

Networking for Success

Strategic Alliances in the New Agriculture

MONA HOLMLUND
MURRAY FULTON

Funding for this project was provided by the
Agriculture Institute of Management in Saskatchewan, Inc.
through the Canadian Farm Business Management Program,
a federal/provincial agreement between Agriculture and
Agri-Food Canada and Saskatchewan Agriculture and Food



January 1999



Centre for the Study of Co-operatives
University of Saskatchewan



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Cover and logo design by Byron Henderson
Interior layout and design by Nora Russell

Printed in Canada
99 00 01 02 03 / 5 4 3 2

Canadian Cataloguing in Publication Data
Holmlund, Mona.

Networking for success

ISBN 0-88880-389-3

1. Agricultural industries—Management. 2. Strategic alliances (Business). 3. Business networks.
I. Fulton, Murray E. II. University of Saskatchewan.
Centre for the Study of Co-operatives. III. Title.

HD1433.H64 1999 630'.68 C99-920031-3

Note: This booklet was produced as part of a larger project made possible through the funding of AIMS and a strategic alliance between the Centre for the Study of Co-operatives and Saskatchewan Agriculture and Food (SAF). Special thanks to Morley Ayars of SAF for recognizing the importance of this issue and contributing his expertise to the project.

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Networking for Success

Strategic Alliances in the New Agriculture

T HIS BOOKLET WILL PROVIDE YOU WITH SOME 'know why' about strategic alliances and networks—an understanding of the concepts through usable definitions and a clear discussion of the background. You will also receive 'know how'—practical advice about how to form and maintain strategic alliances. And finally, 'know who'—specific examples of individuals or organizations who are implementing these practices, and a guide to resources and contacts.

Know Why

STRATEGIC ALLIANCES AND NETWORKS ARE TERMS most often associated with the corporate world, and like most jargon, they confuse more than they communicate. In essence, both are simply associations of people, or organizations, who join together for mutual benefit.

Strategic alliances and networks have been important in the business world for some time. The same economic pressures and global influences that have made these effective strategies for business are coming to bear upon agriculture as well. To understand why strategic alliances and networks are useful, and what their impact will be on agriculture, it is necessary to look at the changes that have been taking place both in agriculture and the economy in general.

There has been a lot of talk about the “new” agriculture. Simply put, new agriculture means farming is becoming more specialized and, at the same time, more integrated into the rest of the food system. The changes that are taking place in agriculture are going on elsewhere too. Because these changes are part of a larger trend, they will affect agriculture for the foreseeable future.

How can farmers be more specialized and interconnected and maintain their independence at the same time? One way is through the use of networks or strategic alliances.

The Transformation of Agriculture

IF YOU DON'T THINK THINGS ARE CHANGING I'D LIKE YOU TO CONSIDER THIS:
BUFFALO HERDS ARE GROWING AND RAILROADS ARE BECOMING EXTINCT.

—DENNIS SEXHUS, NORTH AMERICAN BISON CO-OPERATIVE

TRADITIONALLY, AGRICULTURE HAS BEEN A 'BIO-logical' business, with all the uncertainty and instability which that entails. Increasingly, however, agriculture is becoming 'industrialized,' meaning that it more and more closely resembles a factory. Computers and genetic engineering have already modified traditional agriculture; precision farming places the correct amount of fertilizer in the exact location, while plants such as canola are bred to be resistant to certain herbicides. New 'industrial' agriculture is both predictable and consistent.

As agriculture becomes more controllable, the structure of the industry changes. Farmers who have the ability to produce designer products better meet the needs of niche markets. Food becomes increasingly engineered, with specialty products pushing out basic commodities. The result is a much more commercialized agriculture.

In this new agriculture, information becomes extremely valuable. Whether it is information about consumer buying habits tabulated from grocery store checkout scanners, or the know-how to genetically modify cattle to produce low-cholesterol beef, the new agriculture is dependent upon knowledge.

While agricultural production becomes more specialized, the links between these specialized segments become increasingly interconnected. In the United States, more than half of all production of vegetables, citrus, seed crops, eggs, broilers, and turkeys takes place through an 'industrial' process of vertical integration and contracts. In the new agriculture, the entire farm-to-table process is important, not just one segment in the chain. While the old pig farm did it all—farrow-to-finish—the new hog barn outsources each stage of production to get the kind of end product the market demands.

The following table outlines these differences.

Traditional Agriculture	New Agriculture
Producing commodities	Manufacturing food products
Distinct segments	Integrated systems
Combined production stages	Separate production stages
Bulk markets	Niche markets
Price risk	Contractual risk
Concern with monopolies	Concern with information
Need for access to capital	Need for access to knowledge
Independent Producers	Interdependent Production Networks

Source: Adapted from Boehlje

The move toward specialization is affecting all industries, but agriculture faces additional pressures. Globally, the role of multinationals is growing. In North America, agriculture is no longer viewed as an industry that merits special government protection. At the same time, there is increasing regulation of the environment and food health and safety. In summary, new agriculture means a shift from commodities to products and from markets to contracts. The main distinction between the ‘two agricultures,’ traditional and industrial, will be the profit margins. Commodity producers will operate at low cost and high volume, while the specialty producers will receive greater returns because more value is added.

AS I LOOK AT IT FROM MY OWN FARMING OPERATION, WE NEED TO MOVE UP THAT FOOD CHAIN EVERY STEP WE CAN BECAUSE THE BASIC RAW COMMODITY DOES NOT PRODUCE THE RETURN THAT ADDING VALUE TO IT PRODUCES.

—HAROLD PETERSON, SOUTHERN MINNESOTA BEET SUGAR CO-OP

The farmers who are going to produce these new more profitable products are going to have to be much more technically sophisticated. They will have to understand how a Global Positioning System operates, how genetics interact with feeding regimes, etc. They are going to have to develop special skills and also keep tabs on what is going on in the rest of the agri-food system.

The Knowledge Economy

THERE IS FAR MORE SCOPE FOR FINDING NEW WAYS TO DO THINGS THAN ANY OF US CAN IMAGINE.

—PAUL ROMER, STANFORD UNIVERSITY ECONOMIST

THE CHANGES THAT ARE AFFECTING AGRICULTURE are going on everywhere. The changes in the larger economy are centred around the so-called “Knowledge Economy.” This knowledge economy and the new agriculture are very closely linked. They are linked by ‘know-how.’

In a technological world, it is know-how that drives the economy. Know-how is knowledge, useful information, like a set of instructions. This is easily understood using the analogy of the computer: hardware is the physical material—the computer—while software is the know-how—the set of instructions that makes the hardware work. If you expand this idea, hardware can be understood as any physical material—land, minerals, factories, food; software can be seen as any sets of instructions, or know-how, about how to make the best use of the physical materials.

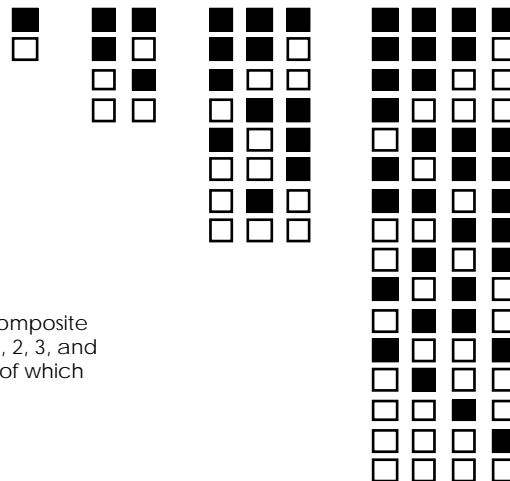
Know-how is key to the knowledge economy, and this is nowhere more obvious than in agriculture, where research into plant and animal biotechnology is central to the new agriculture. Knowledge as an input, however, is very different from other inputs such as fertilizer, fuel, and water. Unlike these standard inputs, knowledge can be used over and over again; it can be used at the same time by any number of people, and it expands, rather than reduces, with use.

The supply of know-how will not run out because know-how is produced by recombining what already exists into new forms. Ideas can be thought of as the raw material from which new know-how is built. By recombining what we know in new ways we create new ways of thinking, a new set of instructions—new know-how.

In the biotechnology field, the building blocks—the ideas—can be

thought of as the genes that can be re-arranged so that cattle produce leaner beef, and chickens produce cholesterol-reduced eggs. The same process goes on in creating new software applications—bits of computer code can be re-formed to produce new programs. The ways in which pieces of information can be re-configured is practically unlimited.

Consider a set of building blocks, where each block can take on only one of two values (black and white, yes or no, on or off). With one building block, there are only two possible sets of instructions. However, with the addition of each block, the number of possible sets of instructions doubles. The result is that even with only a few blocks, the number of possible combinations is effectively infinite, as the following diagram shows.



The number of different composite instructions possible with 1, 2, 3, and 4 basic instructions, each of which can have two values

But not all facts are useful. Although there are an infinite number of possible combinations, not every combination will produce meaningful information. Therefore the ability to cycle through the combinations and explore them as efficiently as possible is key. The most efficient means to search through the possible combinations of available ideas in order to produce new know-how is the network.

The Network

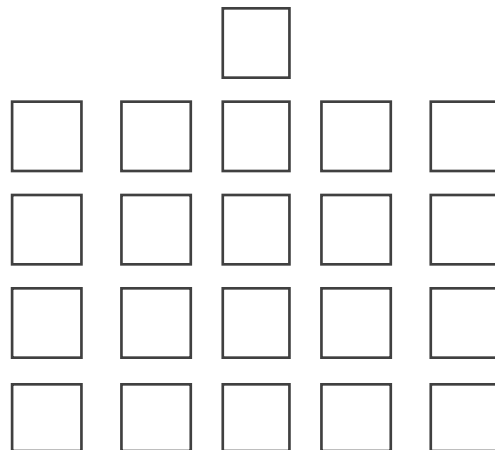
HARDLY A DAY GOES BY THAT I'M NOT TALKING TO ONE OF THE OTHER GUYS...OUR BUSINESSES ARE LEARNING FROM EACH OTHER, AND I HOPE OTHERS ARE LEARNING FROM US. IT IS LIKE A SPIDER WEB OF CONNECTIONS BETWEEN US, AND YET WE ARE ALL INDEPENDENT COMPANIES. THE STRENGTH OF THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS.

—JOHN PIGOTT, THE FROZEN FOOD NETWORK

WHAT IS A NETWORK? MOST PEOPLE THINK OF information technology. Certainly the Internet, with its web sites and e-mail, helps networking, but these are merely tools; the idea of working together and forming contacts was around long before the information superhighway. Networks are simply associations of individuals or organizations who communicate with each other for mutual benefit. They are often informal. However, in the knowledge economy these contacts may need to be formalized and strengthened.

The reason why networks are the best means to produce new know-how is that they represent an improvement upon the old organizational structures, illustrated below.

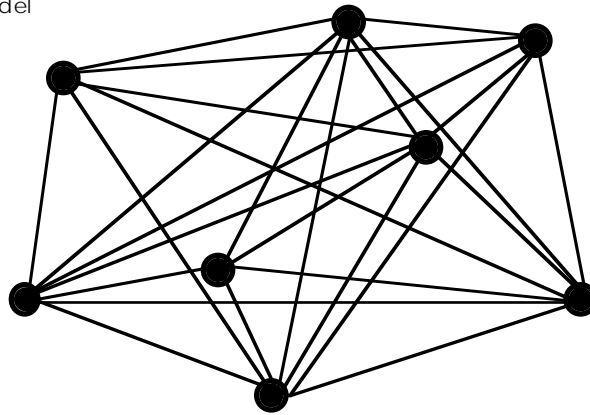
Traditional Model



The preceding diagram represents the way in which many parts of our economy, and society, have been structured for the last hundred years. This diagram could represent a classroom, an organizational chart, or the various assembly lines within a factory. This organizational structure mirrors the factory model upon which it is based: each element is a separate link in the chain, without any necessary contact between units, all governed by a single, over-riding management.

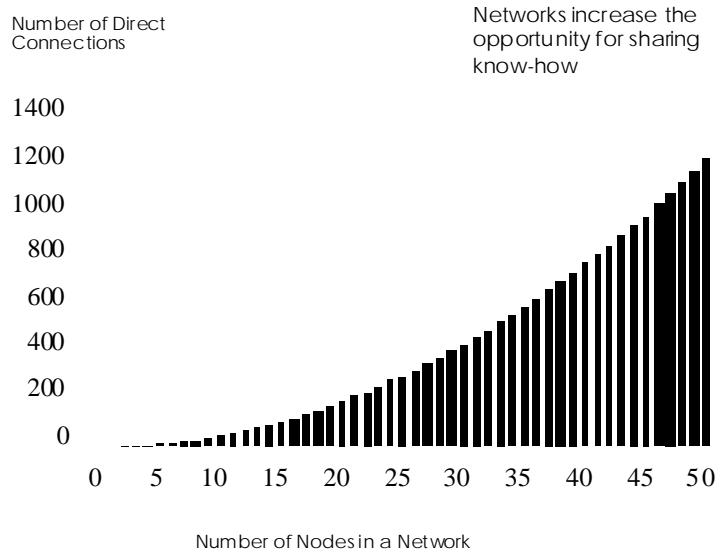
Networks, on the other hand, represent a radically different structure, as shown in the diagram below:

Network Model



In a network, the individual units are still autonomous, but they have free access to every other node in the network. Like the endless possible combination of ideas, networks allow expanding possibilities for connections between members. Networks increase the opportunities for new know-how to emerge, and furthermore, allow individuals to share that new knowledge.

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The graph above shows how the number of direct connections in a network expands almost exponentially with the number of nodes, or members, in the network. These connections within the network facilitate the recombination of ideas that produces new know-how. Knowledge is, almost by definition, something that cannot be produced in isolation.

Unlike the old ways of doing business, networks allow for specialization and diversification at the same time. Each member can specialize in their own area, but still have access to the know-how of all the others. Networks are the basis for communication and information sharing. They allow ideas, actions, plans, etc. to work together for a combined result that is greater than the sum of their individual parts. In short, the network allows for both specialization and access to new ideas, new know-how.

Networks, as a means to produce know-how, may have particular importance in western Canada; for a sparse and widely dispersed population, the advantages of connection are more important than ever.

The New Agriculture in the Knowledge Economy

I PERSONALLY DON'T HAVE THE CAPITAL TO BUILD A TWENTY-FIVE-HUNDRED-SOW UNIT BUT I HAVE THE CAPITAL TO JOIN TOGETHER AND PARTICIPATE.

—CURT WATSON, VALADCO

BECAUSE THE INDUSTRIALIZATION OF AGRICULTURE is taking place within the larger picture of the growing knowledge economy, farmers will be left out unless they can tap into the knowledge production that is at the heart of both the knowledge economy and the new agriculture.

As agriculture is becoming increasingly dependent on scientific knowledge and research, it is less possible for individual farmers to see themselves as independent links in a chain and focus exclusively on farm production. Farmers need to be involved in both producing agricultural inputs and processing agricultural products. Those who try to remain as completely independent producers will in fact forfeit that independence to the increasing control of suppliers and processors. Only the most prosperous will be able to afford to invest in processing or input, and then only at a modest level. Large-scale involvement in these activities takes much more capital, time, and expertise than is available to any single farmer. For example, research and development in precision farming, biotechnology, and genetic engineering are all inaccessible to individual farmers on an individual basis. Networks are one mechanism by which farmers can become part of the larger system.

It has been pointed out that farmers have found it difficult to give up independence for the interdependent relationships that are required in the new agriculture.

Farmers have generally been eager to try new hybrids, new chemicals, new tillage practices, new feeding regimes and new equipment, but new ways of doing business have met with more resistance, possibly because they change relationships and frequently substitute interdependence for independence in the decision-making process. (Boehlje)

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Old systems cannot produce new ideas. The characteristics of the new agriculture are not possible under the traditional structure. The new agriculture presupposes radical changes to how things are done, not just a change in focus. Networks are a new way of doing things.

The Strategic Alliance

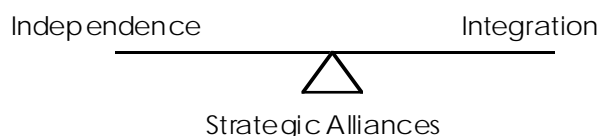
I SAW AN INDUSTRY THAT I REALLY LOVED AND I THOUGHT IT WAS GOING TO SELF-DESTRUCT IF WE DIDN'T ALL GET TOGETHER...IF THIS IS SOMETHING THAT IS GOING TO GO ON FOR GENERATIONS AND GENERATIONS THEN WE THE RANCHERS SHOULD TAKE CONTROL OF IT AND INTEGRATE THE WHOLE WAY UP. IF WE ARE GOING TO SURVIVE IN FARMING WE ARE GOING TO HAVE TO DO THIS: GET THE PRODUCTION, THE MANUFACTURING, AND THE MARKET-ING DOLLAR, AND WHEN YOU GET ALL THREE...YOU CAN EAT OUT WHERE YOU WANT TO.

—KEN THROLSON, NORTH AMERICAN BISON CO-OPERATIVE

A STRATEGIC ALLIANCE IS A TYPE OF NETWORK. AT their simplest, strategic alliances are groups of people who have gotten together to undertake activities they realize they could not undertake themselves. Both networks and strategic alliances are, in this sense, co-operative ventures. A strategic alliance is a partnership, usually a business partnership, that is 'strategic' because it is entered into by design, with forethought, in order to be of benefit.

A strategic alliance can be thought of as a value-added partnership made up of independent companies that, together, manage the flow of goods and services along the entire value-added chain. But being a member of a strategic alliance is more than being just another link in a chain. All good strategic alliances maintain themselves as a network first. In a network, as we have seen, information and services flow in more than one direction and there is the possibility of re-configuring the alliances as opportunities present themselves.

Strategic alliances represent the balance between being entirely on your own in the market-place and being completely swallowed up by bigger interests.



By entering into a strategic alliance farmers can be involved in, and understand, the process as their product moves from the farm gate to the retail shelves—the process that typifies the new agriculture. By networking, the farmer is choosing his or her *own* alliances and interdependencies. Farmers can no longer see themselves as independent in the same way that they always have. They must think of alliances and partnerships as the means to maintaining their independence in a much broader sense—by preserving the continued existence of their lifestyle as farmers. Logically, it is not possible for one autonomous operation to both diversify *and* specialize at the same time. But it *is* possible to ally with others to form a large, profitable, and energetic entity made up of many autonomous parts.

Know How

THIS SECTION DEALS WITH THE PROCESS OF FORMING and maintaining strategic alliances. It will help answer the question, “**How would I put together a good strategic alliance?**” It will outline the steps in the alliance-formation process and point out what you need to keep in mind to increase the likelihood of a successful alliance.

◇ THE PROCESS

Strategic alliances can come about out of an on-going relationship, by a deliberate search for a partner, or in response to opportunity’s knock. In all cases, there are four basic steps in forming a strategic alliance:

- Step 1: Strategic Planning**
- Step 2: Choosing a Partner**
- Step 3: Negotiation**
- Step 4: Implementation**

As you work through these steps, remember that a strategic alliance is more than just an arrangement—it is a relationship.

Step 1: Strategic Planning

THIS FIRST STEP IS BY FAR THE MOST IMPORTANT. Strategic planning is crucial to the success of your alliance because it forms the foundation. Not all alliances are worthwhile or effective. For an alliance to be truly meaningful, it has to be well thought out. If your alliance is going to be 'strategic,' it must involve careful thinking and planning.

In looking for the right partnership, you must begin by looking at yourself first. Before you consider an alliance, you must be sure that you would make a good partner. You must:

- ◆ Have a vision.
- ◆ Know your strengths and weaknesses.
- ◆ Be committed to the plan.

◆ HAVE A VISION

Having a vision means:

- ◆ knowing where you want your organization to go, and
- ◆ understanding the goals you need to set and attain to get there.

If you are going to enter into a strategic alliance, you should have confidence that it will solve the problems that are a barrier to achieving your vision. Be sure you understand the problem. Even a very good alliance will not help a bad idea.

◆ KNOW YOUR STRENGTHS AND WEAKNESSES

This is sometimes referred to as a SWOT analysis: **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. These are the internal and external factors that enhance or detract from your ability to achieve your objectives.

First, look for areas where you have abundant resources. These resources can be physical, such as land, but they can also include people and information. In particular, look for resources that you are currently under-utilizing so that they are, in effect, surplus. This is what you

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bring to a potential partnership. Then, identify areas where you are lacking in resources, personnel, or access to information. These are the resources you need from a partner.

Consider also the external factors—the opportunities and threats. Consider how your business environment is changing and who will be your competitor in the next decade. Look at the changing competitive environment and assess how it will affect you. Assess the impact to your business of consumer behaviour, competitor behaviour, and government policies.

Overall, the difference between what you have and what you need is your ‘resource gap.’ Identifying your resource gap helps you choose your partner. You will look for someone who complements you—someone who has what you lack and lacks what you have.

- ◆ There must be a strategic intent for the alliance, and that intent must be linked with your abilities.
- ◆ You should know what resources you have and how to make the most of them.
- ◆ What you have an excess of, or aren’t optimizing, is what you bring to the partnership.
- ◆ What you lack, but is critical to attaining your vision, is what you are looking for in a partner.
- ◆ If you have a capacity, how can someone else make use of it? Think win-win. Making an inventory of your attributes prevents missed opportunities.

Remember, you may identify some gaps that you will need to fill internally first. A strategic alliance may not be the right fix for some management problems. Or you may need to change your vision. To stay competitive you may realize you require a whole new set of skills and resources. You may conclude that, as it stands, your organization would not make a good partner. It is important to spend a lot of time on this internal evaluation so you know if you can truly provide a potential partner with what you say you can. You must know your own core competencies so they cannot be exploited by anyone but you.

Once you are confident that you know who you are, what you have, and what you want—and that a strategic alliance is the means to achieving that, then...

◆ **BE COMMITTED TO THE PLAN**

One of the keys to a successful alliance is being committed to it. Make sure you are convinced of the rationale for the alliance before you commit to a partner.

It is equally important to make sure that everyone else in your organization is informed and supportive. A good alliance can fail when some one feels slighted and is not on board with the vision. In a partnership your word is on the line; you do not want to be sabotaged from within.

As you will see, most successful strategic alliances come down to personality and personal relationships. It is important to have an evangelist, a champion—someone who is enthusiastic, credible, influential, and visionary—who will make a personal commitment to make the alliance work and see it through.

At the end of step 1, before you begin looking for a partner, you should be able to confidently answer these questions:

What do I need from a strategic alliance?

What do I bring to a strategic alliance?

Step 2: Choosing a Partner

IN SELECTING A PARTNER, FIRST SEARCH, THEN CHOOSE the best fit. Unfortunately this can be a drawn-out process that requires patience. You need to have the time to invest. You are unlikely to enter into a win-win partnership if you are desperate. If your back is against the wall, you may choose rashly and make a poor alliance.

◆ **THE SEARCH PROCESS**

- ◆ Start early. You want to begin this process while you still have time to make a sound decision.

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- ◆ Develop a list of possible partners and rank them.
- ◆ Contact those who may be interested.
- ◆ Research them well, before getting too far along in the process, paying particular attention to their agenda and personality fit.

Don't rush. You might make a bad decision or close yourself off from other possibilities.

◆ WHERE TO LOOK

Where you need to do your research will depend on the kind of business you are in, but here are some useful sources of information to help make an inventory of potential partners:

Acquaintances—customers, suppliers, etc.

Industry associations

Chambers of commerce, World Trade Council

Diplomatic missions (for foreign companies)

Government

Economic development authorities

Libraries and the Internet

Annual reports

Investment bankers

Venture capital groups

Something to consider: if you are interested in a particular organization, buying one share in the company entitles you to information.

◆ CHARACTERISTICS OF A POTENTIAL PARTNER

Your strategic planning is the surest guide in choosing a partner. Understanding your resource gap helps you short-list potential partners. First and foremost you are looking for a partner with a complementary resource situation. Your partner should also have:

- ◆ a history of successful relationships,
- ◆ personal chemistry with you, and
- ◆ a willingness and ability to contribute.

You are looking for someone who is your opposite in resources, but your twin in terms of organizational culture. If you are a small producer making your own decisions on the fly, then linking up with a large and

ponderous bureaucracy does not seem like a good fit. You need to ask yourself, “Is this someone I can work with?” And remember, your potential partner will be asking themselves the same questions about you!

Research has shown that for an alliance to be successful, three factors have to be *different* but complementary:

- ◆ Resources
- ◆ Technology
- ◆ Employees

In this way, each partner needs the other to fill their resource gap.

Partners also need to be *similar* in the following ways:

- ◆ Perceived need for the venture.
- ◆ Ownership of it—risks and benefits should be shared.
- ◆ Commitment to it—top-level people often move on or retire; commitment should permeate the organization.
- ◆ Conflict management techniques.
- ◆ Communication styles—communication is vital; you must agree on how best to do it.
- ◆ Values—openness, respect, and trust of outsiders.

Finally, there needs to be *understanding*. Partners may not necessarily be the same, but they need to agree on certain issues:

- ◆ A definition of ‘success’—so you both know when the alliance is working.
- ◆ Goals—again, they need not be the same but they cannot be contradictory. If you are committed to mutual benefit, you must understand your partner’s goals as well as your own so you do not inadvertently undermine them.
- ◆ Decision-making style—you may have differing internal styles, but you must agree on how the alliance will operate.
- ◆ How to manage and staff the alliance.
- ◆ Power—you must recognize the relative power of each partner.
- ◆ Rewards—you must understand the partner’s internal reward

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system, what kind of behaviour is expected to meet obligations. In short, you need to know how to make your partner happy.

- ◆ Culture—you may be allied with a partner, perhaps even from another country, who has practices much different from your own.

In summary, you and your partner must be *different* in some ways, *similar* in others, and have a *mutual understanding*. In effect, you are looking for someone just like yourself who is doing something different. It may seem like an impossible scenario, but together these criteria simply point you towards choosing someone you can work with both practically and personally.

Step 3: Negotiation

ONCE YOU HAVE SELECTED AN APPROPRIATE partner, you begin the formation process, in which you initiate discussions by contacting potential partners and then negotiate for mutual benefit.

Timing is important at this stage as well. You do not want to negotiate when the situation is urgent, forcing alliances to occur even when they are wrong. The backdoor should be open at all times.

Also, first impressions matter—yours as well as theirs. Contact can be made in any way that you are comfortable with: a phone call, a letter, a personal visit, or a mediator. Remember you are looking for someone who likes your way of doing things. How you approach them, and their response, will help you determine if this is a relationship that could work.

If you are the one proposing the alliance, you need to demonstrate why it makes sense. Through the research you did in steps 1 and 2, show your potential partner what you can do for them and what they can do for you. Together you will determine if the alliance is strategic.

If they are interested, begin a series of discussions to talk about orga-

nization, control, resource contributions, and, more importantly, to galvanize both partners towards the idea of collaboration. Many of the factors involved in determining if this is the right partner will come out during these discussions. At any point, you could decide this is not going to work. Simply having selected a partner with whom to begin negotiations does not mean that the alliance is on its way. The purpose of this stage is to see if your research was correct.

The process that goes on in these discussions is very much an extension of what you have already done internally. You want to make sure you are choosing someone who has been through that analysis too. You need to be sure your partner understands their own vision, knows their strengths and weaknesses, and has the will to support the alliance and see it through. The purpose of this negotiation stage is to:

- ◆ Assess mutual need.
- ◆ Establish respect.
- ◆ Build trust.

Here you find out if this is really someone with whom you can work.

◆ HOW TO DISCUSS

- ◆ Be prepared to be vulnerable. If you are forming an alliance by choice you are always in control, but you must be willing to ‘open the books’ and be honest about your resources and capabilities. This can be particularly risky when competitors are meeting. Often a facilitator can be useful in enabling this process and making sure no undue advantage is taken. But you have to be able to make the alliance work on your own—don’t use the facilitator as a crutch.
- ◆ Ensure confidentiality, especially when dealing with financial information.
- ◆ Maintain objectivity and declare any potential conflict or future plans. Ensure that all the information is on the table. You will not be doing yourself a service or fostering the win-win mentality if you do not divulge, for example, the possibility of selling your company or your intention to buy out your partner.

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◇ WHAT TO DISCUSS

If it appears that this alliance could work, you will want to get into specifics.

- ◆ Define objectives.
- ◆ Establish responsibility.
- ◆ Assess risks.
- ◆ Determine how proceeds will be distributed.
- ◆ Establish evaluation criteria.

Now is the time to ask the tough questions—again, a facilitator can help. Figure out now what the ‘deal breakers’ are for you and your partner.

◇ WHAT SHOULD BE ACCOMPLISHED

In the course of your discussions with your potential partner, you should achieve the following:

- ◆ Agreement on what the alliance is to accomplish.
- ◆ Clear understanding of the resource environment, both the potential and limitations of the alliance. The question “Can we do it?” should be answered.
- ◆ Potential members must see the benefits and that they can be achieved.
- ◆ Leaders emerge who are willing to champion the alliance from idea to reality.
- ◆ Trust and confidence evolves to form a working relationship.
- ◆ Participants are convinced that the risk and cost are worth the benefits.
- ◆ Partners, and their employees, are assured they will be treated fairly, and are clear about their role and the roles of others.
- ◆ A team approach is established. Include a range of people in the negotiations in order to multiply ‘champions.’ These energetic, visionary people often move ‘up and out’ of corporations. Make sure their enthusiasm has trickled down throughout both organizations to ensure support for the alliance is many layers deep.

Step 4: Implementation

AT THIS STAGE YOU WILL HAVE CHOSEN YOUR partner and formed an understanding with them. All the really difficult work is over and you are ready to make an agreement on structure, ownership and control, and determine how to monitor your objectives, finances, and satisfaction. Keep in mind the need to be flexible in your thinking. Future developments may be cause for re-negotiation. In a good alliance, in which trust and commitment have been established, change is an opportunity—not a cause for alarm. A strategic alliance, by definition, always has an objective. You should determine, but not *pre-determine*, the life span of your alliance in view of its aims. Over time an alliance can embrace new goals and serve new objectives, or it may fold after it has served its purpose.

◇ HOW TO STRUCTURE A STRATEGIC ALLIANCE

First you must decide what type of alliance you are going to have. Will it be:

- Formal or informal
- Equity or non-equity

In the first instance, your choice will depend on how you like to do business and what makes you most comfortable. A contract would be an example of a formal agreement, while a handshake might suffice for an informal agreement.

The second case refers to ownership. An equity arrangement would be:

- ◆ a joint venture, in which you form a third company;
- ◆ a swap, in which each takes 10 percent of the other's organization and you are bound in a relationship of mutual ownership; or
- ◆ a straight minority or majority ownership.

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In a non-equity situation, no money changes hands; you simply share commodities or strengths. This could take the form of contracts or licensing agreements.

With regard to structure, strategic alliances are usually either horizontal or vertical. A horizontal alliance is one in which partners in the same industry join together; for example, three competitors could combine a portion of their research and development activities. A vertical alliance is one in which you link up with other organizations in the supply chain.

To decide which type of alliance is right for you, you must assess trust levels, competence, and risk. For example, if trust and competence are low (i.e., your partner will need constant supervision) and the risk is low, then you are better off on your own. If risk is high, you would be advised to just buy them out. But neither of these scenarios is a strategic alliance. Once you have reached this stage of the game, you will have joined a partner whom you trust and have confidence in, and you will have made an educated assessment of your risks.

- ◆ HOW TO NURTURE AND MAINTAIN A STRATEGIC ALLIANCE

- ◆ Constantly revisit the objectives—understanding why you are in this relationship is the best foundation.
- ◆ Foster an atmosphere of learning. The main benefit of an alliance is that it creates the opportunity to learn—capitalize on this, be responsive, flexible, and adaptable.
- ◆ Utilize the network structure. The main external threat to your alliance will be competition. One important way to minimize competitor impact is to make the link between cause and effect as complex as possible. If everything in your operation is well-integrated, no one will be able to figure out what you are doing right and copy it. The network structure of a strategic alliance enables this because it encourages increasingly complex linkages and interdependence.
- ◆ Information management is key. You need to give your partner feedback as often as possible to build confidence and trust—“let

them know, before they find out.” Information technology and networks can help facilitate clarity, transparency, honesty, and frequency. The value of information is in its timeliness.

The main threats to a strategic alliance are:

- ◆ Lack of willingness to learn or change
- ◆ Opportunism

You need to recognize that in an alliance you will give up independence and lateral flexibility in decision making—that is, complete freedom to do whatever you want, for good or ill. For some people, independent and competitive behaviour seems to be more instinctive than co-operation. Indeed, the market system and our general culture have certainly encouraged independent competition. But as we have seen, there is a cost to this behaviour. The benefits of independence and *interdependence* are mutually exclusive. If you want to capture the advantages of a strategic alliance, you must be prepared to give up something. It may be natural to want to maximize benefits and avoid costs, but we need to factor in *the cost of independence*—the dollar and ‘sense’ savings and benefits of a strategic alliance that will be lost to us if we do not do it.

Once you have made a commitment to the alliance, the investment in learning and trust supercedes opportunism. Because the commitment is voluntary, if you meet your obligations then the alliance continues. If it is taken for granted, or violated, the alliance will fail.

◆ HOW TO EVALUATE A STRATEGIC ALLIANCE

Evaluation is often difficult for people because it can show failure as well as success. But it is important to ask, “Did we get where we wanted to go? If not, how can we do it? If yes, should we do more? Should we do it differently?” This is not about finger pointing. If both partners are committed to the alliance, then they will focus on solutions rather than problems.

The evolution of the alliance should be one of its goals. This is cri-

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tical for the growth of the individual partners. Growth requires a mechanism for assessing when things need to be done differently. This is an extremely important aspect of the implementation stage. All good strategic alliances have evaluations built into their structure. Evaluation is an on-going process that gives voice to all the participants and avoids the build-up of intractable situations.

The following are important considerations in establishing evaluation criteria:

- ◆ Know when you have achieved your objectives. They should be linked to why you got into an alliance in the first place.
- ◆ Measure the progress of the strategic intent of the alliance. Your performance is defined by your objectives—don't measure market share when what you are trying to do is develop a product.
- ◆ Focus on problem solving not fault finding. If you are committed to the alliance, you don't walk out on it.
- ◆ Give voice to all members of the alliance. Respect grassroots innovation and creativity; good ideas can come from unexpected places.
- ◆ Determine the consequences of not meeting your obligations to the alliance.
- ◆ Set a schedule and develop a framework for how often, and when, you will evaluate the alliance.

In summary, in implementing your strategic alliance be sure that:

Both partners have balanced and effective representation.

Management has a stake in the alliance.

There is frequent communication between partners.

There is a mechanism for flexibility and review.

What Makes a Good Alliance?

RESearch has indicated that alliances between partners of equal size, who are in the same field of activity, have an equal sharing of ownership, and are narrowly focussed on a specific product, country, or technology, are most likely to succeed. This may be true because it indicates commonality and complementarity on more profound levels than relative size and business activity. Other kinds of alliances have a good chance at success as well if they pay attention to the following important factors:

◆ COMMITMENT TO A WIN-WIN PARTNERSHIP

You must have a genuine desire to see the alliance work for both partners. If it is a win-lose situation, it will fail. The first criteria in a win-win situation is mutual need—you and your partner need to see yourselves as part of a larger whole that works for your mutual advantage. No one should be worse off in the alliance than they were before it. At the very least, one member should be better off, and ideally, all partners should be very well off. If one member gains at another's expense, then it is not in fact an alliance at all. A strategic alliance is often described as a marriage but is really more like a friendship—you choose your partner carefully; you still maintain your independence; you work together for your mutual benefit; and if the partnership has to end it does not destroy either participant.

◆ GOOD CHANNELS OF COMMUNICATION

Communication between partners must be frequent, open, and honest. Don't put off resolving unpleasant or contentious issues—they won't go away. Having good systems of communication will enable you to:

- ◆ recognize your partner's problems and be flexible;
- ◆ maintain mutual expectations about results and timelines; and

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- ◆ appreciate that cultures are different—don't expect a partner to act or respond identically to you.

A win-win situation and good communication are important because they help create an atmosphere of trust. Trust is the single most important characteristic of a successful strategic alliance.

◆ TRUST

Mutual respect and trust are essential. It is people who make strategic alliances work. You can formalize your agreement as much as possible, but it will still come down to people—legality is no replacement for trust. The 'trust account' is one in which a dollar taken out equals ten in deposits. You must be careful not to make excessive withdrawals.

One study of twenty grain-handling alliances reported that managers cited trust, commitment, "people who work well together," and "good open communication" as the most important contributions to their success. In a partner you are looking for compatibility, "a good fit," and "chemistry," but after that you need to make a personal commitment. Successful strategic alliances require not only attention to the financial and operational aspects, but also "diligence in the interpersonal dynamics of trust, commitment, and open communication." (Fulton)

- ◆ Get to know your opposite number at all levels socially—friends take longer to fall out.
- ◆ Multiply champions who support the alliance throughout your organizations.
- ◆ Recognize your partner's interests and independence.
- ◆ Celebrate achievements together.

Successful alliances require effort and commitment. They don't just happen—you have to make them happen. Strategic alliances take time and resources. If you can't spare these, don't start. Taking your time and making the right choice is very important, but remember you must balance strategizing with actually doing something!

Know Who

THIS SECTION WILL INTRODUCE YOU TO SOME AGRICULTURAL producers who are currently involved in alliances. An outline of their enterprises will show how alliances have been advantageous and beneficial, how strategic alliances can work practically, and provide concrete examples of the variety of forms they can take.

You will learn about the grassroots approach of Riverhurst Agricultural Products—how networking enabled fourteen farmers to tap into the know-how they needed to be successful in the new agriculture.

Warburton's Bakery demonstrates vertical connections in the new agriculture—how strategic alliances can enable farmers to produce specialty products for niche markets.

The New Generation Co-ops of Renville, Minnesota, show that members of a network can maintain their independence *and* become interdependent—in this case to access processing opportunities.

Here in Saskatchewan, Pound-Maker Agventures is an example of both vertical integration and processing value-added—through strategic alliances, their feedlot links Lanigan farmers to the gasoline market.

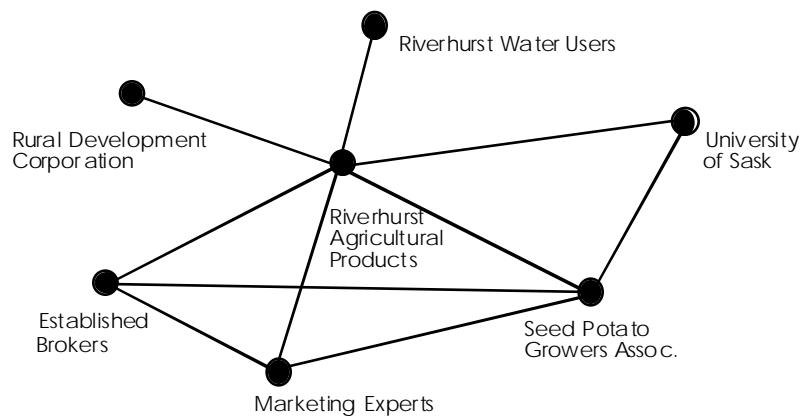
In addition, you will find a listing of further resources to help you explore the potential of strategic alliances and networking.

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Riverhurst Agricultural Products

RIVERHURST, SASKATCHEWAN

NEIL THOMPSON, PRESIDENT



WITH THE CLAIM THAT CANADIAN SEED POTATOES possess 'Northern Vigour'—that is, are more hardy and produce larger yields than US-grown potatoes, Alberta producers have been marketing their product to the northwestern US since the early 1970s. Recently, Saskatchewan has been expanding into this market as well. **Riverhurst Agricultural Products (RAP)** is a seed potato operation located near Riverhurst, SK. Initially, a group of fourteen producers invested equal capital and ran the organization as a co-operative. However, as the operation expanded and members became interested in different levels of commitment, the group moved to a corporate structure in 1995, which allowed them to balance involvement with investment. Two of the shareholders were bought out and of the remaining twelve investors, four manage the business on a day-to-day basis. Initially, RAP members co-operatively pooled their resources. Now the venture owns its own machinery outright. The group began their seed potato venture with 65

acres. The corporation now has 260 acres, with half of this production (two hundred truckloads) heading south to US markets.

Seed potatoes, though lucrative, are a very expensive venture. It is a rotational crop that requires a large, secure land base and access to specialized equipment. The storage procedures are complex, requiring computerized facilities. All in all, at an estimated \$1,500/acre initial investment, this is not a venture individual farmers could undertake feasibly on their own.

The success of RAP's initiative was dependent on strategic alliances with various partners. First, RAP gained the support of two local organizations—the Riverhurst Water Users Association, which administers local irrigation projects, and the Riverlake Rural Development Corporation. Both organizations had an interest in fostering economic development in conjunction with the area's new irrigation systems, all the while recognizing that value-added activities were needed to avoid a large debt burden.

The **Riverhurst Water Users Association** (RWU) managed a fund made up of waived government charges for the first year of use of the irrigation system. Rather than returning this money directly to the producers, it was used as seed money for bringing value-added projects into the community. When RAP needed to raise money for potato storage facilities, they were able to go to RWU—a partner who knew about, and had a vested interest in, community development—rather than the conventional routes of the bank or the government.

This grassroots approach was furthered by the support of the **Riverlake Rural Development Corporation** (RDC). RAP was able to draw on the expertise of the RDC's economic officer, who linked local people who wanted to work on similar projects and helped formulate a business plan. This individual had the time—unlike the producers, who were busy farming—and the connections within the community to find the necessary information and resources and to act as a central contact person during the start-up phase.

By accessing the community-based resources available and building on their previous farming experience, RAP was able to produce seed

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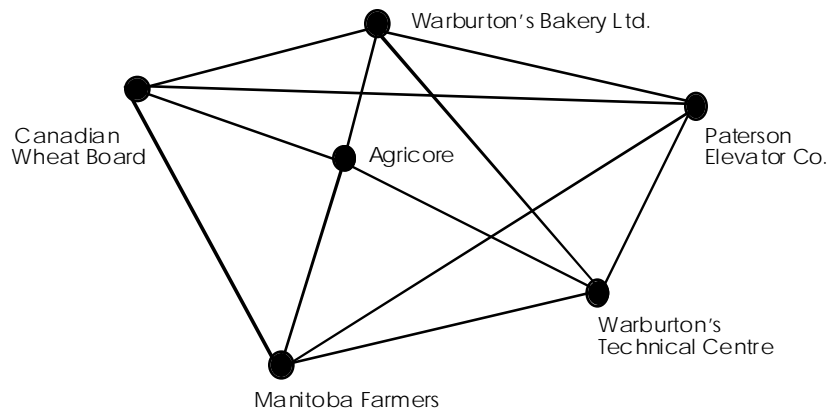
potatoes on a small scale with full community control. They had little experience, however, in the production and marketing of this commodity. It was important to their success to expand their network to include valuable sources of information. The Department of Horticulture Science and The Extension Division, **University of Saskatchewan**, have worked closely with producers to disseminate information about disease control and storage methods. This kind of up-to-date research is invaluable, particularly with a complicated crop like seed potatoes. Furthermore, university research was able to authenticate the claims of Northern Vigour, which allowed Canadian seed potatoes to command a premium price.

The in-roads that Alberta producers had made into the US market meant that RAP had access to established brokers and marketing experts familiar with their product. This expertise opened the export market for smaller commercial growers who could not afford the cost associated with marketing and delivering their own product.

The **Saskatchewan Seed Potato Growers Association (SSPGA)**, a voluntary, open organization, provides members with advertising and marketing information and contacts. Members take turns staffing an SSPGA display booth at seed sale seminars; while promoting the industry generally, members also have the opportunity to make sales contacts, network, and build the personal trust relationship so crucial to the industry. SSPGA is also closely linked to the university to educate growers about production practices. Information is freely shared, recognizing that it is important not to jeopardize the Canadian industry's reputation for quality. SSPGA acts as a central liaison to the government and other agencies, so that any initiatives to sponsor or promote the industry are communicated, and of benefit, to all members. SSPGA also administers the Advanced Payment Program, under which producers receive 30 percent of the crop value as a no-interest repayable to offset some of the cash-flow problems associated with costs being incurred a year in advance of sales. Future plans include development of a self-policing farm inspection service to offset the costs of a privatized inspection system.

Warburton's Bakery

BOLTON, ENGLAND
ROSS WARBURTON, CEO



WARBURTON'S LTD. IS A CENTURY-OLD FAMILY firm and Britain's largest independent bakery—producing more than 3 million loaves of bread a week. Warburton's bread is known to be high-quality—often twice the price of a regular loaf. To guarantee this quality, Warburton's has always used Canadian Western Red Spring (CWRS) wheat. However, in the late 1980s, they began to notice a decline in quality, which threatened their position as a premium baker. Their research revealed that particular varieties of CWRS worked best in their bread-making system, producing bread better suited to their customers' tastes.

To ensure that they would obtain only these desired varieties, Warburton's entered into discussions with the **Canadian Wheat Board (CWB)** and decided to use "identity-preserved contracts" administered by **Agricore** (formerly Manitoba Pool Elevators) and **Paterson Elevator Co.**

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Warburton's specifies the amount of wheat it requires—well over one hundred thousand tonnes annually—and the elevator companies are responsible for obtaining it from Manitoba farmers through production contracts. These Warburton contracts are awarded annually to farmers who have a reputation for growing consistently good quality CWRS crops.

The farmer agrees to produce a particular variety. Crops have to be grown from certified seed, purchased from an approved seller. The producer must employ good farming practices to grow the crop, and properly store and protect the harvest. The producer also submits a report on weather conditions, use of inputs and crop yield, along with a sample of the wheat. If the elevator company is satisfied, they agree to purchase the entire crop. In reality, detailed tests on every sample are not practical, so trust and reputation are very important—contracts tend to be awarded to long-standing members and customers. However, these Warburton contracts attract business to the elevators, and if standards are met, new contracts are awarded. In return for meeting these standards, Warburton contract farmers receive a \$20 /tonne premium over the regular CWB price for identical grain. This premium is paid in cash, direct from Warburton's, along with the regular CWB payment.

For their part, Warburton's accepts all the contracted wheat that meets the agreed-upon standards. They buy direct from CWB and are charged more to cover any additional administrative or logistical costs, particularly in the handling. Shipments of Canadian wheat are exported to Warburton's every six to eight weeks, and the elevator companies have to ensure that the wheat is "identity preserved"—i.e., maintains the correct characteristics and remains separate from other varieties—through the entire grain-handling system. Warburton's also pays a management fee to the elevator companies for administering contracts and preserving the identity of the wheat through shipment.

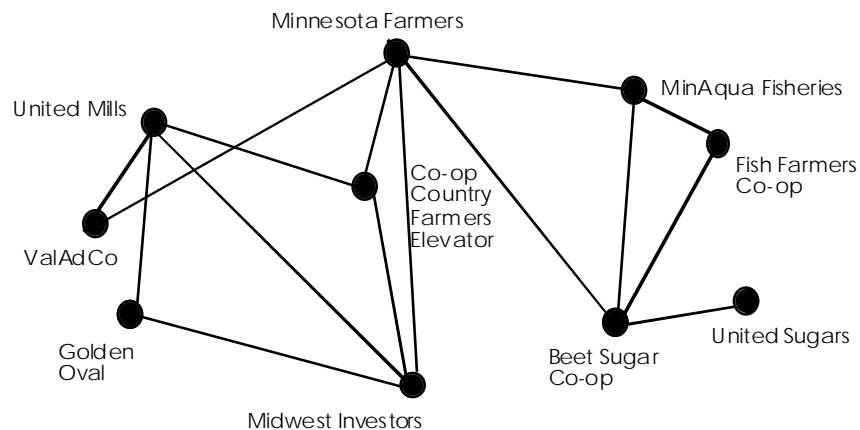
Warburton's has set up a research lab and pilot bakery, **Warburton's Technical Centre**, in Brandon, MB, where they conduct their own quality tests, refine their baking technology, and experiment with new wheat varieties and combinations. The Technical Centre is also in constant contact with the elevators and the producers as they approve shipments

based on their analysis of the harvest sample and the farmer's report.

The additional costs that Warburton's incurs to ensure the wheat they want are off-set by the value-added of maintaining its status as a premium baker and charging top-dollar for its product. In turn, the elevator companies and Manitoba farmers have a secure and lucrative market for their product.

New Generation Co-ops

RENVILLE, MINNESOTA



RENVILLE, MINNESOTA, IS HOME TO A COMPLEX network of New Generation Co-operatives (NGCs). Owned by Renville area farmers—in some cases a farmer is a member of four or five co-ops—the New Generation Co-ops are an example of both strategic alliances and an innovative response to the new agriculture.

The first NGC was formed in 1971. When it was announced that there would no longer be a market for their sugar beets, local farmers

got together and formed the **Southern Minnesota Beet Sugar Co-op** (SMBCS). Their aim was to build their own factory. It was up and running by 1975. Today there are 465 owner/members with 110,800 harvested acres in eleven counties producing 2.4 million tons of sugar beets. They are planning an expansion that will increase acreage to 140,000 by the year 2002, at a projected cost (to re-vamp the sugar factory) of US\$105 million. Presently, twenty-one farmers serve on the board from seven districts. During peak times, 350 people are employed at the factory, which has an annual payroll of over \$10 million. Besides processing sugar, SMBCS also produces pulp pellets, which are used for feed, and beet molasses, used in the production of yeast, chemicals, pharmaceuticals, and liquid feed. In 1982, SMBCS began jointly marketing their beet pulp and molasses with other grower-owned organizations. In 1994, they pooled resources again to form **United Sugars Corporation**, now the nation's largest beet sugar marketing company. Headquartered in Bloomington, MN, United Sugars sells to customers who are world leaders in the candy, baking, cereal, dairy, and beverage industries.

As a by-product of this industry, the SMBCS factory produces a substantial amount of hot water, prompting an alliance with the city of Renville. Renville has purchased the effluent from the beet operation and is using it, via a pumping station and heat loop, to supply an industrial park. Their first customer was MinAqua Fisheries Co-op.

Members of **MinAqua Fisheries Co-op** jointly farm Tilapia fish. They formed a marketing arm, the **North American Fish Farmers Co-operative**, an information and marketing co-operative that provides research and demonstration facilities to 150 members. They supply on-farm advice, feed, tanker pick-up and delivery—and use the hot water from the sugar beet factory in their fish hatchery.

Renville is also home to the **Co-op Country Farmers Elevator** (CCFE). CCFE was formed in 1986 by a merger of four Renville area elevator co-ops. It is now a five-hundred-member grain marketing, feed, and farm supply and services co-op. Their finance division, known as **Country Finance**, makes loans to CCFE members for inputs and livestock build-ings. Annually, CCFE handles 10 million bushels of grain, \$4.5 million in crop protection products, 16,500 tons of plant food and 10,000 tons of

feed. They are governed by a board of seven producers, who manage the co-op's \$62 million in total sales. Some of those assets went towards the founding of Midwest Investors of Renville.

Midwest Investors, Inc. was formed in 1994 to help CCFE realize their ideas for adding value to their members' commodities. The plan was to take members, who were in the low-profit business of growing corn and soybeans, a few steps up the food chain by feeding their grain to chickens to produce eggs, and then processing eggs into egg products. Membership in Midwest is limited to farmers, seven of whom form the board of directors. Members must reside in the area served by the co-op, so through Midwest Investors, ownership is kept in the hands of the local farmers. Each member purchased a minimum of two shares of stock at \$3,500/share (the average purchase was 3.5 shares) and made a commitment to deliver 2,000 bushels of corn/year (1,000 bushels per share). Co-op Country Farmers Elevator and 265 other investors have 1,100 shares in Midwest. Their first initiative was the development of Golden Oval.

Golden Oval is an eighty-employee egg production and processing complex. Its sixteen two-storey barns house a total of 2 million hens, which can be expected to produce 42 million dozen eggs annually. This operation consumes 41,000 tons of feed per year, utilizing 2 million bushels of locally grown corn. The co-op markets the eggs through a joint venture with a private egg company. In addition, there is a processing building to break and separate eggs, which, at capacity, can produce 60 million pounds of egg products annually. Golden Oval, which owns its own semi-tractors and trailers to haul liquid eggs, has marketing contracts with two companies that further process liquid eggs into products for the retail and food service industries. The 383 producer/members contributed \$8 million towards the \$22 million processing project, which has projected annual sales of \$20 million.

In 1991, just prior to the start-up of Midwest Investors and Golden Oval, a group of Renville area farmers had taken some of the ideas of CCFE and formed their own co-op to add value to their corn by feeding it to hogs. They named themselves **ValAdCo**. With a total investment of US \$20 million, ValAdCo houses 10,000 breeding sows, which consume 30,000 tons of feed annually. Artificial insemination allows them to add

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sows to the unused boar pens, thus increasing the herd size with no additional buildings. The large scale of this farrow-to-finish operation decreases the production cost per hog so that the co-op is able to pay dividends to its 134 members when hog prices are up. Profits are distributed as value-added payments in proportion to the bushels of corn delivered by each member. At their four hog-breeding farms, ValAdCo raises genetically superior breeding stock for resale to area hog producers. Transportation costs are a big factor in the region. Helping to keep hog production in Renville County viable reduces those costs and also means a much higher percentage of corn grown is used locally. In addition, ValAdCo employs sixty-five area residents.

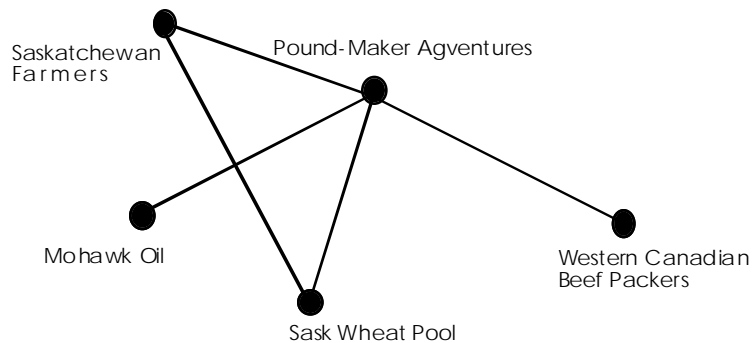
Eventually, increased producer demand combined with ValAdCo and Golden Oval's need for specialized feed mixes strained CCFE's feed department capacity. The solution was to create another co-operative in 1993. ValAdCo, Midwest Investors, and CCFE jointly own **United Mills**. Three representatives from each owner form a nine-person board to set policy. Former feed production workers from CCFE are now among United Mills's thirteen employees. Completely computer automated, the mill can produce more than 300,000 tons of feed per year. United Mills contracted CCFE to do all their administration and accounting, a service Co-op Country now offers to any new initiative. United Mills also introduced an animal waste management program, making chicken litter part of the fertilizer mix the co-op sells to its members. The ability to utilize wastes through this program helped the livestock operations meet the environmental standards of the pollution control board.

The advantages to Renville and area of such a vast and interconnected network of alliances are numerous. In employment, productivity, and value-added, the New Generation Co-ops have a tremendous impact on the economy of Renville.

Pound-Maker Agventures

LANIGAN, SASKATCHEWAN

BRAD WILDEMEN, CEO



POUND-MAKER AGVENTURES IS CANADA'S FIRST integrated feedlot/fuel ethanol facility. It was formed in 1969 by a group of local farmers who recognized the region's ability to produce raw materials and the benefits of value-added processing industries. Members purchased shares at a cost of \$4,000 each—payments could be made with only \$2,000 cash up front and an additional \$2,000 in grain or labour. Initially, fifty shares were sold. By 1970, a feedmill, grain storage facility, and pens to hold 4,000 head of cattle were constructed. By the 1990s, the feedlot capacity had increased to 8,500 head.

Fluctuations in grain and livestock prices prompted an interest in diversification. It was decided that ethanol production would allow shareholders to sell additional grain and use the by-products of the ethanol plant for feed. Development of this integrated complex required new capital, and \$1.2 million was raised through a local share offering, increasing membership to two hundred. Saskatchewan Wheat Pool (SWP) and Mohawk Oil Company also joined the alliance for 22 percent

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ownership each. Local shareholders retain 56 percent ownership and control of the company. A board of directors, elected by the shareholders, oversees operations.

Apart from their investment, **Saskatchewan Wheat Pool** contributes their expertise and a market for cattle and grain. Pound-Maker also purchases from SWP some of the Canadian Prairie Spring (CPS) wheat needed for both the feedlot and ethanol production.

Similarly, **Mohawk Oil Company** is a Canadian leader in selling ethanol-blend fuels. They have an agreement with Pound-Maker to purchase all of their ethanol for ten years. For the first four years, the agreed price was well above market value. Mohawk is able to source all their ethanol from Pound-Maker and one other producer.

In 1991, the feedlot capacity increased to 16,000 head, the feedmill doubled, and a ten-million-litre-per-year ethanol plant was constructed. In 1992, the feedlot-ethanol complex purchased 37,685 head of cattle, 71,690 tonnes of grain, silage, and straw, sold 10 million litres of ethanol, and provided 57,479 tonnes of manure as fertilizer for land within a ten-kilometre radius.

Currently, Pound-Maker produces in excess of 12 million litres of ethanol per year. The plant produces two by-products, thin stillage and wet distillers grain, which are completely utilized as feed in the feedlot. In addition, the feedlot uses 9,500 bushels of barley per day, and another 3,500 bushels per day of CPS wheat are used in ethanol production. The entire complex uses 350 acres of production a day. The original investors and Saskatchewan Wheat Pool have the first right to deliver grain, "price and quality being equal." If the needs of the plant cannot be met by the shareholders, other sources are called upon. While the Pound-Maker facility is a secure market for locally grown crops, 97 percent of the cattle purchased come from outside a sixty-kilometre radius.

Yearly sales from the feedlot are approximately 65,000 head. Of that, 50 percent are marketed to **Western Canadian Beef Packers** in Moose Jaw, SK. The remainder are sold to the USA.

Pound-Maker provides forty-nine full-time local jobs, encourages diversification on farms in close proximity to the plant, and has contributed generally to the economy of Lanigan and the surrounding area.

Sources and Resources

FOR A COMPLETE LISTING AND MORE INFORMATION
please visit the Networking for Success Web Site at
◇ <http://coop-studies.usask.ca/strategic/home.html> ◇

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◇ RESOURCES

Centre for the Study of Co-operatives

University of Saskatchewan

101 Diefenbaker Place

Saskatoon, Saskatchewan, S7N 5B8

Phone: 306-966-8509 / Fax: 306-966-8517

E-mail: coop.studies@usask.ca

Website:

coop-studies.usask.ca

AIMS Producer/Marketing Club Program

Producer Club Consultant Workshop Program

Walter Scott Building, 3085 Albert Street

Regina, Saskatchewan, S4S 0B1

Phone: 306-787-5997 / Fax: 306-787-5077

E-mail: AIMS@agr.gov.sk.ca

Saskatchewan Agriculture and Food, Extension Services

Room 329, 3085 Albert Street

Regina, Saskatchewan, S4S 0B1

Phone: 306-787-5216 / Fax: 306-787-9623

Or the extension agrologist at your local Rural Service Centre

Website:

www.gov.sk.ca/agfood

Saskatchewan Economic and Co-operative Development

Martin Chicilo, Co-operative Development Specialist

122 - 3rd Avenue North

Saskatoon, Saskatchewan, S7K 2H6

Phone: 306-933-5758 / Fax: 306-933-7692

E-mail: Martin.Chicilo@gov.sk.ca

Website:

www.gov.sk.ca/econdev

Prairie Farm Rehabilitation Administration

105 North Road

University of Saskatchewan

Saskatoon, Saskatchewan, S7N 4L5

Phone: 306-975-4778 / Fax: 306-975-4594

