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Rural COOPERATIVES

USDA / Rural Development

November/December 2002



Coming Up
Short
Co-ops coping
with drought

Integrity essential in reporting financial results

Corporate scandals have recently rocked the business world, shocked shareholders and the public at large, and led to the downfall of several large-scale firms. Congress responded to abuses with the Sarbanes-Oxley Act of 2002 which requires sign-offs from company officers when reporting financial results and greater attention to the auditing process.

This action is designed to help stem reporting abuses and to provide more accurate information to owners about the true financial health of companies. It was also designed to make officials more accountable to shareholders of publicly held companies.

Technically, cooperatives are not covered by this new legislation, unless they have issued securities to

the public. These securities are most often in the form of debt instruments, such as bonds, debentures or preferred trusts. As user-owned businesses, cooperatives rarely have outside equity holders. The very few that do hold them as preferred stock investments rather than trading them on public markets.

So are cooperatives required to have officers vouch for the integrity of the numbers they are reporting to members? Technically no, but in a practical sense that is precisely what they should do.

As reported in several articles and Newline items in this issue, the operating climate for cooperatives, like that for other businesses, is very challenging. This is heightened by low com-

modity prices and the drought, both of which have plagued the agricultural sector in many parts of the country for over 3 years.

In addition, there have been situations where hired management has been fraudulent and has been discharged or prosecuted. Despite the isolated instances of ethical failures, cooperatives can generally be pleased with the integrity of boards and management.

In these times though, extra diligence is required and some provisions of the new law should be considered by cooperatives' management, boards and auditors. The requirements for effective board policies for hiring management officials with a reputable record of maintaining accurate financial records, use of auditing committees, limits on speculative trading and hiring reputable outside auditors are important to achieving performance and maintaining a record of reporting reliable financial results.

One of the underlying strengths of cooperatives is the practice of keeping members informed. Knowledgeable members can deal with both good and bad economic news, but keeping them in the dark can lead to an atmosphere of mistrust and skepticism that undermines the internal strength and cohesiveness of the organization. The first step is board action to ensure that its own directors understand the financial condition of the cooperative and that it obtains accurate and timely information from accountants, management and auditors.

*Randall Torgerson, Deputy Administrator
Rural Business-Cooperative Service*

Knowledgeable members can deal with both good and bad economic news, but keeping them in the dark can lead to an atmosphere of mistrust and skepticism that undermines the internal strength and cohesiveness of the organization.

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On the Cover:

Severe drought stunted crops and destroyed pasture across broad swathes of the United States this summer. The impact on cooperatives and their members is examined in this month's cover story, beginning on page 4. Grant Heilman Photo.



Squeezed Dry

Cattle, crops suffer in drought's grip; co-ops fear even bigger impact next year

By Nancy Jorgenson

Editor's Note: Nancy Jorgensen worked for CoBank in Denver for 13 years before establishing her own communications and marketing consulting business in Pomerene, Ariz., which specializes in cooperatives.

Bob Kelly insists that the farmers he works with are a hardy bunch. But when the drought of 2002 and its trademark dust clouds rolled across the plains this summer, neither he nor the 1,600 members of the cooperative he manages in Sidney, Neb., had ever seen anything like it.

Crossroads Cooperative rests in the epicenter of the drought that is plaguing much of the nation this year, and has been especially acute in many Great Plains and Rocky Mountain states.

"Sunflowers that people planted this spring looked like they'd been sprayed with herbicide," Kelly reports. "Wheat production was half to a third below the normal crop. And with little or no pasture we've seen a lot of cattle herd movement and reduction."

What does the drought mean for the co-op?

Kelly expects to handle a lower volume of grain this fall, which will lead to lower co-op income unless he's able to make up for it through other sources. And, like other co-op managers across the drought belt, he's concerned that accounts receivable may grow over the coming year.

"But my staff watches them closely to keep them to a minimum," he's careful to add.

Kelly's concern is shared by grain marketing and farm supply cooperative leaders across the drought belt (see map, page 5). Ran-

dall Torgerson, deputy administrator for cooperative services at USDA's Rural Business-Cooperative Service, says the drought has contributed to the financial woes of several of the nation's major farm supply co-ops by taking acreage out of production and cutting into supply sales.

Crossroads at a crossroads

Crossroads Cooperative members grow sunflowers, wheat, corn and millet. The fortunate ones rely on center pivot irrigation—although most irrigation canals dried up this summer. It didn't rain from about February until August in the co-op's territory, and still hadn't rained much by mid-October. Production of winter wheat, harvested in July, was down by up to 50 percent. The new wheat crop sprang up after the August rains, but as of this writing in October, needed more moisture soon to survive.

"Our farming practices are going to change for a time," Kelly says. "I've seen more wheat put in this year, since it requires less water." Normally, ranchers here place cattle on corn stalks for fall grazing. But with few stalks available, many ranchers may have to relocate cattle. Weeks ago, local cattle feedlots began trucking in corn from 150 to 200 miles away.

"Water is our source of life," Kelly says. "But the innovative nature of the American farmer is really stepping out." The dry spell won't continue forever, but it may mean that the cooperative will have to look into other revenue-producing activity, such as supplementing its grain business with farm supply sales and services.

This fall, Crossroads Cooperative added one new source of income when it began processing livestock feed for a U.S. Department of Agriculture disaster relief program. Last year, the co-op's 30 employees worked hard to generate sales of \$35 million at 14 locations. They will have to work even harder to match that in the coming year.

Hoping for a miracle

Taking a break from harvesting millet, a grain used for bird feeds, Crossroads Cooperative President Gale Raddatz says



At Crossroads Co-op in Sidney, Neb., co-op President Gale Raddatz and Manager Bob Kelly examine a sample of the co-op's diminished grain crop, which was down by as much as 50 percent for many of the co-op's 1,600 members.

Photo for USDA by Rob Sterkel



USDA Photo

his wheat harvest in July was only about two-thirds of a normal crop. His millet, which he finished harvesting in late October, came in at one-third of normal. “It puts stress on a person,” he says. “You just try not to let it affect your family.”

The drought of 2002 comes as a triple whammy for Raddatz and other Crossroads members, after two previous years of poor production in the area. But “the majority of farmers here will be covered by crop insurance, since most were required to purchase it when they accepted government disaster relief programs in previous years,” Raddatz says.

His local Farm Credit Services office offered seminars on assistance programs available to cattlemen, and plans a future session for crop producers if more programs become available. “We’re tired of relying on government programs,” Raddatz admits, but says under current conditions he has little choice. “I’m keeping my eyes and ears open for one.”

Weather experts predict another below-normal year for moisture, which worries dryland farmers such as Raddatz. “We have no subsoil moisture,” he says. “Nothing to fall back on.”

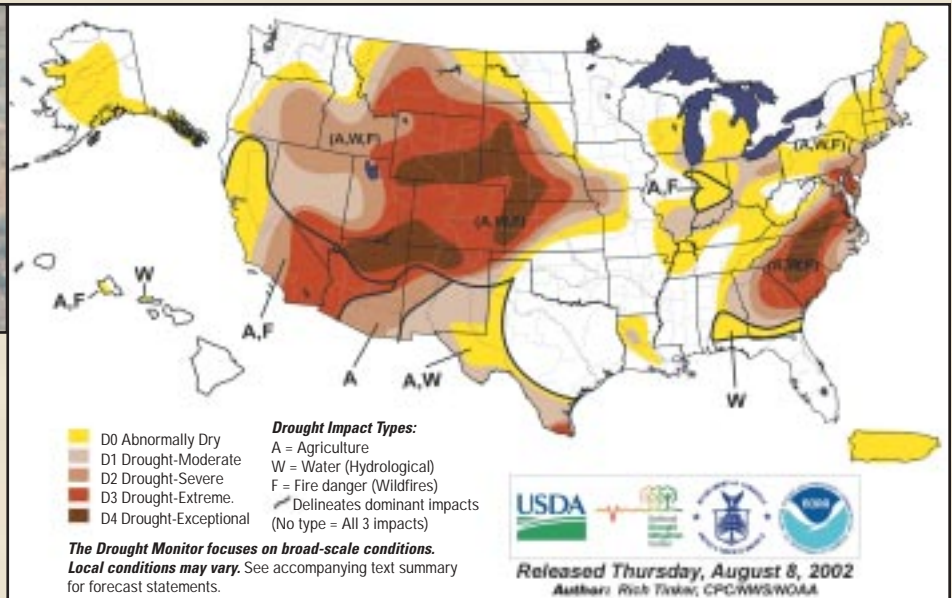


Hopes of a profitable year evaporated with the water supply in many parts of the U.S. this year. Here, MFA Inc. member John Redman checks on the dwindling water level in one of his ponds.

Photo by Steve Fairchild, Courtesy MFA Inc.

MFA grain volume drops 20 percent

Bill Streeter, senior vice president of retail services for MFA Inc., says that cooperatives are just beginning to feel the drought’s pinch. MFA Inc., a Missouri-based farm supply and grain marketing cooperative with sales of almost \$1 billion, completed its fiscal year in August with more good than bad on its balance sheet. But Streeter expects to feel the



Drought conditions were most severe in the northern Great Plains, Rocky Mountain states and parts of the southeast, as shown by this drought monitor map from early August, when conditions peaked in many areas.

USDA Graphic

drought’s effect more strongly in the coming year.

“As a cooperative, we’ll handle 20 percent less grain than we’ve averaged over the past 3 years,” he says. “For farmers who were able to raise some grain, the effect will be partially offset by higher grain prices.”

The drought affected farmers on a hit-and-miss basis throughout MFA’s territory, which includes Missouri and surrounding states where producers raise cattle, corn and soybeans.

“We’re most concerned about the livestock sector,” Streeter says, adding that feed prices grew by 20 percent in recent months. While MFA might benefit initially from higher prices for the feed it sells to farmers, if farmers don’t make money, it may be difficult to collect credit payments. Streeter estimates a feed bill might increase by \$120 per dairy cow annually for an average producer.

As time goes on, he predicts, farmers will have less money to purchase fertilizer and chemicals. “They’ll usually skimp on next year’s inputs,” Streeter says, expressing concern for MFA’s system of 130 local elevators and retail stores. “It’s a pretty good hit when grain volume declines by 20 percent,” he says. “The elevators still have to pay workers. That makes for hard times.”

During the next year, farmer-members may find it difficult to pay their bills, says Gerald Wheeler, manager of an MFA store in Maysville, Mo. “Our feed grinding business is down by 15 to 20 percent,” he says. “It’s probably the slowest grinding season I’ve seen.”

And farmers picked corn three weeks earlier than normal due to dry conditions. Soybean production just started, but farmers are talking about production levels of 18 to 25 bushels per acre, compared to 35 to 40 in a normal year.

Annual rainfall dropped by 10 to 12 inches, Wheeler

estimates. “There are cracks all over the ground,” he says. “Cattle pond levels are real low and some people have to haul water to pastures.” But, he admits, his area is a garden spot compared to places further west.

MFA member sees drop in production

“It’s about as dry as I ever saw it,” says John Redman, a grain farmer and cattleman who belongs to MFA and trades at Wheeler’s store and elevator. His corn harvest dropped to half of normal production, and he projects his soybean harvest at just 18 to 20 bushels an acre.

Redman received some help when USDA allowed him to harvest hay on his Conservation Reserve Program land, producing feed for his feeder cattle. He ran out of grass and began feeding cattle hay and other nutrients in August, a month earlier than usual.

“The biggest effect on me is that feed costs have increased by about 50 percent,” Redman says. “At the same time, my silage, corn and hay crop yield is 60 percent of what it was a year ago.

“The drought’s had a sobering effect on my operation,” Redman adds. “It’s not much fun when you don’t make much money. I’m looking at a tough 10-to-12 months.”

Parched range forces many ranchers to the edge

By Nancy Jorgenson

Like most ranchers stricken by drought, Ron Maifeld changed the way he did business this year. It hasn’t been easy, but he does have one thing to be thankful for: he’s a member of U.S. Premium Beef. This Kansas-based cooperative pays premiums for high-quality beef, and his share in co-op margins allows him to profit across the food chain, from calf to retail beef sales (see sidebar, page 7).

Two years ago, Maifeld gave up his veterinary practice in Greeley, Colo., to pursue ranching with his family near Burlington, Colo., close to the Kansas border. “Now I practice veterinary medicine part-time, to support my cattle,” he says.

The drought hit Maifeld where it hurts, despite the co-op’s help. He’s culled and moved parts of his herd, and scrounged to find whatever forage he can for the rest. Maifeld isn’t alone—many ranchers across the Great Plains and the West face the same fate.

Beef industry struggles to hold on

Bryan Dierlam, director of legislative affairs for National Cattlemen’s Beef Association in Washington, D.C., confirms that beef growers are hurting. “Congress provided one-and-a-half times more in disaster relief to agricultural producers this year than they have since 1998, and most of that relief has gone to cattlemen,” he says. His organization helped lead the battle to win disaster relief.

Dierlam reports that Maifeld’s actions are representative of ranchers across the drought areas. Most have moved tremendous numbers of cattle from one ranch to another rather than selling off herds for slaughter.

“Even though they’re facing higher feed expenses, ranchers don’t want to hurt their long-term factory base and drain their equity by buying replacement cows later,” he says. They also want to avoid the increased capital gains taxes they’d face if they sold their herds, he adds.

“Certainly some individuals may leave the industry out of frustration,” Dierlam concludes. “But we haven’t seen increased cow slaughter numbers yet, except for a 6-to-8-percent rise in the past quarter, which would probably include the worst of it.” Since additional cattle haven’t glutted the market, cattle prices remain stable.

“Most ranchers are hoping for snow and trying to hang on until spring,” he says.

Meanwhile, back at the ranch...

Maifeld normally runs a herd of more than 400 mother cows. In June, he culled his older cows and sold them in pairs with their calves. In June and July, he moved half of his remaining herd to eastern Oklahoma, where he pays another rancher for feed and management.

In the meantime, he scrounged what feed he could for the cattle remaining at

home. He raised some oat hay under a center pivot irrigation system. He cut green wheat for hay when he realized the crop wouldn’t produce grain. And he grazed his Conservation Reserve Program land, which was freed up by USDA as part of a drought-relief program.

Maifeld also took part in another USDA program to assist cattle producers. The Livestock Compensation Program provided \$752 million in assistance cash to eligible ranchers in designated counties, based on \$18 per cow and \$13.50 per calf.



Drought-damaged pasture forced many livestock producers to feed silage or hay at times when their herds would normally have been on grass, cutting into already thin margins. Photo by Steve Fairchild, courtesy MFA Inc.

In an effort to increase profits, Redman is backgrounding calves instead of raising cow-calf pairs, which makes for more work feeding, but produces more income. "Raising cattle has turned into a volume deal, and I think I need to get even bigger," he says. Currently, Redman keeps an inventory of 650 calves, and he and an employee spend three hours a day feeding, not including time spent grinding and preparing feed.

Mixed picture for Aurora Co-op

Although his co-op's fiscal year also ended profitably in

"I signed up the first day it was available, and I just got my check," Maifeld says. "It really helps; I need to make a hay payment."

Unlike earlier USDA drought-relief programs this year, Maifeld says sign-up was easy and a number of local producers benefited. Another USDA program, the Cattle Feed Assistance Program, provided \$24 per cow in feed certificates, based on ranchers using surplus dry milk proteins. But Maifeld couldn't participate in that program because he moved much of his herd to Oklahoma.

Co-op premiums help ranchers survive

Maifeld joined U.S. Premium Beef because he likes the idea of receiving a premium price for raising quality beef. Plus, he says, "To survive in today's industry, you have to get to the retail market." That co-op competitive edge is helping him survive the drought.

Like most ranchers who've built up positive genetic qualities in their cattle, he'd rather not sell replacement heifers, although pasture shortages forced him to part with a number of them this summer.

"If I were forced to sell everything I've got, it might set me back 5 years genetically," Maifeld says. "It was hard to give up this group, because I felt like they were the best I've ever had. But sometimes you gotta do what you gotta do."

Still, he knows he's luckier than others. When he puts on his veterinarian hat at the local sale barn, he notes that some older ranchers have sold their entire herds. "They say 'That's it, I'm done,'" Maifeld notes. "I'd say at least half the cows in this part of the country have been sold or moved."

Reeves Brown, another U.S. Premium Beef member from Colorado, agrees that the benefits of the co-op make the drought a little easier to take. "We share in the profits because we own the company," Brown says. "That's meant an additional \$25 to \$30 per head profit per year."

continued on page 31

August, with sales of \$180 million, Todd Gerdes has serious concerns about the coming year. Gerdes is specialty grains manager at Aurora Cooperative Elevator Co., in south-central Nebraska.

Cowboy capitalism helps co-op members deal with drought

Steve Hunt, CEO of U.S. Premium Beef of Kansas City, Mo., says that the drought may impact a number of the co-op's 1,800 members in 37 states. But so far, it hasn't affected his cooperative's financial health. "Certainly, devastating conditions covered a wide area of the United States—including part of the heart of cattle country," he says. But, he adds, cattle prices don't seem to be affected by the drought as people are moving cattle to greener pastures more than they're liquidating herds.

Members of the beef cooperative purchase shares—now priced at \$130 per share. Each share gives them the right to deliver one finished animal per year to one of the co-op's two plants in Kansas.

U.S. Premium Beef partnered with Farmland Industries, another cooperative, to create Farmland National Beef, the fourth largest beef processor in the U.S., where the beef is processed and packaged for retail markets.

U.S. Premium Beef offers a bonus to growers that meet quality requirements—over the past year, it provided premium payments of \$18.5 million to members, an average \$22.39 per animal. That's on top of an average U.S. sale price over the past year of about \$800 to \$900 per finished animal.

Each member also earns annual dividends based on the cooperative's profits. With sales of \$560 million last year, U.S. Premium Beef handled 700,000 head of cattle—the most ever in the co-op's 5-year history.



Steve Hunt
Photo courtesy U.S. Premium Beef

"USDA disaster relief programs will help to some degree," Hunt says. "But cows can't eat cash—you still have to move cattle to the feed. However, our members benefit from a financial cushion as part of a value-added cooperative. We like to call it cowboy capitalism." ■

Some of the 3,500 farmer-members of the co-op raise dry-land corn, while others depend on irrigation. While many irrigators use electricity to power pumps, others use natural gas, propane or diesel.

“Our propane and diesel fuel sales are up tremendously with the drought,” Gerdes says. “But we won’t see much grain drying income this year. The drought’s affected us negatively in some areas, and positively in others.”

Gerdes expects a 10- to 15-percent drop in crops handled, as corn yields dropped from 220 bushels an acre last year to 170 bushels in some areas. Lower production leads

to increased prices, so farmers might get a better price for the corn they were able to raise. However, price volatility hurt most farmers who signed contracts this spring to sell their fall crop.

“A lot of guys contracted for \$2 per bushel—that looked pretty good this spring,” Gerdes says.

Then farmers faced lower production and higher irrigation costs when the drought hit this summer. If they forward contracted with the co-op to sell corn for \$2 per bushel, they may end up buying out of the contract at a loss, since corn has been selling for more than \$2.50.

Rio Grande growers battle Mexico for water

Jimmie Steidinger needs more water for his orange trees in south Texas. But it’s not just the drought that’s causing his problem. He blames most of his water woes on Mexico’s refusal to deliver irrigation water as part of a 1944 agreement with the United States.

Steidinger and 180 other members of Edinburg Citrus Association in Edinburg, Texas, grow oranges and grapefruit along the lower Rio Grande Valley near Brownsville. He has spent considerable time and effort during the past 3 years urging the U.S. government to force Mexico to stand by the treaty.

“We’re in a crisis,” Steidinger says. “We normally get 27 inches of rain a year, but we’ve had just six or seven inches since last November.” At the same time, two of three irrigation districts that serve his farm have had their water supply run dry.

Drought conditions started more than 3 years ago. Steidinger estimates that he lost \$60,000 in the last harvest, from October 2001 to June 2002. About 20 percent of the co-op’s grower-members didn’t get enough water to make a crop this year.

Mexico stopped delivering water to the valley 10 years ago, despite the treaty that calls for delivery of 350,000 acre-feet of water annually from reservoirs in the state of Chihuahua. Local irrigation system leaders trekked recently to Washington to urge government leaders to pressure Mexico to comply. The State Department issued several strongly worded statements in October calling on Mexico to release more of the 114 billion gallons of Rio Grande water the 58-year-old treaty entitles the United States to.

Mexico claims that the drought has left it high and dry, without enough water to share. However, Texas Agriculture Commissioner Susan Combs points to satellite photos showing that Mexico has plenty of

water to comply with the treaty, and some have said that Mexico appears to be hoarding water in its reservoirs.

Citrus trees must be watered 10-to-12 times per year. Steidinger claims that irrigators in the valley do all they can to conserve water, including leveling land with the aid of lasers to streamline water flow to the trees, and surrounding water with pipe rather than ditches where possible to avoid evaporation. “We don’t waste water,” he says. “It’s like money in the bank.”

When trees die, it takes 5 to 6 years to bring new plantings into production, he adds—and costs farmers about \$3,000 per acre. Growers raise more than 35,000 acres of citrus in the valley, on top of many more thousands of acres of sugar and cotton also under irrigation.

The water shortage hurts the local economy as well as growers. The co-op employs 400 people, many of them seasonal pickers. When land moves from “irrigated” to less valuable “dryland” status on property-tax rolls, the loss of revenue “throws cold water

on local governments,” Steidinger says. Loss estimates for the region since 1992 range up to \$2 billion.

Despite the gloomy situation, Steidinger can still squeeze out a laugh, and he retains hope that October rains would foreshadow more moisture to come. “The trees can’t get oxygen with all that dirt on them,” he says. “The rain washed them off.”

By Nancy Jorgenson, with additional information reprinted from an article by John Johnson, communications director for Plains Cotton Cooperative Association, from the co-op’s summer 2002 “Commentator” magazine. ■



Texas citrus grower Jimmie Steidinger is angry at Mexico for not meeting its commitment to release water needed by U.S. growers into the Rio Grande.

Co-ops urged to prepare for adversity

Chris Schirber takes a personal interest in the financial health of ag co-ops facing the drought. As senior vice president and regional manager for CoBank, the nation's largest bank serving agricultural cooperatives, she leads a team of loan officers who finance grain and farm supply cooperatives in Texas, Oklahoma and Kansas.

"Grain production in western Kansas and Oklahoma was impacted by as much as 50 percent," she reports. "Most of our customers generate about 60 percent of their sales from grain and 40 percent from farm supply products. Storage income will be relatively unchanged for 2002. However, in 2003, it may be significantly reduced because many farmers who were holding multiple years of production in storage sold the grain when wheat prices moved dramatically upward starting in late July 2002."

Schirber, who has worked with agricultural cooperatives for 11 years, says the drought may play a role in the consolidation trend among cooperatives in western Oklahoma and Kansas.

"One year of drought will not necessarily force con-

solidation or restructuring, although it will heighten everyone's awareness of the pending need," she says. Texas cooperatives are not moving as rapidly toward consolidation, she adds.

Will farmers' forward grain contracts impact cooperatives? "We always advise customers that they should not forward contract any more than approximately one-third of a producer's average production," she says.

To help co-ops find solutions, Schirber recently held a meeting for co-op managers in western Kansas. "Issues discussed included ways to save benefits costs for personnel, how to reduce insurance costs through risk management and how to consolidate facilities to improve efficiency and cut operating costs," she says.

Her advice to co-ops on how to prepare for future problems? "Build a strong balance sheet to tide the company through adversity," she suggests. "Constantly assess your business and look for ways to increase efficiency, save costs and eliminate non-performing assets." With assets of \$25 billion, CoBank is a cooperative bank, owned by its 2,600 customers across the United States. ■

Grower burned by forward contracts

Victoria Lipovsky farms with her husband and family near Fairfield, Neb., and belongs to Aurora Cooperative. She raises alfalfa, corn, soybeans and a few cattle, on both dryland and irrigated acreage.

"Forward contracting is usually a good way to market corn," she says. "Not this year."

Last spring she estimated her production of dryland corn at 25,000 bushels for 2002, but the dryland acreage actually produced just 1,000 bushels. She's caught with less corn from dryland acres than she contracted to deliver, and since she agreed to sell it at \$2.10 a bushel, she'll lose out if forced to buy corn at a higher price to fulfill the agreement.

Lipovsky explains how she and her husband share duties: "I drive the desk and he drives the tractor," she says. "We work with the elevator in Aurora to do a lot of contracting. When my husband told me in July that he suspected we would be severely impacted by the drought, we stopped forward contracting."

In times like these, she appreciates Aurora Cooperative's willingness to work with her. "With their help, we've increased the value of contracts in the past by as much as 10 cents per bushel," she says. "They go the extra step, and I assured them that we intend to honor our price-to-arrive contracts."

Fortunately, the Lipovskys' irrigated crops and crop revenue insurance should cover much of their losses—even losses from forward contracts—but she won't know for sure until late October.

Beginning this summer, dust clouds rolled across Lipovsky's farm for the first time since the 1930s. With lower production, higher feed and irrigation fuel costs and unfavorable grain contracts, the drought has taken an emotional toll on area families.

Lipovsky belongs to a local group of female grain marketers. "We're as much of a support group for each other as anything," she says. "Men are more competitive and women are more cooperative. We realize you don't have to be superman. We can all be stronger together."

Many of her women friends already have a job in town to help support the farm operation, and are looking for a second job. For her part, Lipovsky runs a special-interest tour company she started with another farm woman, offering trips featuring local color, history and wildlife.

Co-ops wait for other shoe to drop

Farmers and ranchers already feel the drought's effect. Their cooperatives, including Farmers Cooperative of Aurora, MFA and Crossroads Cooperative—expect to feel the bite more in coming months.

Through it all, co-op members can be grateful that their cooperatives express hope for the future, and a strong commitment to continuing service to members, through good times and bad.

"As we sit around the board room, we understand that our co-op depends on the well-being of our members," explains Bob Kelly of Crossroads Cooperative. "We need to do everything we can to get them through this situation." ■



Cooperative directors face unique challenges

By James Baarda, USDA/RBS
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Editor's Note: This is the third of three articles dealing with issues facing cooperative directors. The first installment appeared on page 30 of the July-August 2002 issue while part two was on page 15 of the September-October 2002 issue. These and other past issues of this magazine can be assessed via the Internet at: <http://www.rurdev.usda.gov/rbs/pub/openmag.htm>

Cooperative directors regularly face problems that directors of even the largest and most complex corporations need not even think about. The tough issues don't depend entirely on cooperative size

The Circle of Seven Responsibilities

(As described in the previous article in this series, see September-October 2002 issue, page 15.)

Directors:

1. Represent members
2. Establish cooperative policies
3. Hire and supervise management
4. Oversee acquisition and preservation of cooperative assets
5. Preserve the cooperative character of the organization
6. Assess the cooperative's performance
7. Inform members

either. Directors of small cooperatives face many decisions as difficult as any confronted by the largest cooperatives.

Special cooperative director challenges require personal wisdom and good collective decision-making abilities. In some ways, cooperative directors need to know more—and think about issues more carefully—than directors of other kinds of businesses. Cooperative boards certainly demand more time and work. In addition, the dual role of a director in a cooperative—as both a director and a member—puts every director in a sensitive position.

This article, the last in a series about cooperative directors, identifies some unique issues that cooperative directors must consider on a regular basis. It focuses on issues that are “in addition to” the responsibilities expected of directors of all businesses.

The character of the cooperative

Cooperatives are unique kinds of businesses. Members justifiably expect their cooperative to operate on a cooperative basis with the appropriate mix of rights and obligations for everyone. Members trust the board to fully support those expectations.

Sometimes cooperative characteristics are defined by law. In other situations they are just an inherent part of the cooperative that members' understand and expect. In any case, directors have the ultimate responsibility to preserve the cooperative character of the organization.

This responsibility presents some

Cooperative directors are responsible for maintaining the cooperative character of the organization.

hard questions for the board. Is the organization truly operating on a cooperative basis? How do directors know it is? What observable criteria can be established to guarantee the integrity of a cooperative's implied promise to be a cooperative? Are measures taken—either on a periodic basis or in preparation for significant business changes—to be sure that basic cooperative principles are preserved? Has the board established policies, operating procedures and internal controls to guarantee operation as a cooperative? Does the cooperative have danger points in its operations that require special monitoring and attention?

Although difficult, the directors' role in maintaining the ability of the cooperative to serve members in a uniquely beneficial manner can be a rewarding professional and personal experience for directors. Each director is a gatekeeper of the principles and practices that empower members to cooperate to create true value for themselves and others.

Cooperative-based decisions

Cooperative boards of directors make decisions not made by boards of any other kinds of business. These decisions are, for the most part, unusually difficult. They require directors to have a clear understanding of financial documents, performance measures and the short- and long-term consequences

of decisions made and actions taken. Situations may make the board a conflict-resolution body that balances divergent and often deeply held interests among members. Some of these involve business and financial issues, while others are emotional in nature.

Operating within proper authority was mentioned in a previous article. The cooperative's authority and limitations on that authority may be found in several places. The board's authority may be defined by the cooperative's charter, including the applicable incorporation

that the cooperative adheres to laws and other legal obligations. Directors may, of course, rely on counsel and accountants to identify the rules, but directors themselves make the decisions and bear the responsibility for decisions made.

Determining and allocating patronage refunds is one of a cooperative board's major concerns. Of course, the board does not make decisions about refunds on the spur of the moment each year. The system used to determine and calculate refunds should have been established in the bylaws and in written

keeping good membership roles and purging those who no longer deal with the cooperative. The behavior of some members may harm the cooperative and therefore other members. Directors have the unenviable task of taking appropriate action to protect the cooperative. Predetermined, neutral rules that avoid ad hoc decisions about individual members will help avoid confusion and hard feelings.

Decisions with federal income tax consequences are pervasive. Directors are not expected to be tax experts, but they do need to appreciate the implications of all of their decisions. Examples of decisions with direct tax implications include use of qualified or nonqualified notices of allocation, per-unit retains, allocation of margins and losses and most issues regarding calculating margins and distributions.

Patron or non-patronage business and the allocations and payment of related net margins have direct income tax implications. Added to the direct effect on the cooperative is the impact that any such decisions have on members or other patrons. A seemingly simple business decision by cooperative directors becomes one of balancing many interests.

Conflict of interest

Like other members, directors use the services of the cooperative. This means that directors deal personally with the cooperative. They have their own obligations toward the cooperative and their own expectations of benefits from it. Decisions that directors make about the cooperative will affect them as member-users just as they affect the cooperative and other members.

The previous discussion of "duty of loyalty" pointed out that the single action most likely to impose personal liability on a director is a conflict of interest. The personal dealings that a director has with the cooperative places the director in a precarious position. What appears to be innocent when done may in hindsight look very bad for the director.

Many examples exist of directors' dealings with the cooperative that will

Cooperative principles should be familiar to every cooperative director.

1. The User-Owner Principle: The people who own and finance the cooperative are those who use the cooperative.
2. The User-Control Principle: The people who control the cooperative are those who use the cooperative.
3. The User-Benefits Principle: The cooperative's sole purpose is to provide the distribute benefits to its users on the basis of their use.

statute. The board of a cooperative considers incorporation statutes, the articles of incorporation and bylaws to determine the obligations and limitations of the cooperative.

Laws that apply generally to all businesses apply to cooperatives as well, but sometimes in a different manner. Such laws mean that cooperative boards must make decisions for the cooperative based not only on generally applicable laws, but laws that are especially applicable to cooperatives. Examples include special tax laws that apply to cooperatives, cooperative antitrust laws that mandate or prohibit certain business structures and behavior, and state cooperative incorporation statutes that contain special requirements for cooperatives.

A cooperative's charter, its bylaws, its contracts, membership agreements and other binding agreements are all subject to review by directors as they establish policies and procedures to guarantee

policies, all of which are subjects of careful director study and periodic review. Decisions about allocations and distributions are complicated by short-term and long-term implications as well as balances among those who use the cooperative for different purposes. All this leads to possible

conflicts among cooperative members.

The cooperative may also face circumstances that weren't contemplated when the policies were established. The board must decide what modifications can be made in response to special circumstances to recognize the cooperative's purposes.

Any patronage refund system has many implications for the cooperative and its members. These include fairness, operation on a true cooperative basis, tax implications, rules in state laws, interpretations of bylaws, members' expectations and desires, and the very health and survival of the cooperative. Successful solutions to sensitive issues ultimately rest in the hands of an informed, deliberative board of directors.

Member qualification is important to a cooperative, whether the qualifications of applicants for new membership are at issue or continued qualification of existing members is in question. Directors should recognize the importance of

affect both the director and the cooperative and pose possible conflicts of interest. These include:

- Price differentials or special concessions for large producers and patrons.
- Directorship in both a local cooperative and the federated cooperative.
- Extension of credit to member-patrons.
- Methods of obtaining capital.
- Allocation of patronage refunds, especially when the cooperative is a multi-functional cooperative and the functions are not totally separated.
- Cash or non-cash patronage refunds related to patron tax brackets.
- Equity redemption decisions, including when to redeem, financing methods and equity-building programs.

Directors must make these and all other decisions regardless of the shared interests of directors and the coopera-

bers or holders of common stock of the association or others, or differing from terms generally current in that district.”

Directors should not have problems if the conflict is clearly recognized, decisions are made solely with the interests of the cooperative foremost and all questions are addressed openly and honestly.

Financial matters

Directors must give careful attention to the effective financial structure and strong financial condition of the cooperative. Directors are entrusted with the ultimate responsibility for the care of the funds and property of the cooperative and its members. Although similar general rules apply to non-cooperative corporations, a cooperative’s directors handle unusual issues because cooperatives have special techniques to finance the organization. Because cooperatives operate for the mutual benefit of the members and not as purely profit-seeking organizations, they

have financial needs, opportunities and limitations not found in other businesses. Ultimately, the most difficult financial decisions are in the directors’ hands.

Patronage refund distributions are closely related to equity allocations in most cooperatives.

Directors are involved in the balance between current monetary returns to members and additions to the cooperative’s equity structure. For example, patronage refunds may be paid in a combination of cash and written notices of allocations.

The choice carries major implications for the long-term financial health of the cooperative. At the same time, members may expect high cash payout as a return for their involvement in the cooperative and their own tax considerations. Allocations and choices of the income to allocate, equity vs. debt financing and

patronage-based vs. non-patronage-based sources of financing, are all part of plans and strategies that boards of directors establish.

Equity redemption is an integral part of a cooperative financing system. It can also be a source of dispute. Decisions about equity redemption are often assigned specifically to the board’s discretion. How is the board of directors to exercise that discretion? Do short revolving periods jeopardize the cooperative’s financial health and robustness? Do long revolving periods show poor planning, do cooperatives use former members’ money to generate benefits for the current users, and does slow revolvment present fairness issues? Courts usually support director decisions on equity redemption in a legal dispute, but the major challenge for a board is to meet obligations of past, present and future members with fairness and forthrightness to avoid unresolvable problems.

Special events

Directors bear added responsibilities when the cooperative considers a major change in its organization or in its relationships with other businesses. Mergers or establishing long-term, significant joint-venture arrangements with other businesses are examples of events where directors have a major responsibility for decisions that are of critical importance to the cooperative. Such events affect members’ interests in the short run and in the long run.

Decisions affect benefits that all parties involved will receive, including financial obligations (past and future), differential impacts among members and planning horizons for all parties. Directors not only assess overall costs and benefits of such actions, they will be required to address conflicts among members about the action.

A decision to dissolve a cooperative is, of course, among the most difficult the board will make. The process not only occurs under typically unpleasant circumstances; it challenges the abilities and dedication of all involved.

Directors will be well served by

Standards of conduct applicable to cooperative directors include:

1. Duty of Obedience. Directors must ensure that they or the cooperative do not engage in illegal or improper actions.
2. Duty of Care. Directors are expected to act in good faith at all times, exercise prudence, and apply their best judgments for the benefit of the cooperative.
3. Duty of Loyalty. Directors have a position of highest trust and must avoid conflicts of interest, self-dealing, act in any other than the best interests of the cooperative or divulging confidential information.

tive. Cooperative incorporation statutes recognize the problem, at least with respect to the patronage relationship. A typical provision says that “no director, during his term of office, shall be party to a contract for profit with the association differing in any way from the business relations accorded regular mem-

making every effort to recognize how standards of conduct discussed in previous articles in this series can guide them. Adequate information about the implications of the action, the mechanics of the process, impacts on members and the future of the cooperative are all critically important. Balancing member interests and measuring the financial and other needs of the cooperative will guide directors' decisions.

Assessing the cooperative's success

Important decisions about the performance of management, success or failure of strategic plans or specific programs, and designing plans for the future are all based on an accurate and realistic assessment of the cooperative's current performance. Such an assessment is not necessarily easy under any circumstances.

As with any business, the "bottom line" is critical. But unlike other businesses, for cooperatives the bottom line is only the beginning of an assessment of its true success. Every director needs to understand financial statements, organizational growth, project plans, overall strategies and levels of service offered. But more is required.

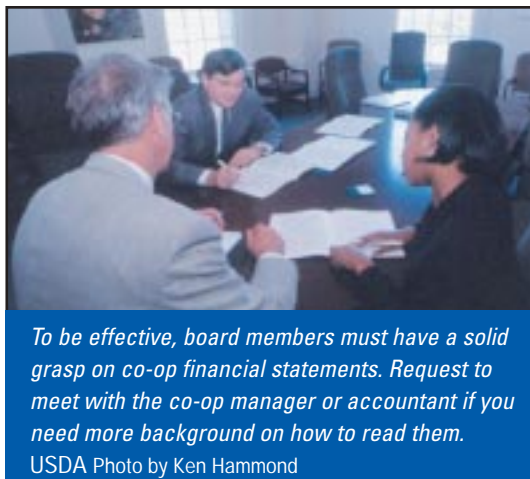
Difficult questions require additional board consideration. What was the net benefit of an action to members, including their share of savings and margins? What was the tradeoff between benefits distributed to members and the net income of the cooperative? What is the financial condition of the cooperative and what are the trends and expectations for future capital needs?

Were all members treated equitably in distributions and financing obligations? Did the cooperative serve some members at the expense of greater returns to others? If so, is that practice part of the cooperative's greater purpose? What was the trade-off between short-run and long-run needs, obligations and benefits? Are successes or failures attributable to management, board decisions, the economic environment or member actions? What can or cannot be corrected about the cooperative's performance?

Directors balance members' interests

The cooperative's fortunes are those of its members, and if the cooperative is not responsive to members' needs, the basic principles of member control and user benefit are weakened. The cooperative will simply cease to exist and serve.

The membership of most cooperatives is not homogeneous. Each member has an interest in the cooperative. These interests differ to some degree, sometimes dramatically from other members. Members may have differing



To be effective, board members must have a solid grasp on co-op financial statements. Request to meet with the co-op manager or accountant if you need more background on how to read them.
USDA Photo by Ken Hammond

planning horizons, as would be the case between someone just starting in the farming business and someone contemplating imminent retirement. These two members could have markedly different interests in financing, revolving periods for patronage payments and cash vs. non-cash payments. Members may be in different tax brackets, which has implications for the amount and form of patronage refunds.

Some members may be more concerned with price while others may find certainty of supply or a market more important. Producers of different products may have distinctly different needs from the same cooperative. Disparity of business volume among members may lead to calls for differential pricing. These and other variables make the directors responsibility to represent members quite different from decisions for non-cooperative businesses.

Members, or prospective members, may want more from the cooperative than the organization can provide and

still maintain its financial and operational integrity. Directors may actually be put in a position of balancing some members' needs against the interests of the cooperative itself. Diplomacy and good communication are valuable, but no easy resolution may be possible.

Board-management relations

A good working relationship between the board of directors and management is very important for cooperatives. At the same time, the relative responsibilities of the board and management create natural tensions about roles and responsibilities. The cooperative board has a distinct role and make-up that places obligations of independence and leadership on the cooperative board of directors that are not necessarily found in other boards.

Does the board defer excessively to a forceful manager? If so, what might the consequences be? Does the board interfere inappropriately in the cooperative's management and day-to-day operations? If so, what are the consequences? How does the board assess management and what corrective measures are in place in case of difficulties? Is there an effective chain of communication and command between the board and management? What does management think of the board of directors? If necessary for the good of the cooperative, is the board of directors capable of making and executing a decision to replace management?

The rewards

With all of the responsibilities placed on boards of directors outlined in the first article in this series, the high standards of conduct required of individual directors discussed in the second article and the many difficult decisions directors make as noted in this article, why would anyone agree to be a cooperative director? Individuals can point to at least five reasons to serve as a cooperative director.

The rules that apply to responsibilities, liabilities, duties and requirements

continued on page 29

Building brand recognition

How to run a champagne ad campaign on a beer budget

By Teri Ditsch

Editor's Note: Ditsch is communications specialist for Cooperative Solutions, a federated cooperative in Arizona that provides management services to its member/owner cooperatives: AMAROK (a drywall distributor co-op), NEMEON (a roofing distributor co-op), and YaYa! Bike (a specialty bicycle retailer co-op). This article is reprinted from the October 2002 issue of CCA News.



sk me.”

How could this phrase help your co-op get noticed? Sending members out into the world wearing “Ask Me” t-shirts is one way Cabot Creamery of Vermont started building name recognition for the dairy co-op.

The t-shirt campaign was the brainchild of Roberta MacDonald, vice president of marketing for Agri-Mark, a dairy co-op owned by 1,400 New England and New York dairy farmers who own Cabot cheese. Her award-win-

ning, “out-of-the-box” promotional campaigns have helped turn Cabot into a nationally known brand.

Cabot has been dairy farmer-owned since 1919. It began developing its signature brand of dairy products in 1984. When MacDonald arrived in 1989, the co-op had an annual marketing budget of \$100,000. Today, Cabot products can be found in grocery stores around the nation and the marketing budget has grown to \$10 million, which is still a small amount compared to its national competitors.

During the Cooperative Communicators Association 2002 Institute in

CCA honors top co-op communicators

Maintaining an effective communications program is essential for cooperatives—even more so than for other types of businesses. Some of the nation's most successful practitioners of this essential art were saluted by the Cooperative Communicators Association (CCA) during its annual institute in Burlington, Vt., last summer.

Leta Mach, director of cooperative education for the National Cooperative Business Association (NCBA) in Washington, D.C., won the Klinefelter Award, CCA's highest honor, recognizing individuals who have substantially advanced the cooperative system and state of cooperative communications. A CCA board member from 1998 to 2001, Mach develops cooperative educational programs and conferences for NCBA and oversees Co-op U, its on-line cooperative learning center.

She was cited for her “broad background in cooperatives, her commitment to effective communications and her insight into 21st century cooperative education methods.” Mach was editor of “Cooperative Business Journal,” NCBA's member newspaper, from 1988 until 2000.

More recently, she developed NCBA's Co-op 101 Edu-

cational Training Program, a multi-media training program for members and employees that won the top “special projects” award from CCA in 2001. She also has produced “The Spirit of Cooperation” video, which traces the history of cooperatives, among many other career accomplishments.

The award is named for H.E. Klinefelter, who became editor of “Missouri Farmer” magazine (now MFA's “Today's Farmer” magazine) in 1939, and was well known for his passionate writing in support of cooperatives.

Don Gales, who at the time was CEO of South Dakota Wheat Growers (SDWG) in Aberdeen, S.D., was selected as CEO Communicator of the

Year. He was cited for his “unique ability to see the whole picture and think beyond the box.” What sets him apart, the presenters said, “is his ability to communicate that vision to diverse audiences in a way they can relate to and find that same vision.”

He was praised by staff members for delivering “a message of total unity that is bringing a better work environment of our employees and providing a better return for our membership through a more efficient and



Leta Mach

Vermont, MacDonald shared her secrets about how to “make a modest marketing budget look like a million.”

1. Invest in modest research to know as much as you can about your customers. Who are they? Who are their families? Find out what they like and dislike about you. What gets them excited? Do not spend money on public relations or advertising without research. “We know everything we can about a community before we spend one dollar of dairy farmer money,” MacDonald said.

2. Take your goods or services to where “like” people are, such as tourist attractions, historic sites, parks or large community events. Cabot has “lobbed cheese hunks at tourists on ski slopes, at golf courses and in state parks” for 5 years, and they still do.

3. Take advantage of the success of others or borrow liberally from the better-known brand, team and personality. Use what consumers know to your advantage. What are the major players doing? Start doing it.

4. Take advantage of any competi-

Hi, Neighbor
Take home the cheddar that took home the gold...

Star Award
Best of Class
Best of Show

The 80-year-old Cabot cheddar is made from all natural cheeses from a small-scale village in Vermont, using grass-fed cows, locally sourced ingredients, and more than 100 hours throughout New England and New York. Along the way, we never use any artificial flavors, added dyes, preservatives, or anything to fake. Cheesier is the motto. Our cheddar's been crowned for another year again. So bring out Cabot cheddar to your next event.

CABOT
CHEDDAR

www.cabotcheese.com

Using producers in Cabbot cheese ads and promotions has hit a receptive note with consumers.
Graphic courtesy AgriMark Inc.

tion and WIN! Cabot has won every major award for taste. If there isn't a contest in your field, make one up and win it. Example contests might include customer satisfaction, cutest couple for Valentine's Day, best energy savings idea or smartest college savings strategy. “Use

the win. Get it out there,” MacDonald said. “Make sure it is known you are a winner. The public loves a winner.”

5. Take advantage of public relations. Use the media. Slow news days happen, so have your story ready but don't include a date. Make any event fun and any event can become news. “Use PR; it's cheap compared to advertising,” says MacDonald, who spends 20 percent of her budget on public relations. She spends very little media money. Make connections with other cooperatives. Give free or discount coupons. Make outrageous connections. Cabot made alliances with museums.

6. Use your members to illustrate who you are. Cabot put the faces and farms of its members on center stage in its ad campaigns. But beware, some doubting consumers wanted to see if the faces were real. The skeptics actually visited the farms and, to their surprise, were greeted by the same farmers they saw in the ads. Be sure that anyone who participates in a campaign is someone who could serve as a brand ambassador. ■

profitable community.” Gales, who has 20 years of cooperative management experience, had been with SDWG since 1999; he left the co-op a few months ago to take a position with another agribusiness.

Chellie Phillips, director of communications and member services for South Alabama Electric Cooperative in Troy, Ala., was presented the Graznak Award, which goes to an outstanding co-op communicator under the age of 36.

Phillips has been with her cooperative since 1996, where she designs and places advertising, produces print publications, plans and implements community programs and develops and maintains the co-op Web site.

Phillips developed a multi-faceted communications effort called the Total Public Relations program, which won the Star Award from the Montgomery Chapter of the Public Relations Council of Alabama. Her work has also been honored by CCA and the National Rural Electric Cooperative Association, among others. She is a 1992 graduate of Troy State University with a major in journalism and advertising.

Other top awards presented included:

- Writer of the Year—won by Allison Morgan of Tennessee Farmers Cooperative;
- Photographer of the Year—won by Robin Conover of Tennessee Electric Cooperative;

- Publication of the Year—awarded for the 2000 annual report of the National Rural Telecommunications Cooperative, edited by Kelli Laski and designed by Sherilyn Holmes.

- Best of Class for Special Programs and Projects—won by Sheryl Meshke of AMPI dairy cooperative for a portfolio of communications materials.

USDA's “Rural Cooperatives” magazine won several awards, including: second place for best editorials, won by Randall Torgerson, deputy administrator of the Rural Business- Cooperative Service, for three commentary pieces; second place for best feature, won by USDA editor Patrick Duffey for an article describing the way Foremost Farms responded to an airplane crash into one of its dairy plants in Wisconsin; and third place for best feature, won by frequent contributor Catherine Merlo of Bakersfield, Calif., for an article describing turmoil in the California raisin industry.

USDA's Duffey and Jim Tucker, who recently retired as field editor for Farmland Industries, were both awarded lifetime honorary CCA memberships for their many contributions to cooperative communications during their long careers. A special Outstanding Leader award was presented to Brian Delgado, formerly communications manager of Farm Credit Leasing and now with Land O' Lakes. ■

Bringing it home

Dakota Prairie Beef Co-op adding value to home-grown cattle, grains

By Raylene F. Nickel

Editor's Note: Nickel is a freelance ag journalist based in Kief, North Dakota.

North Dakota's rolling grasslands grow nearly a million beef calves each year. In the fall and early winter, soon after the calves are weaned and possibly fed for a while on farms, semitruck after semitruck carry the calves far out of state, typically to feedlots in Kansas and Nebraska. About 95 percent of those North Dakota calves leave the state, in spite of the fact that North Dakota's fields raise bumper crops of feed grains. Much of that grain also is shipped out of state, often to the very feedlots where the North Dakota-bred calves end up.

This tradition of feeding North Dakota grain to North Dakota calves in feedlots in states to the south got its start because farmers and ranchers believed North Dakota's cold winters would cause poor gains in cattle on feed. But research and experience are refuting this perception, leading producers to look for ways to plant the seeds of a feeding industry in North Dakota.

In the arid southwestern corner of the state, this desire for an in-state feeding industry has resulted in a network of new feedlot pens built to hold 6,500 head of cattle. Surrounded by open prairie, the feedlot facility is owned by Dakota Prairie Beef, a cooperative of 145 members, most of them farmers and ranchers, each of them owners of cattle being custom fed in their cooperatively owned lot.

Long time coming

"The idea behind this feedlot cooperative was a long time in coming," says former board chairman Lance Larsen. Larsen, who ranches in western North Dakota, is one of the founding members.

"We're the first ones to get such a concept off the ground," Larsen adds. "We didn't form the

feedlot cooperative in order to create an investment opportunity simply for the sake of earning eventual dividends. The members are the customers. We retain ownership of our cattle all the way to processing and pay the cooperative to feed them.

"The feedlot is really only an extension of a member's own farming or ranching operation. The purpose in forming a cooperative to build a custom-finishing lot was to maximize the economies of scale that a larger feedlot affords." This provides cheaper gain than a producer might obtain by feeding small numbers of cattle at his or her home feedlot.

Larsen was among a handful of western North Dakota ranchers who began talking together 6 years ago about the possibility of forming a cooperative to build a custom feedlot in the region. It was during the time that a regional cattle producers' cooperative, Northern Plains Premium Beef, had organized with the intent of establishing a producer-owned packing plant. Larsen's group believed that the formation of a producer-owned custom feedlot could be a source of fed cattle for the NPPB packing plant.

Though the cooperatively owned packing plant never came to fruition, the ranchers plowed ahead with their vision of building a producer-owned feedlot in the state. For a year, the steering committee staged community meetings in North



and South Dakota as well as in Montana. The goal of the meetings was to raise enough equity for the group to build a new feeding facility on purchased land near the small town of Gascoyne in southwestern North Dakota.

Two share types offered

Two types of shares were offered to producers: “B” shares cost \$60 each and bought the buyer bunk space each year for



Facing page: Mark Vachal, left, feedlot manager for Dakota Prairie Beef, and co-op Chairman Wes Andrews say the new cooperative is providing a local alternative for cattle formerly fattened out of state. Above: Eartags identify animals and carcasses to ensure that grading data gets back to producers, who then use it to improve their herd genetics. Photos for USDA by Raylene Nickel

one spring-born calf delivered to the feedlot between Oct. 1 and March 30; “C” shares cost \$55 each and bought the buyer bunk space each year for one yearling delivered to the feedlot between April 1 and Sept. 30.

“We offered 6,500 calf shares and sold all of those shares,” says feedlot manager Mark Vachal. “We offered the same amount of yearling shares and sold 2,400 of those. So yearling shares continue to be available, as well as some calf shares from individuals who have decided, for one reason or another, to sell their shares.” Sales of preferred stock to local

businesses also contributed to the final capital pool, which amounted to \$500,000.

This sum provided equity for a start-up loan of \$900,000 from Farm Credit Services. Local businesses, such as Slope Electric Cooperative, a preferred stockholder, also helped initial funding by providing smaller loans to the feedlot cooperative, says Vachal.

The 145 members purchasing feeding shares in the cooperative are from North and South Dakota and Montana. The first cattle arrived at the feedlot in the summer of 2000. Vachal expects the lot to be filled to capacity, with 6,500 head of cattle, by early 2003.

Members pay for the feeding services they receive at the feedlot just as they would pay for the services provided at any other custom feedlot. Twice a month, members who have cattle on feed receive an invoice from the cooperative. They’re charged for the amount of feed their cattle have eaten in two weeks. They’re also charged a yardage fee of 25 cents per head per day. The yardage fee covers the member’s share of the cost for the use of the facility and equipment. The fee also covers the member-customer’s share of the cost of labor and utilities.

The cooperative employs eight full-time individuals. Besides managing the actual feeding of and caring for the cattle, Vachal’s responsibilities also include marketing the finished cattle to packing plants.

Co-op provides grading, conversion data to members

Member-customers of Dakota Prairie Beef have the opportunity to get detailed information back about individual animals fed at the feedlot. The information tells them how their cattle performed in the feedlot in terms of feed conversion. It also tells them how their animals’ carcasses graded and, in some cases, even the characteristics of each individual animal’s carcass, such as the size of the ribeye.

“The ribeye is one of the highest-value cuts in the carcass,” says Vachal. “The larger the ribeye, the more valuable the carcass.” When producers sell their finished animals to packers on a grid basis, they earn premiums for such high-quality traits as large ribeyes.

Tracking the performance of individual animals and their carcasses is possible because of an electronic button implanted in the ears of cattle at the time owners deliver them to the feedlot. The button’s number, along with the number on the animal’s visual eartag, permanently identifies the animal and its carcass. Scanners at the packing plants “read” the number on the button at the time the animal is harvested and its carcass measurements recorded.

Western North Dakota rancher Wes Andrews, chairman of Dakota Prairie Beef, views this local opportunity to get feeding and carcass information back on his cattle to be a key benefit to feeding cattle at the cooperatively owned feedlot. “Learning the carcass quality of my cattle and how they perform in the feedlot helps me to make genetic improvements in my herd,” he says. Breeding cattle for higher carcass quality, for instance, could increase Andrews’ income in the long term.

Andrews will begin making genetic changes after a couple more years of data give him a broader picture of the feeding and carcass-quality genetics in his cow herd. Andrews, who runs a cow herd of 350 head, partners each year with his father to feed 150 head of calves at the Dakota Prairie Beef feedlot.

When the cooperative was being organized, Andrews joined a steering committee. Along with other early members, he envisioned Dakota Prairie Beef as an opportunity to add value to cattle and feed grown in the region.

Indeed, the feedlot provides a local market for hay, corn and silage. This year, Dakota Prairie Beef purchased 3,000 tons of corn silage from farmers within a four-mile radius of the feedlot. In addition, the co-op purchased upwards of 1,000 ton of hay from growers within 100 miles of the lot.

First dividends expected soon

The financial performance of the cooperative is on schedule, says Vachal, with debt repayments being drawn from the feed and yardage charges paid by member-customers.

Indeed, payment of dividends could begin as early as next year, with holders of preferred stock receiving the first dividend payments. If there is sufficient net income after dividends are paid to preferred stockholders, customer-shareholders will be paid dividends as well.

Despite good rates of gain of cattle fed at Dakota Prairie Beef feedlot, profits earned by individual member-feeders have, however, been poor, due to reduced prices packers have paid for finished cattle during the past 2 years, says Vachal. He expects market conditions to improve in the coming year. The slim profit earnings in feeding cattle are industry wide, he notes, and do not result from the northern location of the feedlot.

Concerning location, former co-op chairman Lance Larsen adds: "We can feed cattle here cheaper than they can in southern feedlots. We know we're not too far north to

feed cattle successfully because there are Canadian feedlots several hundred miles north of us that do very well."

Critics of feeding cattle in North Dakota often point to North Dakota's distance from packing plants to the south, saying that it's too costly to transport finished cattle from the state to processing facilities typically located farther south. But Vern Anderson, an animal scientist at the Carrington (N.D.) Research Extension Center, says the criticism is unfounded.

"Feed is more expensive to haul than feeder cattle," says Anderson. "Cattle should be fed as close as possible to where the feed is grown. The Canadians have proved this rule of thumb to be true. The potential is great for feeding cattle in North Dakota. We've got plenty of feed because we're a grain-producing state. In addition, there's an increasing amount of ag processing going on, making co-product feeds available. Typically, we can meet a feedlot animal's nutritional needs with combinations of grains, co-products and forages for substantially less cost for feed than they can in Kansas feedlots."

Indeed, such information fuels the vision held by Bill Patrie, economic development director for the North Dakota Association of Rural Electric Cooperatives. Patrie, who helped organize Dakota Prairie Beef as well as a number of other farmer-owned cooperatives in the state, sees great potential for farmers and ranchers to own a larger share of the beef-production chain, rendering the industry more efficient in the process.

"Under a farmer-owned system," says Patrie, "the beef feedlot would be a cooperative owned by the same people that own the calf; the same people that own the processing plant, the fabrication plant, the rendering plant and the distribution company. In such a system the feedlots would be placed where they made the most sense geographically. Ownership of the production chain would extend from prairie to plate, from the calf all the way through to the end consumer." ■

Hawthorne resigns as Ocean Spray CEO

Robert Hawthorne resigned in late October after 3 years as CEO of Ocean Spray Cranberries Inc. Barbara S. Thomas, a board member and former president of Warner Lambert's consumer healthcare division, is acting as interim CEO while a search is launched for a new CEO.

"The Board will use this opportunity to search out a fresh skill set to take the Ocean Spray cooperative to the next level," said Benjamin A. Gilmore II, Ocean Spray board chairman.

Gilmore noted that Hawthorne's nearly 3 years at Ocean Spray saw the co-op's balance sheet and customer service improve. Since Hawthorne's arrival in 2000, Ocean Spray's net earnings increased from \$59 million to \$158 million in 2002. He also oversaw the most successful product introduction in the juice category in the past 10 years: Ocean Spray White Cranberry juice drinks.

Thomas' career spans more than 25 years in the consumer goods industry, including the 3 years at Warner Lambert, where she headed the company's \$1.7 billion over-the-counter pharmaceutical business. She held previous top leadership positions at Procter & Gamble, Nabisco, and Pillsbury. She currently sits on the Board of the Dial Corporation and Rayovac, as well as Ocean Spray.

Ocean Spray is the No. 1 brand of canned and bottled juice drinks in the United States, with fiscal 2002 net sales of \$1.06 billion. Formed in 1930, the cooperative is made up of 804 cranberry growers from Massachusetts, Wisconsin, New Jersey, Oregon, Washington, British Columbia and other parts of Canada, as well as 126 Florida grapefruit growers. ■

Co-ops must capitalize on new opportunities

Editor's Note: The following speech was delivered in October by Thomas C. Dorr, USDA under secretary for rural development, at the 8th annual Cooperative Development Forum. The event was sponsored by the National Cooperative Business Association in Minneapolis, Minn.

I bring you best wishes from President Bush and Secretary of Agriculture Ann Veneman, whom I have the honor of working with to strengthen the economy by creating jobs and improving the quality of life—both urban and rural.

A couple of months ago, President Bush held an economic forum in Waco, Texas, to talk about the fundamentals of the American economy and his vision for economic growth. At that forum, the president said, “The fundamentals of the American economy are strong. Yet, the only purpose of a strong foundation is to build on it.”

A very critical part of that vision is our rural economy. And, as undersecretary of agriculture for rural development, it's my job to help realize that goal for rural America.

I'm a farmer who has spent nearly my entire life in rural America—Cherokee County in northwest Iowa. I've seen first-hand the challenges facing our rural areas—and the amazing opportunities that we have there as well.

Those of you who live, work or grew up in a small town or on a farm know well that our country's rural communities have faced significant challenges over the last century. From shifting populations to the “brain drain” to the farm crisis of the 1980s, we've faced some tough times.

But I believe we're on the verge of a new era for rural America. The outstanding quality of life combined with new information technology, advancements in agriculture and new business opportunities open the door for an unparalleled period of growth.

Farming and agriculture will always be a major and important part of the rural landscape in America. But traditional agriculture alone will not be the driving force of future development.

There are a couple of significant factors impacting our rural economy today. The past several decades have seen major changes in U.S. and world production agriculture and rural structures. These shifts have shown us that although our farm

commodity programs have been critical in keeping U.S. agriculture competitive in the global economy, they aren't geared toward rural development and don't have the impact that our communities need.

Consider these facts for a moment. There are 65 million Americans living in rural areas. Of these, only about 2 million are engaged in farming. That leaves 63 million Americans who have needs for basic services, homes, jobs, education and healthcare.

Focusing solely on agriculture will not develop rural areas. We need to look to other markets—technology, manufacturing, and recreation to name a few.

To be successful, we must have a clear understanding of where we want to go. To me, the vision of rural development—and the goals that drive our efforts at USDA—focus around two components: increased economic opportunities and improved quality of life.

- First—we must increase economic opportunities throughout rural America by improving the flow of capital, hastening the use of technology, furthering the rapidly growing links between agriculture and energy and strengthening the infrastructure, which will increase opportunities of all

types in rural America.

- Second—we need to improve the quality of life by improving the basic needs of adequate food, water and housing, the essential needs of education and health care, and addressing the necessary needs of cultural and recreational experiences.

I'm sure some of you remember the movie “Field of Dreams.” Those of us from Iowa enjoyed it because it popularized the saying, “Is this Heaven? No, it's Iowa.” But it also had a larger message: “If you build it, they will come.” That simple sentence describes much of what we're trying to do at USDA Rural Development—and most of what we must do.

Diversification—both economically and culturally—will enable our rural communities to attract new jobs, families, investment and growth.

At USDA, we do a great deal of work that focuses on three main areas:

- Homeownership assistance that helps low and middle income Americans build equity and gain the security and pride of owning their own home;



Thomas C. Dorr

- Infrastructure development, such as expanding bandwidth capacity and technology for communities to grow; and
- Financing rural entrepreneurial and innovative rural activities such as value-added industries.

Cooperatives can be, and will be, a vital part of seizing these new opportunities. As a farmer, I've had a lot of experience with cooperatives. I have sold to them, bought from them and competed with them. My experiences have been both good and bad, and those experiences have taught me a great deal about the cooperative concept.

Like all of you, I know that cooperatives can work very, very well—and I firmly believe that they are a valuable tool in rural development and many other areas. But as we all know—and many have experienced—they are not always the answer. And it is important for those of us in the business of cooperative development to know the difference.

Cooperatives need to be businesses first. They must be soundly financed and built upon business plans that are well thought out and make sense. Cooperative members and boards of directors need to be knowledgeable and able to make wise business decisions. Education and equity are key.

Let me spend a moment on farmer cooperatives. We hear of several farmer cooperatives that are troubled. There's the bankruptcy of Farmland and Agway, the failure of Tri Valley Growers, and reports of troubles with several other large cooperatives. They are struggling—challenged to compete with the scale, technology and sophistication the market demands.

And importantly, at the center of the struggle is the lack of sufficient capital. Our typical farmer cooperative today is built upon a model that uses debt to finance itself. Some may call this an overstatement, but I don't think it is. When we look at the balance sheets of many local cooperatives, we see capital structures largely composed of equity.

Yet when we look underneath the numbers, we see that a lot of that equity is owed to members, many of whom have retired or are about to. Thus, the numbers mask a serious condition.

Recent failures are not failures of the cooperative model any more than the bankruptcies of WorldCom, Enron or U.S. Airways is a failure of the corporate model. It's how we apply the models that determine success or failure.

Many suggest that farmer cooperatives don't have enough capital because farmers don't have the capital to put into them. On the farm, we call that "bunk." The equity is there.

Farmers have not used their asset base—their land—to its maximum return. Instead of just rolling that capital into the relatively low returns from farming, they can move their capital to other areas. This will raise farm incomes—and enable more farmers to stay on the farm. Our farmers probably can't get much better at farming. They should, however, get much better at investing.

So when I hear people say farmers don't have the money to

make major investments in cooperatives, I say that's wrong. The money is there. If the business plan is sound and convincing—and if farmers understand the untapped potential of their capital, they will invest.

The theories of Clayton Christian, in his book *Creative Deconstructionism*, suggest that institutions must be completely, rather than incrementally, reconstructed if they are to remain vibrant and relevant. This kind of reconstruction may just be what our farmer cooperative system needs.

We need to look beyond the conventional mold to build and support cooperatives that increase economic opportunities in our rural economy.

Rural communities can band together to increase returns to their taxpayers by providing basic services such as healthcare and education.

Rural small businesses can band together to make bulk purchases or provide better business services to remain competitive and to use the

technology necessary in a retail world dominated by Wal-Mart.

The cooperative is a flexible concept that makes all these things possible.

We don't support cooperatives because of what they are—but because of what they can do. We support them because they are a method for local people, businesses and communities to take charge of solving their own problems—and opening their own doors of economic opportunity.

I recently had the opportunity to talk with NCBA CEO Paul Hazen and Communications Director Jennine Kenney to discuss cooperatives and the role they can play in making our rural communities stronger, more vibrant places to live. We talked about rural healthcare, housing and community services. We talked about keeping the small business on Main Street alive—and thriving.

Cooperatives mean empowerment in accomplishing all of these things. We need to work together to make sure this important tool is used to its full potential.

We are challenged today to develop strategies for rural America that are effective and programs that make sense. We, in the public sector, simply have to do a better job. We have bound ourselves up with procedures, regulations and approaches that reflect a rural America of the 1950s, using definitions from the 1930s.

That has got to change. Rural America of the 21st century will look nothing like the rural America of the early 20th century. Our programs must stop looking back and start looking forward.

We have to work with our farmers to encourage them to use that untapped equity in their land to make serious investments in their local communities. This doesn't mean encouraging them to leave farming or to take senseless risks. It's just the opposite. By increasing their return on investment—the value of their land—their ability to stay in farming will be

Farmers have not used their asset base—their land—to its maximum return.

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Major changes in agriculture raise big questions for nation's cooperatives

By James Baarda, USDA/RBS Economist
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Editor's Note: The following article is based on a presentation the author made during the Cooperative Communicators Association annual institute in Burlington, Vt., this past summer.

Members look to their cooperatives for services and support in both difficult and good times. But cooperatives also look to their members for necessary support, patronage and direction. This reciprocal relationship between members and cooperatives means that whatever affects farming also affects cooperatives. And it means that whatever affects the business and economic environment in which cooperatives operate also affects farmer members. Restructuring by large and small cooperatives, several bankruptcy filings by well-known cooperatives, and significant transformation of the entire agricultural sector can lead to confusion and uncertainty among producers. This, in turn, may cause cooperative members and leadership to lose a clear sense of direction and purpose. But cooperative leadership cannot afford to succumb to these forces, regardless of the size of the problem.

The first step in facilitating positive, realistic responses to dramatic changes in agriculture is to identify the forces causing the changes that affect cooperative members. This identification process will, at the very least, reduce large-scale, invisible trends and concepts into a workable "short list" of factors that are hitting home on your co-op and your members' farms and ranches. Your task is to establish reasonable expectations of success, based on these forces. Then develop short- and long-term strategies, depending on how accurately the "big picture" is perceived. The 12 forces described in the first part of this article offer a basis for further discussion.

The next step is to assess the implications of these forces for farmers and their cooperative. The dozen questions in the second part of this article shift focus from the broad forces to address cooperative issues directly.

The remaining task for cooperatives, directors, management and members is to then establish—for each cooperative—meaningful connections between the forces and issues, then devise strategic plans that will lead to the coop-

erative's successful response and effective service to members.

12 forces changing the face of farming and farmer cooperatives

The following list summarizes major forces affecting U.S. farming and, consequently, farmer cooperatives and their members.

1. Globalization

The impacts of globalization are felt in three major ways:

- **On markets**—World market forces are reflected directly back to all levels of agribusiness and to U.S. farmers. Demand, supply, pricing and all other economic forces that determine farm income and affect farming decisions are now world issues, not local, regional, national or hemispheric issues.
- **On production**—Individual U.S. farmers do not produce for limited or well-defined markets. Every farmer is part of a competitive world system in production choices and costs, governmental support programs, market delivery systems, sources and pricing of inputs. Production trends may be inexorable on a world scale, leaving individual farmers unable to make meaningful production decisions.
- **Non-agricultural environments**—Farmers are now exposed to world financial markets where the economic systems are far different from the U.S. system. They also face international and transnational political forces, fluctuating exchange rates and new communications systems and technologies, all of which can change rapidly. These environments are ever-more important to agriculture, and, at the same time, are less and less sensitive to agriculture. Almost any production activity in any sector is expendable if "economics demands it."

2. New forces drive farming

- **Economic forces**—Broad micro- and macro-economic



James Baarda addresses the CCA conference in Burlington, Vt.

forces impinge on every aspect of the farming process. The forces are not only more pervasive but, in some regards, they are more volatile than ever before. Stability and predictability are rare commodities.

- **Sources**—More and more of the forces driving agriculture and affecting farming lie outside the control of farmers or the general agricultural sector—even outside the control or influence of the nation. The agenda is being set by others, not necessarily by design, but more by economic forces that are neutral in some sense, but not at all neutral toward those who cannot exert power.
- **Social forces**—Concerns about the environment, food safety, animal health and treatment, conservation, odor and pest nuisance, land use, food costs and labor conditions are among forces finding their way into laws and regulations that impose general social interests on farmers. An increasingly constrictive network of prohibitions and directives are part of every farming plan, decision and cost calculation.

3. Risk

- **Levels of risk**—Agriculture has always been a risky business, but the nature of risk is changing substantially. Some types of risk seem to be decreasing while others are increasing, and the impact of these risks is becoming more severe. Predictability and planning become ever more important as farming becomes a more sophisticated science. But risk can undermine the predictability required for planning, investment and efficiency.
- **Sources of risk**—As with the market and social forces, an increasing amount of risk seems to be coming from outside of agriculture and outside of the national economy. As a result, farmers and others in the agricultural sector are less able to take effective action to reduce risk.
- **Allocation**—The generally declining economic power of farmers and the increasing power of buyers and suppliers has led to an increased risk for farmers, while other agribusinesses strive to reduce or shift risk to others, including farmers.

4. Concentration and industry structure

- **Bargaining power**—Bargaining power, or lack thereof, has almost always been of concern to farmers. But it is an ever-increasing problem because of the increasing concentration of buyers and suppliers.
- **Pricing systems**—An increasing number of pricing systems are “closing” due to the decline in both the number of participants and a reduction in number of farms. Reduction in transparency and open price discovery methods arises from the increase in private agreements between producer and buyer.
- **Retail concentration**—Concentration at the retail level has not only added to problems of bargaining-power balance, it has also reduced opportunities for farmers to participate at all. The national scope of retailing concentration—with giant food chains charging for shelf-space and

continued concentration of an already concentrated number of players in many international markets—places U.S. farmers at a distinct disadvantage.

5. Industrialization of agriculture

- **Contracting and integration**—Significant increases in contracting and industry integration have totally changed some industries. This trend appears to be making its way into nearly all agricultural sectors. The tradeoffs between rights and obligations inherent in any contracting system often leave the real producer at the bottom when it comes to decision making, influence and profitability.
- **Production fragmentation**—This process has resulted in each producer playing a meaningful role in an ever-decreasing part of the production process. Decisions are removed from the producer to the point that the term “employee” may best describe many producers.
- **The agenda**—Perhaps one of the most profound changes brought about by “industrialization” is that the agenda for agriculture is being set outside the farmer/producer system, not by farmers. The driving forces are profitability, returns on equity, growth, market dominance, reduction of risk and direct dependence on financial markets by powerful companies far removed from the production process.

6. Biotechnology and intellectual property

- **New commodities**—Biotechnology and production technology advances are resulting in new genetic commodities and methods of production. This trend is also impacting new production and processing technologies. In many circumstances, farmers cannot afford to be left behind by not adopting the new technologies. At the same time, however, they cannot afford to make the investments to adopt new technology. Farmers bear the risk of uncertainty about genetically modified organisms (GMOs) and a possible negative public reaction in case of a real, or imagined, danger to the food supply.
- **Ownership**—Production is increasingly dependent on technology that is owned by proprietary firms. The agenda for development is set by agribusiness firms based largely on profitability considerations. Profit is captured by requiring compensation at some level in the production system, typically at the producer level. In many cases, the “producer” either never owns, or has limited rights in the product itself.

7. Scale of production

- **Size**—Increased size and scale of operation is not limited to marketing and processing firms. Farm production itself is increasing in size, along with requirements for larger investment, added financing burdens, planning needs and management skills. Dramatic increases in farm sizes creates new demands for supplies, financial services, land and labor.
- **Size distribution**—Agriculture is facing disparity between large commercial farmers and smaller operators, ranging from part-timers to full-time family farms. This disparity

is carried over into farmer needs for supplies and financing, the choice of commodity produced and their ability to efficiently produce a quality, uniform product.

8. *Sophistication and complexity*

- **Business methods**—All but the simplest of farming operations must consider the complexities of modern business and apply sophisticated business practices. This ranges from the form of business used to financial and technological computer programs, from expensive and complex machinery to arcane hedging methods.
- **Multiple requirements**—Law, accounting, financing and regulations at the local, state and federal level are an integral part of every farming operation and are playing an increasingly intrusive role in the business of farming.

9. *Technology*

- **Information technology**—Production and distribution of agricultural products has been greatly influenced, as have most other sectors in the developed world, by information technology. Computing capabilities affect all businesses of every size to increase record-keeping capacity, enhance decision-making support and offer data-bases not previously accessible to producers. Communication technology has revolutionized the way information is exchanged and, through the Internet, the amount of information available on a multitude of subjects.
- **Production and distribution technology**—Technology supporting production agriculture has increased in sophistication and in the capacity to enhance production efficiency. Co-op members are operating in a dynamic environment that includes complex, high-performance machinery, global positioning systems, advances in food chemistry and technology, processing and packaging innovations, and distribution system mechanization.

10. *Consumers and consumption*

- **Changing tastes**—Consumer tastes for food are changing, due largely to advertising and marketing. For the most part, advertising and marketing are designed to increase product profitability for processors and retailers. The demand is generated at the retail level and passed back to producers, who have little or no input to the process. Farmers are asked to produce what is demanded when the buyer demands it.
- **Uniformity**—The enormous size of the fast food industry and grocery retailers is in many ways reducing the variety of foods demanded and offered. In other ways, however, it is increasing variety. More products are becoming homogeneous commodities for which uniformity of size, quality and taste is absolutely essential. This, in turn, often eliminates the smaller producer from meaningful participation in the supply chain.
- **Service demands**—As consumers move further away from a realistic understanding of the farming process, they become more demanding and less forgiving of variety in quality, taste or appearance.

11. *Lifestyles and attitudes*

- **Farmer expectations**—Perhaps the most important forces to consider are those that come from farmers themselves. Farm families have expectations about a desired lifestyle and standard of living, income level and stability, and a decent working environment. Among many other things, this may well influence what farmers want from their cooperative, the kind of operations the farmer endeavors to establish, and their willingness to remain in agriculture.
- **Rural residents**—Farmers and other rural residents have observed substantial changes in rural communities, many of which are based on declining income and population. Institutions and amenities are nevertheless required for those remaining, and rural residents have reason to expect that their community will be stable and a rewarding place to live. This, in turn, influences attitudes toward business, the importance of local firms and the impacts of local cooperative facilities on employment and community income.

12. *General economic pressures*

- **Profitability**—Prices, costs, risks, variability and other problems inherent in agriculture combine with similar pressures from other parts of the economy to place severe pressure on farm profitability and stability. Many of the factors just discussed contribute to the problem. There is every reason to believe that such pressures will continue long into the future.
- **Value of agriculture**—A problem broader than farm profitability and stability is that of the value of agriculture and agricultural production. Unacceptable returns and stability undermine the sense of value in producing agricultural products, as does the decline of farmers' overall position in the industry. The public, including policymakers, may also place less value on agricultural production and the traditions of independent farming.
- **Financial markets and performance**—Cooperatives and farmers have vested interests in financial and equity markets. As those markets change, so too, do the fortunes of cooperatives and members. For the most part, performance of the markets is entirely beyond the control of cooperatives or farmers. Yet, market behavior dictates financial resources available for cooperatives and members, levels of investment in cooperatives, savings and spending patterns, and financial flows into and out of the agricultural sector.

A dozen issues for co-ops

The 12 forces discussed above suggest numerous questions that can be asked about cooperatives and their future in American agribusiness. Some affect cooperatives directly as businesses, other issues impinge on cooperatives because of the impact on farmer-members.

The following list of 12 issues summarizes challenges faced by cooperatives in the changing economy and agriculture sector. They are presented in the form of questions to emphasize that specific answers are needed. The response to such questions can be positive; the questions do not suggest in any way that cooperatives cannot respond

Business failures underscore need for dose of preventive medicine

By Dan Campbell, editor

How should cooperatives respond to the recent bankruptcy filings by several of the nation's largest farmer-owned co-ops and the collapse of some of America's corporate heavyweights? More effective director training programs and communications efforts geared to better educate members about how their co-ops function would help, according to panelists who tackled this thorny issue during the annual institute of the Cooperative Communicators Association (CCA) in Burlington, Vt.

"Fortune" magazine blames lack of vigilance by boards of directors for the financial and ethical lapses that have contributed to the collapse of some of America's corporate giants, said Catherine Merlo, a communications consultant from Bakersfield, Calif. Quoting from the article, she said, "Nothing will change until directors realize ultimately that they must reform themselves. They have to go beyond the rules, ask tougher questions, be more skeptical and critical of management and never forget that their No. 1 job is to watch out for shareholders, not the CEO." The same doubtless holds true among many co-op boards, she noted.

In recent conversations with co-op representatives, Merlo was told that some are convinced that their directors "don't have a true grasp of the nitty-gritty details" of the co-op financial statements they review. She said this strongly suggests that more time and effort be spent on director training.

The need for more effective education extends beyond co-op directors and "goes to the heart of member communications efforts," said Pamela Karg, a Wis-

consin-based co-op communications consultant. "How many of your members really understand those beautiful annual reports we put out? How many of you really understand the numbers the finance office gives you?"

As another example of the need for more basic member education, Karg said she was approached by a dairy co-op to produce an article explaining how milk is priced and how this determines the bottom line on a

producer's milk check. If something this basic to the livelihood of farmers isn't always well understood, think how much tougher it is for producers to move from the farm to the board room, where they must deal with complex financial statements and global marketing issues.

Chuck Lay, communications director for MFA Inc., said he feels most co-ops "have access to talent" in their ranks. Farmers who are still in the business have survived this long only if they are astute businessmen, he said, adding that MFA's board represents deep knowledge of a wide range of commodities, including hogs, soybeans, corn, beef cattle and dairy.

Lay said some co-ops struggle with "large board syndrome." Several years ago, MFA reduced its board from 30 to 14, and most believe it was a good move. A "smaller board composed of sharp producers can make quick, intelligent decisions," Lay said.

Lani Jordan, communications director for CHS, said an article in "The Economist" magazine also addressed the meltdown of some of the nation's major corporations. It printed a list of recommendations for corporate boards to consider as preventive medicine. These recommendations range from the need for more aggressive audit com-



Catherine Merlo refers to an article in Fortune magazine, which lays much of the blame on board members for the ethical and financial problems that have driven some corporate heavyweights into oblivion. USDA Photo by Dan Campbell

effectively to the changing forces faced by members.

1. Do the forces mentioned and the resulting changes in the industry affect cooperatives in a particular way?

Is there something about cooperatives that makes them susceptible to the forces mentioned above that differs, either qualitatively or quantitatively, from other kinds of businesses? Do the impacts on farmers extend to the cooperative in a significantly different way than for other types of agribusiness? These questions can be addressed for each of the forces because some will most certainly have different impacts on cooperatives than others.

How do cooperatives respond? On the one hand, the cooperative may have a response comparable to that of non-cooperatives. In addition, each force and the response by farmers may be reflected back to cooperatives differently than from non-cooperatives. The latter possibility leads to a general inquiry about cooperatives: of the forces acting on farmers, are some more amenable to solution by cooperatives than any other form of business? Can cooperatives solve farmers' problems as no other form of business can?

2. Do agriculture cooperatives exist in a dying sector?

As economies globalize, does U.S. agriculture face per-

mittees to conducting thorough annual performance reviews for CEOs. As she worked her way down the list, Jordan put checks by all the items that CHS is already doing. She wound up checking most of the items on the list. Thus, the co-op governance structure was, in effect, being held up to corporate America as an example of the way it should be doing business.

"Yes, co-ops do sometimes end up with unqualified directors on their boards," Jordan said. But most are selected by their fellow producers based on their business acumen and they know well that their duty is to their fellow producers, rather than being "handpicked choices of the CEO" based on their willingness to support his or her agenda.

Merlo said she is increasingly hearing that members are only concerned with the bottom line, particularly younger members. One staff member of Tri Valley Growers, a now-bankrupt and defunct California fruit processor, told her the co-op's members always wanted the best possible price from the co-op for their crops, but also wanted the co-op to be competitive in the marketplace. A major challenge of the co-op was to balance those two divergent demands.

The response of some co-ops is to admit that they cannot guarantee they will pay the top price to producers every year, but will be competitive over the long term and provide a reliable home for their crops. "This is a constant member-education challenge," she said.

"The bottom line is crucial, but we have to do a better job telling the rest of the story about the value of co-ops," said Jim Rodenburg, communications director at AGP. He noted that AGP member meetings used to always start with the financial report, but now begin with a management report that focuses on marketing efforts. He said that in no way downplays the financial statement, but puts new emphasis on marketing as the key to the co-op's future success.

It was noted that one farm columnist laid some of the blame on the rise in co-op bankruptcies on the nation's farm press, which he said traditionally gives co-ops "a

free ride" and is rarely critical of them for fear of being perceived as anti-farmer.

Lay disagreed, saying he has usually found the farm press to be "skeptical and even hostile toward cooperatives." Most ag journalists, Lay continued, "have to be dragged kicking and screaming to cover a co-op event."

Jordan said the media "generally ignores co-ops unless they file for bankruptcy." She acknowledged efforts of those in the room who strive to get the co-op story out to mainstream press, but said it is hard when the press is so geared toward covering crisis and conflict.

Patrick Duffey of USDA Rural Development said the situation can best be addressed if farm, electric and consumer co-ops continue to work together—as they do under the umbrella of CCA—to promote greater public understanding of cooperatives. Well-planned media events can still attract positive press coverage, he said.

It is vital to remember that these co-ops "did not get into financial trouble because they are co-ops—they got into trouble because of some bad business decisions," Jordan said. Most co-ops form as a response to failure in the marketplace, she noted. "When no longer needed for defensive purposes, co-ops must adopt an offensive business strategy to survive," she said. In the case of CHS, the strategy is to continue to move to position itself as a producer of value-added products.

"Co-ops will survive," Jordan said, "but this is a time of transition," and the co-ops of tomorrow will look different than those of today. Our members are telling us we have to earn their business every day. A co-op is not a social club; you can't count on loyalty. You must earn it through solid business performance."

"We don't run the board or management, but we can make suggestions about director training and help members understand how their co-op works," Karg said, urging those present to "communicate about the difficult issues before questions arise among members." ■

manent disadvantages because of high costs, regulations, etc.? To what extent, if any, is agriculture facing contraction, major modification, or extinction? If U.S. agriculture's existence is challenged, are the cooperatives that serve agriculture also doomed? The issues raised in a recent book that questions the long-term future of U.S. agriculture are timely and are being considered by a surprisingly wide range of individuals.

One question for cooperatives is their role in these large trends, if such trends do indeed even exist. Do cooperatives have a special role to play in helping farmers and the U.S.

economy avoid the "death" of agriculture as we now know it? Do cooperatives demonstrate weaknesses, as well as strengths, in response to sector declines and possible replacement with other commodities or types of economic activities?

A profound question is what role cooperatives will play in the future of agriculture. Can cooperatives play a unique role, either individually or collectively, in maintaining the strength of the agricultural industry by effectively supporting farmers?

3. Are cooperative decision-making processes adequate?

Timing and deliberation—Are cooperatives inherently slow in making decisions in a rapidly-changing environment

because of their reliance on member approval? Are decisions made in the right place in the cooperative by the right people? Are these questions, stated as fact by some, real issues, or only unsupported observations?

Directors—Are boards of directors capable of making timely, correct and forceful decisions? Have co-op boards gathered the expertise needed for modern agriculture, and are boards capable of using this expertise?

4. Are cooperatives and their leaders capable of playing in the world arena?

Sophistication—Are cooperative members and their leaders not sophisticated enough to participate in the dynamic, worldwide agricultural and agribusiness arenas? While we know this is not the case, others do not. As a consequence, the fundamental member-control issue can be undermined and potential cooperative participation in the world markets dismissed as inherently impossible.

Complexity—Is the business so complex and large that success can only be expected from professional management and planners, regardless of how good at farming members and directors are? Should the field be left to the professionals, or should a new balance of power be explored?

Both of these queries come to the fore frequently when farmers form new-generation cooperatives that have both a highly complex processing system beyond the board's technical expertise and a marketing system they are not familiar with. One consequence is that the board of directors, and therefore the members, may rely too heavily on management, may not provide the necessary oversight of management and cooperative performance and may not participate effectively in strategic planning and major cooperative decisions.

5. Is cooperative business too limited to be successful?

Diversity—Cooperatives serve farmer-members. This statement defines the breadth of their activities. Many other businesses are successful because they can diversify to reduce risks and take advantage of synergies, something cooperatives cannot do effectively, if at all. How detrimental are the diversification limitations to the long-term survivability and flexibility of cooperatives? Exactly how do these limitations inhibit the cooperative? For example, does limitation on type of product marketed or supplied place the cooperative at a disadvantage with respect to a competitor who can engage in product lines required for the market? An important question to be answered is how cooperatives can respond without losing their character and their close association with farmers' production processes.

Service mandate—If prices and costs do not generate profits for a period, cooperatives may not be able to temporarily abandon a line of business, as can other business. Does this place them at a disadvantage? This also raises the question of profitability requirements for co-ops. Given the purpose of cooperatives and the complexity of accurately determining benefits to members, are there situations where a cooperative can operate without "profits" and still be considered a successful business organization? Have cooperatives established suitable alternatives to pure "profit" motive?

6. Similarly, does service devoted only to members doom cooperatives in times of change?

In business limited to service to members, and with limited flexibility to expand business, what is the cost to cooperatives of serving only members? How is this cost balanced against the benefits of such service? Who ultimately bears the burdens of the cooperative?

7. Do member demands and behavior weaken cooperatives?

Economic demands—Farmer-members bear the burden of financing the cooperative. When farmers demand not only good prices, but high returns and a quick equity revivement, do they set the stage for cooperative failure? This differs from the relationship between a non-cooperative business and its customers. But is it a weakness?

Loyalty—Are cooperatives placed at a disadvantage with respect to non-cooperative businesses when members shop for prices rather than maintaining a long-term relationship with their cooperatives? Is there any way to tie a cooperative's loyalty to its members on one hand, and loyalty to the cooperative on the other? These are perennial issues faced by federated and direct-membership cooperatives. Some observers attribute the failure of both centralized and federated cooperatives to member behavior—individual farmers in the case of centralized cooperatives and the local members of a federated cooperative.

8. Is there a fatal size limit on "true" cooperatives?

Size concerns—Is there a maximum size to which a cooperative can grow and still maintain its true cooperative relationship with members? Member control, member relations, and response to individual member needs may diminish with increasing size. What roles can cooperative education and good member relations play in this evolving process?

Critical size—The ultimate issue is whether the maximum size at which a cooperative can continue to be effective as a cooperative is smaller than the minimum size needed to be effective in today's agricultural sector. If so, cooperatives may be relegated to a secondary role in the sector. However, some cooperatives are very large and very effective, so the question of critical and maximum size has for some purposes been answered. In other situations it has not.

What kinds of arrangements can cooperatives make with other companies to get the benefits of necessary size without losing cooperative character. Joint ventures, shared subsidiaries and strategic alliances are regularly developed by cooperatives of almost any size. Concern for maintaining cooperative principles is paramount in any arrangement, but cooperatives should have no difficulty engaging with other businesses to participate in emerging and changing markets and production processes. More inquiry is needed into this area.

9. Do cooperatives have fatal limits on capital sources?

Overall size—If there is a minimum size at which cooperatives can be effective, are limitations on capital severe enough to prevent growth to that size? Many, if not most, cooperatives feel hampered by capital requirements, restricted as they are to the

continued on page 36



Utah Co-op Alliance formed

With members that includes such well-established ag cooperatives as turkey marketer Norbest and the Moroni Feed co-op, the new Utah Cooperative Alliance was formed this fall. It will share information, help

member co-ops network and generally promote cooperatives operating in Utah. The alliance represents: 77 agricultural cooperatives, 10 rural electric co-ops, 4 telecommunications co-ops, 134 consumer cooperatives and 21 co-ops affiliated with Associated Foods.

Chris Falco, alliance president, said the fact that cooperatives operate under a “user-benefit” principle means that the customers have more input and control over the business or organization’s operations. At the same time, he said, the cooperative’s design

Hurricane Lili no match for undaunted DFA milk haulers

By Melissa Sandfort, DFA

Mail carriers are much heralded for delivering mail through all kinds of adverse weather, but the real unsung heroes along the Louisiana coast this fall were the local milk haulers for Dairy Farmers of America (DFA) during tropical storm Lili. “The milkman cometh” meant that milk reached the market in Lafayette, La., even as tropical storm Lili spun out of Louisiana on Oct. 4, leaving behind a trail of mud and misery and wind and flood damage for residents. Some areas spent days without power.

But Lili was no match for the determination of milk hauler Bobby Berry and six dairy farmer families who market their milk through DFA’s Southeast area based in Knoxville, Tenn.

Sammy Royer, DFA’s field representative at Cankton, La., recalled, “The eye of the storm passed 20 miles from my house on Oct. 3. Six area dairy farmers asked for our help. Power was out for four days. One farmer missed four milkings because of the outage. They faced horrible winds and five inches of rain. They had been using portable generators to run the necessary equipment to produce electricity to keep the milk cold.” Worse yet, area electrical outages had forced DFA’s Borden dairy processing plant in

Lafayette to close its doors.

“Our job was to get that milk to consumers on behalf of our dairy farm families, said Berry, who was hauling for DFA contractor H & J Burford out of Shreveport, La. “Cows don’t stop milking just because of a storm. If we don’t deliver, farmers don’t get paid and consumers don’t get milk. We refused to let Lili prevent us from bottling and delivering 63,000 gallons of milk. The power lines were playing skip rope as I headed out in 60-mile-per-hour winds. We had to move fast.”



Just call him Bobby “Hurricane” Berry from now on; 60-mile-per-hour winds couldn’t stop this DFA milk hauler. Photo by Mike Silva, courtesy DFA

Power company crews worked overtime and restored service to the plant by 3 a.m. Manger Jim Williams credited the teamwork of employees, the hauler and DFA members for completing half the plant’s normal deliveries that day and local routes resumed the next day.

“In a storm, the community is focused on immediate losses and forgets our cows have to be milked. We not only lose money but also our livelihood,” said Dan Lyons, DFA member and delegate who farms 90 miles from the Gulf. He milks 100 cows and has been a dairyman for 32 years. “It’s nice to know we belong to a co-op that has had the foresight to put programs in place to help the dairy farmers through disaster.”

For the DFA employees and members, it was another reminder of the cooperative’s motto, “where a single drop of milk affects the entire organization.” ■

ensures more attention to the needs of members. "They're formed for a specific purpose, either to market or provide services to its members."

For Leonard Blackman and his sons, that means a five-decade history of raising turkeys in Moroni, thanks to a pair of cooperatives represented by the new alliance. Utah's Moroni Feed Co. allows about 100 farmers in Sanpete County and Nebraska to benefit from group purchases of feed, veterinary services, processing and gasoline. Norbest Inc., of Midvale, affords farmer-members the benefits of marketing turkeys and developing new products.

"The only reason we all survive is because of co-ops," Blackman said of his 100,000-turkey operation and dozens of others scattered around the county. "They enable us to join forces and compete with the big companies." Associated Foods, another Utah cooperative, serves independent grocery stores and helps them compete with larger grocery chains. Desert Power serves six rural electric power cooperatives which, in turn, serve residents of rural areas.

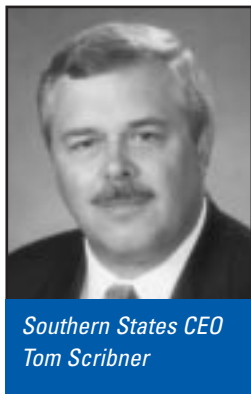
Scribner CEO at Southern States; SSC, Perdue forge new grain pact

In the midst of spinning off chunks of its Mid-Atlantic operations to stabilize its financial situation, the board of directors of Southern States Cooperative (SSC) at Richmond, Va., has unanimously appointed Tom Scribner as president and chief executive officer (CEO). Scribner has been the co-op's chief merchandiser. He succeeds Wayne Boutwell who resigned after 5 years at the helm. Boutwell had earlier been CEO of the National Council of Farmer Cooperatives in Washington, D.C.

Scribner joined SSC in 1988 and earlier had worked for Countrymark Inc., in Indianapolis, Ind. In late October, Scribner announced the cutback of about 120 staffers, mostly at Richmond, including 23 positions recently vacated or planned under the budget. Some were offered jobs elsewhere in the cooperative. He

advised employees that the combination of drought, lower sales and the troubled agricultural economy made it "essential that we concentrate on our core business activities and in making those operations as efficient as possible."

SSC sells farm production supplies and services and lawn and garden products through a chain of 1,300 retail stores stretching from Maine to Florida. Last year, the cooperative hired an Arkansas consulting firm to guide a restructuring program and deal with



*Southern States CEO
Tom Scribner*

changes in agriculture. Most recently, SSC eliminated its truck fleet, which covered 8 million miles per year but operated only three-fifths full. The cooperative contracted with a Richmond firm to provide its needed transportation services. To further tighten operations, changes were made in the assortment of products, services were improved and sales people trained with better product knowledge. Scribner said SSC was using its buying power to negotiate better prices with vendors. In the future, SSC plans to organize its stores around crop centers in a hub-and-spoke arrangement that will require every store in a region to carry a full line of products.

Meanwhile, faced with drought conditions in the East this season and a general agricultural malaise among many of its farmer customers, SSC agreed to a long-term lease of its 13 grain elevators in seven states to Perdue Farms, a major poultry producer and marketer based in Salisbury, Md.

SSC also plans to sell its Wetsel seed subsidiary at Harrisonburg, Va., to a subsidiary of The Anderson Group, an investment firm at Bloomfield Hills, Mich. Wetsel was a leading distributor of turf, horticultural and lawn and garden products in the East.

Debt-laden Agway files for Chapter 11, reorganizing

The national agricultural malaise has caught up with the Northeast. Saddled with heavy debts of \$478 million and short on cash, Agway Inc., of DeWitt, N.Y., filed for Chapter 11 reorganization Oct. 1. It is seeking protection of the U.S. Bankruptcy Court for the Northern District of New York at Utica while it attempts to continue operations while reorganizing the business. Agway serves 69,000 farmer-members.

Agway's creditors will meet Dec. 11 to review the cooperative's assets, liabilities and related matters. The largest creditor, the company's 401 (k) securities fund, which contains retirees' retirement investments, is owed about \$35 million. Creditors won't know how much they'll recoup until the bankruptcy court and creditors approve a reorganization plan.

Agway reported losses of \$98.2 million for fiscal 2002, which ended June 30, with \$85.4 million directly related to the sale of discontinued operations. Revenue was \$899 million, down 21 percent from 2001, due partly to a mild winter and lower petroleum commodity prices.

Agway had net losses of \$8.9 million in fiscal 2001 and a \$9.4 million loss in 2000. The regional cooperative has already sold some operations and two others should be completed by the end of the year. The 550 independent Agway dealer stores throughout the Northeast were not included in the bankruptcy filing.

The court has approved the cooperative's request to pay its 3,600 employees and maintain their medical and other benefits after Agway gained access to \$125 million debtor-in-possession financing. Also covered were vendors and suppliers of services received since the Oct. 1 bankruptcy action.

Wholly owned subsidiaries exempt from the bankruptcy action include: Agway Energy Products LLC, Agway Energy Services Inc., Agway Energy Services-PA Inc. and Cooperative Milling, a feed mill at Gettysburg, Pa., run as a joint venture with Southern

States Cooperative, Richmond, Va. Subsidiaries covered in the bankruptcy are: Agway Feed and Nutrition, Agway Agronomy, Seedway, Feed Commodities International, Country Best Produce, CPG Nutrients, Agway CPG Technologies and Agway General Agency. Earlier this year Indiana

Farm Bureau purchased Agway's insurance business.

NCUA, USDA in rural pact

An agreement has been signed between the National Credit Union Association and USDA to make rural economic development funds available

through the nation's 3,300 state-chartered credit unions for business, home and community projects. Thomas C. Dorr, USDA under secretary for rural development, said the opening of new markets "will bring credit unions more flexibility in developing lending strategies and stimulating further economic

Management Tip *continued from page 13*

are pretty clear. With diligence and care, a cooperative director has guidance to avoid the many pitfalls suggested by a cautious view of a director's job. Though a director may face unpleasant, and sometimes unexpected circumstances, adherence to high personal standards of conduct is excellent insurance against personal problems.

Directors are part of a team. This team is not only a source of support, it is a reward in itself. Difficult issues are discussed within the board before decisions are made; information is generated and shared, and decisions are made as a board. Responsibilities are shared with others in a similar position. The team concept includes not only the board of directors, but management and, most importantly, the cooperative's members. The opportunity to take an active role in multiple constituencies is unusually valuable for a cooperative director.

The sheer challenge of being a cooperative director can be added as a third source of reward. Directors see a problem from its discovery. They define the issues it raises for the cooperative and members, identify the range of possible solutions, gather and study the information needed to assess the solutions, determine what the consequences of various courses of action might be, make a decision, create the policies and directives needed to implement the chosen solution, and assess the consequences of the board's decisions. The more difficult the problem, the greater the rewards of finding an answer. The more critical the issue is to the success of the cooperative, the more satisfying is the problem-solving process.

Implementing exercise

As a board, review the character of your cooperative:

- What is the stated purpose of the cooperative?
- What does this mean when balancing interests?
- Identify the "stakeholders"—those who have an interest in what the cooperative does and how the cooperative performs.
- Identify the principle things that make the organization a cooperative and distinguish it from other kinds of businesses.

Revisit the cooperative's vision statement, mission statement and objectives.

- Are they adequate, realistic and up-to-date?
- Did they come from the membership or were they devised as a board-management exercise?
- Are members familiar with their cooperative's vision, mission and purposes?
- What do the members think of them?

Set aside some time at a board meeting (after preparation) to discuss what measure of success the board should use to assess the cooperative's performance, its management, and the board of directors.

- Start with the broadest list and set priorities.
- Are some measures incompatible with others?
- If trade-offs are required, what decision rules can be devised?
- What would members think of the trade-offs and decision rules?

Make it personal—it already is!

- Identify the issues that you personally find to be the most uncomfortable, those you'd really rather not have to make decisions about.
- Make a plan to share the burdens of the decision.
- List the factors you will consider in addressing the problem.
- Do you think others share your discomfort?

Directorship presents an opportunity to serve others in direct and important ways. Beneficiaries of a successfully guided cooperative include members and patrons, the cooperative's management and employees, the individuals and businesses that deal with the cooperative, the communities in which the cooperative and its members and employees are located, and the marketing and supply systems in which the

cooperative operates. Individuals considering being a director should consider the significant impacts they can have beyond the boardroom and even on the cooperative.

Finally, board membership carries personal prestige despite the many duties and difficulties. Serving on a cooperative's board of directors is a worthy personal and professional goal. Directorship should be a source of great personal pride and satisfaction. ■

development in historically under-served areas. USDA and NCUA will promote accessibility of resources through USDA to assist the low-income population in communities served by credit unions,” Dorr said.

Reeves elected Gold Kist chairman

Douglas Reeves Sr., a poultry producer from Reevesville, S.C., is the new chairman of Atlanta-based Gold Kist Inc., a farmer-owned co-op that is the nation’s second largest processor of poultry products. Reeves, first appointed to the board in 2000, is also chairman of the Edisto Electric Cooperative, vice chairman of the Central Electric Cooperative and chairman of the South Carolina Bank and Trust.

Three new directors have been elected to the board, including Christopher Fannon, a cattle and broiler producer from Geraldine, Ala., who defeated Dan Smalley, chairman of the board and a director for 16 years. The other new directors are Frederick W. Gretsche Jr. of Crawford, Ga., and Billy G. Meeks of Cullman, Ala.

“Successful Farming” magazine reports that five of nine directors have now been replaced on the board in the past 3 years, which it attributes to growers being “fed up with low returns and demands to upgrade buildings.” In what it says may have been the largest write-in campaign in the regional cooperative’s 69-year history, members voted 169-161 for Fannon.

AGP stretching its scope to West Coast, Texas Panhandle

From the West Coast to the Texas Panhandle, Ag Processing Inc. (AGP), of Omaha, the nation’s leading cooperative soybean processor is expanding its scope. Construction has started on a new deep-water-vessel loading facility at the Port of Grays Harbor at Aberdeen, Wash., to facilitate trade with Pacific Rim markets. It should be ready for shipping by the end of next summer. It will be supplied by grain rail cars originating at Midwest local cooperatives affiliated with AGP. The facility will be served not only by the

Puget Sound and Pacific Railroad but also have customized access to the Burlington Northern Santa Fe and Union Pacific Railroads.

Meanwhile, at 10 locations across the Texas Panhandle, AGP Grain Cooperative is increasing its presence and outlets for Midwest grain by purchasing grain elevators from Sherley-Anderson Grain Co. The elevators represent a combined storage capacity of 24 million bushels. All have access to major highways and are served by the Burlington Northern Santa Fe Railroad. Mike Knobbe, group vice president for grain, cited the growth of livestock feeding and dairy production in the area. “The Texas Panhandle is a key domestic designation market and fits our strategic growth plan to serve our members,” he said. Marty Reagan, AGP’s CEO, said the link between the facilities and customers they serve with AGP members, as “enhancing our ability to add value to Midwest grain production.”

Major upgrades and expansions also were underway this summer at AGP facilities in Sheldon and Mason City, Iowa, and Hastings, Neb., with the aim of making AGP the least-cost producer in the industry.

Farmland tops Co-op 100 list

Farmland Industries, with revenue of \$11.8 billion, was the nation’s largest cooperative in 2001, according to the annual Co-op 100 report issued by the National Cooperative Bank (NCB), Washington, D.C. Farmland, which is currently seeking to restructure its business under a Chapter 11 Bankruptcy Court filing, was one of 40 agricultural cooperatives to make the Co-op 100 list. Those 40 ag co-ops had aggregate 2001 revenue of \$60 billion, or just under 60 percent of the nation’s total ag co-op business volume (see related item, page 32).

The list also includes 20 grocery co-ops with a total of \$28.9 billion in 2001 revenue, 13 finance co-ops with \$11.6 billion in revenue, 6 hardware and

lumber co-ops with \$8.8 billion of revenue, 14 energy and telecommunications co-ops with \$8.1 billion of revenue and seven miscellaneous co-ops with \$5.9 billion in revenue.

Three other agricultural cooperatives—Dairy Farmers of America, CHS Cooperatives and Land O’Lakes—are included in the top 10. For the second consecutive year, cooperatives in the list earned more than \$130 billion in combined revenue, demonstrating the important role cooperatives play in the nation’s economy.

“When I look at the revenues reflected in this year’s NCB Co-op 100, I can’t help but be impressed by the growth of U.S. cooperatives,” said Charles Snyder, NCB president. “From their beginnings more than 100 years ago, American cooperatives have not only survived, but also flourished. They have prevailed through adversity and economic downturns and have brought economic stability and prosperity to millions of people,” Snyder said.

The entire list and related information is available on the Internet at www.co-op100.coop, or via e-mail at marcom@ncb.coop, or fax at 202-336-7730.

Thiara new Sunsweet chairman

Gary Thiara, a member since 1980 of Sunsweet Growers at Yuba City, Calif., has been elected its new chairman. Before returning to the farm, he served 5 years as an agricultural banker and now manages a fruit orchard with his brother. He also grows almonds. Sunsweet is the nation’s leading marketer of dried plums.

Swiss Valley to relocate to new Davenport site

The Iowa-based dairy cooperative Swiss Valley plans to move its headquarters from Mount Joy to a new facility on a three-acre site at north Davenport. The cooperative will spend about \$5 million to build a two-story, 37,000-square-foot office. Financial and training incentives are pending from city, state and community college sources.



Construction could begin this year with completion expected by next fall.

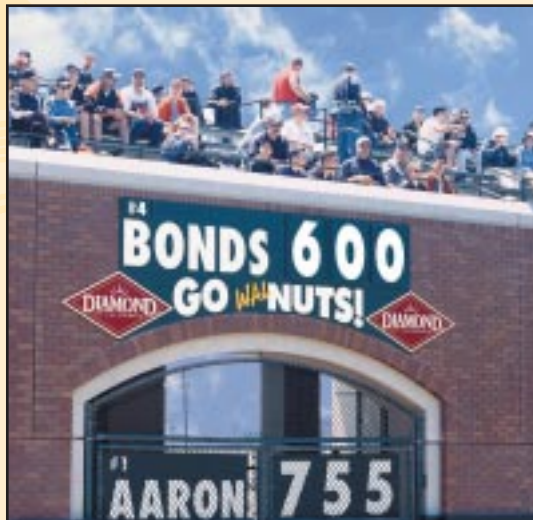
Eugene Quast, the cooperative's chief executive officer, said it plans to add 30 employees to tie in with anticipated growth of 15 percent annually during the next 5 years. The cooperative is owned by 3,600 dairy farmers in Iowa, Illinois, Wisconsin and Minnesota. It employs 800 people in the making of cheese, dips, milk and other dairy products. Annual sales are about \$500 million.

Quast said future growth was expected partly from increased sales of its award-winning cheeses to a large retail store chain. The cooperative recently paid members \$1.1 million in 1993 deferred allocated earnings. Adding this to earlier payments this year brings the total to \$4.1 million. It marked the 38th year of continuous patronage revolve-ment payments to members.

In another futuristic move looking at the teenage market, Swiss Valley Farms is participating in a national pilot test by installing and using vending machines to promote milk, cheese

Walnuts greet Giant fans

The aroma of roasted nuts from Diamond of California has been wafting through the stands at the San Francisco Giants' Pacific Bell Park this season, thanks to an agreement between the team and its cooperative neighbor. Fresh from its success at the winter Olympic Games, Diamond has carts of roasted nuts at strategic locations throughout the ballpark and is creating other new walnut marketing channels and sampling opportunities. The carts sell freshly roasted, cinnamon-glazed walnuts and almonds while snack packages of Diamond glazed nut products are sold at concession stands. The agreement puts the Diamond logo all over the ballpark including Diamond brand stickers on all the 33,900 president seat cupholders in the stadium. ■



Diamond of California also sponsors the Barry Bonds home run "meter" in Pacific Bell Park. Photo courtesy Diamond of California

Parched range *continued from page 7*

He also works toward earning the co-op's premium for high-quality beef. U.S. Premium Beef provides data on each animal once it's slaughtered, allowing members to track and improve on future breeding lines.

Brown and his wife, Betsy, normally run 850 head of cattle near Beulah, Colo., in the foothills of the Rockies. Beginning in April, following a winter without much snow, they realized their grass wasn't responding to warmer weather. Like Maifeld, the Browns moved about 70 percent of their herd to another ranch in eastern Oklahoma.

By the first of July, the Browns' irrigation stream dried up, further reducing available pasture. This winter, they'll feed his remaining Colorado herd what hay they were able to raise from irrigation: about 20 percent of the normal crop.

Opportunity in adversity

Brown remains positive about the changes his family's been forced to make. "Oklahoma may open up new opportunities for us," he says. "We may be able to leave those cattle there. Since we calve here in the spring, and milder Oklahoma winters allow us to calve there in the fall, it may allow us to hit the market twice a year and spread our risk."

An independent sort, Brown refuses to take part in USDA's disaster relief program. "We acted soon enough to manage our costs," he says. "Drought is part of the cost of doing business. When you make choices, you need to be responsible." He admits that he's lucky to not owe debt on his land. "Those that are just starting out just don't have a cushion."

Even though he sells all the cattle he can through the co-op, Brown occasionally visits local cattle sales.

"This July and August, it was sad to go to the sale barns," he says. Because of the drought and lack of pasture, "People were selling weak cattle; sometimes they had trouble getting off the truck. But the sale barns have done an excellent job of hustling in buyers to keep the prices up; a lot of cattle found new homes with buyers from points further east."

How has the drought affected rural America? Brown and Maifeld agree that its effects will be long term. Brown worries about farmers and ranchers selling off land to developers of 40-acre parcels, and selling more water rights to cities. Maifeld, who trades in nearby St. Francis, Kan., reports that the drought takes a spiritual toll as well. One night a month this summer, area residents gathered in the St. Francis town square...to pray for rain. ■

Farmer co-op sales, income climb in 2001

The U.S. Department of Agriculture announced in October that net business volume for the nation's 3,229 farmer-owned cooperatives topped \$100 billion in 2001, the first time since 1998 co-op receipts have hit triple digits. Net income for cooperatives climbed to \$1.36 billion, up 6.3 percent from 2000 and the highest income level since \$1.74 billion was recorded in 1998.

"Despite these increases, the farm cooperative sector continues to face challenges associated with the downturn in the agricultural economy," said Randall Torgerson, USDA deputy administrator for cooperative services. "Low commodity prices, adverse weather in many areas and changes caused by urbanization and farm structure requires that cooperative managers and boards of directors be alert to needed adjustments in their operations."

Total net business volume for farmer cooperatives increased to \$103.3 billion in 2001, up from \$99.7 billion in 2000, according to USDA's annual co-op survey. Net business volume includes receipts from the sale of crops, livestock and value-added products marketed by cooperatives, as well as farm production supplies sold and services provided by cooperatives. It does not include sales between cooperatives.

On the marketing side, livestock and poultry products notched the biggest sales gain, up 15.7 percent from 2000. Milk and milk products followed closely behind, with sales jumping 15.3 percent in 2001. These sectors boosted overall co-op marketing dollar volume by 4.1 percent. However, sales by co-ops of almost all other ag commodities fell, with fruits and vegetables showing the most significant decrease, off \$700 million from 2000.

Farm production supply sales climbed 2.8 percent, due mainly to higher petroleum prices. Petroleum sales increased nearly \$1 billion, or 8.2 percent. Fertilizer sales climbed 8.6 percent and seed sales 14.8 percent. Receipts for crop protectants, feed and other farm supplies were all down.

Farm supply cooperatives saw net income increase by \$118 million, or 37.9 percent. Higher margins on petroleum sales helped drive the increase. Income for related services (such as cotton ginning, trucking and livestock breeding) increased by \$21 million, or 21.3 percent.

Crop and livestock marketing co-ops saw net income slide by \$60 million. The co-op livestock and poultry, rice and sugar sectors all saw net income dip in 2001. Dairy and fruit and vegetable marketing cooperatives enjoyed higher net income in 2001.

Combined assets of farmer-owned cooperatives

reached \$48.5 billion in 2001, down 2.5 percent from 2000. Net worth of \$20.1 billion was down 0.6 percent, which means cooperatives financed more assets with debt capital rather than equity.

The number of cooperatives dropped to 3,229, down from 3,346 in 2000, a result of mergers, consolidations, acquisitions and dissolutions.

Table 1—Farmer Cooperatives' Net Business Volume, 2000 and 2001¹

Commodity or function	Net business volume ²	
	2000	2001
	Million dollars	
Products marketed		
Cotton	2,731	2,400
Dairy	22,721	26,187
Fruits and vegetables	9,570	8,822
Grains and oilseeds ³	18,370	18,055
Livestock and poultry	10,176	11,776
Rice	815	756
Sugar	2,681	2,648
Other products ⁴	5,002	4,398
Total products marketed	72,065	75,042
Supplies sold		
Crop protectants	3,028	2,957
Feed	4,691	3,998
Fertilizer	4,574	4,966
Petroleum	7,457	8,446
Seed	916	1,051
Other supplies ⁵	3,419	3,338
Total supplies sold	24,085	24,756
Related-services and other income ⁶	3,510	3,471
Total	99,659	103,269

¹ Preliminary. Totals may not add due to rounding.

² Excludes inter-cooperative business. Volume includes value of products associated with cooperatives that operate on a commission basis or bargain for members' products.

³ Excludes cottonseed.

⁴ Includes dry edible beans and peas, fish, nuts, tobacco, wool and other miscellaneous products.

⁵ Includes building materials, containers, hardware, tires-batteries-auto accessories (TBA), farm machinery and equipment, food and other supplies.

⁶ Includes receipts from trucking, ginning, storage, artificial insemination, rice drying, and other activities as well as other income.

and yogurt in 19 Iowa and Illinois middle and high schools in the Quad Cities area (where the two states meet). The cooperative is participating with Midwest Dairy Association and Dairy Management Inc.

This is the first test using dairy products other than milk in the vending machines. During the school year, data will be collected to measure the effectiveness of the campaign with an eye toward expanding the program nationwide. A five-month, milk-only vending test completed last year indicated a strong interest from students. The biggest obstacle Swiss Valley encountered was in obtaining enough vending machines, which have been in

high demand nationwide.

“We’re excited to be involved in this pioneering test that provides a healthy vending alternative in schools,” said Quant. “We hope healthy, dairy vending will become a way of life at these and other schools across the nation.” Like other dairy cooperatives nationwide, Swiss Valley has been a longtime provider of milk for school districts in its trade territory.

California Dairies joins NMPF

The newest cooperative to join National Milk Producers Federation (NMPF) is California Dairies Inc., headquartered at Artesia, Calif. The cooperative, with nearly 700 member

dairy producers, ranks second in the nation for milk volume. It is also a major processor of butter and nonfat dry milk. The cooperative also is a member of the Alliance of Western Milk Producers, a trade association headed by Jim Tillison, who will now become vice president for special projects and will report to Jerry Kozak, NMPF president.

Five dairy co-ops form Southeast Marketing agency

The new Southeast Marketing Agency (SMA) has been formed by five dairy cooperatives serving the Southeast. Members include Dairy Farmers of America (DFA), Maryland

Memberships in farmer cooperatives totaled 3.03 million in 2001, down 1.7 percent from 2000. The number of memberships is larger than the number of farmers in the

United States because many farmers belong to more than one cooperative. ■

Table 2—Farmer Cooperatives’ Net Income, 2000 and 2001¹

Cooperative type	Total net income ²	
	2000	2001
	Million dollars	
Marketing Co-ops		
Cotton	65.7	33.4
Dairy	340.8	364.2
Fruit and vegetable	66.7	76.6
Grain and oilseed	274.5	248.8
Livestock and poultry	-56.1	-67.3
Rice	10.5	0.1
Sugar	-5.9	-23.2
Other marketing ³	171.2	176.8
Total marketing	867.4	809.5
Total farm supply	311.2	429.0
Total related-service⁴	97.6	118.4
Total	1,276.2	1,356.9

¹ Preliminary. Totals may not add due to rounding.

² Net income less losses and before income taxes.

³ Includes dry edible bean and pea, nut, tobacco, wool, fish and miscellaneous marketing cooperatives.

⁴ Includes trucking, ginning, storage, artificial insemination and other.

Table 3—Farmer Cooperative Numbers and Memberships, 2001¹

Cooperative type	Cooperatives ² Number	Memberships Thousand
Marketing Co-ops:		
Cotton ³	14	46
Dairy	204	91
Fruit and vegetable	220	38
Grain and oilseed	789	582
Livestock and poultry	89	124
Rice	15	14
Sugar	48	16
Other marketing ⁴	227	249
Total marketing co-ops	1,606	1,160
Total farm supply co-ops	1,234	1,746
Total related-service⁵ co-ops	389	128
Total	3,229	3,034

¹ Preliminary. Totals may not add due to rounding.

² Operations of many cooperatives are multi-product and multi-functional. They are classified in most cases according to predominant commodity or function as indicated by business volume.

³ Cooperative cotton gins are included with related-service cooperatives.

⁴ Includes dry edible bean and pea, nut, tobacco, wool, fish, and miscellaneous marketing cooperatives.

⁵ Includes cooperatives that primarily provide trucking, ginning, storage, artificial insemination and other.

and Virginia Milk Producers, Lone Star Milk Producers, Southeast Milk Inc. and Arkansas Dairy Cooperative Association.

SMA is marketing 8.9 billion pounds of milk annually for 6,500 dairy producers. It is one of 11 marketing agencies-in-common operating in the United States. Administrator Jeff Sims said after its first quarter of operation, SMA had "already witnessed cost savings from driving efficiencies into the marketing process and working together to supply common customers."

Calcot's Tom Smith departs

In his swan song annual meeting, marking the cooperative's 75th anniversary, Calcot President Tom Smith said the co-op returned nearly \$450 million to its cotton growers despite a difficult year. Smith retired Oct. 1 after 25 years at the helm and 45 years with Calcot, Bakersfield, Calif. David Farley, Australian cotton executive who has succeeded Smith, praised him for his integrity on selling premium cotton and the fairness by which he treated the cooperative's members.

Chairman Bruce Heiden, a grower from Buckeye, Ariz., described the cooperative as "good and getting better." He said a thorny issue facing the cooperative was repayment of \$25.3 million in advances to growers. He said it was time for a different look and different structure. Officials said the new season would be improved in part by the financial support to growers contained in the new farm bill.

Marketing Resource Center Website eyes value-added ag

The Agricultural Marketing Resource Center, a three-state university effort to enhance value-added agriculture, has launched a new website to provide education and research to producers about related business development and marketing. The site, www.AgMRC.org, contains contacts and directories, as well as new business development and commodity-specific information designed to help build successful value-added agricultural enterprises. The center works with leading agricultural economists and business professionals across the United States to provide applicable research and analysis on marketing and economic issues facing value-added business ventures. Co-directors are Mary Holz-Clause and Don Hofstrand.

"Beginning a new farming venture was overwhelming for our 24-member farmer cooperative," said Chris Henning-Cooke of the Greene Bean project at Jefferson, Iowa. "We wanted to grow specialty beans and needed product and market and production information. This value-added site was invaluable to us in our information search. They also provided training and outreach to producer groups like ours in communicating information about marketing our products and honing our communication skills," she said. The center is funded through a grant to Iowa State University, Kansas State University and the University of California from USDA's Rural Business-Cooperative Service. The center

also may be contacted toll free at 866-277-5567 or by email at agmrc@iastate.edu.

Court gives Farmland brief breather on reorganization

The deadline for a bankruptcy reorganization plan due from Farmland Industries in September has been extended to late November by U.S. Bankruptcy Judge Jerry Venters. Meanwhile, the cooperative in trying to restructure its fertilizer assets, the primary component of its crops production division, which lost \$57.6 million in fiscal 2001 on sales of \$745 million. The division represented 6.3 percent of Farmland's total sales of \$11.8 billion.

CEO Robert Terry said selling or repositioning the fertilizer business would allow Farmland to significantly reduce its debt "and reduce or eliminate the cyclical business risk inherent in the fertilizer industry" so that the cooperative could concentrate more resources on its successful processed food business. Farmland owns 7 nitrogen fertilizer manufacturing plants and 19 fertilizer distribution terminals and has 531 employees in its crops sector. Additionally, the cooperative is a partner in phosphate manufacturing ventures in Wyoming and Utah. It is also joint owner (with Mississippi Chemical Corp.) of a nitrogen fertilizer manufacturing plant in Trinidad and Tobago.

The court has approved Farmland's request to sell its half interest in Farmland Hydro LP to Cargill Fertilizer Inc. in Florida.

Co-ops must capitalize *continued from page 20*

enhanced, not lessened. That age-old question of how to protect the family farm comes in diversification.

But, in order to do this, we also need to improve business knowledge and skills in rural America. Serious education on business strategies, finance, marketing and decision making will enable farmers, business and community leaders to lead dynamic, creative cooperative businesses that can succeed.

Most of all, we need to work together. Partnerships and collaborative approaches are how we make this vision of rural America a reality.

At all levels, we need to think differently and in ways that cap-

ture the spirit and values of rural America. We must act boldly.

Rural America is no longer just about getting grain from the farm onto railcars and shipping it away. It is about capitalizing on—and creating—opportunities that create jobs and grow communities.

We must allow ourselves to think creatively and differently. And that different thinking starts with how we think of rural development at the national level. We do not develop rural America—rural Americans develop rural America.

The foundation is there. Now, it is our challenge to build on it. ■

Paige honored at Co-op Month event

Ralph Paige, center, president of the Federation of Southern Cooperatives, receives the Economic Freedom Award during the National Co-op Month reception in Washington, D.C. The award recognizes Paige's career promoting cooperatives as a way to improve life in communities across the South and in raising public awareness of cooperatives. Presenting the award are Daniel Mica (left), president of Credit Union National Association, and Paul Hazen, NCBA president. Receiving Statesperson Awards were Representative Bob Ney of Ohio and Senator Tom Daschle of South Dakota, honored for their efforts to support the role of cooperatives in the U.S. economy. Photo by Robert L. Knudsen ■



Farmland's financial plight and the drought were on the minds of more than 330 cooperative managers, directors, their tax lawyers and accountants attending a recent symposium on "Strategies for Handling Losses," sponsored by the Arthur Capper Cooperative Center of Kansas State University at Hutchinson. The conference was considered the largest cooperative educational meeting in the state in at least 25 years. Local cooperatives in Kansas are said to hold \$572 million in Farmland equity and represent the largest group of nonsecured creditors in the bankruptcy.

Due to many variables, such as fiscal year ending dates, taxes and equity redemption policies, it's difficult to measure the impact of Farmland's condition on local cooperatives. "This is the worst year for local or operational earnings in the past 20 years," said Dave Barton, director of the Capper Center. His survey of local co-ops seems to confirm that half the cooperatives in Kansas would lose money this year. Kansas Farmers Service Association encouraged local cooperatives to be prepared for the worst-case scenario, namely total write down of Farmland equities.

Official notice of the tax loss, however, won't come until next year. Some cooperatives have suspended equity redemption payments to retirees and

are pondering how to handle estates. The heaviest burden may fall on local cooperative boards of directors facing unpopular decisions, said Barton. "Whatever you do or however you handle the situation, it won't be popular with some members."

Former Countrymark CEO faces \$4 million fines, prison

David Swanson, 60, former chief executive officer of the former Countrymark Cooperative in Indianapolis, was convicted Oct. 11 of 19 counts of wire fraud, theft, money laundering and tax evasion. Swanson was charged with bilking Countrymark of \$2.7 million through a series of transactions during the 20 months he headed the cooperative from 1995-97. He was accused of diverting money from Countrymark's 1996 purchase of Buckeye Feed Company of Dalton, Ohio, and Mexico-based Malta Clayton feed company. He later repaid the cooperative \$450,000 of the \$2.6 million it wanted in a settlement over allegedly improper expenses. At the time, Countrymark served farmers in Indiana, Ohio and Michigan.

Tree Top notches decade of profits

Despite a reduced apple crop, Tree Top Inc., the apple processing cooperative based at Selah, Wash., distrib-

uted \$10 million as the final payment to members for the 2001-2 crop. The payment marked the 10th consecutive year of profitable operations. Tree Top processed 452,000 tons of fruit in fiscal 2002 vs. 533,000 tons in 2001. Sales were essentially flat at \$295.7 million, compared with \$297.5 million the previous year. Net proceeds were \$28 million on apple and pear processing.

American Crystal Co-op pays \$34 million for sugar plants

Three sugar processing plants in Torrington, Wyo., Sidney, Mont. and Hereford, Texas, have been purchased by American Crystal Sugar Co. of Moorehead, Minn., for \$34 million from Imperial Sugar Co. The Torrington plant will be leased to Western Sugar Cooperative of Denver. American Crystal will operate the Sidney plant, while the Hereford factory, idled since 1998, will not be immediately reopened. Jim Horvath, American Crystal president, said the additional acreage and processing capacity at Sidney "will add value to our cooperative's customers, shareholders and the Sidney community alike." About 11,800 acres are being harvested for the Torrington plant this year vs. 30,000 acres 2 years ago. American Crystal has two plants in North Dakota and three in Minnesota.

Montgomery to FC Leasing

Steven Montgomery, executive vice president and head of Co-Bank's agribusiness banking group, has been named chief executive officer of Farm Credit Leasing Services Corporation (FCL) based in Minneapolis. The firm provides leasing services to agriculture and rural America and last year had more than \$12 billion in leases outstanding. AgFirst Farm Credit Bank and CoBank own FCL and all three are part of the \$101 billion Farm Credit System. Montgomery has 30 years experience in the system and served on the FCL board for 15 years, including several years as chairman.

capital contributed by members. Limits on capital sources are frequently mentioned by co-op leaders and those who work with them as a major restriction on the cooperative form of business.

Capital needs—Cooperatives may need to participate in capital-intensive, value-added activities. Are cooperatives so limited in their sources of capital that they may be precluded, by upstream or downstream business, from serving members? Are farmer members able and willing to contribute the capital needed for projects that offer significant returns? What must cooperatives return to members in exchange for higher levels of equity investment?

User-financing, and, more importantly, non-user or outside financing is a major issue in cooperatives and deserves careful attention. The issues must be addressed from the perspective of both the cooperative and the individual members.

10. Do cooperatives have structural defects?

This issues shows two sides of the same coin.

Too Complicated?—Cooperatives have developed federated systems, centralized systems with complex voting methods, numerous financing techniques (based on the patronage relationship) and complex systems of returning benefits to patrons. Are these complications necessary? Do they serve a needed purpose and have they undermined the cooperative's relationship with members?

Too Simple?—Have cooperatives attempted to remain uncomplicated and dependent on member financing, patronage and loyalty to the extent that they cannot respond effectively to changes in the agricultural sector and the economy generally? Have they placed their financial health in the hands of members who may damage the cooperative by self-serving behavior?

11. Are cooperative benefits identified and recognized?

Questions about cooperatives and their performance cannot be analyzed or answered without fully understanding the benefits cooperatives offer. When benefits are not identified and explained, cooperatives are at a disadvantage because their benefits are more subtle and more difficult to explain than the benefits derived from other forms of business. Yet these benefits are the foundation for loyalty, continued use and survival.

Are cooperatives positioned to alleviate pressures on farms, particularly family farms? Are they more capable than other agribusinesses of increasing returns to farmer members, of establishing better prices and pricing systems, of representing farmers' interests in the market place and of capturing benefits of the marketing and supply chain for farmers themselves?

Does the cooperative make its benefits clear to members? Are all benefits presented in a form recognized by members as benefits? Are members uncertain why they belong to the cooperative? Does the cooperative have a system in place to communicate its benefits to members?

12. Have cooperatives lost sight of cooperative fundamentals?

Response to challenges—In responding to the massive

changes in agriculture, have cooperatives given up fundamentals to become more like non-cooperative businesses in size, type of business, financing, control or in other ways? What kinds of balances are needed to respond effectively and preserve the cooperative? What are the fundamentals worth keeping?

Strengths—While couched in terms of questions challenging cooperatives, the list of 12 is also an affirmation of the many strengths of cooperatives. When cooperatives attempt to make fundamental changes to meet challenges, they may weaken themselves by giving up their strengths. How can cooperatives make wise decisions in the face of immediate life-or-death conditions?

Responsibilities—Who in the cooperative is responsible for keeping co-op fundamentals alive? What kind of management training, board training and member relations are needed to instill solid, yet dynamic, adherence to cooperative principles?

Searching for answers

Members, boards of directors, management, lenders and advisors would like to understand the implications of the forces discussed and would like answers to the questions raised. How can cooperatives address the 12 forces and 12 questions outlined?

First, consider the validity and relevance of each of the big picture forces relative to your cooperative. Then rank the forces according to immediate or long-term impact, whether primarily affecting farmers or the cooperative. Also consider the influence, if any, that the cooperative can exert to modify the problems or divert detrimental consequences. Consider whether the changes are good, bad or neutral for the cooperative.

Similarly for questions about cooperatives—assess each one with your cooperative and its members in mind. How applicable is the question for the cooperative? Has the cooperative (its board of directors, management, members or others) recognized the question as a problem? Should they have?

If questions exist, has the cooperative responded effectively? If not, what steps can be taken to correct problems? What questions might be the most likely to face the cooperative in the future? What is the best mechanism to begin to address problems before they become critical?

It is important to re-emphasize that the 12 questions in no way represent a broad criticism of contemporary cooperatives. They are designed to focus attention on specific problems so that they can be recognized and dealt with in a timely fashion. In fact, each of the questions can be seen in one way or another to be a uniquely cooperative strength or opportunity.

The cooperative's final task is to understand the multiple environments in which the cooperative and its members operate, consider challenges and opportunities all participants face, and use the unique structure and problem-solving methods of cooperatives to turn challenges into successful responses. ■

Veneman announces \$75 million in USDA grants; co-ops get \$18 million for value-added projects



griculture Secretary Ann M. Veneman in October announced more than \$75 million in USDA grants for rural economic development, energy and rural infrastructure projects to help spur investment and create new jobs in rural communities throughout the United States.

“These grants will bring new economic opportunities and job creation for rural America,” Veneman said in announcing the grants in October. “The Bush administration continues to increase investment in health care, education, value-added processing and rural infrastructure which is providing renewed growth to these important sectors of our economy.”

The Rural Business-Cooperative Service Value-Added Agricultural Product Market Development grants support two pillars of President Bush’s rural policy initiative: economic growth and energy development. These 231 grants in 43 states total over \$37 million and will fund a variety of agricultural ventures, such as renewable energy, agri-marketing and developing high-value products made from major crops and commodities.

Thirty five projects totaling more than \$7.2 million will foster development of alternative energy sources.

Among the value-added grant recipients, 81 are cooperatives, which account for \$18.6 million of the grant money—almost exactly half the dollars available under the program, now in its second year. USDA received grant applications totaling more than \$120 million. Grant applications are evaluated and scored by an impartial panel of reviewers.

Recipients are required to obtain matching funds, which will double the impact of the USDA grants. Funding of individual recipients is contingent upon meeting the conditions of the grant agreement. For information on applying for 2003 value-added grants visit:

<http://www.rurdev.usda.gov/rbs/coops/vadg.htm>.

The Rural Utilities Service Distance Learning and Telemedicine grants will fund 71 recipients totaling more than \$27 million for education and medical service in 33 states. The award of these grants will bring to rural communities access to better, faster and more modern health care, and students in rural areas will receive better equipment and learning tools and access to courses that would otherwise be unavailable.

These grants help invest in infrastructure projects that

assist rural communities with communications and medical services. A complete list of 2002 recipients can be found at: <http://www.usda.gov/rus/telcom/dlt/awards.htm>.

The Rural Housing Service Community Facilities Program’s Rural Community Development Initiative will fund 41 proposals in 22 states and the District of Columbia totaling nearly \$12 million. Grants will help private and nonprofit community-based development organizations and low-income communities improve their ability to develop rural housing and community facilities.

These projects will help create jobs and economic investment in rural areas through direct investment and housing availability. Recipients are required to obtain matching funds which will double the impact of the USDA grants. Funding of individual recipients will be contingent upon meeting the conditions of the grant agreement. For information on 2003 funding availability and applications please visit: <http://www.rurdev.usda.gov/rhs/rcdi/index.htm>.

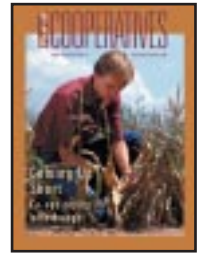
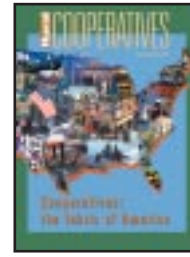
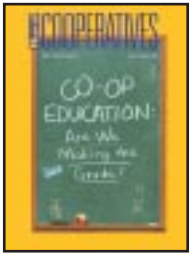
“These grant programs are important to helping America’s rural communities thrive and prosper,” said Under Secretary for Rural Development Thomas Dorr. “Investing in our hospitals and schools, as well as providing housing development for low income communities, helps families, creates new jobs and provides real investments in these rural areas.” A complete list of 2002 recipients can be found at: <http://www.rurdev.usda.gov/rd/newsroom/news.htm>.

The cooperatives listed below represent about 50 percent of VADG grant funds allocated. For a complete list of recipients and brief descriptions of projects funded, go to: http://www.rurdev.usda.gov/rd/newsroom/2000/value_ad.htm.

State	Recipient	Amount Requested
Alaska		
	United Salmon Association, Kodiak Chapter	\$18,896
Arizona		
	Desert Wheat Growers	\$56,600
California		
	California Dairies Inc.	\$80,579
	California Wild Rice Growers Assoc	\$130,000
	Diamond Walnut Growers	\$345,000
	Farmer’s Rice Cooperative Inc.	\$350,000
	Golden State Grain Growers Cooperative	\$39,900

Pacific Coast Producers	\$450,000	Dairy Farmers of America	\$115,500
Producer's Choice	\$271,136	Missouri Food and Fiber, Inc.	\$249,500
Sunsweet Growers Inc.	\$500,000	U. S. Premium Beef, Ltd.	\$500,000
Colorado		Montana	
Fruita Consumers Cooperative	\$48,000	Amazing Grains Cooperative	\$323,837
Mountain View Harvest Cooperative	\$342,310	Nebraska	
Olathe Patato Growers Cooperative Assoc.	\$41,300	Ag Processing Inc.	\$346,950
Delaware		Dorchester Farmers Cooperative	\$500,000
Ocean Spray Cranberries Inc.	\$200,000	Farmers Coop Oil Company	\$22,300
Georgia		KAAPA	\$154,950
Farmers Oilseed Cooperative Inc.	\$149,000	Small Farms Cooperative	\$250,000
Illinois		New Jersey	
LincolnLand Agri-Energy	\$500,000	Jersey Fruit Cooperative Association Inc	\$25,100
Meadowbrook Farms Cooperative	\$500,000	New York	
Shawnee Winery Cooperative Inc.	\$52,000	Catskill Family Farms Cooperative Inc.	\$30,000
Iowa		New York Natural Beef Cooperative	\$248,258
Ag Ventures Alliance Cooperative	\$149,000	North Dakota	
Big River Resources Cooperative (BRRC)	\$500,000	Dakota Pride Cooperative	\$94,260
Iowa Cooperative	\$195,000	Fessenden Cooperative Association	\$500,000
Iowa Quality Beef Supply Cooperative	\$500,000	Heartland Durum Growers Cooperative	\$500,000
North Central Cooperative	\$32,300	Iso-Straw Cooperative Inc.	\$378,040
Power Plus Technologies	\$500,000	Ohio	
Quad County Corn Processors	\$450,000	Farm Fresh Growers Marketing Association,	\$150,000
Quality Organic Producers Cooperative	\$500,000	United Producers, Inc.	\$500,000
Kansas		Oregon	
21st Century Grain Processing Cooperative	\$500,000	Oregon Trail Beef Cooperative	\$25,000
American White Wheat Producers Assn.	\$218,710	RainSweet, Inc.	\$250,000
Cooperative Agricultural Services Inc.	\$500,000	Pennsylvania	
Kentucky		Eastern States Bison Cooperative	\$109,141
Cumberland Farm Products Assn. Inc.	\$38,250	Pennsylvania Cooperative Potato Growers	\$450,000
Kentucky West Nursery Cooperative	\$349,872	Tennessee	
Massachusetts		Appalachian Spring Cooperative	\$39,800
National Grape Cooperative Association	\$450,000	Texas	
Pioneer Valley Milk Marketing Cooperative	\$50,000	Farmers Cooperative Elevator Association of	\$249,658
United Cooperative Farmers Inc	\$50,000	Texas-New Mexico Sugar Beet Growers	\$23,500
United Cooperative Farmers Inc.	\$200,000	Vermont	
Michigan		Agri-Mark Inc.	\$300,000
Great Lakes Organic Processors Cooperative	\$86,400	Vermont Quality Meats Cooperative	\$75,469
Thumb Oilseed Producers Cooperative	\$150,000	Washington	
Minnesota		Darigold Inc. d/b/a WestFarm Foods	\$450,000
Blue Mound Soy	\$150,000	Pro-Mar Select Wheat of Idaho Inc.	\$47,500
Cenex Harvest States	\$94,000	Wisconsin	
Harvest Land Cooperative	\$148,000	Alto Dairy Cooperative	\$150,000
SoyMor	\$500,000	Organic Choice Coop	\$50,000
Mississippi		Partners In Forestry	\$69,700
Cook Swine Farm	\$65,429	Rainbow Farmers Cooperative	\$150,000
K & G Farms	\$48,032	Sustainable Woods Cooperative	\$57,512
Mississippi Association of Cooperatives	\$150,000	Western Wisconsin Renewable Energy Coop	\$65,000
Syrisia's Food/Karl Hampton	\$66,050	Missouri	
Missouri		AgraMarke Quality Grains, Inc.	\$458,850
AgraMarke Quality Grains, Inc.	\$458,850	Total VADGs awarded to co-ops:	\$18,625,589

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