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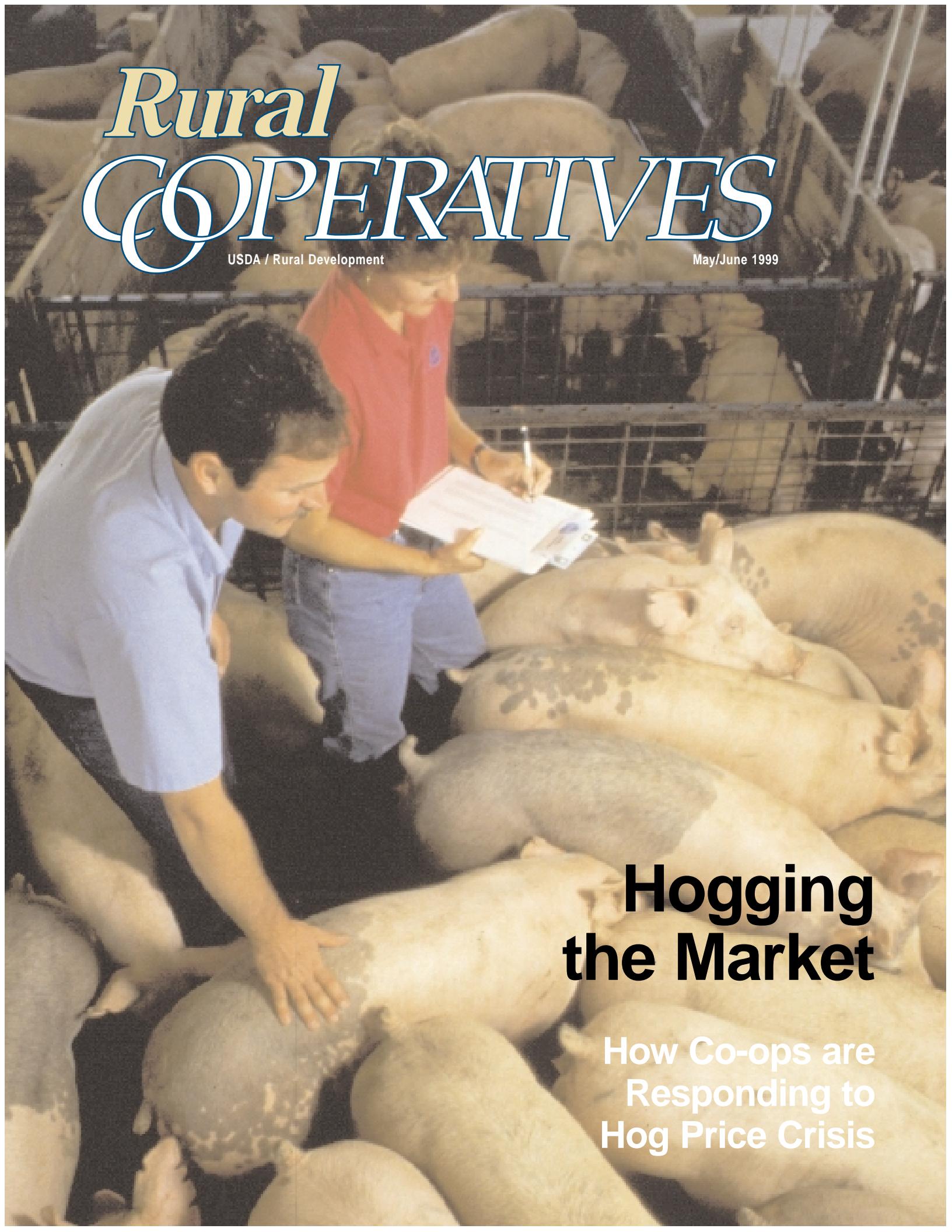
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Rural COOPERATIVES



USDA / Rural Development

May/June 1999

Hogging the Market

How Co-ops are
Responding to
Hog Price Crisis

The 11th Hour for Structural Change

We recently reported that so much dramatic structural change had occurred in the cooperative community in 1998 that it was not likely to soon be repeated. Yet — just halfway through 1999 — we have already seen dramatic proposals for structural changes of equal or greater magnitude. Cooperative leaders are being challenged to respond to the unprecedented wave of consolidation in the food sector and the "corporate-ization" process which, if unchecked, could well displace conventional, family-farm producers or leave them as piece-wage growers who are paid by huge corporations.

This would be a tremendous loss for the nation and especially for our rural people and communities. When rural people lose control of their resources, more dollars are siphoned away from rural towns to corporate headquarters.

Cooperatives are a natural answer to the challenge of maintaining a dispersed ownership of our nation's precious agricultural resources. Cooperatives allow farmer-entrepreneurs to join together to increase their marketing and purchasing power in organizations that provide them market access. Co-ops allow rural farmers, craft-makers and others to practice self-determination through democratically controlled businesses.

As we prove with every issue of this publication, the cooperative business structure is certainly not outdated. Indeed, cooperatives are on the cutting edge of necessary change. But for many livestock and commodity sectors, we have reached the eleventh hour. Change must be forthcoming, or the opportunity to maintain producer control of some sectors of the economy may be lost forever.

Within the livestock industry, only the dairy sector has made extensive use of cooperatives to provide producers entry into certain markets and a voice that is heard in industry circles and in the halls of Congress. The Prairie Farms Dairy article in this issue (page 16) shows that it is possible for a farmer-owned cooperative to perform well in an industry typified by intense competition and by low profit margins.

The beef, pork and sheep subsectors have been slow to embrace cooperative marketing as a strategy that could bring them closer to the consuming public and generate the extra income that would result. As shown in the article on the hog industry (page 8), there are numerous ongoing attempts to build on existing cooperative pork marketing channels and to create new co-op business structures.

These are positive steps that address the industry's core problems. Others are being taken. In fact, some far-reaching proposals are being discussed that would bring further producer ownership and control of the livestock system closer to reality.

Recent proposals to merge Cenex/Harvest States and Farmland Industries, and the purchase of Terra Industries' crop nutrient and protectant distribution system by the Cenex/Land O'Lakes Agronomy Co., are just two examples of cooperative restructuring on the horizon. Each portends a re-visit to existing cooperative institutional relationships, including ownership in inter-regional cooperatives and joint ventures.

The Page from the Past feature (page 31) in this issue is also timely, describing the acquisition of Welch Foods by the National Grape Cooperative. This presents another approach to establishing a strong market presence for a farmer-owned cooperative. Similar conversions of investor-owned firms to cooperatives have been achieved by other co-ops.

In an era of rapid consolidation and deep public policy concerns about concentration in the food industry, cooperative ownership represents a choice that the farm sector needs to give further consideration and to actively pursue. But time is running out in some sectors.



Jill Long Thompson

Under Secretary, USDA Rural Development

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Jill Long Thompson, Under Secretary,
Rural Development

Dayton J. Watkins, Administrator,
Rural Business-Cooperative Service

Randall Torgerson, Deputy Administrator,
RBS Cooperative Services

Catherine Merlo, Editor

USDA Design Center, Design

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On the Cover: Donna Reifsneider, an Illinois hog farmer and former president of the National Pork Producers Council, performs health inspections with her veterinarian on her Smithton, Ill., farm. For a report on the hog-price collapse and how co-ops are helping pork producers compete and survive, see page 8. Photo courtesy of the National Pork Producers Council.

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Improving Their Worth

Farmer co-ops' 1997 value-added activities rise to \$10.1 billion

Charles A. Kraenzle
Director, Statistics, USDA/RBS

David E. Cummins
Agricultural Economist, USDA/RBS

Adding value to agricultural commodities by organized cooperatives has been receiving increasing attention from farmers and ranchers. This has been demonstrated by cooperatives increased involvement in processing farm commodities into crop and livestock products, such as beef, pork, sugar and ethanol. The idea is to capture more income for producer-members by integrating further up the marketing channel.

Table 1—Cooperatives' gross and net value-added, by component, 1994-97

| Component | 1994 | 1995 | 1996 | 1997 |
|-------------------------------------|--------------|--------------|--------------|---------------|
| <i>Million dollars</i> | | | | |
| Wages and benefits | 6,057 | 6,542 | 6,720 | 6,846 |
| Net income before taxes | 1,963 | 2,358 | 2,248 | 2,332 |
| Depreciation | 1,355 | 1,394 | 1,432 | 1,594 |
| Interest paid | 653 | 857 | 1,012 | 971 |
| Gross value-added | 10,028 | 11,151 | 11,412 | 11,743 |
| Net value-added² | 8,673 | 9,757 | 9,980 | 10,149 |
| <i>Percent of gross value-added</i> | | | | |
| Wages and benefits | 60.4 | 58.7 | 58.9 | 58.3 |
| Net income before taxes | 19.6 | 21.1 | 19.7 | 19.9 |
| Depreciation | 13.5 | 12.5 | 12.5 | 13.6 |
| Interest paid | 6.5 | 7.7 | 8.9 | 8.3 |
| Gross value-added | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Percent of net value-added</i> | | | | |
| Wages and benefits | 69.8 | 67.1 | 67.3 | 67.5 |
| Net income before taxes | 22.6 | 24.2 | 22.5 | 23.0 |
| Interest paid | 7.5 | 8.8 | 10.1 | 9.6 |
| Net value-added | 100.0 | 100.0 | 100.0 | 100.0 |

¹ Totals may not add due to rounding. Data for 1994 and 1995 were revised.

² Gross value-added less depreciation.

Cooperatives add value to the products they market, to the supplies they sell and the services they provide in a number of ways. They gather raw commodities and farm supplies in one place. They change the form and location of such commodities into products available for sale, thus adding value to what they do. The research presented here measures the value-added by these activities during 1994-97.

In 1997, the net "value-added" of farmer cooperatives totaled \$10.1 billion, an increase of nearly \$1.5 billion, or 17 percent, since 1994. Value-added income represents the earnings from land, labor, capital and management contributed by

farmer cooperatives. For this study, value-added was calculated by adding co-ops' reported (1) wages and benefits, (2) net income before taxes, (3) interest paid on borrowed capital and (4) depreciation. The first three components equal net value-added (NVA). All four components, collectively, represent gross value-added (GVA), which is NVA plus depreciation. In simple terms, this method of measuring GVA is equivalent to subtracting cost of goods sold and total expenses from total net sales and adding service receipts and other income.

Why calculate cooperatives' value-added activities? Cooperatives' value-added:

- Better represents the contribution made

Table 2—Farmer cooperatives' net value-added, by type, 1994-97¹

| Type of cooperative | 1994 | 1995 | 1996 | 1997 |
|--------------------------------|--------------|--------------|--------------|---------------|
| <i>Million dollars</i> | | | | |
| Cotton | 173 | 172 | 193 | 198 |
| Dairy | 1,377 | 1,452 | 1,471 | 1,565 |
| Fruit and vegetable | 1,263 | 1,453 | 1,507 | 1,450 |
| Grain and oilseed ² | 1,284 | 1,437 | 1,569 | 1,475 |
| Livestock | 367 | 464 | 492 | 585 |
| Poultry ³ | 319 | 387 | 451 | 449 |
| Rice | 118 | 130 | 130 | 138 |
| Sugar | 174 | 213 | 212 | 344 |
| Other marketing ⁴ | 461 | 691 | 531 | 638 |
| Farm supply | 2,714 | 2,867 | 2,969 | 2,872 |
| Cotton gin | 197 | 210 | 184 | 238 |
| Other service | 227 | 281 | 272 | 197 |
| Total | 8,673 | 9,757 | 9,980 | 10,149 |

¹ Totals may not add due to rounding.

² Excludes cottonseed.

³ Includes eggs, turkeys, ratite, squab and related products.

⁴ Includes nut, tobacco, wool and mohair, dry bean and pea, fishery and miscellaneous marketing cooperatives.

Table 3—Average of components and average total net value-added, 1994-97¹

| Type of co-op | Wages & benefits | Net Income before taxes | Interest paid | Total net value-added |
|--------------------------------|------------------|-------------------------|---------------|-----------------------|
| <i>Million dollars</i> | | | | |
| Cotton | 70 | 84 | 30 | 184 |
| Dairy | 1,052 | 340 | 74 | 1,466 |
| Fruit & vegetable | 1,115 | 157 | 146 | 1,418 |
| Grain and oilseed ² | 871 | 376 | 195 | 1,441 |
| Livestock | 259 | 151 | 67 | 477 |
| Poultry ³ | 342 | 35 | 24 | 402 |
| Rice | 102 | 11 | 16 | 129 |
| Sugar | 196 | 7 | 33 | 236 |
| Other marketing ⁴ | 440 | 70 | 71 | 580 |
| Farm Supply | 1,796 | 852 | 207 | 2,855 |
| Cotton gin | 88 | 113 | 6 | 207 |
| Other Service | 210 | 30 | 4 | 244 |
| Total | 6,541 | 2,225 | 873 | 9,640 |
| <i>Percent</i> | | | | |
| Cotton | 37.9 | 45.9 | 16.2 | 100.0 |
| Dairy | 71.7 | 23.2 | 5.0 | 100.0 |
| Fruit & vegetable | 78.6 | 11.0 | 10.3 | 100.0 |
| Grain & oilseed ² | 60.4 | 26.1 | 13.5 | 100.0 |
| Livestock | 54.4 | 31.6 | 14.0 | 100.0 |
| Poultry ³ | 85.3 | 8.7 | 6.0 | 100.0 |
| Rice | 79.2 | 8.5 | 12.3 | 100.0 |
| Sugar | 83.1 | 2.8 | 14.2 | 100.0 |
| Other marketing ⁴ | 75.7 | 12.1 | 12.2 | 100.0 |
| Farm Supply | 62.9 | 29.8 | 7.2 | 100.0 |
| Cotton gin | 42.6 | 54.4 | 3.1 | 100.0 |
| Other Service | 86.1 | 12.1 | 1.8 | 100.0 |
| Total | 67.9 | 23.1 | 9.1 | 100.0 |

¹ Totals may not add due to rounding.

² Excludes cottonseed.

³ Includes eggs, turkeys, ratite, squab and related products.

⁴ Includes nut, tobacco, wool and mohair, dry bean and pea, fishery and miscellaneous marketing cooperatives.

by cooperatives to value-added from agricultural commodities by function and type:

- Helps cooperative leaders and policy makers improve decision-making by showing where value-added may be enhanced;
- Yields time-series data that will help track cooperatives' progress and trends; and
- Provides additional information to further educate producers and others on the cooperative way of doing business.

Co-ops' GVA and NVA increased

In 1994, co-ops' GVA totaled more than \$10 billion. GVA grew, and totaled more than \$11.7 billion in 1997. NVA (GVA minus depreciation) also grew, from \$8.7 billion in 1994 to \$10.1 billion in 1997 (figure 1).

Wages and benefits represented the major contribution to co-ops' value-added.

Table 4—Net value added per dollar of sales by type of co-op, 1997¹

| Type of co-op | Co-ops | Net value-added | Total sales | Net value added per \$1 sale |
|------------------------------|--------------|-----------------|----------------|------------------------------|
| | No. | Million | dollars | Percent |
| Cotton | 16 | 198 | 3,004 | 0.07 |
| Dairy | 236 | 1,565 | 23,374 | 0.07 |
| Fruit & vegetable | 259 | 1,450 | 9,268 | 0.16 |
| Grain & oilseed ² | 1,014 | 1,475 | 24,639 | 0.06 |
| Livestock | 88 | 585 | 7,460 | 0.08 |
| Poultry ³ | 20 | 449 | 2,118 | 0.21 |
| Rice | 18 | 138 | 930 | 0.15 |
| Sugar | 51 | 344 | 2,087 | 0.16 |
| Other marketing ⁴ | 239 | 638 | 4,765 | 0.13 |
| Farm Supply | 1,386 | 2,872 | 25,181 | 0.11 |
| Service ⁵ | 464 | 435 | 3,647 | 0.12 |
| Total | 3,791 | 10,149 | 106,474 | 0.10 |

¹ Includes marketing, farm supply sales, service receipts and other income. Excludes business done between cooperatives. Totals may not add due to rounding.

² Excludes cottonseed.

³ Includes eggs, turkeys, ratite, squab and related products.

⁴ Includes nut, tobacco, wool and mohair, dry bean and pea, fishery and miscellaneous marketing cooperatives.

⁵ Includes trucking, cotton ginning, storage, grinding, etc. related to the marketing of farm products and the sales of farm supplies.

From 1994 to 1997, it contributed about 59 percent to GVA and about 68 percent to NVA. Net income before taxes was the second major component. It contributed about 20 percent to GVA and about 23 percent to NVA during the four years. The relative proportions of the components making up both GVA and NVA were fairly stable over the four years (table 1).

How did changes in co-ops' NVA compare to changes in co-ops' net business volume? Year-to-year changes in NVA were somewhat different from changes in net business volume. Co-ops' NVA increased 12.5 percent from 1994 to 1995, while net business volume was up only 5 percent. However, NVA increased only 2.3 percent from 1995 to 1996, while net business volume increased 13.2 percent, mainly due to increased marketing of grains and oilseeds and higher prices. NVA was up 1.7 percent in 1997 and net business volume was about the same as in 1996.

Gross and net value-added are also used to measure the performance of other sectors of the economy. USDA's Economic Research Service (ERS) uses the value-added format to present the farm income accounts. According to ERS, the value-added format makes it much easier to discern what forces are driving the changes and trends in farm income. In addition, the value-added format is accepted and utilized internationally, thereby facilitating comparisons among countries.

The value-added contribution to the U.S. economy by the agricultural, or farm sector gives some perspective to the value-added contributed by farmer cooperatives. Net value-added for the U.S. agricultural sector totaled \$85.3 billion in 1994, nearly 10 times the NVA of farm cooperatives (figure 2). In 1995, NVA contributed by the agricultural sector dropped to \$74.8 billion, due to lower output of crop and livestock volume. In 1996, it reached \$96.3 billion, before dropping to \$92.8 billion in 1997.

In 1997, marketing cooperatives accounted for nearly 68 percent of co-ops' gross and net

value-added, farm supply, 28 percent and related-service cooperatives, 4 percent. Marketing cooperatives increased their share of both GVA and NVA during 1994-97. In 1994, marketing cooperatives accounted for nearly 64 percent of NVA and farm supply cooperatives, 31 percent.

Wages and benefits accounted for 68 to 73 percent of marketing cooperatives' total NVA during the study period. In comparison, wages and benefits ranged from 61 to 64 percent of total NVA for farm supply cooperatives. Marketing cooperatives, especially those involved in further processing of farm commodities, generally employed more full- and part-time employees than did farm supply cooperatives. Interest paid also contributed a larger proportion to NVA for marketing cooperatives than for farm supply cooperatives. Consequently, net income before taxes contributed a noticeably larger proportion to NVA for farm supply cooperatives than for marketing cooperatives.

NVA by type of cooperative

Dairy, fruit/vegetable and grain/oilseed cooperatives accounted for \$3.9 billion, or 45 percent, of co-ops' total NVA in 1994 and \$4.5 billion, or 44 percent, in 1997. Each contributed about equally during the period. Although their total contribution to NVA increased during the study period, their proportion decreased due to increased contributions to NVA by livestock, poultry, sugar and "other marketing" cooperatives (table 2).

Wages and benefits major component of NVA

Total co-ops' wages and benefits averaged nearly 68 percent of total NVA during 1994-97. Net income before taxes (NIBT) accounted for 23 percent and interest paid the remaining 9 percent (table 3). Wages and benefits averaged the largest proportion (all above 80 percent) of net value added for "other service," poultry and sugar cooperatives. The proportion was in the 70s for rice,

fruit/vegetable, "other marketing" and dairy cooperatives.

Net income before taxes was the major component of NVA for cotton ginning and cotton cooperatives, at 54 percent and 46 percent, respectively. Among the types of cooperatives listed in Table 3, NIBT was the lowest for sugar, rice and poultry cooperatives. What does this mean? It's difficult to say without further study of the industry in which the various types of cooperatives compete. For example, a low contribution of NIBT could be due to cooperative objectives or goals, such as bargaining versus processing, competition with other co-ops or investor-owned firms within the industry, management and/or cooperation with other cooperatives.

The proportion of interest paid to NVA was highest among cotton, sugar, livestock and grain/oilseed cooperatives, all above 13 percent. Interest paid, of course, is a function of debt and would be expected to

contribute a larger percentage to NVA among co-ops highly leveraged and/or financing a large inventory.

Where can cooperatives improve value-added?

In recent years, much interest has been generated by farmers in adding value to their raw commodities through greater involvement in marketing and/or further processing. In many cases, this vertical integration further up the marketing chain has been accomplished through the organization of new generation cooperatives, like United Spring Wheat Processors, 21st Century Alliance and U.S. Premium Beef. These co-ops add more value to the raw commodities than do the traditional buy-sell ones. However, there is much more value that farmer cooperatives can add to what they market. A popular vehicle for accomplishing this is the formation of alliances, particularly joint ven-

tures, involving other cooperatives.

To examine how the various types of cooperatives compare in adding value to the products and services they provide, net value-added per dollar of total sales was calculated (table 4). Net value-added per dollar of sales ranged from a low of 6 cents for grain/oilseed cooperatives to a high of 21 cents for poultry cooperatives. Cooperatives with lower ratios tend to be traditional buy-sell. Several of the poultry cooperatives, which includes eggs, turkeys, ratite and other related products, are highly involved in processing and other value-added activities.

What are the implications?

Farmer cooperatives have been increasing the value of traditional raw commodities they market as well as the supplies and services they purchase. However, according to the NVA per dollar of sales, it appears there is considerable potential for adding value, especially in the marketing of grains/oilseeds, milk and cotton. If farmer cooperatives could, on average, add even an additional \$.01 of net value-added per dollar of sales through greater involvement in processing and other value-added activities, net value added could be increased by more than \$1 billion.

Farmer cooperatives have the opportunity to enhance their members' income through greater involvement in value-added activities, not only by doing more processing and marketing of the volume of commodities moving through their cooperatives, but also by increasing the share of products marketed and supplies purchased through cooperatives. In 1997, farmer cooperatives marketed only 31 percent of the farm products moving off the farm and 30 percent of the major farm supplies — feed, seed, fertilizer, petroleum and crop protectants — purchased by farmers. ■

Figure 1—Co-op's Gross and Net Value-Added, 1994-97

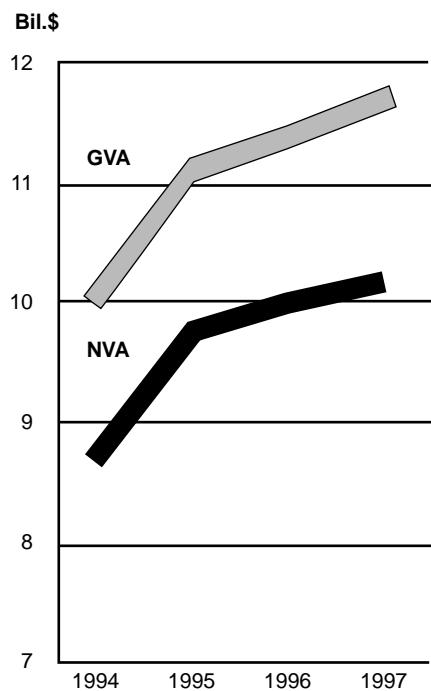
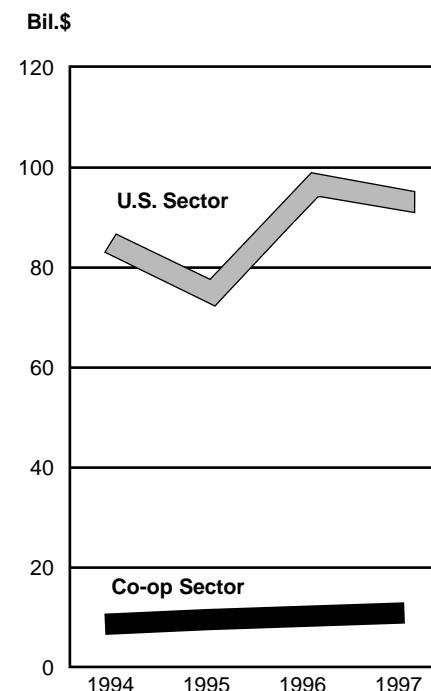


Figure 2—Comparison of Co-op's NVA with U.S. Ag. Sector NVA, 1994-97



Calcot, Ltd.

Bakersfield, Calif.

Co-op type: Cotton and almond marketing.

Geographical area served: California and Arizona.

CEO/President: Tom W. Smith, since 1977.

Facilities: Three locations: headquarters and warehouses in Bakersfield, and warehouses in Hanford, Calif., and Glendale, Ariz. Capacity is 145 warehouses, or about 1.2 million bales of cotton.

Annual sales

revenue/product volume:

Yearly sales of \$600 million from a typical annual volume of 1.3 million bales of cotton. Number of members: 2,200 cotton — and 31 almond — growers.

Number of employees: 104 full-time.

Largest markets: About 85 percent of Calcot's cotton is exported. In 1998, Calcot was the largest shipper by volume of all cotton marketed in the U.S. Major cotton markets include Japan, South Korea, Taiwan, Indonesia and (some years) China. In 1998, Calcot exported to 39 countries, including Ecuador, Italy, Switzerland, Turkey, Mexico and Brazil. Currently, the co-op is developing new markets



in Latin America. Almond markets are primarily European.

What's new: After 62 years of marketing strictly cotton, Calcot expanded into almond marketing this year. "This is a historic moment for Calcot," says Smith. "Adding almonds to our marketing functions is a move that will propel us into the future and allow us to better maximize return to producers of both crops." Calcot does not plan to venture into the retail snack foods and consumer market. "Blue Diamond Growers already does an outstanding job in that area," Smith says.

Philosophy that drives

Calcot: "Our members count on Calcot as an extension of their own operations and we believe we must always represent their best interests," Smith says. "That drives everything we do."

What's unique about Calcot:

"Our export focus and desire to service customers' needs," says Smith. Calcot owns its own warehouses, unusual in the cotton industry, which allows the co-op to ship its cotton bales exceptionally fast with maximum service. "That also permits growers to keep more of the value of their production and



Calcot president Tom W. Smith is leading the co-op from a 72-year tradition of marketing only cotton to handling almonds as well. Photos by Catherine Merlo

is one of the ways we can add value to the process," he adds.

Biggest changes taking place? The U.S. cotton industry is experiencing a period of relatively low prices and lower profits. The net effect has been a reduction in acreage, particularly for California growers. "It has caused us to re-examine our core values, mission and practices, which, in the long run, is a good thing," Smith says. In the meantime, dealing with lower volume has necessitated some changes, such as adding almonds, and closing and selling a couple of facilities Calcot no longer operates.

How is Calcot making a difference for its members?

"We will continue to develop new technologies and practices and control our warehousing facilities," Smith says. "We can run a very lean

operation, make the most of our marketing opportunities and maximize returns to growers." Calcot remains active in industry affairs and the legislative process, "since government programs and policy are today a very large part of farming," Smith says.

Plans to keep viable in the 21st century: Beyond Calcot's diversification into almonds, the co-op will continue to work on the challenges that face its membership. These include timing of sales, developing dependable markets, delivering exceptional customer service, working with legislators to build fair and better governmental policy and programs, and improving overall demand and thus raising consumption of members' cotton. "There really aren't any new challenges in our business," Smith says. "There are just more of the old ones, all at the same time." ■

Hogging The Market

For many farmers, the hog-price crisis confirms their shrinking control of agriculture. Can co-ops help producers survive the age of corporate farming?



Catherine Merlo

Editor

Minnesota pork producer Dennis Timmerman will not soon forget the fall of 1998.

Like thousands of hog producers across the nation, Timmerman found himself in the middle of "an economic disaster," "a crisis" and "a national emergency." Late last year, hog prices across the United States plunged to their lowest levels in nearly 60 years. By December, hog prices to farmers had dropped to as low as 8 cents a pound, a 70-percent dive from year-earlier levels. The break-even price for most hog farmers is about 38 cents a pound.

"It's the worst year by far I've ever seen," says Timmerman, whose 150-sow farrow-to-finish farm is located near Boyd, Minn. "We can't begin to service any financial requirements, and we've lost a lot of equity. One of my neighbors who has a

small hog operation told me he received \$97,000 less income in 1998 than he had the previous year."

John Adams, a North Carolina pork producer, concurs. "In the last year, many hog producers have lost what they worked a lifetime to gain," Adams says.

The 1998 hog market crisis followed two years of historically high prices, and caught many producers blind sided. By the spring of 1999, the situation had begun to ease, with prices rebounding closer to the break-even point. Yet industry analysts, producers, trade groups and professors continue to analyze the hog industry's price collapse. They cite multiple reasons for the crisis. Chief among them, many agree, has been that hog supplies have far exceeded the slaughter capacity of U.S. packing plants.

In reality, however, over-supply wasn't the root problem, insist some producer representatives. Although the National Pork

Missouri pork producer and Farmland member Jim Phillips (right), his son Martin Phillips (center) and Martin's son Nathan Phillips got some relief from the hog crisis late last year when Farmland, for the first time, set a floor price for live hogs. Photo by Jim Barcus, Kansas City Star

Producers Council (NPPC) board of directors agreed in November that farmers were producing too many hogs for the existing slaughter capacity in the United States, it believed the source of the industry's troubles lay elsewhere.

"It is not that we are producing too much pork," NPPC's board told producers in an open letter. "Domestic consumer demand and exports are actually up significantly compared to 1997."

The real problem, the board said, is that, "producers have lost bargaining power."

Loss of bargaining power

From pork, poultry and cattle production to other farm businesses, such as grain and soybeans, farmers worry they are losing control of agriculture. Many say industry control now lies in the hands of huge corporate entities, which have the size and financial backing to control everything from production to processing to the all-important market access. In farmers' minds, American agriculture, with its entrepreneurial heritage, is now vulnerable to the dictates of global conglomerates.

"Farmers complain today that they have little leverage, little say, little control," writes Dr. Joe Coffey, in the March 1999 issue of *Cooperative Farmer*, a Southern States Cooperative publication. Coffey is a retired vice president of economics and strategic initiatives for Southern States, based in Richmond, Va.

Indeed, many segments of agriculture are moving from the family farm tradition to the vertical integration and contracting system adopted by large global agribusinesses. These huge players, some financed by Wall Street, have gone whole hog into agricultural production and marketing, prompting critics to say the U.S. marketing structure has become too concentrated, with control of the food chain in too few hands.

The "poultry-ization" of the swine industry

The hog business, in particular, has recently — and rapidly — shifted to corporate, industrialized production. Like the poultry industry before it, the swine business is undergoing major structural changes that involve corporate ownership, vertical integration, total confinement housing and contracts with farmers. Large corporate entities such as Murphy Family Farms, Iowa Beef Processing, the Swift & Co. unit of Con Agra Inc., Smithfield Foods and Cargill's Excel now dominate the hog business.

"Fifty (production entities) are now pro-

ducing more than 50 percent of the hogs in the U.S.," says Gregory Beck, president and CEO of Equity Cooperative Livestock Association in Baraboo, Wis.

The shift has squeezed thousands of independent family farmers out of the business.

Pork producers who have remained in the business have increasingly turned to contract farming, where they own no hogs but raise them on contract for a few large corporations. In many states, it's often the only way farmers can afford to stay in the ag business as tobacco and other traditional crops decline or face uncertain futures.

Contracts not only take the opportunity out of farming, but some say they force a farmer into servitude, forcing the farmer into a minimum wage worker. And contractors can pull a contract.

Independent producers have found it increasingly difficult to raise hogs as economically as the corporate "hog factories" or large-scale confinement operations that hold thousands of hogs. Unlike the swine conglomerates, few farmers have the financial strength to survive the kind of market downturn the hog industry has recently experienced. And few independents can compete with the corporate giants in the marketing arena.

"It's becoming more and more difficult every day to maintain a live cash market," says Beck. "You've got more hogs tied up in vertical integration and fewer hogs traded on the open market."

Looking for survival

Faced with the industry's growing corporate domination, many family farmers are seeking ways to keep their independence and ensure their survival. Efforts are underway across the Hog Belt to help farmers compete and increase their market access. Realizing they must look beyond production expertise, many farmers are banding together to expand into processing, packing or marketing — where

Minnesota governor Jesse Ventura salutes Prairie Farmers Cooperative

Recent efforts by Prairie Farmers Cooperative to gain more market access for independent pork producers may not have reached as many farmers as Farmland has, but they have earned the accolades of Minnesota's new governor, Jesse Ventura. In his State of the State address to the Minnesota Legislature in March 1998, Ventura drew attention to the efforts of Lyle Haroldson, who organized the new cooperative so that area pork producers could become self-sufficient.

"Today, as we celebrate that the State of the State is great, let us celebrate five people who are reforming Minnesota for the better every day through their good works," Ventura said. "They are here today to receive the first Governor's Awards for a Better Minnesota."

Ventura told Haroldson, who was seated in the gallery, to rise and be recognized. "With prices at crisis lows," Ventura said, "Lyle helped 80 Minnesota farm families rally under a vision of building a hog processing facility near Dawson. The major emphasis will be on value-added items that satisfy a consumer market. When this project is done, there will be 45 new jobs and great promise for a better future for 80 farm families."

Prairie Farmers' plant could be completed late this year.

the biggest profit margins lie.

In fact, what may have galled independent pork producers most in the past year is that while prices they received fell to historic lows, packers and retailers profited. That has spurred hog farmers to look more closely at value-added operations for new streams of income. Many feel that if farmers can own the entire chain, they too can capture the margins beyond the farm gate.

Farmer-owned and controlled co-ops may be the answer to helping producers position themselves for survival. Several cooperative efforts have emerged, not only to help independent producers weather the current hog crisis but to help them gain more market access.

Today, co-ops — both old and new — are taking closer looks at ways to help

their members compete and survive. Many are focusing on increased volume, niche markets and delivering quality products. Others have set live-hog price floors or hiked up their promotional efforts at the retail level. All are seeking to increase farmers' share of profits in the hog-pork industry chain.

Minnesota efforts

One effort that has drawn accolades from no less than Minnesota Governor Jesse Ventura [see sidebar] is Prairie Farmers Cooperative of Boyd, Minn. Born one evening in 1995 when 47 pork producers gathered to discuss how they might increase market access, Prairie Farmers is on its way to building its own small pork processing plant. "We're now in the financ-

ing stages," says Board Chairman Dennis Timmerman.

The Dawson-based facility will slaughter hogs and prepare the meat into premium products. While Prairie Farmers Co-op has not yet developed a label or product name, it will promote itself as a producer of high-quality, wholesome food directly from small farmers.

"Prairie Farmers is an opportunity for producers to band together to build a small operation to gain access to niche markets that aren't currently being served," Timmerman says. "Among natural foods, the

Members of Farmland Industries benefited from their co-ops' bold moves to stabilize hog prices. Photo Courtesy Farmland Industries



most rapidly growing section is in meat. People are concerned about quality and drugs or additives."

Timmerman believes co-ops and direct marketing programs are the way for producers to survive. But he acknowledges that cash-strapped farmers have trouble raising equity for new ventures. He also recognizes the difficulty of generating enough volume to access the market. Still, he believes there must be a place for small-

er, independent producers.

"I believe in a widely diversified system of agriculture that provides a better food source for the nation," Timmerman says. "I also know that the really large producers who raise livestock in concentrated conditions run into waste disposal and contamination problems. And I can't believe that if an industry is controlled by one large segment of industry, prices will stay cheap.

"It's a critical time in the history of agri-

culture," Timmerman adds. "If there is no change, a lot of us are going to have to exit the industry."

Farmland steps in

Farmland Industries, one of the nation's largest farmer-owned cooperatives, also has taken steps in the past year to bring relief to its pork-producing members. They are among the more than 600,000 independent family farmers Farmland repre-

A crisis unfolds

"The nation's pork producers are experiencing an economic disaster," Donna Reifsneider, an Illinois pork producer and president of the National Pork Producers Council (NPPC), wrote to President Clinton last November. "Most pork producers are currently losing \$50 to \$75 per hog sold.

"We believe the economic crisis facing America's pork producers must be viewed as a national emergency, warranting immediate intervention by the government," Reifsneider noted.

The crisis Reifsneider wrote of began, in part, in 1997, when many slaughterhouses closed down as hog supplies exceeded the nation's packing plant slaughter capacity. At least 37,000 head of daily hog slaughter was lost due to the closures of four packing plants -- an Iowa Beef Processing plant in Iowa, South Dakota's Dakota Pork, Georgia's Premium Pork and Thorn Apple Valley of Michigan. This helped create a massive bottleneck in the industry and drove prices to historic lows.

Dr. Joe Coffey, a retired vice president of economics and strategic initiatives for Southern States, a Virginia-based cooperative, cites at least 10 causes for the recent price collapse of the hog market. They were, Coffey wrote in the March 1999 issue of the co-op's *Cooperative Farmer* magazine: "the unexpected increase in hog marketings; the closure of pork processing plants; the environmental permit limits on hog kills; the flood of hogs from Canada due to strikes and a weak currency; cheap corn and mild weather that hiked hog weights to record highs; the moratoria on expansion of swine facilities that caused a frenetic building boom to beat the ban; the long string of profitable production months that persuaded producers and their lenders that the hog cycle had crumbled and collapsed; the large supplies of competing meats; the economic crisis in Asia and Russia; and the slowness of the federal government to act."

According to Al Tank, CEO of the NPPC, the crisis cause could be simply stated. "Hog production is up 10 percent, slaughter capacity is down 8 percent, and Canadian live hog imports to the U.S. are up 37 percent," Tank noted in early January 1999.

The crisis was not due to poor pork demand, Tank said. "Pork demand has been good this past year," he said. "Retail consumer demand is 7.1 percent higher than a year ago, even though average retail pork prices have remained about the same. The average American consumed an estimated 5 pounds more pork in 1998 than in 1997.

"Moreover," Tank added, "pork was the only meat protein to register any significant increase in domestic consumption during the year.

"The crisis is not a pork issue," Tank insisted. "It is a live hog issue."

In fact, USDA had estimated that pork producers were receiving about \$144 million less per week on average than they did during the previous five years. Moreover, their share of the consumer's dollar spent on pork had fallen to an all-time low, despite strong prices at the supermarket.

For example, in September 1998, producers received a record low 21 percent of pork retail prices, compared to their normal share of 37 percent. Retailers' share rose to 60 percent, compared to their usual 47 percent. Packers' average take was 19 percent of the average retail price, fairly close to their normal 16 percent.

NPPC has pushed packers to increase plant efficiencies, pay overtime, add second shifts and even operate on weekends to increase capacity. NPPC believes the industry must increase its 2-million-head slaughter capacity, and has prevailed on the federal government to raise its limits. The organization has asked packers to increase their slaughter capacity. It also has encouraged packers and retailers to narrow their margins to more reasonable levels.

sents, either through direct memberships for livestock producers or locally owned cooperatives. One of the largest independent businesses in the pork industry, Farmland owns several livestock processing and packing facilities, including four pork slaughtering plants in Nebraska, Illinois and Iowa and nine further-processing locations.

In December 1998, when live hog prices fell to \$8 to \$10 per hundredweight, Farmland did something it had never done before — it set a floor price for live hogs.

"Farmland agreed to pay our producers no less than \$15 per 100 pounds (live weight) for hogs that met our weight and quality specifications," says Gary Evans, executive vice president and chief operating officer of Farmland's Meats Group.

The price-floor idea stemmed from ideas offered by the co-op's farmer-members during Farmland's annual meeting in Kansas City, Mo., earlier that month. Farmland typically buys hogs at competitive prices, markets pork products under the Farmland brand and then pays out its profits to livestock producers and local co-ops in the form of patronage refunds.

"We recognize that a price floor is not

the total solution," Evans says, "but we believe it helped change the direction in which the price of live hogs was moving. Establishing a price floor was an essential step to help our farmer-members through one of the toughest economic periods in the history of the pork industry. We felt compelled to help producers contain their losses until we could work through the oversupply of hogs."

Another step Farmland took to help move hogs through the market was to significantly increase its plant operating levels. Starting in August, Farmland bumped up operating levels among its packing and processing facilities to as high as 120 percent over previous-year levels. At the same time, it increased plant operations to six days a week.

"That moved an additional 70,000 to 100,000 head each month," says Evans.

At the consumer and retail level, Farmland has worked to stimulate consumer demand for pork by increasing advertising of its products, offering coupons, running specials on pork, and urging retail and food service businesses to feature pork and pork products. To meet changing consumer demand, Farmland also is working

to develop new value-added and leaner pork products.

Farmland also has taken steps to help producers market their hogs more effectively. In October, Farmland and the National Pork Producers Council launched a voluntary, hog-price reporting service on the Internet. This reports the plant price received on cash sales on the previous marketing day. The Web-based service (www.farmland.com) reports the plant price received on cash sales on the previous marketing day as well as other quality factors.

"The expanded information helps producers make better informed marketing decisions," says Evans.

Additionally, Farmland has asked Congress to help livestock producers and agriculture by aggressively pursuing market- and trade-expanding initiatives, granting negotiating authority, renewing normal trade relations with China and reforming sanctions and embargo policies.

Pork production in America climbed 10 percent in 1998, to 19 billion pounds, topping the previous record set in 1995 by 7 percent. Photo courtesy Equity Livestock Exchange



"Our intention is to help producers weather this economic storm," Evans says. "If we succeed in doing that, we've done our job as a producer-owned company."

Price risk management

Equity Livestock Co-op has begun developing programs that can help its members with price risk management in the hog market. The co-op has 60,000 members in the Upper Midwest and markets \$500 million worth of livestock annually. Its marketing volume includes 250,000 hogs each year.

Equity Livestock has added a licensed commodity broker to help make direct arrangements with packers. It's also working to open more doors for price-risk management for its members through the futures market.

"We're seeing a huge interest from producers in these programs," says Beck. "Today, it's not just an option but a necessity to eliminate price risk."

Beck adds, "Co-ops need to help producers band together for better economic clout in the marketplace."

Producers form co-ops

In Kentucky, a small group of hog producers who saw opportunity formed their own cooperative in 1992. Today, Central Kentucky Hog Marketing Association (CKHMA) counts 30 members who market 30,000 hogs per year through the cooperative. CKHMA pools shipments of hogs for its members. The hogs are purchased by Swift's, the Louisville packer, which seeks consistently high-quality hogs from CKHMA. Members are saving on shipping costs, benefiting from packer incentives for hog quality and obtaining other services offered by the co-op.

In North Carolina, the nation's No. 2 hog-producing state behind Iowa, a group of independent farmers has formed Eastern Foods, Inc. to increase the marketing alternatives for its 70 members. It's also



assisting members with purchasing inputs.

"It's a challenge for individuals in the hog business today," says John Adams, an Eastern Foods member who produces 6,000 hogs a year in Greene County, N.C. "Producers must come together in size and scope to compete."

Eastern Foods is looking at a number of possibilities, some of which involve packing opportunities. The co-op has even considered "moving to branded products to assure consumers of the integrity of our products," says Adams.

Lessons for the future

While there are no quick and easy cures to hog producers' problems, there is hope. For starters, USDA projects that inventories will decline in 1999 and the rate of production increase will slow.

Following pleas to state and federal officials, proposals have emerged for government assistance for hog farmers. A federal mandatory price reporting proposal also is being discussed. "That's important," says Equity Co-op's Beck. "That will help level

The total inventory of all hogs and pigs in the United States on March 1, 1999, was 59.9 million head, about 1 percent lower than in March 1998. Photo courtesy Equity Livestock Exchange

up the playing field for independent producers."

But beyond the short term, farmers are learning from the harsh lesson of the recent crisis that they must band together. Through farmer-owned and controlled cooperatives, producers can increase their bargaining power, access helpful market information and stay in the game.

Many industry observers say farmers need to stop thinking that they only produce commodities. They say producers must stop thinking of live hogs, and start thinking of more value from bacon and ham. With pork producers still reeling from the recent price disaster, there may be no better time to re-examine the cooperative principle that by working together, farmers can position themselves to survive. ■

Stanley W. Dreyer

cooperative statesman



"A visionary, a moderator and a statesman, who has done much to advance the influence and effect of co-ops in the United States and in the world."

Involvement with cooperatives:

Stanley W. Dreyer spent 45 years directly involved in cooperatives before retiring in January 1999 as an officer of the National Cooperative Bank (NCB) in Washington, D.C. During that time, he devoted his business and personal energies to organizing, developing and promoting co-ops everywhere. His roles have included president of the Cooperative League of the United States (now the National Cooperative Business Association), board member of the International Cooperative Alliance, and international cooperative developer at NCB. Dreyer also was the founder of the Cooperative Hall of Fame, into which he himself was inducted in 1997. The ceremony at the National Press Club honored him with these words, "Throughout his tremendous career with cooperatives, Dreyer has been a visionary, a moderator and a statesman, who quietly but effectively has done much to advance the influence and effect of co-ops in the United States and in the world."

Career achievements: Dreyer counts his role in creating NCB as one of his greatest accomplishments. Congress chartered NCB in 1978 to provide financial services to commercial and real estate ventures that are

guided by cooperative principles. In 1981, NCB was restructured as a privately held financial institution. It is owned today by more than 800 member-users. "Stan was instrumental in the formation of the bank," says NCB president Chuck Snyder.

Says Dreyer, "NCB's creation was a coalition building effort. It's been a force in non-agricultural co-op growth and it's been supportive of the cooperative community in general."

Dreyer also takes pride in his efforts to facilitate cooperative development abroad and to help bring cooperatives together.

Latest honor: To recognize Dreyer's contributions, lifelong beliefs and support of cooperatives, NCB this year created "The Spirit of Cooperation Award." A medallion, cast with Dreyer's image, will be awarded annually to an NCB employee who exhibits Dreyer's cooperative spirit. "Stan is a senior statesman of the co-op community," says Snyder. "His dedication to the spirit of cooperation is one of the ideals we try to promote with NCB." On April 22, 1999, NCB managing director Barry Silver received the first-ever award.

What new developments are taking place within cooperative community? "The most striking area of new cooperative formation has been in retailer-owned purchasing cooperatives," Dreyer says. He also points to innovative programs in senior housing and healthcare, and education and cooperative approaches to the living wage.

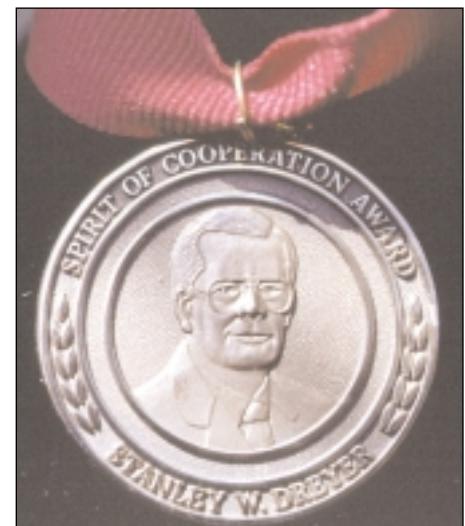
Biggest co-op concerns? "The limited cooperation among cooperatives, which underutilizes their potential influence and effectiveness," Dreyer says. He's also concerned about the limited appreciation of the

value of and need for an informed membership and employees on the values of cooperatives. He advocates more attention to understanding why application of time-tested principles adds strength to the entire system.

Future for cooperatives? "I see a broader based cooperative system with new cooperatives being formed among non-agricultural groups to preserve their ability to stay in business or to pursue the need for services," says Dreyer. He also expects to see larger and more diverse co-ops to meet competition and to continue to be an effective yardstick for their members. "There will also be a growing adaptation to international markets and conditions," he says.

Personal future plans? "I plan to find satisfaction and rewards in more personal things such as family, reading and a simpler but active life," Dreyer says. "I had nearly 50 years to make whatever contribution I could to the cooperative movement and it has been very kind and generous in return." ■

Stan Dreyer's image is cast in a new "Spirit of Cooperation" medallion, which the National Cooperative Bank will award annually. Photo by Catherine Merlo



The Prime of Prairie Farms Dairy

With its focus on earnings and its profitable track record, this Midwest dairy co-op has producers asking to become members

Catherine Merlo
Editor

As Fred Kuenstler settles into his first year as board president of Prairie Farms Dairy, he's finding the transition to be as smooth as a drink of the cooperative's chocolate milk.

That should come as no surprise. After all, this dairy farmer has been a member of the cooperative's board for 31 years, and its treasurer for the past 11 years.

Furthermore, his predecessor, Melvin Schweizer, is only a seat or two away, having remained on the Prairie Farms board after 26 years as its chairman.

But if one thing makes Kuenstler's job easy, it's the very cooperative he is charged with leading. Prairie Farms Dairy is considered one of the most successful dairy cooperatives in the United States. Based in Carlinville, Ill., the 800-member co-op is recognized across the Midwest for its high-quality dairy products. From its humble beginnings in 1938, Prairie Farms has grown to become one of the nation's top five fluid milk bottlers, and, until recently, held a place on the Fortune 500 list of American companies.

In the often dissenting dairy industry, there's a general agreement that Prairie Farms knows how to operate efficiently and profitably, says Ed Coughlin, senior policy advisor for the National Milk Producers Federation.

"Prairie Farms has a unique ability to run a very profitable operation in bottling fluid milk," Coughlin says. "Most other cooperatives haven't had the success that Prairie Farms has had in that endeavor."

From his farm in Olney, Ill., where he milks 120 cows and grows grain on 1,000 acres, Kuenstler offers his answer for Prairie Farms' success.

"What makes Prairie Farms unique is that its management and board have always been interested in making a profit, and returning that profit back to the pro-

ducers," says Kuenstler, who was elected board president in late January.

And that's just what Prairie Farms did once again last year. Celebrating its "sixtieth and best year ever," Prairie Farms achieved record earnings and sales. For its fiscal year ended Sept. 30, 1998, Prairie Farms reported all-time high earnings of slightly more than \$50 million, an increase of 13.5 percent over the previous year. Dollar sales also made history at \$933 million, a whopping \$50 million over the year before.

(Those figures don't include Prairie

Farms' lucrative business with its five joint-venture partners. Those partnerships brought in more than \$685 million in sales in 1998, an increase of nearly 4 percent from 1997.)

And more high-water marks are expected.

"When I took over 12 years ago, I told the board and management that Prairie

Although its largest product is fluid milk, Prairie Farms also churns out ice cream, cottage cheese, sour cream and yogurt.

Photos courtesy of Prairie Farms.



Prairie Farms member Merritt Fitschen (second from right), seen here with his sons and grandson, has won numerous milk quality awards. He began milking in 1939 with three cows.

Farms would reach \$1 billion in sales in the year 2000," says Leonard Southwell, the co-op's executive vice president and CEO. "But it's possible we'll do that in 1999."

Growth through acquisitions

Early members of Prairie Farms might hardly recognize their co-op today. Organized originally as Producers Creamery of Carlinville, it was later renamed Prairie Farms Creamery of Carlinville. Today, after more than 50 mergers, consolidations and acquisitions, it's Prairie Farms Dairy Inc.

"When we put Prairie Farms Dairy Inc. together in 1962, our total yearly sales were about \$16 million," Southwell says. "In the last 10 years, our growth has been about \$500 million."

Southwell attributes much of the co-op's growth to its acquisitions. On its own, Prairie Farms operates 17 plants and 36 distribution centers, and employs 2,100 people in eight Midwest states. But add in its five joint ventures and the numbers soar.

Today, Prairie Farms, its subsidiaries and joint ventures operate 30 plants, three warehouses and 68 distribution points for a total of 101 profit centers. You can find them in Illinois, Indiana, Missouri, Iowa, Kentucky, Tennessee, Michigan, Ohio, Oklahoma, Arkansas, Nebraska, and Kansas.

Including subsidiaries and joint ventures, Prairie Farms operates 30 plants, three warehouses and 68 distribution points across the Midwest.

All counted, there are 4,300 employees who add value to 3.8 billion pounds of raw milk each year. For Prairie Farms last year, the co-op's Grade A producer-members supplied about 75 percent of the needed volume. The rest was purchased from other co-ops, which also shared in the patronage earnings.

All together, Prairie Farms partners and subsidiaries help the co-op produce a complete line of dairy products. Their largest use of raw milk — 80 percent — is for fluid bottled milk, equaling more than 3.35 billion pounds of milk. Other products include 30 million gallons of ice cream per year, 63 million pounds of cottage cheese (or some 7 percent of the nation's output), 30 million gallons of sour cream and dips, and 7 million pounds of yogurt. Orange juice and other non-dairy drinks total 46 million gallons per year.

Why orange juice? "Many customers only want to do business with one dairy," Southwell says. "Orange juice processing is compatible with milk processing."

Its diversified line of products accounts for a large part of the co-op's strength, according to Kuenstler. "Prairie Farms has long taken producers' milk and turned it into a product that can be marketed for added income," he says. "We were into value-added long before it became a buzzword."

Capable management leads to loyalty

Kuenstler also believes Prairie Farms'



success stems from its capable management team. Throughout its history, Prairie Farms has benefited from a small but capable team of managers who have navigated the company on its profit-making course. It started with Fletcher Gourley, the visionary pioneer who helped create the co-op in 1938.

"There is no doubt he was the guiding light behind much of the success of Prairie Farms," Southwell says. And there was Schweizer, under whose 26-year guidance the co-op saw tremendous growth.

"Prairie Farms has the best managers in the dairy industry," Kuenstler says. "They're completely dedicated. I can call Leonard Southwell on a Saturday morning, and he'll be there in the office, not out on the golf course. And the management team is like that, all the way down the line."

Southwell has been Prairie Farms' manager since 1988. For years, he served as the co-op's No. 2 man behind the legendary Gourley. But Southwell has been connected with Prairie Farms since 1951, when he managed a small Illinois co-op that later merged with Prairie Farms.

"Prairie Farms has been successful because we have avoided making any catastrophic mistakes," says Southwell. "We don't shoot from the hip. We put a great deal of time and effort into any program we embark upon. If it's not going to do anything for the producers, we're not interested."

That may be why so few members have left the co-op. "I could count on one hand the number of members who've quit and gone somewhere else," Kuenstler says. "That should give you some idea of the loyalty members have toward Prairie Farms."

In fact, the co-op's blue-ribbon reputation is so strong, "there are producers in all areas where we procure raw milk who are asking to join Prairie Farms," says Southwell. But asking doesn't always lead to membership. "Prairie Farms is not a co-op that invites all producers in," says





A new, 1,500 gallon milk tank is pushed inside the milk barn at the Merritt Fitschen dairy in central Illinois.

NMPF's Coughlin.

Says Southwell, "We don't want surplus milk. We take on members only as we need them. We pay top prices for quality milk because our products must be top quality. We're selective in taking on new producers."

For the producers who are fortunate enough to be members, the rewards are high. Their pay price, quality and patronage averaged \$16.70 cents per hundredweight in 1998 — 80 cents above the previous fiscal year. Prairie Farms saw not only historic earnings in 1998 but a record patronage of \$28 million as well. Sixty percent of the patronage payment — or \$1.37 per hundredweight — was made in cash June 1 of this year. In the past five years alone, Prairie Farms has paid out more than \$110 million in patronage dividends.

"By law, a cooperative must pay at least 20 percent of patronage dollars in cash," Prairie Farms notes in its 1998 annual report. "Prairie Farms has paid out at least 50 percent for the past 15 years."

In addition, Prairie Farms operates on a 7-year basis in paying back allocated earnings. It considers this "a remarkable accomplishment" for the dollars involved. "We know of no other cooperative, strictly in dairy, that has returned to the producers the amount of money per hundredweight on their milk than has Prairie Farms," the annual report says.

One other strong pull for member loyalty is the black-ink basis on which the co-op operates. There is no debt. There is no check-off for capita retains or stock. "This co-op is financed strictly on earnings," Southwell says. "We currently have no money borrowed from banking institutions."

For 1999, Prairie Farms' capital expenditure budget totals \$14 million. That's down noticeably from \$17 million last year, when the co-op began building an ultra-high-temperature processing plant in Granite City, Ill. The \$8 million plant will produce the co-op's soft-serve ice cream mix, half-pints of milk for vending companies, 5-gallon milk dispensers, and half-

and-half cream for Prairie Farms' retail sales. It will begin operations in June 1999.

Prairie Farms keeps its operations as cost-effective as possible. Its management staff is small. "You'd be amazed at the small size of our corporate office when you look at the size of our sales," Southwell says.

In more than two dozen rural communities in several Midwest states, the best-paying jobs can be found at the Prairie Farms dairy plant. Much of the co-op's success is due to the "Prairie Farms family," says Southwell. "We work as a team from plant to plant. Very seldom do our employees leave our employment. Many work beyond the retirement age."

Southwell also stresses that plant managers are given major responsibility for their operations. "We don't try to call the shots from the corporate office," he says. "They're responsible for the bottom line."

Not ready for a merger

So far, Prairie Farms has not considered a merger with mega-cooperatives. That isn't to say that Prairie Farms won't work with the dairy giants. Already, it has three joint ventures with DFA. Land O'Lakes is one of Prairie Farms' members, as are Foremost Farms USA and Associated Milk Producers Inc.

Prairie Farms is closely watching the industry's formidable challenges — a changing customer base, the declining role of government, maintaining per-capita consumption of dairy products, and the ongoing struggle to remain competitive. It won't be an easy road. Prices, which reached all-time highs of about \$19 per hundredweight in January, are dropping. "It would be unrealistic to believe that the coming year, 1999, would be as successful as 1998," the co-op's annual report says.

But as this little giant in the dairy industry moves ahead, it will continue the strategy that has worked so well for so long. In August 1998, it acquired the Roelof Dairy at Galesburg, Mich. In January 1999, Prairie Farms acquired another company,

Holland Dairy of Holland, Ind. More acquisitions remain a possibility. "We're always interested in pursuing acquisitions that fit with Prairie Farms," says Southwell.

Kuenstler himself has given thought to how the relatively small Prairie Farms will survive in the world of mega-mergers and dairy giants. "But when I look at Prairie Farms' management, our diversification and our quality," he says, "I know our future is great." ■

Subsidiaries and joint ventures

As part of its operations, Prairie Farms has several wholly-owned subsidiaries and joint ventures. One subsidiary, Ice Cream Specialties, manufactures and distributes all types of frozen treats, many with the popular North Star brand. Ice Cream Specialties has operating divisions in St. Louis, Mo., and Lafayette, Ind.

PFD Supply is a non-dairy subsidiary operation. As a one-stop distributor of products to fast-food outlets, PFD Supply has more than 170,000 square feet of refrigerated warehouses in Granite City and Lebanon, Ill. It delivers more than 7 million cases of products each year throughout the Midwest.

Another subsidiary, Pevely Dairy, was founded in 1887. The Pevely name became renowned for quality dairy products with the 1904 St. Louis World's Fair, and has since remained a market leader. Its distribution points are located in St. Charles and St. Clair, Mo.

East Side Jersey Dairy, its fourth subsidiary, is a fluid-milk operation in Anderson, Ill.

Prairie Farms' members also are half-owners of five joint venture companies.

Supply Co-op Faces Robinson-Patman Act and Antitrust Liability

Donald A. Frederick

Program Leader/Law, Policy & Governance
USDA Rural Business-Cooperative Service

Fur Breeders Agricultural Cooperative supplies feed to breeders of fur bearing animals. It has delivery routes that serve areas with a high concentration of members. The co-op delivers feed to these members free of charge. Other members must pick up their feed at the co-op's facility.

Two of the cooperative's members, whose ranch is approximately 80 miles from the nearest delivery route, sued the cooperative. They asked for an injunction requiring the cooperative to deliver feed to them, claiming that the policy of delivering feed free of charge to some members but not to others constituted price discrimination in violation of Section 2(a) of the Clayton Act (as amended by the Robinson-Patman Act). They also asked for triple damages based on lost profits, litigation costs, and attorney's fees under Section 4 of the Clayton Antitrust Act.

The cooperative asked the court to dismiss the litigation on the grounds that the plaintiffs' claims, even if true, didn't allege anything illegal. A United States District Court Judge in Utah denied the co-op's motion, holding that the delivery policy could be found to be unlawful price discrimination and a violation of antitrust law entitling plaintiffs to triple damages and costs. *Bell v. Fur Breeders Agricultural Cooperative*, 3 F. Supp. 2d 1241 (D. Utah 1998).

Robinson-Patman primer

Federal antitrust and trade regulation laws do not give the government authority to tell a business what prices to charge, but they do forbid discrimination among buyers in those prices, under certain conditions. One element of those laws, Section 2(a) of the Clayton Act as amended by the Robinson-Patman Act, makes it unlawful for a seller "to discriminate in prices between different purchasers" of the same products "where the effect of such discrimination may be to substantially lessen competition...." 15 U.S.C. ' 13(a).

The intent of Section 2(a) is to prevent large buyers from using their market

power to purchase goods at lower costs than their smaller competitors. Nonetheless, the legal onus is placed on sellers.

Charging a lower price to some buyers is allowed in some situations, such as to meet an equally low price offered by a competitor or where the difference in price can be justified by differences in the costs of serving customers. Fortunately for our purposes, these complex defense issues aren't involved in the case covered in this article.

The Robinson-Patman Act has not been a major restraint on cooperatives. The Act specifically provides that paying patronage refunds to members and other patrons is not price discrimination. 15 U.S.C. ' 13(b). However, this decision is a reminder that cooperatives are not totally exempt from Robinson-Patman.

Robinson-Patman Act issues

The court first discussed whether the cooperative's delivery practices could affect the "price" members paid for feed. It found that "price" encompassed more than the invoice price. "Price" was defined as also including other terms of sale that allowed some customers to purchase something at a lower overall cost than other customers. The court determined that the additional cost incurred by the plaintiffs in picking up their feed could amount to illegal indirect price discrimination.

Next the court looked at whether the cooperative's delivery policy might result in a substantial reduction in competition. The court observed that since fur is sold at auction, the cooperative's practice could not result in a lower price for the plaintiff's products.

However, it said plaintiffs could establish that the discrimination resulted in lower profits for themselves. The court noted that fur breeders operate on a relatively low profit margin and the cooperative's delivery policy provided plaintiffs' competitors with a significant competitive advantage. This, in the court's mind, was enough to justify an inference of competitive injury.

While the opinion addresses this issue in vague terms, a footnote is more to the point. Here the judge states, "It seems

obvious to the court that plaintiffs' competitive opportunities may be harmed when it is forced to incur \$16-17,000 dollars in costs to pick up feed that its competitors have delivered at no cost. This is clearly the type of competitive injury the Robinson-Patman Act was designed to discourage and prevent."

Thus the judge rejected the cooperative's motion to dismiss the Robinson-Patman Act charges.

Antitrust issue

Finally, the court addressed plaintiffs' charge that the cooperative's delivery policy also violates federal antitrust law, subjecting the co-op to triple damage liability. It reviewed the charges in plaintiffs' compliant and stated that since it was ruling on the cooperative's motion to dismiss, it had to construe all allegations in the case in favor of the other party—in this instance the disgruntled member plaintiffs.

The court concluded that where, as in this dispute, a cooperative's conduct increases the costs of some customers and those customers can't raise their prices to recover the cost differences between themselves and other competitors receiving the same product at a lower cost, the harm to the disadvantaged customers is something the antitrust laws are designed to prevent. The cooperative's motion to dismiss the antitrust allegations was also denied.

Implications for cooperatives

While this case involves a dispute between a cooperative and some of its members, it raises a broader issue. Other than paying patronage refunds what, if anything, can a supply cooperative offer its customers as inducements to become members? Is every member-only discount or service a possible Robinson-Patman and antitrust laws violation?

As for the charges of antitrust law violations, perhaps they will resurrect interest in whether the Capper-Volstead Act defense to anticompetitive conduct by agricultural producers covers providing supplies to producers. Certainly any issue that poses the possibility of triple-damage awards against cooperatives requires consideration of all possible defenses. ■

Transworld Traders

With 1997's record exports, U.S. farm cooperatives prove their ability in the global marketplace

Tracey L. Kennedy
Ag Economist, USDA Rural Development

Editor's note: The first in an annual series of surveys of cooperative involvement in international markets began in 1997. Prior to that, cooperative exports and imports had been measured at five-year intervals. The new survey was also the first attempt to measure cooperative involvement in activities other than exporting and importing. These include foreign memberships and ownership of assets in other countries. An overview of survey findings for 1997 is presented here.

Co-ops set record for exports in 1997

Riding brisk sales in pre-recession Asian markets and sharp increases in sales of bulk commodities, U.S. producer-owned cooperatives reported record agricultural exports in 1997. During 1997, 95 cooperatives reported exports of agricultural commodities and food products valued at more than \$7.8 billion, up from \$5.6 billion in 1995 and accounting for more than 13 percent of all U.S. agricultural exports. Seven cooperatives also reported exports of non-agricultural products — fishery and seafood products, fertilizer and other farm inputs, equipment and machinery — valued at \$227 million.

Seventy percent (\$5.48 billion) of cooperative exports in 1997 were bulk commodities: grains and oilseeds, cotton, pulses, and peanuts (figure 1). Consumer-oriented products — fresh and processed fruits and vegetables, red meats and poultry, dairy products, and tree nuts — accounted for 25 percent (\$1.98 billion). Intermediate products — partially processed or intended for use by other than the final consumer — such as feeds, oils, flours and meals, and sugars and sweeteners, accounted for about 5 percent (\$406 million) of the total.

While trends in U.S. exports point to the increased importance of differentiated products relative to bulk commodities, cooperatives have shown growth in both categories during the latter half of the 1990s (figure 2). Fueled by consolidations and alliances in grains and oilseeds, cooperative exports of bulk commodities posted a sharp increase of 43 percent from \$3.8 billion in 1995. Similarly, sales of consumer-oriented products, which remained relatively steady during the first half of the 1990s, rose 39 percent from 1995 to 1997, largely on the strength of increased sales of horticultural products. Intermediate products sales continued their consistent increase, rising 15 percent from 1995 to 1997.

Export sales concentrated among largest co-ops

Cooperative export sales continue to be heavily concentrated among a few large exporters. In 1997, only five cooperatives, each with exports of greater than \$250 million, accounted for 76.7 percent of all export sales reported, roughly the same amount reported in 1995. Another 16 percent, or \$1.3 billion, came from 14 cooperatives having export sales ranging from \$50 million to \$249 million. The largest number of cooperatives in any sales range was 34, selling between \$1 million and \$9.9 million but accounting for less than 2 percent of all export sales.

Record cooperative share

Cooperatives accounted for 13.8 percent of all U.S. agricultural exports in 1997, the largest cooperative share recorded since cooperative exports have been surveyed by USDA. Sharply higher levels of cooperative exports, coupled with a downturn in total U.S. export sales, are primarily responsible for this increase. In terms of commodity categories, cooperatives posted a 23.3 percent share of U.S. bulk exports, 9.5 percent of all U.S. consumer-oriented exports and 3.2 percent of intermediate export sales.

Export markets

Asian markets were by far the most important for cooperative exports in 1997, taking in \$3.9 billion or 49.7 percent of the total, compared to 43 percent of all U.S. exports to those destinations (figure 3). European destinations followed with \$1.39 billion or 17.7 percent of cooperative exports, while Latin American markets took in \$796 million or a little more than 10 percent. Canada accounted for almost 9 percent of cooperative exports at \$684 million.

Non-agricultural exports

Seven cooperatives reported non-agricultural exports valued at \$227 million in 1997. Non-agricultural products consist mainly of farm inputs such as fertilizer, petroleum products, equipment and other supplies, and forestry products as well as seafood and fisheries products.

Ninety percent of these exports (\$204.7 million) are comprised of fertilizer, petroleum and chemical products (figure 4). Nine percent (\$20.5 million) comes from other products, primarily fisheries and seafood products, forestry products and some services. Machinery and equipment (\$1.2 million) and miscellaneous farm supplies — mainly fencing and animal health products (\$890,000) — account for less than 1 percent, respectively.

Canada was by far the leading market for cooperative exports of non-agricultural products at more than \$202.8 million, or 89 percent of the total. Asia was the second largest market at \$15.2 million, or 7 percent of the total, followed by Europe at \$6.1 million, or 2.6 percent, and Latin America with \$2.7 million, or about 1 percent.

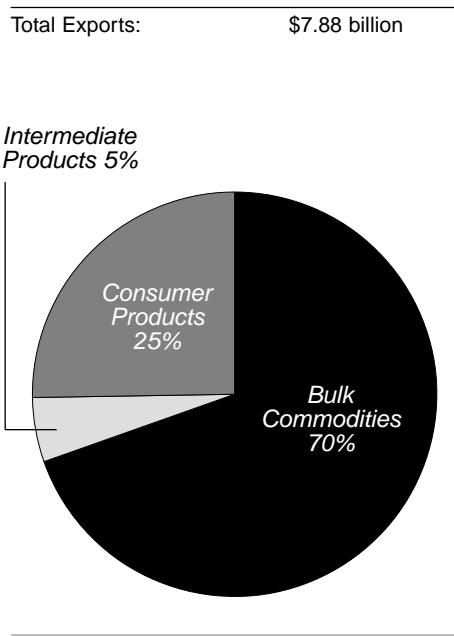
Export tools

A variety of tools are available to cooperatives to facilitate the sale of member product overseas. These include GSM loans; Foreign Sales Corporations (FSCs), a tax incentive mechanism for U.S. exporters; export trade Certificates of

Review (COR), a provision providing limited antitrust exemptions for joint export activities; and export promotion programs such as USDA's Market Access Program (MAP) or those available through various state and regional organizations.

On the surface, survey results indicate that only a relatively few cooperative exporters make use of these programs: 14 of 95 reported using FSCs; three participate in the COR program; 13 have received MAP funds; nine use GSM loans, and 13 participate in state, regional, or commodity-based export promotion programs. However, some of these programs are limited to specific commodities and countries, and virtually all are geared to exporters of a certain size and continuity in terms of market presence. The survey did not attempt to measure cooperative awareness of these programs.

Figure 1—Agricultural Exports by Cooperatives, 1997



Cooperatives import range of goods

Cooperatives source products from around the globe for a variety of purposes. Farm supply cooperatives purchase fertilizer, petroleum, feed, animal health products, twine, and equipment and machinery to provide member-producers with the best value in farm inputs. Marketing cooperatives import ingredients for further processing, complementary products to enhance their product lines and occasionally to augment member production.

In 1997, 24 cooperatives reported more than \$507 million in imports. Seventy-two percent of cooperatives' imports were farm supplies and other agricultural inputs such as petroleum, fertilizer, and machinery and equipment (figure 5). Twenty-three percent of cooperatives' imports were of high-value food products, primarily fresh produce and juice concentrates. The remaining

5 percent consisted of intermediate agricultural products: feed components, sugars and sweeteners, and bovine semen.

Countries of origin

U.S. cooperatives purchased more than 61 percent of their imported goods from NAFTA partner Canada in 1997 (figure 6). Most of the Canada-sourced products consisted of farm inputs such as fertilizer, petroleum products, and other farm supplies.

Latin American countries originated 22 percent of cooperatives' imports in 1997, consisting mainly of fresh and processed fruits and vegetables, as well as some farm supplies. Europe provided 7 percent of the total: processed fruit products, farm supplies and machinery, and frozen bovine semen. The origin of 9 percent of imports was not identified, while Asia, the Middle East and Oceania (Australia, New Zealand) provided less than 1 percent of imported products.

Figure 2—Agricultural Exports by U.S. Cooperatives, 1990 – 1997

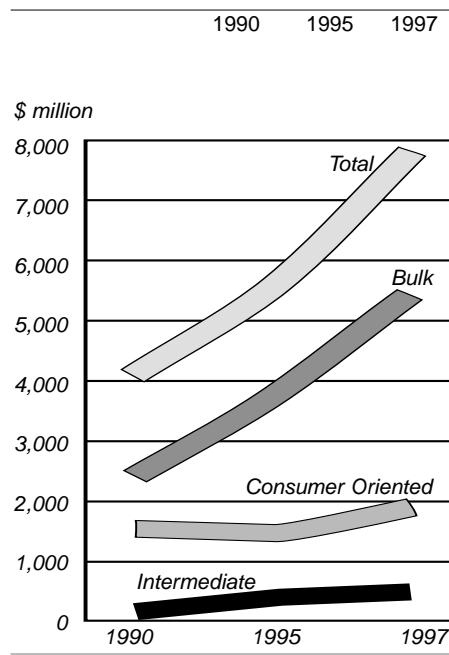
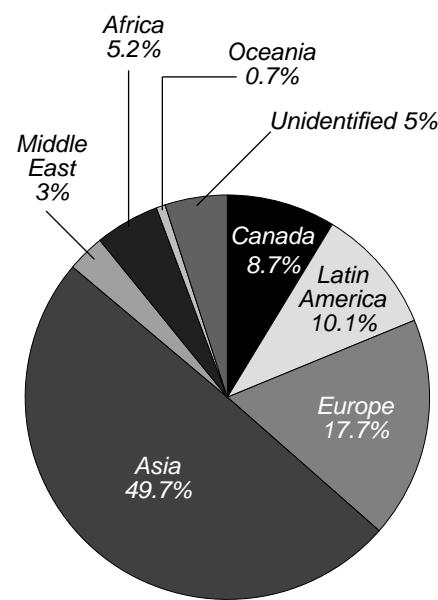


Figure 3—1997 Cooperatives Exports by Destination



Beyond exporting and importing

In the past, cooperative involvement in international activities has largely been limited to exporting and importing, though a few engaged in manufacturing, brand licensing and the like. Although still relatively few, an increasing number of cooperatives within the last decade have evolved into more truly international companies through a variety of other involvements in world markets. Today, cooperatives increasingly seek foreign producer members, engage in joint manufacturing or distribution with foreign firms, and seek out partnership and investment opportunities abroad. Marketing cooperatives facilitate the sale of member products and enhance the visibility and value of member-owned assets such as brand-names through licensing and distribution arrangements. Farm supply co-ops have increasingly integrated back into primary production through foreign member cooperatives or the acquisition of foreign assets.

In 1997, six cooperatives reported having producer-members in other countries, most in Canada, Mexico and South America. Five cooperatives had member cooperatives outside the United States, primarily in Canada. A majority of the co-ops with foreign producer-members are engaged in the production of consumer-oriented products, while those with foreign co-op members are producers of bulk commodities and farm inputs.

Twelve cooperatives — primarily producers of consumer-oriented products — reported licensing arrangements. Most of these cooperatives were active in multiple markets if not worldwide.

Six cooperatives reported joint processing or manufacturing arrangement overseas. Most were active in multiple locations, with the heaviest concentrations in Europe and Asia. Though not asked to specify whether these activities involved contractual arrangements (such as co-packing) or asset ownership, three coop-

eratives reported ownership of assets in those countries where they also had joint processing activities.

Thirteen cooperatives reported ownership of foreign assets (excluding offices). These assets ranged from wholly owned processing and manufacturing facilities to minority shares in other companies. Nine cooperatives had assets in only a single overseas location, while four reported assets in multiple countries.

Cooperatives have demonstrated, year by year, that they can be effective players in a global marketplace and their 1997 results illustrate that. However, as 1997 drew to a close, many of the markets on which U.S. cooperatives most depend experienced a sharp decline in economic conditions from which they still have not recovered. This, coupled with the maturity of markets for some commodities in which cooperatives are basic, will continue to challenge the cooperative presence internationally. ■

Figure 4—Nonagricultural Exports by Cooperatives, 1997

Total Non-Ag Exports: \$227.4 million

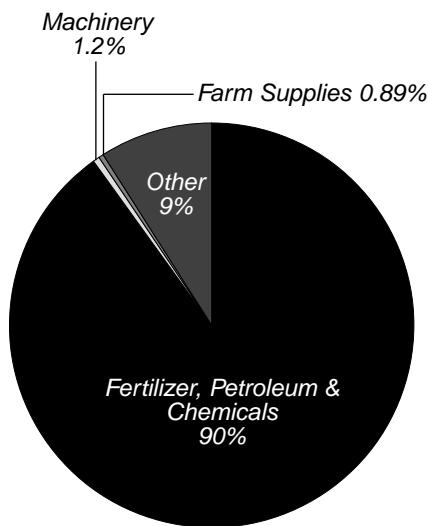


Figure 5—Imports by U.S. Cooperatives, 1997

Total Imports: \$507.8 million

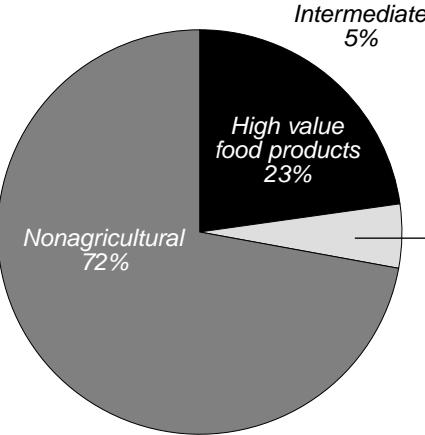
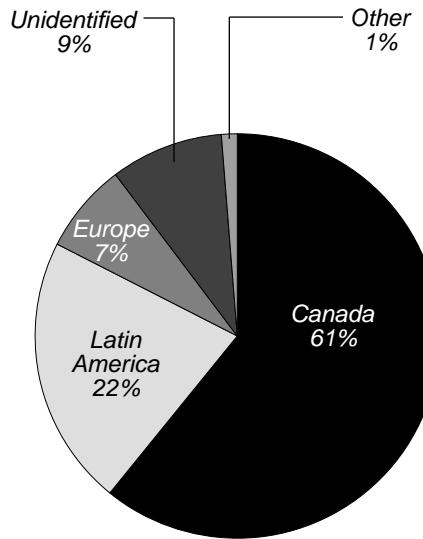


Figure 6—Cooperatives Imports by Country of Origin, 1997



A Fight for Survival

Co-op members hope extra profits will help preserve a way of life they see rapidly disappearing on the prairie

By Valerie Berton

Information Specialist USDA Sustainable Agriculture Research and Education

Editor's Note: USDA's Sustainable Agriculture Research and Education (SARE) program has funded 1,400 grants since 1988 to help producers improve profits and stewardship. As part of its educational focus, SARE recently helped launch a "Farming for Profit, Stewardship & Community" campaign for small-scale producers. The campaign centers on "tip sheets" listing free and low-cost resources on subjects ranging from alternative marketing to improving soil to networking. To learn more about SARE and how to apply for a grant or to view SARE project results, tip sheets for small farmers or other educational materials, see www.sare.org

As beef prices spiraled downward like a Kansas twister throughout the 1980s and early 1990s, ranchers in the Great Plains began selling their spreads to agricultural corporations and housing developers. Watching some of the best grassland in the world be subdivided for second homes, a group of Kansas ranchers decided to take action.

Thus was born the Tallgrass Prairie Producers Co-op, ranchers who figured a collective strategy had a better chance of weathering the storm.

"Ranchers are very independent—we're not used to working together," says Annie Wilson, a co-founder of the Kansas beef cooperative and its fledgling effort to obtain better prices for sustainably raised beef. But when struggling ranchers heard about preliminary meetings of the group, "They kept showing up."

Today, Tallgrass Prairie Producers Co-op consists of nine ranching families throughout the state who produce beef on grass and market it accordingly. They are

banking on the willingness of consumers to pay for beef raised on a protein-rich grass that has been the envy of other ranchers for generations. Until the 1940s, in fact, Texas ranchers used to truck their cattle north to finish them on Kansas grass.

Aided by a SARE grant, the co-op worked with the Kansas Rural Center to hire staff to create labels, coordinate production and, above all, market beef. They now sell beef to a hospital, restaurants, small groceries and directly to individuals. At the 'Buy Kansas' Expo 1997, Tallgrass Beef was voted best Kansas product.

"It's a great effort by people trying to live by their principles, and have their product reflect that," says Dan Nagengast of the Kansas Rural Center. "There's a big striving in this country for 'real' things. Pepperidge Farms will never be a farm, but here's a product that is what they say it is."

Most U.S. beef comes from cattle finished in feedlots, where they eat large amounts of grain. By finishing beef on pasture, co-op members cut out the extra, energy-intensive process of planting, harvesting and shipping grain. Instead, their production model keeps land in grass, conserving soil and water quality. Their animals are raised without hormone implants or antibiotics.

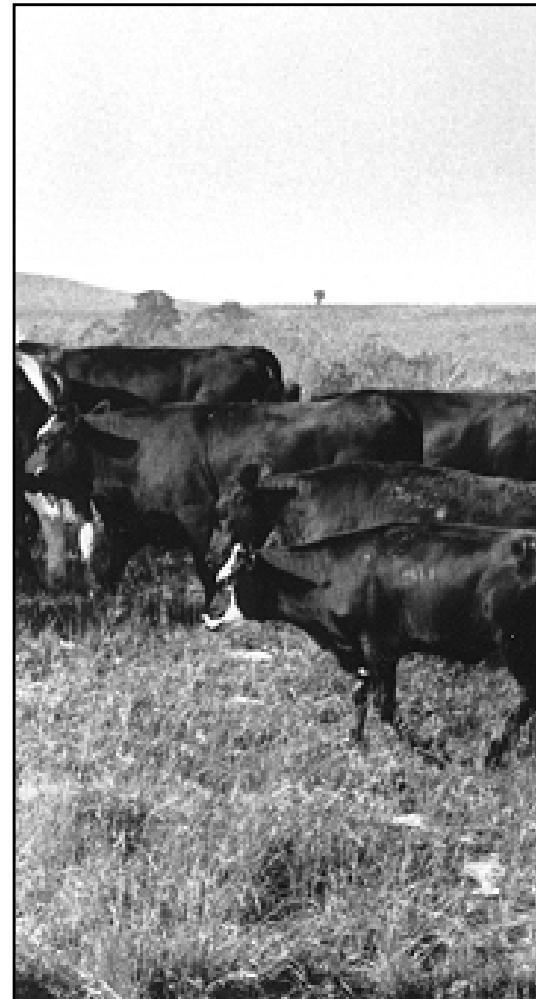
The resulting leaner cut of beef has yielded impressive nutritional test results, and, Tallgrass Beef producers boast, tastes better. An average cut of Tallgrass beef breaks down to 116 calories, 1.5 grams of fat and 0.7 grams of saturated fat. Co-op members feel sure once that information gets out, their product will bring a better price in the marketplace than conventionally raised beef.

"We're trying to break out of the corporate-industrial mold," says Pete Ferrell, a local rancher and the co-op's secretary-treasurer. "We want to capture the value of what we're doing, to be price-mak-

ers rather than price-takers" in the fluctuating beef market.

The key, they say, is spreading the word, finding the niches where they can sell their different brand of beef. They attend conferences, workshops and trade shows, land stories in the local press, write for newsletters and talk up their product to whoever will hear them.

Their first customer was a local hospital, where the staff dietitian was wowed by the lower fat content of co-op beef. A restaurant in Wichita specializing in low-fat food soon followed.



Annie Wilson, rancher and business manager of t

More recently, the co-op landed its first out-of-state customer. A Baltimore trade show brought co-op representatives in contact with a Hudson Valley, N.Y., distributor that supplies food clubs and natural food stores in New York, Connecticut, Pennsylvania and New Jersey.

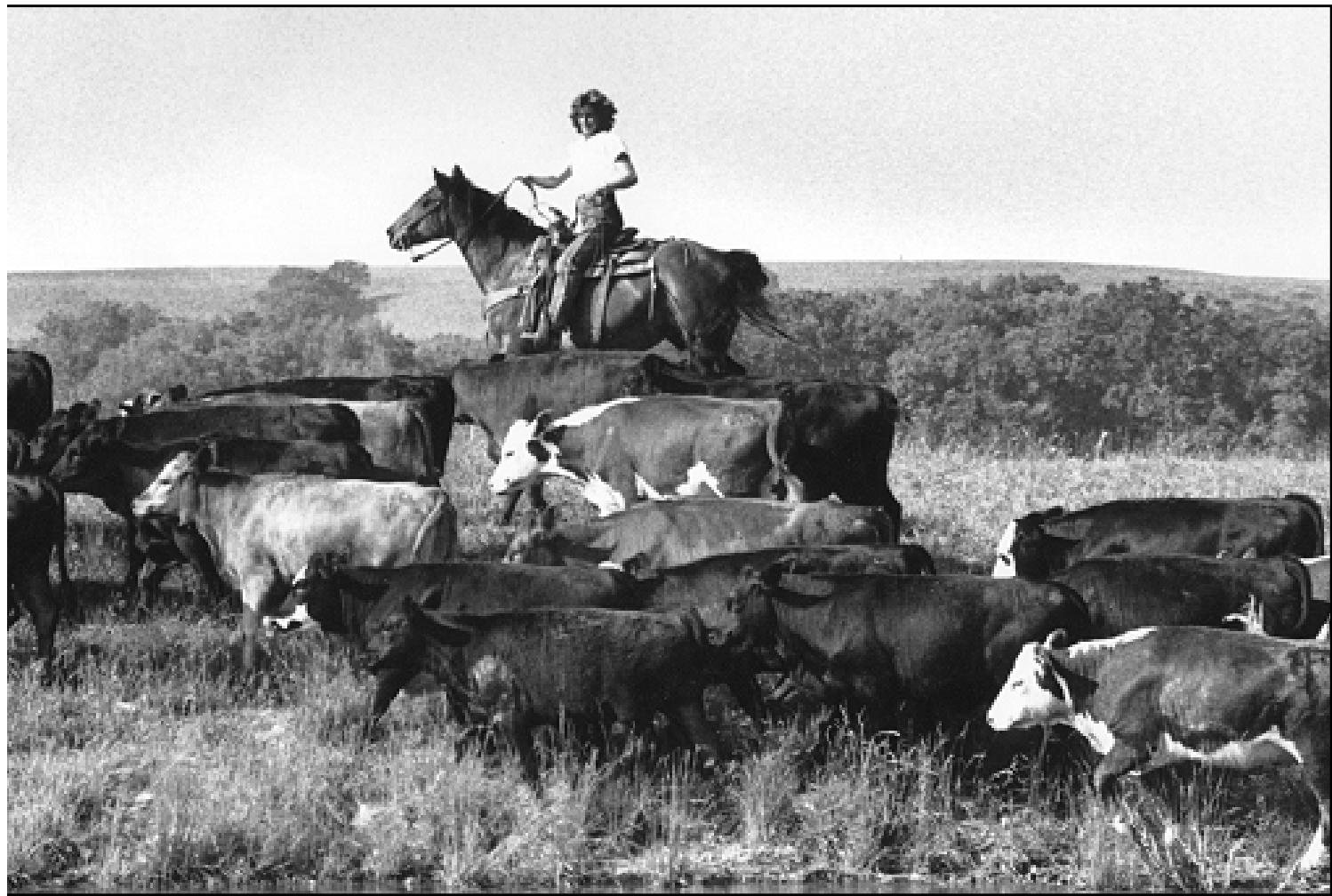
"They called us as soon as we got home and said they were ready to go," says Wilson, the co-op's business manager. The co-op began shipping frozen beef from Kansas in late 1997. The effort was not without tough initial challenges. A severe drought plagued Kansas just as the co-op got

underway, and cutting through what seemed like yards of bureaucratic red tape to establish a logo, business plan and marketing strategy tried their patience.

Yet, co-op members are heartened by the potential of Tallgrass Prairie Producers to reach consumers all over the country. They hope the extra profit will help preserve a way of life they see rapidly disappearing on the prairie.

"Though our community life may be fulfilling and supportive, it belies the underlying economic crisis in this area, where young ranchers are rare as thunderstorms

in winter," Wilson wrote for *The Land Report*, a Land Institute publication, in 1995. "The best that most young people wanting to stay on the land can hope for is to find a job as a manager or hand for one of the absentee 'mega-ranchers.' I grieve for their loss of a personal, long-term stake in the land—the bonding and commitment that comes from knowing the hills and grasses they manage are truly their home[s] and must be preserved for their children." ■



The Tallgrass Prairie Producers Co-op, says co-op members are raising "healthy animals on healthy land." USDA Photo by Vada Snider

Next century will see new wave of electric co-ops as consumers seek protection from deregulation

Consumers will increasingly turn to cooperatives for energy services if the electric utility industry abandons its long-held obligation to serve all customers, predicts Glenn English, chief executive officer of the National Rural Electric Cooperative Association (NRECA).

Speaking to more than 12,000 representatives from the nation's cooperative electric utilities in Anaheim, Calif., March 8 for the 57th NRECA Annual Meeting, English singled out energy suppliers that have either threatened to or have abandoned residential electric customers in states that have allowed some form of electricity deregulation.

"Remember Enron? Today, that company has turned its back on consumers in every residential market they entered," he said.

Warning that the concept of choice can mean that some consumers "won't get chosen," English read from an employee newsletter published by an investor-owned power company that promised to focus its resources on "those customers who will give us the targeted rate of return. In a deregulated market, we shouldn't try to keep all customers. After deregulation

is a reality we will no longer have an obligation to serve," he said, quoting an official of the power company.

"Companies like that help define who we are," said English, urging the delegates to strengthen their adherence to the seven business principles that put the consumer at the center of the cooperative enterprise. "Changes in our industry will increase the need by consumers for electric cooperatives. According to the cooperative principles, we have a responsibility to meet those needs," he said.

English also warned of business and political forces at work to undermine the cooperative business structure, calling on cooperative officials and consumers to remind their elected officials to recognize the uniqueness of electric cooperatives.

"There are forces at work whose goal is to eliminate competition by attacking the cooperative form of business," English said. "Legislators and regulators must tailor restructuring legislation in a way that preserves and keeps the cooperative business model whole. We are not asking to be exempted. We are asking to be treated differently, because we are different. We must have the ability to continue to provide consumers with an alternative that allows them the opportunity of choice and self-determination."

Number of U.S. dairy farms plunges



The number of dairy farms in the U.S. has dropped by more than one-fourth in the past six years, according to a new analysis conducted by the National Milk Producers Federation (NMPF).

NMPF reviewed

USDA data on the number of dairy farms in major dairy states during the period 1993-98. During that 6-year period, the total number of U.S. dairy operations dropped from 157,150 in 1993 to 116,430 in 1998 — a decline of 40,720 farms, or 25.9 percent. The USDA defines a dairy operation as any farm with at least one milk cow during a given year.

The state losing the largest number of farms during this period was Wisconsin (down 7,000 farms). Minnesota was second with a loss of 3,800 farms, New York third with 2,300 fewer farms, Ohio fourth with 2,000 farms lost, and Texas and Missouri tied for fifth with 1,800 less farms. NMPF's analysis did not examine the individual loss of dairy farms in 16 of the 50 states that do not have significant dairy industries, although these states together lost a total of 7,270 farms during 1993-98.

Measuring the decline in farm numbers as a percentage, the NMPF analysis shows that many Western states have lost a significant portion of their dairy farms, at rates higher than in traditional dairying areas like the Midwest and Northeast. For example, New Mexico lost 54.5 percent of its farms between 1993 and 1998. Washington state was next with a decline of 48 percent of its dairy operations. Arizona at a loss of 37.5 percent, Texas at 36 percent and Utah at 35.7 percent, rounded out the five major states with the most severe rate of decline in their dairy farm numbers.

California, which produces the most milk of any state in the nation, lost 1,300 farms, or 32.5 percent, of its operations during the 6-year period. The No. 2 dairy-producing state, Wisconsin, lost 23.3 percent of its farms — a rate slightly under the national average attrition rate of 25.9 percent. The other largest-producing dairy states lost farms at close to or below the national average attrition rate: No. 2 New York down 20.9 percent, No. 4 Pennsylvania down 11.4 percent, and No. 5 Minnesota down 28.1 percent.

Jerry Kozak, NMPF's chief executive officer, said the analysis "clearly illustrates the economic pressures on individual dairy farmers as our industry consolidates. Across the country, milk is coming from fewer but larger farms. As dairy producers continue to be exposed to volatile swings in the market price for milk, we will continue to see dramatic drops in the total number of farms in the U.S. — even in major dairy states like California and Wisconsin."

"Together we will aggressively pursue the right of any electric cooperative to enter into any business that any other utility company is allowed to enter in a restructured electric utility industry. Legislative language addressing this specific point must be a part of any overall restructuring measure we support," he said.

English praised the electric cooperative network's bold move in establishing the Touchstone Energy® brand and its standards for consumer protection and service. "Touchstone Energy represents the integrity of the trust and the bond we have with those we serve, and it is a significant contributor to the new sense of unity developing within electric cooperatives," he said.

English urged cooperative directors and staff to reaffirm their commitment to consumers by rallying behind an "Electric Consumer Bill of Rights," which would declare, in part, that all electric consumers are entitled to the right of affordable electric power, of self-reliance, the right to economic independence, to fair treatment, the right to ownership, the right to additional services, and the right of cooperation.

Representatives from cooperative electric utilities across the nation who attended the NRECA annual meeting, March 7-10, in Anaheim set NRECA's legislative and organizational agenda for 1999. In addition to considering and acting upon policy resolutions, delegates received reports from NRECA officials, heard addresses by key public figures and attended panel sessions on major issues affecting electric cooperatives and their consumer-owners.

NRECA is the national service organization that represents the nation's nearly 1,000 consumer-owned electric cooperatives, which provide electric service to more than 32 million people in 46 states.

Dairy Farmers of America celebrates first annual meeting in Kansas City

In a message outlining 1998's accomplishments, Dairy Farmers of America (DFA) president and chief executive officer Gary Hanman told an audience of 1,700 members and guests that DFA members can be proud of what they have accomplished by working together.

Noting that 1998 was a year of record milk prices and a period of restructuring and change for the cooperative, Hanman said the year was challenging but rewarding for the cooperative and its members. He noted that the year opened with the Basic Formula Price (BFP) at \$13.25 per hundredweight (cwt) and ended at a record high BFP of \$17.34. The average BFP for 1998 was \$14.20 per cwt.

Hanman pointed out several DFA accomplishments. "We set a goal of earning \$70 million on total sales of \$7 billion in 1998," he said. ADFA completed the year with sales of \$7.3 bil-

lion and a net margin of \$70 million. DFA's joint ventures performed very well, returning \$41 million to the bottom line."

Hanman also saluted DFA's consolidated and restructured manufacturing operations, its merged and restructured work force, its recently created business alliance with Leprino Foods, and the continuing expansion of its joint venture bottling operations. He also recognized DFA completed merger with California Gold Cooperative Creamery, DFA's marketing strategy for Borden Cheese, and its successful pursuit of political initiatives.

Two eastern dairy co-ops merge

More than 95 percent of the voting members of Maryland and Virginia Milk Producers Cooperative Association of Reston, Va., and Carolina-Virginia Milk Producers Association of Charlotte, N.C., have approved a merger of the two cooperatives. Effective April 1, the merger created a cooperative that serves more than 1,550 dairy farmers in 11 eastern and southeastern states, from Pennsylvania to Alabama. It will market about 3 billion pounds of milk a year. The newly merged operation has the Maryland and Virginia Milk Producers Cooperative Association name. Headquarters are in Reston, Va. A regional office is located in Charlotte, N.C.

Foremost Farms USA earns \$27.4 million

Aided by strong markets and reduced costs, Foremost Farms USA earned \$27.4 million in net income from \$1.38 billion in total revenues for the year ended December 31, 1998.

In comparison, the Baraboo, Wis.-based dairy cooperative earned \$4.5 million in 1997 and had \$1.19 billion in total revenues. In 1996, Foremost Farms earned \$16.9 million in net income and had \$1.36 billion in total revenues.

"What was different about 1998 is the market didn't have multiple peaks and valleys like it did in 1997, when it took two large dips," said Duaine Kamenick, Foremost Farms' vice president of finance. "During the past year, the market made a steady climb and never really fell."

Foremost Farms president Donald C. Storhoff announced that patronage allocation for 1998 averaged 53 cents per hundredweight on all member milk marketed during the year. During those 12 months, members marketed 5.1 billion pounds of milk.

As in prior years, Foremost Farms will pay 25 percent — this year averaging 13 cents per hundredweight — to member-owners in cash. The remainder will take the form of equity credits.

Foremost Farms operates 27 manufacturing facilities and three milk transfer stations for dairy farmers in Wisconsin, Minnesota, Iowa, Illinois, Indiana, northwestern Ohio and southern Michigan. The cooperative employesd 1,750 people as of Dec. 31, 1998.

NICE conference set for July 26-29 in Utah

The 71st National Institute on Cooperative Education (NICE) will be held July 26-29 at the Snowbird Resort in Snowbird, Utah. The theme of the annual conference on cooperative education is "Achieving New Heights Through Cooperatives." The program will focus on the opportunities cooperatives afford their members and the challenges farmers and farmer-owned cooperatives face as they enter the new millennium. The conference is sponsored by the National Council of Farmer Cooperatives Education Foundation.

AMPI sets operational records in 1998

Associated Milk Producers Inc. (AMPI), the Midwest dairy cooperative, announced record earnings and sales, and gains in milk volume and membership, at its 30th annual meeting March 23.

"In 1998, AMPI's first year as a Midwest-based cooperative, we realized record milk checks, earnings and return on equity invested," AMPI president Wayne Bok told 600 AMPI members and staff attending the annual business meeting.

AMPI reported earnings of \$14.9 million on \$1.1 billion in dairy product sales. "This is the largest profit in the history of AMPI," said AMPI general manager Mark Furth. "But more important, we gained a record number of members and paid a record price to our member-owners."

In 1998, AMPI processed 4.6 billion pounds from 5,000 dairy farms in several Upper Midwest states.

DFA forms joint venture with Madison Dairy

Kansas City-based Dairy Farmers of America (DFA) and Madison Dairy Inc. of Madison, Wis. have agreed to form a joint venture to produce and market butter and related products at DFA's plant in Winnsboro, Texas.

DFA's corporate board approved formation of the venture during a March 24 meeting in Kansas City. Operational agreements were expected to be completed by May 1, 1999. Dr. Lonnie Spurgeon, chief operating officer for DFA's Dairy Foods Group, says the Winnsboro plant is ideally located to serve the joint venture's plans to increase butter sales.

"This area is producing increasing quantities of cream, which are available to convert into high-quality butter," Spurgeon says. "This new business relationship will allow DFA and Madison Dairies to expand services to many valued customers."

CoBank board re-elects officers and adopts new director election bylaws

CoBank's board of directors in April re-elected Otis Molz as its board chairman, and Wayne Martin and Roy Orton as officers.

Molz, CoBank board chairman since 1993, is a farmer and rancher from Deerfield, Kan. Martin was re-elected as first

vice chairman — he is CEO of Plains Cooperative Oil Mill, a cottonseed cooperative in Lubbock, Texas. Orton, a vineyard owner and fruit tree grower from Ripley, N.Y., was re-elected as second vice chairman. Orton is also past chairman and director of Welch's Foods of Concord, Mass. Orton and Martin have held their vice-chairman positions since 1997.

As a customer-owned bank, CoBank is governed by a 22-member board of directors. Customer-stockholders elect 21 of the directors, and an additional director is elected by the board as an outside director. Also, CoBank's board adopted several new bylaws affecting director eligibility. An age limitation was added requiring directors to be under the age of 70 on or prior to the date the term of office is to begin. Residency requirements were modified. Formerly the bylaws required director candidates to reside in the CoBank district or region for two years before running — this requirement was changed to require the director to reside in the district or region as of July 1 of the election year. In addition, a requirement for U.S. citizenship was eliminated.

While two-thirds of the directors are farmers, producers, growers or commercial fishermen, the board also includes rural utility managers and directors, agricultural co-op leaders and commercial banking experts.

"CoBank's board members reflect the bank's customer base," Molz explains. "Our directors bring diverse backgrounds, expertise and industry knowledge to the boardroom. Eliminating the requirement for U.S. citizenship reflects the international scope of our business. And easing district and region residency requirements acknowledges that directors represent all stockholders rather than a particular geographic area or industry."

Under the CoBank board structure, seven of the director positions are elected for three-year terms by stockholders each year. Nominations for expiring terms for elected positions are accepted in the summer of each year for a 60-day period. Nomination ballots were sent to eligible voting stockholders in May.

In other news, CoBank invites U.S. agricultural cooperative leaders to attend its 1999 Customer Meeting in Nashville, Tenn., on July 7-8. With the theme "Building on a Decade of Accomplishment: Leading Rural America in the 21st Century," the meeting will cover issues of interest to the bank's 2,100 customers, which include U.S. agricultural cooperatives, rural utilities, Farm Credit associations and other businesses serving rural America. The bank also provides export financing for the benefit of U.S. agricultural cooperatives and American agriculture.

Michigan Milk Producers votes to remain on its own

After a thorough evaluation of combining operations with Dairy Farmers of America (DFA), the board of the Michigan

Milk Producers Association (MMPA) has voted to keep the co-op as its own milk marketing entity. While the MMPA board found many similar characteristics with DFA, including marketing philosophies and cooperative principles, the board determined it would be in the MMPA members' best interest to remain on its own at this time.

NCBA members inaugurate a new NCBA at 1999 Cooperative Conference

National Cooperative Business Association (NCBA) Paul Hazen introduced "the new NCBA" at the 1999 Cooperative Conference April 21-23 in Washington, D.C. The meeting featured the theme, "Moving Cooperation into the 21st Century."

The conference included the annual meetings of the Cooperative Development Foundation, the National Cooperative Bank and NCBA. In his remarks, Hazen discussed NCBA's Strategic Plan for 1999-2004. "As we enter the 21st century, NCBA's 20-year goal is to make cooperative enterprise a strong, distinct and unified sector of the economy recognized by the U.S. public."

Hazen detailed NCBA's four strategic initiatives for the next five years: Cooperative Education, International Cooperative Development, Cooperative Public Policy and Cooperative Business Development. "By focusing on these strategic initiatives, NCBA ensures that cooperatives are the better way to do business as we move into the 21st century," he said.

Most electric utilities will be ready ahead of schedule for Year 2000 date roll-over

The nation's electric utilities show substantial progress in their Year 2000 (Y2k) readiness efforts, and most will be ready well in advance of the Y2k date rollover.

According to the latest assessment ending March 31, 1999, by the North American Electric Reliability Council (NERC), millennium-related date problems in most of the electric utility industry will be tested and fixed by June 30, 1999. In a report delivered April 30 to the U.S. Department of Energy, NERC expressed continued confidence that the lights would remain on come Jan. 1, 2000.

Electric utility trade associations, including the National Rural Electric Cooperative Association (NRECA), continue to help gather data from their member utilities for the quarterly reports to DOE, which the federal agency requested last year. NRECA's latest survey of the 858 electric cooperatives in that sector of the industry showed that 646, or 82 percent, of the 794 electric cooperatives responding expected to complete their readiness work by June 30. The remaining 18 percent reported that work to keep the lights on would be complete on or before Dec. 31, 1999.

Reasons electric cooperatives gave for achieving readiness

after June 30 included availability of computer software and other outside vendor upgrades after the June goal.

Different from the two previous quarterly surveys were questions included by NRECA to determine if its member cooperatives were having resource problems in achieving Year 2000 readiness. Only eight cooperative electric systems indicated some problem with resources to fix the Y2k problem, but all eight expected controls that keep the lights on to be ready by Dec. 31, 1999-Jan. 1, 2000, according to Ron Greenhalgh, NRECA chief engineer and chairman of the association's Year 2000 Task Group.

"The survey data show that cooperative electric utilities, large and small, rural and not-so-rural, are on schedule with remediation of the Y2k problem," said Greenhalgh.

The NERC report also showed that fewer than 3 percent of all components tested for the Year 2000 problem had required Y2k fixes; errors that had appeared had been mostly cosmetic or nuisance-type errors, such as incorrect dates in logs. "In nearly all instances, Y2k does not affect functions that keep the lights on in homes or businesses," NERC said.

Electric distribution systems may be "least sensitive to Y2k anomalies," according to NERC, because most equipment is mechanical, meaning there are relatively few digital controls and relatively few embedded chips.

Greenhalgh echoed this observation, adding, "Electric cooperatives, most of which are distribution-only utilities, have been working continuously with their power suppliers, regulators, grid operators, vendors and manufacturers to identify real and potential problems, test and fix critical systems, and then ensure their contingency plans are in place."

"We've been in the reliability business for more than 60 years and under the toughest conditions in the business. We expect to deliver the same reliable service in the year 2000 that we deliver now," he said.

Cenex/Land O'Lakes Agronomy Company to purchase Terra distribution business

Cenex/Land O'Lakes Agronomy Company has agreed to purchase the distribution business of Terra Industries Inc., Sioux City, Iowa.

The purchase will include Terra's approximately 400 farm supply retail facilities, seed and chemical distribution and other related businesses, employing more than 2,600 people in 31 states and Canada. The purchase also includes Terra's portion of ownership in the Omnimax chemical formulation plants in St. Joseph, Mo., and Blytheville, Ark.

The agreement does not include purchase of Terra's nitrogen manufacturing facilities.

"This opportunity to purchase Terra's distribution business enhances our total cooperative agriculture supply business,"

said Al Giese, president, Cenex/Land O'Lakes Agronomy Company. "We're continually looking for ways to improve efficiency as we source and supply products and services to farmers through local cooperatives. Our regional cooperative's agronomy business growth and profitability depend on increasing volume and maximizing our distribution and service capabilities."

Specifically, the acquisition of Terra's distribution business would bring the Agronomy Company and the regional cooperative system an additional \$1 billion in crop protection product sales, 2.5 million tons of plant food business, and over \$100 million in seed sales. The transaction is expected to be finalized by mid-summer. Giese says farmers currently doing business with Terra should not experience operational changes.

Isom named Co-op Farmer of the Year



Howard Isom

Howard Isom, Blue Diamond Growers' board chairman, has been named Co-op Farmer of the Year by the Agricultural Council of California. The award was presented at the association's annual meeting in March.

A long-time member of Blue Diamond, Isom has served on the board since 1988 and as chairman since 1991. He is also a member of Sunsweet

Growers and Diamond Walnut Growers. During Isom's tenure, Blue Diamond has made major strides in increased efficiency, membership growth, new product development, grower services, leadership development, and technological change. His prominence in agriculture and business led to his election to the board of directors of CoBank in 1998.

In addition to managing 1,400 acres of almonds and serving as a partner in Matsom and Isom Accountancy Corp., Isom serves on the California State University, Chico, School of Business Advisory Council, the Research Institute Board, and on the Superior Ag Board for the School of Agriculture. In 1988, he received the Business Person of the Year Award from the university. He has received numerous other awards and recognitions for his service to local colleges and organizations, and is a member of the board of directors of North State National Bank.

Agway announces unification of its agriculture and retail businesses

Agway Inc., an agricultural cooperative owned by 75,000

Northeast farmers, announced in April that it is combining its agricultural products and retail services businesses. Robert A. Fischer, Jr. of Milford, Del., has been named president of the new agriculture and retail group. Fischer previously served as president of Agway Agricultural Products.

"The unification of our agriculture and retail businesses will allow us to better leverage our talent in serving the needs of our existing customers and winning new customers," said Fischer. "Both businesses share many of the same customers and are dealing with similar marketplace changes."

Agway's agriculture business operates through six geographically based enterprises within 12 Northeast states. The enterprises manufacture and distribute dairy and livestock feed, seed and agronomic products and services, and operate 58 farm supply stores. The enterprises also produce many Agway-branded products that are distributed through more than 100 company-owned retail stores and more than 300 dealers in the Northeast states. The combined agriculture and retail business, which accounts for about one-half of Agway's annual sales and revenues, will be managed through the six enterprises.

Under the unification plan, Agway's River Valley Enterprise, headquartered in E. Syracuse, N.Y., will provide overall leadership for the combined group's advertising, procurement, operations, customer service and dealer relations functions. Agway's Keystone Enterprise, headquartered in Shippensburg, Pa., will manage these functions, in collaboration with River Valley, for the agriculture and retail group's southern territory.

Also as part of the unification plan, Agway's Western New York Enterprise, based in Batavia, N.Y., will be responsible for expanding the company's coordinated dairy systems activities across enterprise boundaries and providing technical leadership to ensure that Agway is a leading dairy foods company. Agway's Southeast Enterprise, headquartered in Milford, Del., will lead efforts in the agronomic sector to ensure that Agway remains a leader in nutrients, nutrient management and related information technology. Each enterprise will oversee retail dealer relations and store management within its territory.

The unification plan includes a workforce reduction of approximately 40 positions or 2 percent of the combined agriculture & retail group's current workforce of 2,158 employees. Agway added that it will move forward with a planned consolidation of its Salina Meadows office facility in Syracuse, N.Y., into Agway's corporate headquarters location in DeWitt, N.Y.

Cattle marketing joint venture becomes reality: Blue Grass Marketing Systems of Kentucky and Southern States

Blue Grass Marketing Systems of Kentucky, the livestock marketing joint venture bringing together Eugene Barber &

Sons, S&B Cattle Co. and the MLE Marketing Division of Southern States Cooperative, has become a reality.

The Bluegrass Stockyards in Lexington and MLE's yards at Irvington, Owenton and Paris will all operate as part of the new enterprise, according to Tom Reed, the Southern States vice president who heads livestock marketing. "This will give the state's beef cattle producers access to the broadest possible scope of marketing opportunities," he said.

"We believe that this has the potential of becoming the biggest news to hit the feeder cattle industry in the last decade," says Gene Barber, one of the partners and a past president of the National Livestock Marketing Association.

Bourbon Stock Yards in Louisville closed after its March 29 sale, Reed noted. But he added that the new venture offers several viable alternatives to growers who had been taking animals to the historic Louisville yard.

At Irvington, the yard now offers a 1 p.m. Sunday drop-off, followed by a Monday sale. Thursday sales continue at both Irvington and Paris. In addition, there are Wednesday sales at Owenton and sales each Monday, Tuesday and Wednesday at

Lexington.

MLE Marketing's Indianapolis yard will begin conducting a special feeder calf sale on the last Friday of each month. This event is in addition to the Tuesday sales regularly scheduled at that yard.

Reed noted that beef cattle producers should be aware of two other recent developments. MLE is currently pursuing the development of an auction facility in southern Indiana in partnership with Indiana Farm Bureau. It is also expanding its recently developed backgrounding and feeder calf procurement system, which allows farmers to gain added value by producing for a specific market.

The MLE chief said many of the changes have resulted from "literally hundreds" of suggestions from cattlemen in the area. Most came as a result of a December letter asking them how they believed MLE could best serve them.

Reed said Barber & Sons and S&B are Kentucky's oldest feeder cattle procurement firms, highly respected among cattle ranchers. Their joint venture with MLE Marketing creates the largest marketing organization of its kind in the country. ■

Kansas Honors First Co-op Hall of Fame Inductees

Five prominent cooperators have been inducted into the new Kansas Cooperative Hall of Fame sponsored by the Kansas Cooperative Council. Joe Lieber, executive vice president, said the five inductees honored at the council's recent annual meeting had promoted cooperative businesses during their careers. Cited were:

U.S. Sen. Arthur Capper, owner and publisher of the Topeka Daily Capital, founder of the Capper Foundation for Crippled Children, former governor, and a five-term senator who cosponsored the Capper-Volstead Act signed by President Warren Harding in 1922. The cooperative education and research center at Kansas State University was named after him in 1984.

Henry L. Peterson, a credit union pioneer who helped organize more than 200 credit unions in four States including Kansas plus the forerunner of the Kansas Credit Union Association and served as its president from 1945-54. He also founded the Credit Union of Dodge City in 1940.

Gene W. Porter, a farmer from Viola, Kans., who became known as Mr. Rural Electric Cooperative for his 23 years as president of the Sedgwick County Electric Cooperative Association, 19 years on the board of Kansas Electric Cooperatives, and service on the board of National Rural Electric Cooperative Association including a term as president. He helped establish the Rural Electric Conference Center at the Agricultural Hall of Fame at Bonner Springs, Kans.; chaired the advisory board of the Wichita Bank for

Cooperatives, and helped establish several marketing and farm supply cooperatives.

Clayton R. Rock was secretary-treasurer and general manager of Kansas Farmers Service Association (KPSA) for 32 years until his retirement in 1979. KPSA provides auditing, accounting and insurance services for its member cooperatives and was one of the first companies to offer computerized data processing services to cooperatives in the 1960s. He was president of the National Society of Accountants for Cooperatives and was honored by them for his distinguished services to cooperatives.

Ivan Strickler, a progressive dairy farmer from Iola, Kan., gained recognition as national dairy and international good will ambassador for the dairy industry. He served several terms as elected president of Mid-America Dairymen, led it through a series of mergers and consolidations that made it the nation's largest dairy marketer, and helped pave the way for its eventual consolidation with other dairy cooperatives to form Dairy Farmers of America. He chaired the National Dairy Promotion and Research Board; served on the executive committee of the National Milk Producers Federation; was a frequent delegate to world agricultural trade talks; served as president and director of the National Holstein Association; earned a reputation internationally as a skilled cattle judge; and was past president of the World Dairy Shrine. He authored a book, "Holy Cow—We Did It!," which traced the evolution of dairy cooperatives and his leadership role in the dairy industry.

From Corporation to Cooperative

One man's dream becomes Welch's legacy

Donna F. Abernathy
DLF Communications Services

Editor's note: Abernathy, a freelance writer based in Murfreesboro, Tenn., has broad experience working for and with cooperatives.

It was a time of crisis. In 1933, the country's devastating economics hit with full force the once-thriving Concord grape growing and processing industries. Demand for premium quality grape juice gave way to the necessity for basic food staples. Vineyards were abandoned. Weeds were growing where grapes should have been. Plants and equipment fell into disrepair. Poor yields and even poorer processor prices were reflected in the faces of dispirited growers.

From this bleak period emerged the future of the Welch Grape Juice Company (now Welch Foods Inc.) and its ultimate cooperative ties. It came in the unlikely form of successful New York businessman, Jack M. Kaplan, who, by his own admission, started out just looking for a way to make some money. But what history records is his influence on Concord grape growers and how he inspired one of the most significant events in the annals of the fruit juice industry.

Seizing opportunity

Kaplan, an astute businessman, viewed the grape juice industry's woes as an opportunity. In 1933, he purchased a small, financially strapped grape processing plant in Brocton, N.Y., and organized it into the National Grape Corporation. Though he had no knowledge of the grape juice business, Kaplan had all the ingredients of success: the capital needed to revitalize the local grape-growing industry, business experience to compete with established competitors and a solid management team.

Grapes for his operation were supplied by the five small growers' cooperatives, from which he had purchased the plant, and



Jack Kaplan

also by North East Fruit Growers. He knew from his experience in the molasses business that success hinged on developing a close relationship with the growers.

By buying exclusively from these six groups, Kaplan saw an opportunity to upgrade the financial status of the growers. He insisted on, and got, a five-year contract guaranteeing grape deliveries of 5,000 tons a year, 2,000 more than the cooperative had produced in any previous year. The agreement gave growers the incentive they needed to revitalize their industry.

The businessman's ideas worked. In seven years, the Brocton facility had doubled in size and the growers were receiving increased prices for their grapes.

Then came World War II and commodity price ceilings. Private processors like National Grape were forced to compete with cooperatives that were exempted from the price controls. When growers began forming or joining small cooperatives, Kaplan quickly voiced his opinion that they were "crazy to form all these little co-operatives." To make his point, he made a most unusual offer. If the growers would form one big cooperative, he would sell the very profitable Brocton plant to the newly created farm organization.

The National Grape Co-operative Association was soon in business, but buying the processing plant from Kaplan took a little longer than planned. Only two months after signing the agreement to purchase National Grape in 1945, a circumstance occurred which held even greater promise for the growers.

A cooperative destiny

The Welch Grape Juice Company was for sale. And Jack Kaplan wanted it.

He knew the new owner of the company would have "the only nationally advertised name" in grape juice. As Kaplan explained: "What Ivory was to soap, Welch was to grape juice." In addition to the well-publicized brand, the deal would deliver an established market along with production and distribution facilities in five states.

Once again, Kaplan saw opportunity and he encouraged the new co-op members to support him. It meant the co-op would forego the purchase of the Brocton plant and instead concentrate on eventually buying Welch from Kaplan. It would take

In the early 1900s, the Welch Grape Juice Co. funded aggressive promotional campaigns that established it as a household name. Photo and artwork courtesy Welch Foods Inc.





The Welch Grape Juice Company, Westfield, N.Y.

more than a decade for the deal to be finalized, but Kaplan remained unwavering in his conviction that "in the end the only viable form of ownership of this business was ownership by the farmers through the cooperative."

Kaplan bought controlling interest in the Welch Grape Juice Company and quickly reversed negative trends in the sluggish business. By 1949, he was ready to sell to the growers, but three years would pass before an acceptable plan was presented. The five-year plan called for Welch to accept the growers grapes, process them, manufacture and market the products, and give the farmers the full net proceeds that would accrue towards the \$15 million purchase price for the company's land, buildings and equipment.

The plan was a generous one by many accounts. Still, there was fierce opposition from some growers. One argument that emerged was the belief that farmers should stick with growing grapes and leave the processing, manufacturing and selling to private industry. Bigotry also emerged as a theme since some distrusted Kaplan because of his Jewish heritage. Despite these arguments, the growers approved the plan by the end of 1952.

In three years, the growers amassed their \$15 million and made a deal with Kaplan to finance the additional \$13.5 million needed to buy Welch's current assets and good will. On September 1, 1956, at 11:31 a.m., with a vote of the directors, National Grape Cooperative Association, Inc. became the sole owner of Welch Grape Juice Company Inc.

To govern the new business relationship, a two-board system was established by the cooperative. National's board of directors would concern themselves with delivering grapes, while Welch's board concentrated on converting the fruit into marketable products and selling them. Today, this unique arrangement continues and serves as a model for other cooperative ventures.

A dream fulfilled

In selling Welch, Kaplan realized his initial goal of personal profit, netting about \$13 million. But turning Welch into a materially successful company and transforming it into a cooperative gave him an even greater personal satisfaction, Kaplan told William Chazanof (author of a history of Welch's) in a series of interviews about his experiences in the grape juice industry.

During his years as a businessman, Kaplan became deeply concerned about how people were exploiting one another. "We have never been able to get together to have a system by which we are all cooperating for the common good," he said. Also, his years of friendship with the growers gave him the ability to understand the unequal position of the individual farmer in dealing with processors. As Chazanof noted: "To Jack, the sale of Welch to National was both a personal and philosophic tri-

umph. In a sense, it was Jack Kaplan's enduring monument toward achieving his articulated goal: 'I have a long interest in the betterment of humanity.'

Kaplan's long-cherished dream became a reality and the uniquely organized cooperative would go on to achieve great things. Today, the National/Welch organization is the world's leading marketer of Concord- and Niagara-based grape products. The National Grape Cooperative Association's 1,497 patrons supply its principal raw products from more than 44,000 acres of vineyards in Michigan, New York, Ohio, Pennsylvania, Washington and Ontario, Canada.

In its 1998 annual report, Welch reported net sales for 1998 were a record \$599.7 million and patron net proceeds were a record \$72.4 million. Over the past four years, at a time when the food store industry and the total fruit juice industry have grown less than three percent, Welch's sales have increased 41 percent, or at a growth rate 14 times faster than the industry in which it competes. Patron proceeds have increased an astonishing 46 percent. Since 1995, Welch's has more than doubled its share of market in the juice category. ■

Some information for this article taken from: "Welch's Grape Juice: From Corporation to Co-operative" by William Chazanof (1977).





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