we interviewed. Of the components of service quality, managers are most focused on customer service and personal interactions. Our findings show that the interest in customer service and personal interactions is predicated on customer demographics, and some member-patrons are more interested in other aspects of service quality beyond customer service and personal interactions.

While our findings are limited to the member-patrons that we surveyed, they are indicative of the need of local farmer cooperatives to pay attention to customer service. However, store appearance, policies and reliability are other facets of service quality that will keep customers coming back.

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Store layout, appearance and convenience are key aspects in determining the appeal of a farm supply store for members. Photos courtesy Alabama Farmers Cooperative.

college or advanced degree, while 38.7 percent had “some college” and 26 percent had either a high school education or less. Because most of the participants identified themselves as farmers, we compared our results with those of the U.S. Census of Agriculture, 2007. The census showed that the average age of Alabama farmers is 57.6, that 91.8 percent are white and that 84.8 percent of the farmers are male. Though our response rate is low, our survey reflects the demographics of Alabama agriculture.

Using a statistical technique called “principle component analysis” (PCA), we were able to group 185 respondents into one of the three groups, which mimic the five groups of RSQS. Our results suggest that customers of farmer cooperatives may approach these retailers differently than other retailers. The groupings reflect customers whose responses suggest a strong interest in, or concern for, particular service quality areas.

The “customer service and personal interaction” group is the largest of the three groups, comprising 58.9 percent of the sample. This group includes the largest proportion of homeowners. Based on further analysis, we could see that self-identified homeowners are 28 percent more likely to be in this category than the other two groups. Likewise, younger member-patrons tend to be in this group.

The “appearance and accessibility” group is the second largest group, representing 24.9 percent of respondents. It includes the greatest concentration of farmers (who usually depend on farming for most of their income) and hobby farmers. Better educated individuals in this group are 9.3 percent more likely to express concern for appearance and accessibility than the other areas.

The smallest group is the “policies and reliability” group, representing 21.6 percent of the sample. It includes the largest percentage of self-reported wildlife enthusiasts and older member-patrons. These member-patrons are 24 percent more likely to express concerns of or interest in

Making the connection



The 'co-op' brand can help strengthen links with members and consumers

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 **T**he first U.S. census of all types of cooperatives was mandated by Congress in 2006 and completed in 2009 by researchers at the University of Wisconsin. The resulting report — Research on the Economic Impact of Cooperatives — identified more than 29,000 U.S. cooperatives. It provides data on cooperatives in different sectors of the economy and documents the national “footprint of the cooperative brand.”

The purpose of a brand is to identify source and to signify positive associations in the minds of consumers and producers — the brand's good will. The term “cooperative” or “co-op” can function in a manner analogous to a brand as well. The cooperative brand identifies the user as democratically owned and controlled by the members.

The cooperative brand is, to some extent, a “public good” that is available to benefit anyone who seeks active

membership and participation in it, or to non-member customers who have a preference for dealing with cooperatives. The cooperative brand informs market participants and the public that cooperatives have widely dispersed ownership among individuals or businesses with economic interests that are aligned with customers to provide reliable products or services.

Cooperatives maximize earnings for members but are not designed as investment assets to be bought and sold. The cooperative brand has value tied to the extent to which it succeeds in conveying a special trust to members, to non-member customers and to the general public.

For many cooperatives, it makes sense to identify themselves in a concise and descriptive way that either defines what they do or where they are located, using one or two words.

There is not a pressing need to include the term “cooperative” in their names when their organizational status is understood by the relevant population from which they draw members.

In fact, some cooperatives have acquired firms with international

trademarks and have greatly enhanced the reputation of those brands with their new status as representing farmer-owned businesses.

An example is the acquisition of the Welch's grape juice company and its name brand by the National Grape Cooperative Association. The Welch's brand has been successfully promoted with a variety of marketing programs, including emphasis on its farmer-ownership status (<http://www.welchs.com/about-welchs/farmers/dave-nichols>).

The cooperative brand complements the trade names of member associations and their specific brands of products and services. Much of the public, whether non-member customers or potential members, may not be familiar with cooperatives and their attributes.

For this reason, many organizations have discovered that marketing their cooperative brand can be advantageous, as discussed in an article — “Marketing the Co-op Brand” — that appeared in the *Cooperative Business Journal* (March-April 2006 issue). The article refers to the “.coop” domain as one of many initiatives for marketing the cooperative brand.

Brand awareness

Farmer cooperatives have had a long tradition in the United States and have a substantial share of activity in the agricultural economy, typically accounting for 25-30 percent of the nation's farm marketings (USDA, Agricultural Cooperative Statistics, 2009). As shown in the census project, there is substantial activity in a few sectors besides agriculture, such as the role of credit unions in retail banking and in the insurance industry, in which mutual associations have a strong financial position, as well as in several other sectors of the economy.

The level of public awareness of cooperatives is difficult to measure. A belief that cooperatives have potential for improving economic conditions worldwide, however, is one of the motivations for the United Nations (UN) designation of 2012 as the year of cooperatives. This action by the UN will contribute to more awareness of the cooperative brand.

Branding co-op joint ventures

Agricultural cooperatives often formed joint ventures as federated cooperatives prior to the 1980s. There are at least 38 relatively large federated cooperatives (a cooperative of cooperatives) in operation today. Recent joint ventures by cooperatives have predominantly been organized as limited liability companies (LLCs), even though a cooperative federation would work as well, particularly when access to equity capital is not a constraint.

Some agricultural cooperatives are also involved in joint ventures with non-cooperative business partners. But even in these cases, the shared business could be organized as a cooperative. A joint venture organized as an agricultural cooperative with non-cooperative members, however, would likely lack the Capper-Volstead advantages of limited exemptions from anti-trust.

Based on preliminary results of USDA's 2010 survey of more than 2,300 agricultural cooperatives, 216 co-ops reported involvement in 305 different

joint ventures. About 110 of these joint ventures include non-cooperative business partners.

Like any business, the degree of success among these co-op joint ventures varies greatly. In general, however, they tend to provide an economic gain through greater scale for pricing power, risk sharing and reduced duplication in personnel and assets. There are also certain disadvantages to joint ventures, specifically in complicating the assignment of intellectual property rights, such as trademarks and patents.

Joint ventures may have drawbacks for cooperative development. In some instances, joint ventures serve customers who have potential to be members of a cooperative instead. To that extent, opportunities for new cooperative formation are diminished.

Many agricultural joint ventures operate in wholesale types of markets where a "cooperative" identity might not carry much value for their customer firms or service providers. There are exceptions, as when customers — particularly food or ingredient businesses — may prefer buying from organizations with direct links to farmers and ranchers. For serving such customers, cooperatives operating in joint ventures can pursue branding strategies that identify their businesses as owned by farmers.

Branding strategies should not be neglected, especially when organizing to serve customers who have a potential to become members of either the joint venture, if formed as a cooperative, or of cooperatives that are partners in the business. In recent years, some agricultural cooperatives have been operating joint ventures that deal directly with farmers and ranchers. Each cooperative partner has its own membership, and in some cases the joint venture is organized to provide services for non-member farmers and ranchers. In other cases, cooperative joint venture partners combine their operations for members under one name, as if they had all merged. But they maintain their separate member-

ships, directors and distributions of patronage dividends. Because all partners are cooperatives, these joint ventures promote the benefits of cooperative membership.

When cooperatives combine their services for members under one name, but have non-cooperative firms as partners, the promotion of cooperative values and benefits tends to be lost. These cooperatives function as holding companies for ownership of the operating joint venture entities. Rights to their trade-name, trademarks, or service marks may be abandoned due to not being used in commerce.

Although the original members are still patrons and receive dividends, the cooperative brand can be diminished. The partner cooperatives in these joint ventures are open to new members, but after a few years of operating under the joint venture trade name with non-cooperatives as partners, a new generation of farmers may not develop an appreciation for belonging to a cooperative.

An alternative is to use a separate name for the joint venture's legal and tax filings only, so that cooperative identities can be maintained.

Identifying as co-ops

Cooperatives have the potential to benefit farmers, consumers and workers. A major obstacle to bringing their potential to fruition is a general lack of knowledge about co-ops by the public. The coming year of recognition for cooperatives by the U.N. may provide more familiarity. Continued efforts by cooperatives in marketing the co-op brand will benefit them and increase the interest of others to organize similar member-owned businesses.

Even cooperatives without large volume dealings in major retail markets can cumulatively improve awareness of the co-op brand by displaying and promoting their identity as member-owned businesses. With the economic pressures to form alliances, maintaining a cooperative identity need not be lost when organizing and participating in joint ventures. ■

Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

2012 Co-op Hall of Fame inductees announced

Four outstanding cooperative leaders will receive the cooperative community's highest honor when they are inducted into the Cooperative Hall of Fame next spring. The 2012 inductees are: cooperative educator Michael Cook; cooperative agri-business leader William Davisson; consumer cooperative developer Bill Gessner; and cooperative banker Charles Snyder.

These cooperative leaders will be recognized at the annual Cooperative Hall of Fame dinner and induction ceremony at the National Press Club in Washington, D.C., on May 2. In conjunction with the dinner, a public forum will be held that afternoon,

Cooperative Development Foundation (CDF), which administers the Hall of Fame. "Induction to the Cooperative Hall of Fame is reserved for those who have made genuinely heroic contributions to the cooperative community."

Those selected (and the co-op sectors they work in) for induction in 2012 are:

- **Michael Cook** (Education) is the Robert D. Partridge Endowed Professor in Cooperative Leadership and executive director of The Graduate Institute of Cooperative Leadership (GICL) at the University of Missouri-Columbia. Cook's applied research on the role of cooperatives in the changing global marketplace —

enterprises. He has also done extensive international cooperative development work.

- **William Davisson** (Agriculture and Farm Credit) recently retired after 12 years as CEO of GROWMARK Inc. He focused on sales and improved operations, leading GROWMARK through a period of strong growth, including the top three income years in the cooperative's history. He recognized the value of co-op partnerships and joint ventures in an increasingly competitive industry and is credited with creating an innovative co-op structure that led to improved cash patronage flow back to GROWMARK members.

- **Bill Gessner** (Consumer Goods & Services) is a cooperative developer and member of the CDS Consulting Cooperative. Gessner's involvement in the food cooperative community has spanned 35 years, and he is credited with having helped transform the food co-op community from a hodgepodge of individual stores into



focusing on topics related to the United Nation's declaration of 2012 as the International Year of the Cooperative.

"The roster of the Cooperative Hall of Fame tells the story of the U.S. cooperative community through the lives and accomplishments of extraordinary individuals," says Gasper Kovach Jr., board chair of the

combined with his writing, consulting and cooperative business experience — has enabled him to develop educational materials, classroom curricula and a portfolio of business advisory services that have provided a generation of cooperative leaders with the tools to be more effective managers of cooperative business

an integrated, values-driven national community of consumer-owned retail groceries that has changed the way America thinks about food. In addition to extensive mentoring and consulting work, he is credited with helping to establish the Cooperative Grocers Information Network (CGIN), the National Cooperative

Grocers Association (NCGA) and the CDS Consulting Cooperative.

- **Charles Snyder** (Banking and Co-op Development) is president and CEO of National Cooperative Bank (NCB), where he began in 1983 as corporate vice president and chief financial officer, being promoted to his current position in 1992. Snyder has played a transformational role in navigating the early years of the bank's existence and re-positioned NCB to be the complex financial institution it is today, providing full-service banking services to cooperative enterprises. He is responsible for NCB's commitment to "mission banking," and he has played leadership roles in promoting the growth of the purchasing/shared services co-op sector, the establishment of the dot.coop domain name and the development of successful marketing pieces, such as the annual Co-op 100, which gives cooperatives valuable exposure to new audiences.

The Hall of Fame gallery is on display in the offices of the National Cooperative Business Association in Washington, D.C., and is online at: www.heroes.coop. For induction dinner information, contact CDF at 703-302-8097, or: tbuen@cdf.coop.

Paul Hazen stepping down at NCBA

After 25 years with the National Cooperative Business Association, including 12 as its president and CEO, Paul Hazen has announced that he is stepping down from the post.

"I have enjoyed working for NCBA and the cooperative movement, but the greatest benefit has been getting to know the people and their stories," Hazen said in a letter to members. "I have learned that cooperators all over the world — whether in the U.S., Brazil or in Zambia — are all united because of the same cooperative principles and values. That is our greatest strength."

He went on to call NCBA a "vibrant and growing organization with a strong experienced staff." With cooperatives around the globe preparing to celebrate

the 2012 International Year of Cooperatives, he said "the timing is right for me to move on to the next chapter in my career. I will remain at NCBA until a successor is selected in early 2012."

"I want to thank the NCBA staff, board of directors and membership for all the support they have provided to me. It has been a privilege to be a leader of NCBA. I hope to remain active in the cooperative movement and continue my contributions to cooperation."

Agri-Mark names Stammer new CEO

Richard Stammer became the new CEO of the Agri-Mark dairy cooperative Nov. 1. He has worked for the Methuen, Mass.-based co-op for the past 29 years, serving most recently as the co-op's chief operating officer and president of the co-op's Cabot and McCadam branded business. Stammer has been responsible for the growth of Cabot from a small Vermont brand to an award-winning national brand.

In April of this year, Paul P. Johnston announced his plans to retire after 47 years at the cooperative, the last 35 years as CEO. Since that time, the



organization's board has worked with a search firm to identify qualified candidates for Agri-Mark's top management position.

"After a thorough, national search, the board of directors is confident we have selected the best person to lead our cooperative, ensuring its continued success," says Board Chairman Neal Rea, a dairy farmer from Cambridge,

N.Y. Rea notes that Stammer's wide range of co-op experience includes government relations, milk marketing, consumer sales/marketing and plant operations. "We recognize, and are proud of, the role Rich has played to get us where we are today, and the board is confident that we will have continued growth and profitability under his leadership," Rea adds.

"We have great farmer-members, employees and great brands. We're set for continued growth and profitability in the future," Stammer says. "My goal is to continue to move us forward and further improve an already great company and great cooperative."

"We have a very complex business," says Vermont dairy farmer Paul Percy of Stowe, Vt., one of the 14 dairy farmers who serve on the co-op's board. "We operate four processing plants throughout the region that act as local outlets for member milk and, at the same time, support our large, national wholesale and retail businesses. Rich knows the whole business inside and out, from one end to the other."

Agri-Mark had \$780 million in 2010 sales from the sale of its member milk, cheese and dairy products. Rea says that the past five years have been the most profitable in the history of the cooperative, and Johnston leaves "with a great legacy and with great appreciation from both members and employees alike."

Wegner to lead Darigold

Jim Wegner has been picked to succeed retiring John Underwood as president and CEO of Northwest Dairy Association (NDA) and Darigold. The selection was announced to the Seattle, Wash.-based co-op's 550 member-owners and 1,600 employees in July. Wegner, previously Darigold's senior vice president of technical services, assumed his new role on Aug. 1. Underwood is serving as special executive to the board and will assist

with the transition.

Wegner has 35 years of experience in the dairy industry. In addition to his executive roles at Darigold, he spent 28 years at a national dairy company where he was director of dairy operations, overseeing its U.S. and Canadian dairy plants. Wegner has served on the board for many state and national dairy industry organizations and has been an effective national voice in negotiating dairy policy.

“We have a tremendous story to tell. NDA/Darigold is much more than just a regional dairy cooperative,” Wenger says. “While well known in the region for our Darigold-label products, we also have a large export business and have become a key player overseas as a supplier of high-quality dairy ingredients.”

Darigold’s annual sales exceed \$2 billion per year, he notes, and the co-op’s producers “help feed the world by generating more than 8 billion pounds of milk each year.”

“Jim has been a key figure in improving and supporting Darigold’s plants and has shown exemplary leadership in the areas of safety, quality, waste reduction and productivity,” Board Chairman Jim Werkhoven says. He also saluted Underwood, who has been with the organization for nearly 30 years, the last seven as president and CEO.

“John was instrumental in developing Darigold’s core purpose and vision, reinvigorating the Darigold brand and has been a champion of strategic planning and continuous improvement initiatives,” Werkhoven says. “He has led the organization to dramatic operational efficiencies and record-setting returns for the cooperative’s member-owners. We extend our warmest appreciation for John’s long-term commitment to Darigold’s success and wish him all the best in his retirement.”

Almonds build good will in East Africa

Jim and Joyce Mead, almond growers from Chico, Calif., live worlds



Children at an orphanage in Tanzania enjoy packets of Blue Diamond almonds, provided by visiting co-op members from California. Photo courtesy Bekah Burroughs and Blue Diamond

apart from the Maasai people of East Africa, a semi-nomadic tribe that has resided on the border of Kenya and Tanzania since the 19th century. The Maasai herd cattle, sheep and goats as sources of income and for food.

Before leaving for Africa, the Mead’s tour guide said it would be appropriate to bring gifts for the Maasai children — items such as hats, candy, coloring books and notebooks, crayons and pencils would all be well received, they were told. The Meads, as life-long Blue Diamond members (Jim’s father was among the 230 founders of the co-op) decided to bring packets of their co-op’s Smokehouse almonds.

“I’ve seen [photos of] almonds on top of Kilimanjaro, on top of Everest and at the Great Wall, so we decided to take them to East Africa!” says Jim. Their tour group met the Maasai at an entrance to Amboseli National Park, a gated reserve where the Maasai live. As

the tour bus pulled up, the tribe lined up, shoulder-to-shoulder, to greet them. The warriors performed a traditional dance, accentuated by very high jumping.

“Close to 75 children, age two through 8th grade, were lined up, quiet as can be, waiting to see us,” Joyce says. Every child received a packet of almonds. For the Meads, the decision to share Blue Diamond almonds with the Maasai was a way of connecting across cultural and geographic boundaries to, as Jim explains, “extend Blue Diamond’s reach across the globe.”

Baylor University freshman Bekah Burroughs and her father, who grows almonds in California’s Central Valley, also recently shared Blue Diamond almonds with children in Tanzania. They were on a teaching mission at an orphanage affiliated with a nonprofit group.

“We wanted to take something

representing California that was nutritious,” explains Burroughs. “Most of the children and adults at the orphanage had never heard of almonds before, and they absolutely loved them!”

USDA to help electric co-ops improve service

Agriculture Secretary Tom Vilsack in October announced funding for rural electric cooperative utilities to improve distribution systems and build “smart-grid” technologies in 27 states, all as part of the Obama Administration’s continued focus on investments in infrastructure that creates rural jobs.

“This investment in the electric grid will help address the growing need for electric service nationwide and spur job creation by building out rural infrastructure,” Vilsack said during an address at a National Rural Electric Cooperative Association regional meeting in Denver, Colo. “Smart-grid technology can help better manage power use, provide rate stability for businesses and create the climate for job growth in rural America.”

The funds are provided through the Rural Utilities Program of USDA Rural Development. More than \$40 million is being provided for smart-grid technologies and to build or improve nearly 6,000 miles of electric lines. Funding for distribution cooperatives, which provide power to consumers, will benefit more than 38,000 rural businesses and residents.

Included in the funding are three loans for Colorado projects that will help keep electricity reliable and affordable for rural communities. In Virginia, a loan of \$90 million to the Northern Virginia Electric Cooperative will be used to build a 49.9 megawatt woody biomass generation facility. The project is projected to generate about 6 percent of the cooperative’s future power needs for the years 2014 through 2030.

State council members gather in Oklahoma

State co-op council executives from

across the United States gathered in Oklahoma City, Okl., Sept. 20-23 for the biennial fall meeting of the National Conference of State Cooperative Councils (NCSCC). The meeting was hosted by R.J. Gray, executive director of the Oklahoma Agricultural Cooperative Council, completing his two-year term as NCSCC president.

The meeting provides a forum for state council representatives to learn from other states about their programs and activities and to look for ways state co-op councils can work together. Attendees also receive updates from national and regional partners and USDA.

There are more than 30 state cooperative councils across the country,



State Co-op Council members tour the Producers Cooperative Oil Mill as part of a national meeting in Oklahoma City.

no two of which are exactly alike. Some are staffed part-time, while others have several full-time staff on the payroll. Providing educational programs is a relatively universal function among the councils, but some expand services to include cooperative development, advocacy/lobbying or other functions.

During the formal business session, a new slate of officers was elected for a two-year term ending in 2014. They include: President Rod Kelsay of Mid-America Cooperative Council; Vice President Emily Rooney of the Agricultural Council of California; and Secretary Brian Gion of the Montana Council of Cooperatives. Brenda Forman, South Dakota Association of Cooperatives, will continue as treasurer. The NCSCC meeting included evening

tours of the Oklahoma City Bombing National Memorial and the Producers Cooperative Oil Mill.

Farm Credit to use USDA grant to help train “next-gen” farmers

Seeking to enhance the success of the next generation of America’s farmers and ranchers, the Farm Credit Council — in partnership with the Wallace Center of Winrock International and through a grant from USDA — is launching a project to evaluate and improve the effectiveness of training programs for beginning farmers and ranchers.

Agriculture Deputy Secretary Kathleen Merrigan announced that

USDA has awarded \$18 million in grants to organizations that will provide training and assistance to beginning farmers and ranchers, including a grant of about \$675,000 to

the Farm Credit Council for a project to improve the effectiveness of educational material for beginning farmers.

The project involves reviewing beginning farmer training curricula and programs to assess the content, suitability and delivery methods used. The primary focus of the assessment will be the components of a successful financial skills education. The grant will be focused on efforts in the southeast United States, with a special emphasis on beginning farmer training programs that serve minority farmers.

“More effective financial skills training will enable beginning farmers to analyze their economic conditions, consider their personal goals and abilities, gauge the risk capacity of their

farm businesses, improve their access to credit and thereby increase the overall growth and economic sustainability of agriculture in America,” says Gary Matteson, Farm Credit Council’s vice president for young, beginning, small farmer programs and outreach.

“Beginning farmers and ranchers face unique challenges, and these grants will provide needed training to help these producers become profitable and sustainable,” says Merrigan. “As part of its historic mission of service to U.S. agriculture and rural America, the farmer-owned lending institutions of Farm Credit System are leading providers of credit to young, beginning and small farmers and ranchers.”

Over the course of the three-year grant, Farm Credit expects to develop a model for building relationships between independent beginning farmer training programs and their local Farm Credit cooperatives nationally. USDA’s National Institute of Food and Agriculture (NIFA) awarded the grants through its Beginning Farmer and Rancher Development Program (BFRDP).

USDA seeks diversity on trade panels

The face of American agriculture is changing. The number of farms in the United States has grown 4 percent and the operators of those farms have become more diverse in the past five years, according to results of USDA’s most recent Census of Agriculture.

The 2007 Ag Census counted nearly 30 percent more women as principal farm operators. The count of Hispanic operators grew by 10 percent, and the number of American Indian, Asian and black farm operators increased as well. The U.S. Census Bureau also reports that the number of minority-owned businesses grew more than 45 percent between 2002 and 2007.

To reflect the diversity of the agricultural sector and business

community, USDA is stepping up its efforts to supplement its seven Agricultural Trade Advisory Committees (ATACs) with new members, especially those who represent minorities, women or persons with disabilities.

Applicants should represent a U.S. entity with an interest in agricultural trade and have expertise and knowledge of agricultural trade as it relates to policy and commodity-specific issues. Agricultural trade plays a vital role in the health of the nation’s economy, so having a voice on one of these committees can make a significant impact on government decisions. In fiscal 2011, U.S. agricultural exports were forecast to reach a record \$137 billion, which supported more than 1 million U.S. jobs.

Members of these seven trade committees receive briefings by the U.S. secretary of agriculture and the U.S. trade representative; committee members are asked for their views on a wide range of agricultural trade issues. Members can play an active role in deliberations while representing U.S. agricultural interests. For more information about submitting an application, visit: www.fas.usda.gov/itp/apac-atacs/advisorycommittees.asp, or contact Steffon Brown at 202-720-6219, or Steffon.Brown@fas.usda.gov.

Forrest Bradley, co-op communicator, dies

Forrest W. Bradley, 87, died Oct. 2 in his hometown of Springfield, Mo.



The former communications director with Mid-America Dairymen Inc. (later one of the founding co-ops of Dairy Farmers of America), Bradley was called a “mover and motivator” for improving co-op communications through his leadership positions in the Cooperative Communicators Association (CCA).

In a memorial in a recent CCA newsletter, Jerry Kirk of Tennessee Farmers Cooperative said that Bradley, during nearly two decades of active membership in CCA, “tirelessly

inspired, instructed and encouraged communicators of all ages, skill levels and years of service in their chosen field. Generations of CCA members relished their first-name-basis friendships and associations with Forrest.”

Bradley joined CCA in 1967, the same year he became director of communications with Mid-America. He served as CCA president in 1976-77. In 1981, he was awarded CCA’s highest honor: the H.E. Klinefelter Award. In 1985 (when the organization changed its name from the Cooperative Editor’s Association to CCA), he was named the organization’s third executive secretary, serving in that position through 1991. During that period he was also editor of CCA News.

Bradley was a key member of the National Council of Farmer Cooperatives’ Public Relations Committee from 1987-93. He retired from Mid-American Dairymen in 1994 and had been an honorary CCA member since 1995. He was also a noted local newspaper columnist and freelance writer who often focused on young people and their accomplishments.

Eastern Grain Marketing launches

GROWMARK’s grain division is entering a new venture with Heritage FS, Gilman: Eastern Grain Marketing LLC (EGM). The company’s main office is located in Gilman, Ill. Dana Robinson, EGM general manager, says the venture will strengthen the package of grain services offered to farmers in eastern Illinois.

“EGM combines our local knowledge and expertise with sufficient resources to expand grain marketing alternatives and grain handling services for the growers in eastern Illinois,” Robinson says. “This adds value to the crops grown in eastern Illinois, and added value will be realized by the growers through higher payments for their crop.”

Growers will have greater access to grain markets via a rail shuttle loader EGM will construct in western

Kankakee County. EGM plans to construct about 2 million bushels of grain storage space at the shuttle location.

EGM is the fourth regional grain marketing venture formed in Illinois between FS member cooperatives and GROWMARK.

Swiss Valley Farms moves Platteville production

Swiss Valley Farms has transitioned production of its Baby Swiss cheese wheels, loaves and no-salt-added Swiss blocks from its former manufacturing site in Platteville, Wis., to White Hill Cheese Co. LLC in Shullsburg, Wis.

Swiss Valley entered into a joint venture with Emmi-Roth Käse USA to establish White Hill Cheese in August 2010, with the goal of increasing production of Baby Swiss and other Swiss cheese varieties.

“We were eager to move our Platteville production to a more modern and expanded facility, and we found that opportunity with White Hill,” says Swiss Valley CEO Don Boelens. The Shullsburg site, which was acquired by Swiss Valley in 2005, consists of a 24,000-square-foot cheese manufacturing plant, a 50,000-square-foot warehouse and a waste-water treatment facility.

Because the new site is located in southwestern Wisconsin, Boelens noted that Swiss Valley cooperative members are unaffected by the shift. “Co-op member milk is the sole milk supplier to White Hill, which means there is still a secure market for our members’ milk,” Boelens said. The former manufacturing plant in Platteville is no longer operational. Former Platteville employees were encouraged to apply and interview for positions at White Hill Cheese. Swiss Valley is considering future opportunities for the Platteville property, which is still owned by the cooperative. ■

PCCA posts record net margins in volatile year

Plains Cotton Cooperative Association (PCCA) had record net margins of \$41.2 million for fiscal 2010-2011. Further cash distributions to members of \$36.3 million were made in September, comprised of \$19.5 million in cash dividends, \$4.7 million in stock retirements and \$12.1 million in retirement of per-unit retains.

“All divisions were profitable despite the greatest volatility any market has ever experienced,” PCCA President and CEO Wally Darneille said at the co-op’s annual meeting in September. “After several years of world cotton production that was lower than demand, unforeseen late-season crop problems in the United States, China and Pakistan coincided to create an explosive price situation during the winter. To the best of our knowledge, we paid significantly more equity to our marketing pool members than any other pool where producers are not required to shoulder personal financial risk. In fact, the premiums we achieved over the Commodity Credit Corporation loan were more than six times higher than the average of the last 10 years.”

PCCA’s West Texas/Oklahoma/ Kansas marketing pool was the second largest ever, despite the late-season adverse weather. “The adverse weather last October affected volume more than was initially apparent, or our results would have been even better,” Darneille

continued. “Unfortunately, the crop simply did not produce the yields that we, the USDA, the gins, and our members expected.”

PCCA’s Warehouse Division received the third largest volume in its history. “We worked through the heaviest shipping demand in the division’s history,” Darneille said, “but our warehouses performed well above industry shipping standards while receiving record amounts of inbound cotton from the gins.”

PCCA’s Textile and Apparel Division returned to profitability during the year as efforts to develop more value-added business paid off with 13 new accounts, including several high-end brand names such as American Eagle Outfitters, Urban Outfitters and Under Armour.

“We also entered the European and Indian jeans markets, an accomplishment once believed to be impossible,” Darneille reported. “Our jeans sales to Replay, a high-end Italian brand, will contain denim made at our American Cotton Growers mill. Indian Terrain, a department store chain in Bombay, is offering a line of our jeans bearing the Cotton USA logo. We also launched our university-branded jeans products at Texas Tech, Texas A&M, Alabama, Georgia, Auburn and other schools.” ■

Mission-driven marketing

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than 46 percent of respondents said gaining more sales resources would motivate them to join a co-op. Encouraging member-growers to share personal stories of how these benefits are being achieved through participation in marketing-oriented co-op's such as CFAM and HPFC may be a compelling means of advocating for co-op membership.

In general, recommended methods of growing cooperative market participation among producers are similar to those that have been successfully employed to increase consumer patronage. Namely, co-ops are encouraged to provide education and access. Sharing credible personal stories of success can be one component of a cooperative education program that showcases multiple experiences at well-timed workshops and seminars.

To appeal to time- and location-constrained producers who want to learn more about cooperatives, an online and interactive website that features case studies, personal experiences, interviews and other resources may provide greater access to useful information. The Cooperative Community of Practice on eXtension is an excellent model of such an interactive website that may be used as a template for

state- or region-specific sites.

Access to receptive audiences may be achieved through non-electronic means as well. Case studies and articles in non-cooperative-oriented trade publications (e.g., Spudman and Progressive Grocer) may serve to enhance the visibility of local co-op organizations and provide a reference point for those who are otherwise unfamiliar with the business form. An alternative and grassroots approach to communicating the value of cooperatives may be as simple as meeting with potential members at their place of business or market location.

In the heavy recruitment phase of membership, both HPFC and CFAM employed many of the methods described above. Ultimately, membership and patronage have increased for both, providing evidence of the symbiotic relationship between grower-member involvement and consumer support.

Reflecting on the hard work it has taken create a sustainable co-op, Jo Hagney of HPFC recommends that other organizations “start small” and “follow your dream. If you believe in the concept, get in there and push for it.” Her enthusiasm reflects the passions that producer-members have for the CFAM and HPFC co-ops. The shared clarity of purpose has led to the formation of marketable identities for both organizations, which serve to attract customers while uniting existing and new producers. ■

How co-ops do it

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and the manufacturing processors will use 2.5 million pounds. The cooperative will have 4.2 million pounds of milk a day in excess of demand by fluid plants and manufacturing processors (table 2).

On the other extreme, the same calculation will show that the daily excess volume will be 2.9 million pounds in the fall months (September through November); a reduction of 1.3 million pounds a day from May.

If the cooperative has its own manufacturing plants to use a constant volume of 2.9 million pounds of milk a day, then the cooperative still needs to have facilities to handle a seasonal surplus of 1.3 million pounds of milk a day in May. During other months, the seasonal surplus balancing facilities will be under-utilized and will run dry in the fall months, resulting in costly plant operations.

If a cooperative does not have enough surplus balancing capacity (or in the case of bargaining cooperatives that do not have any plant capacity), there are two ways for them to dispose of surplus milk. They can sell the surplus milk in the spot market, usually at a price discount, or they can pay a “tolling fee” to have the milk manufactured into storable dairy products at plants owned by others.

The price discount and the tolling fee are charges for defraying the costs of owning and operating surplus handling plant facilities.

Other marketing cooperatives

The unique economics of cooperative marketing operation is applicable in the situation where the cooperative is the exclusive marketing agent of the milk produced by members. Other agricultural commodities (such as fruits, vegetables, nuts, poultry, sugar, etc.) that exclusively rely on the cooperative to market members' products would have unique economics of cooperative operation similar to that of dairy cooperatives.

However, they differ from milk in some important aspects. The main difference is that milk is a “flow” product — day in and day out — while other farm commodities are harvested in lumps toward the end of the growing season of several weeks or months.

In the analysis of the economics of cooperative marketing of milk, the unit of time used is on a per day basis. The same analysis of other commodities has to use a unit of time that is appropriate for a particular commodity.

Some producers of commodities that are storable and have a long marketing season (such as grains and oilseeds) may view the cooperative as but one of multiple outlets and market through it only if the cooperative offers the best terms and services among all alternatives. In such a case, the cooperative may still maintain its uniqueness in its cooperative structure, organization, governance and equity financing. Its marketing operation, however, is not different from other marketing firms (firms other than cooperatives). ■



2011 Article Index

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