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Rural COOPERATIVES

USDA / Rural Development

January / February 2012



'Because we're
all in this together'

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Co-ops: Don't Overlook Rural Development Financial Programs



By Judith Canales, Administrator
Rural Business-Cooperative Programs
USDA Rural Development



Regular readers of this publication are probably well aware of USDA Rural Development's commitment to promoting co-op education, research and statistics via *Rural Cooperatives* magazine and the many other co-op reports we publish (see pages 22-23 for some examples). But co-op leaders should also be aware that a number of USDA Rural Development loan and grant programs can help cooperatives.

Cooperatives are an integral part of rural communities and economies; their socio-economic contributions have been documented many times over. Farm supply, marketing and service co-ops continue to be a part of the day-to-day lives of many rural producers, while housing, food, worker and utility co-ops provide needed services to rural communities.

USDA's portfolio of Rural Business-Cooperative Programs has had a tremendous impact on rural communities and the rural economy. Since 2009, these programs have been responsible for the investment of about \$6.9 billion to support projects throughout rural America. While several of these programs are specifically targeted toward co-ops, cooperatives are eligible to participate in all of them.

These programs assist businesses and cooperatives, create jobs and expand entrepreneurial opportunities in rural areas. They have advanced business development, local food and value-added agriculture, and renewable energy development. While many cooperatives across the country have taken advantage of these programs to grow their business, many more co-ops could be participating in them.

Following are brief overviews of some of the USDA programs that every co-op should be aware of. To learn more, visit our website at: www.rurdev.usda.gov, or call your USDA Rural Development state office toll free at 1-800-670-6553 to talk to a business and co-op program specialist.

■ **Value-Added Producer Grants (VAPG)** — This program provides competitive grants to farmer or rancher cooperatives, individual independent agricultural producers, groups of independent producers, producer-controlled entities and organizations representing agricultural producers

to create or develop value-added producer-owned businesses. Agricultural producers include farmers, ranchers, loggers, agricultural harvesters and fishermen who engage in the production or harvesting of an agricultural commodity. These enterprises help increase farm income, create new jobs, contribute to community and rural economic development, and enhance food choices for consumers.

Examples of funded projects include:

- In 2009, the American Prawn Cooperative Inc., in North Carolina, received a \$197,250 working-capital grant to market value-added, freshwater prawns.
- The North American Bison Cooperative, based in North Dakota, received a \$50,000 VAPG to support economic planning and research to identify new and existing markets for bison products.
- Also in 2009, Six Rivers Producers Cooperative in Wisconsin received a \$149,740 grant for working capital to facilitate a producer-to-restaurant infrastructure to support the marketing and sales of locally grown, value-added produce, dairy and meat products.
- Oregon Woodland Cooperative was awarded a \$150,000 VAPG in 2009 to process members' non-timber forest products (tree needles, bark, moss, etc.) into essential oils, dried chips and other projects.

■ **Business & Industry (B&I) Guaranteed Loans** — This program helps to improve, develop or finance business, industry and employment in rural communities. It bolsters existing private credit by guaranteeing quality loans that show promise of creating lasting community benefits. The program typically guarantees losses of up to 80 percent on loans of up to \$25 million, or up to \$40 million for value-added ag processing plants in rural areas. "Rural" for this program is defined as communities (and their contiguous, adjacent areas) of less than 50,000 people. There is an exemption to this population limit for loans of up to \$25 million when a co-op is engaged in value-added ag processing and all members' farms or ranches are within 80 miles of the processing facility. Inability to obtain other credit is not a requirement to participate.

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ON THE COVER: The North Carolina-based Sandhills Farm to Table Cooperative is a prime example of a multi-stakeholder co-op. It has member classes that include farmers, consumers and restaurant and food store owners. Here, strawberries are harvested on a producer-member's farm. Story on page 4. Photo courtesy Sandhills Farm to Table Co-op



'Because we're all in this together'



Sandhills Farm to Table Co-op's goal: 'Meeting local food needs with local food'

Cliff Pilson packs Sandhills strawberries at his family's CV Pilson Farms in Cameron, N.C. The fruit will be marketed through the Sandhills Farm to Table Cooperative. Photos courtesy Sandhills Farm to Table Co-op

By James Matson and Jeremiah Thayer

Editor's note: *The authors are both business consultants with Matson Consulting, a co-op business development firm based in Aiken, S.C. Matson is a former co-op development specialist with USDA Rural Development.*



Since its inception two years ago, Sandhills Farm to Table Cooperative (Sandhills) — a multi-stakeholder enterprise — has made a huge impact in the rural community surrounding Moore County, N.C. Sandhills is providing fresh local food to more than 1,600 co-op members, while donating more than \$30,000 to local schools and nonprofit organizations. In addition, it has had a tremendous impact on 35 producer-members, paying

them more than 70 percent of the retail food dollars their co-op collects. Their multi-stakeholder model is providing inspiration for several other rural cooperatives being developed in North Carolina that are seeking locally based solutions to local food needs.

Expanding the co-op model

From its inception, Sandhills Farm to Table Cooperative has redefined the traditional cooperative model. Typically, a co-op is focused on benefiting one class of stakeholder, be it a producer-owned, worker-owned or consumer-owned cooperative. However, many cooperatives are unable to operate successfully within the traditional “single stakeholder” business model. But when there are multiple types of members represented by one co-op, addressing more diverse concerns is a challenge — which Sandhills has been

designed to accomplish.

By including three different stakeholder groups (producer-farmers, consumer-customers and employees) in the decision-making structure of its operations, Sandhills has been able to expand the scope of benefits. It is one of the first local food cooperatives in the country in which the farmers, consumers and staff are all equal owners.

"People are less concerned about price, and the farmers are working to provide the best possible produce to their neighbors," says Jan Leitschuh, director of marketing and farmer relations for the co-op. "We're trying to be a cooperative in the truest sense of the word." While co-op leaders determined that the multi-stakeholder business structure was the best way to address the concerns of each party involved, the process is still evolving. They say the

supplied with regular "shares" in the form of produce distributed throughout the season.

In Sandhills' case, once customers become members, they are able to sign up for a subscription to receive "produce boxes," which are distributed on a regular schedule at various "gathering sites" located throughout the area. The multi-farm CSA format employed by Sandhills ensures that the co-op can offer a greater variety of produce as well as provide joint marketing and sales logistics. Similarly, the consumer-members receive the benefit of receiving their produce at gathering sites on a regular basis, instead of just when certain crops are in season.

While serving as a conduit for local food demand (which influences producers' planting decisions), Sandhills also serves to bring producers and consumers closer together.

“...Two dozen farmers in our county have been able to survive and succeed because of their participation in this cooperative.”

flexibility of the cooperative structure is the key to sustaining growth.

Ultimately, Sandhills would tweak the multi-stakeholder format through the use of the "one member, one vote" concept, partnered with a board of seven directors. Two board members are elected directly by each of the three stakeholder classes. These six directors then appoint one additional, unaffiliated board member to provide balance and objectivity.

Reaching consensus

The decision-making process posed an interesting challenge. The ideal of a "consensus" was never really considered. A simple majority vote of board members would allow any two interest groups to override the interest of the third, which is inconsistent with Sandhills' guiding principle: "We're all in this together."

A creative alternative emerged. Decisions are made by a simple majority vote, with the provision that at least one representative of each interest group must agree. The format of the cooperative serves as a watershed, expanding the benefit base beyond the stakeholders and into the community in which the cooperative resides.

Linking producers with consumers

Sandhills Farm to Table Cooperative is an outgrowth of a wave of Community Supported Agriculture (CSA) co-ops that began springing up across the nation in the 1990s. At its core, Sandhills is a multi-farm CSA cooperative. This multi-farm format allows the co-op to expand on the benefits of traditional CSAs. In a typical CSA, consumer-members financially support local producers and, in turn, they are

"The co-op has been very successful in building a positive relationship between the farmers and community," says John Blue, a Sandhills farmer-member. "It has stimulated interest in using local products that we, as farmers, could have never accomplished as individuals."

This "consumer connection" is especially important for "transitioning farmers," those who are too large to make a living by selling at farmers markets, but not big enough to access large-scale producer markets. Or, these farmers may be transitioning from producing one crop type to another. By participating in the cooperative, many of these producers have been able to succeed.

"A full-time farmer transitioning from commodity crops, like tobacco, into direct-to-consumer sales finds it difficult to adjust his production and marketing practices to meet the demand for locally grown, fresh fruits and vegetables," says Taylor Williams, an agent with North Carolina Cooperative Extension. "Sandhills Farm to Table helps the farmer expand and diversify production and marketing practices to meet the demand for locally grown, fresh fruits and vegetables. It is no exaggeration to say that two dozen farmers in our county have been able to survive and succeed because of their participation in this cooperative."

Sandhills returns local dollars to the community, primarily through payment to farmers for their produce. In 2011 alone, 35 farmer producers were paid at least 70 percent of the retail food dollars from the co-op's produce sales.

Community impacts

While Sandhills includes the functions of a traditional CSA, it has become much more than that to the local community. The co-op's goals have always included

community building. An example of this can be seen in the use of “gathering sites,” rather than simple “pick-up locations.” Jan Leitschuh says that the idea was to make the gathering sites a place where people could get to know their neighbors, swap recipes and generally have a more pleasant experience than is experienced at a typical “get your box and go”-type pick-up site. She sees the gathering sites as one of the key benefits of Sandhills Farm to Table, compared to other cooperative models.

While community building is accomplished through the strengthening of producer-consumer ties, it is also accomplished by fostering volunteerism. People begin to understand that “we’re all in this together.” In 2010, Sandhills was the recipient of more than 2,500 hours of

volunteer services from members and others. Most of this donated time was used to operate the weekly gathering sites at churches and elementary schools.

Working together to meet the personal needs of the cooperative members also helps meet the needs of people and organizations outside the cooperative. Through donations to gathering site hosts in 2011, more than \$30,000 was given to three public elementary schools, three churches and several other local, nonprofit organizations. That amount is up from about \$10,000 in 2010.

In addition to its role as a CSA, the co-op is also on the cutting edge of the emerging “food hub” trend, in which the Internet becomes a marketing vehicle for local producers and a shopping platform for consumers. Through the use of

Laying groundwork key to successful launch

The road to the development and ultimate start-up of Sandhills Farm to Table Cooperative (Sandhills, or SF2T) required long, hard work by a few dedicated leaders. The multi-stakeholder business structure was not broadly embraced when the concept was first floated, as public interest and awareness in local food sheds was in an embryonic stage at that time in North Carolina.

Fenton Wilkinson — a local sustainable-community development planner/activist who first envisioned the co-op — found that his initial attempts to “shop around” the concept stirred little community reaction. Wilkinson had experience in this field from previous projects and thus knew how important it would be to lay the groundwork for the co-op properly.

“I started an enterprise similar to SF2T in Washington state in 1997, as a for-profit worker cooperative,” Wilkinson recalls. “After 18 months of operations, the business closed — even though it was about at the point of liftoff — because the vast bulk of the energy fueling it was mine. I burned out.

“Several years later, I moved to Moore County and felt that a similar local food distribution company would work locally. While the earlier attempt proved the concept’s feasibility, I decided that I would only undertake it as a community development enterprise, rather than a personal, for-profit business. It seemed to me that the likelihood of success and longevity was much higher if the project was a community endeavor — that is, if it came out of a groundswell of support from a broad cross-section of community interests.”

He tried to get various community leaders interested in the concept in 2003, 2005 and 2007, looking for broad community support. “While the idea was generally well received, no one was interested in becoming directly

involved,” he says.

“In 2009 when the idea was once again floated, Tim Emmert, a Moore County Community Development Planner, jumped on board and the ember started glowing. Together, we slowly built a coalition of public agencies, NGO organizations and citizens. The ensuing ‘blaze’ resulted in SF2T.”

Reaching 3.5 percent of the county population as subscribers in just the co-op’s second year “speaks volumes as to the efficacy of using the community endeavor approach,” Wilkinson says. A key move occurred when Wilkinson (who would become the co-op’s general manager) enlisted the help of Jan Leitschuh (who became the co-op’s marketing director). With her involvement, community support began building in earnest.

Small grants from RAFI (the Rural Advancement Foundation International/USA) — which supports small farms and co-ops that use sustainable agricultural practices — and from an individual gave the fledgling co-op an early boost.

Outside assistance was sought from many sources. Key to Sandhills’ ultimate success was its ability to form strong partnerships in the agricultural community and receiving strong support from USDA Rural Development staff and programs. Bruce Pleasant, business/cooperative programs specialist with USDA Rural Development’s state office for North Carolina, met with the leaders to help move the co-op development process into the next phase.

Co-op organizers met with the North Carolina MarketReady office and its development partner, Matson Consulting. These groups provided critical technical assistance for the community leaders through funding provided under in a USDA Rural Cooperative Development

Sandhills' website, the co-op offers services much like a "pre-order" farmers market. Orders are placed via the website, then a "market day" is scheduled on which food and non-food items are picked up and a final bill is determined.

The use of market days allows producers to include food items that probably would not "survive" in the produce boxes, as well as to include more highly processed items, such as cured meats, jams, jellies and baked goods. Because they provide a source of guaranteed sales, market days have also allowed producers to include more difficult-to-store items, such as grass-fed beef, pork, and lamb; sausages; breads; and jams.

While the website format allows producers to find a sure market, it also opens the door for new business ventures in

the community.

A recent survey identified several areas where there was a potential market, but uncertainty existed about local producers to meet the demand. One result of this is the Olde Time Bakery. Business owner Leslie Covington says she was willing to start the bakery due largely to Sandhills Farm to Table Cooperative. "I broke even my first month, primarily selling directly to Sandhills members on a limited basis," Covington says. "I can't wait to be able to offer subscriptions."

Working with low-income households

Sandhills' service region includes several USDA-designated "food deserts," which are defined as "a low-

Sharing the workload will help prevent burn out by a co-op's "heavy lifters," according to leaders of the Sandhills Co-op (below).



Grant (RCDG), at no cost to the cooperative.

NC MarketReady helped the organizational committee through several months of planning and meetings. The many hours of technical assistance provided through the RCDG from USDA proved invaluable for getting Sandhills Farm to Table Cooperative off the ground.

The organizing process was overwhelming at times. The cooperative had to resolve many internal issues to be fair for each class of stakeholders. There were few exact patterns to follow. So, with the help of many others, Sandhills took "pieces" from many other organizations that seemed to best fit its goals.

Looking back at the effort, Leitschuh says: "There were some intense 'birth pains' during the start-up, primarily because so many structures had to be invented from scratch — and each decision affected all the others. At that time, there were only two of us doing the heavy lifting, although Fenton took pains to engage opinion from all segments of the potential membership. We drew heavily upon Co-op Extension and NC University resources, including the NC MarketReady Center. It was a process that consumed two full years of two lives and left us exhausted."

Leitschuh's key advice for others following a similar course of action: "Enlist more 'heavy lifters' from the

community at the start." Also, borrow from other existing co-op business models.

Wilkinson says one of the major barriers to starting a local food hub is figuring out how to get both consumers and farmers to make commitments based on the "raw concept." The co-op adopted an approach of "leveraging incremental steps. We started with a no-commitment, online consumer survey which garnered well over 600 responses, with 85-plus percent saying they were very interested in the idea."

That enabled the co-op organizers to get the attention of key local farmers and engage them in a dialogue. While there was farmer interest, when it came time for them to make a real commitment to plant and sign a delivery agreement, there was resistance, because the consumers had not done anything to indicate they really meant it, Wilkinson explains.

"We went to the consumers, explained that the farmers were at the point of having to make a real investment months before they had anything to sell, and they wanted some indication that the consumers really meant it. We couldn't sell subscriptions because no details of what that meant were known, much less the fact that we had no produce supply in hand."

Instead, consumers were invited to become charter members, paying \$25 to join and support the co-op, but without any commitment to subscribe. "More than 450 households joined as charter members in one month. This community support surprised the farmers and was sufficient inducement for them to make growing commitments to SF2T. With farmer commitments in hand, we were then able to structure the produce box subscription details and begin accepting subscriptions in February. The rest is history." ■

income census tract where a substantial number of residents have limited access to a supermarket or large grocery store.” Even in many areas not designated as a food desert, a significant percent of the population may lack access to healthy foods.

Sandhills takes its commitment to address food insecurity in the community seriously. In 2010, the co-op donated more than three tons of produce — which farmers were paid for — to needy residents of Moore County. The food donations were made through a local food bank and food pantries, a friend-to-friend program, and directly to families in need.

To ensure that community members have access to fresh healthy, locally produced foods, Sandhills has partnered with West Southern Pines Citizens for Change (WSP) to enact the “Affordable, Healthy Local Food Access Initiative.” This grassroots, self-empowerment initiative in a low-income, minority neighborhood aims to increase access to healthy local food. WSP’s 1,600 low-income residents currently have no access to healthy — much less, local — food. Many of them also lack transportation to get to better food sources. Both children and adults there are experiencing severe diet-related health issues.

“The West Southern Pines initiative will add the crucial piece of making healthy food more accessible in an economically depressed area while supporting local farmers, the local economy and our at-risk school children,” says Kathy Byron, director of the Communities In Schools (CIS) FirstSchool Garden Program, a project partner.

Community enrichment

A CSA’s activities tend to slump in winter, when most of the farmer-members are not growing crops. Sandhills has seized this opportunity to start the “SF2T University” (“SF2T” is often used as an acronym for the co-op). The informal “teach what you know” format allows people to teach community-based classes based on experience or expertise.

Part of the resurgence of demand for local foods corresponds to an increased interest in cooking at home. However, many of Sandhills’ subscribers did not know how to properly prepare the produce they were getting from the co-op. Recognizing this need, Sandhills not only began offering regular cooking classes that work with foods included in that week’s produce box from the CSA, but it also began offering canning and food preservation classes to capitalize on the abundance of some foods during harvest.

Sandhills’ weekly newsletter, produced by Leitschuh, features recipes that use food from the co-op’s CSA produce boxes in ways that help broaden consumers’ palates while encouraging the “exploration” of new foods. A recent member survey found that 73 percent of respondents were increasing their frequency of cooking meals “from scratch” at home after becoming a co-op member. Cooking, canning and recipe use are all areas Sandhills is focusing on in an attempt to teach “lost skills” to a new a generation.

Looking to the future

Sandhills has big plans for the future. After being awarded a Farmers Market Promotion Grant in November 2011 from USDA, the cooperative’s goals include expanding current offerings to include a number of value-added foods, including meats, breads and locally prepared soups. The grant will enable the co-op to expand its influence even farther in the community.

By purchasing new transportation equipment and electronic payment system point-of-sale devices, Sandhills will be able to offer foods to community members it has not reached to date, especially those in low-income communities where access to supermarkets is limited. The co-op intends to continue the formation of community-learning classes, as well as adding new members and subscriptions in the coming year.

Influence spreads

Sandhills is inspiring communities beyond its own. Because of the co-op’s pioneering work in the multi-stakeholder arena, its business model is being adopted by others and its influence is spreading. Sandhills’ members believe that sharing knowledge and know-how in order to promote community on a larger scale is a foundation of cooperative philosophy.

“I am indebted to this group for their willingness and proactive efforts to expand their own project to become a regional initiative, and for their unselfish sharing of not only their success but their knowledge and experience,” says Mark Tucker, North Carolina Cooperative Extension director for Forsyth County. “This dissemination of information has allowed for others to replicate similar efforts in additional areas of our state.”

The success of Sandhills Farm to Table is attributable both to its unique, multi-stakeholder structure and to Sandhills’ actions to benefit many community groups beyond its own members. Multi-stakeholder cooperatives are proving that the best way to solve community issues is often with a community solution. While still evolving, these co-ops can help offer local solutions to local issues, following the spirit of the cooperative through information sharing and propagation, mutually benefiting every level of stakeholder. These co-ops exemplify the best aspects of cooperatives by helping to identify an issue, take initiative and form a community of interest to solve it.

“Sandhills Farm to Table Cooperative’s intent and actions are a reflection of a new-values system of commerce,” says its founder, Fenton Wilkinson. “It is not a business, but a community endeavor with the mission of meeting local food needs with local food,” he continues, saying this reflects the co-op’s belief that: We’re all in this together.

“When asked: ‘Is SF2T for-profit?’ I have to say yes, but not in the usual sense,” Wilkinson adds. “With all parties to the transaction being equal owners, we all profit from our relationship to our community and with each other.” ■

Co-ops & Community

Co-op safety director offers aid in tornado-ravaged communities

By Karen Jones, GROWMARK

Editor's note: With this article, Rural Cooperatives is launching a new department, *Co-ops & Community*, in which we will feature co-op employees and members who exemplify the co-op principle of service to community. This article is reprinted from *Spirit*, courtesy GROWMARK, where Jones is a publications and news specialist. To submit an article about volunteer efforts by a member or employee of your co-op (reprints are accepted), please contact: dan.campbell@wdc.usda.gov.



When a tornado ripped through the city of Joplin, Mo., on May 22, 2011, emergency responders from across the country joined in the rescue and cleanup efforts. Putting the cooperative principle of concern for community into practice, several Iowa FS employees were among those who spent time helping in the recovery efforts.

Steve Gerard, New Century FS environmental safety and regulatory director, is no stranger to disaster relief efforts. As the chief of the New Sharon, Iowa, volunteer fire department, he has worked both locally and nationally, using his training to respond to emergency situations.

"I was in Biloxi, Miss., after Katrina and on the scene at Parkersburg (Iowa, site of another tornado), but I have never seen such a widespread area with so much destruction," he said. After making a phone call to a Joplin battalion chief, Gerard was given the green light to take a crew of fellow firefighters to Missouri to assist with



Jacoby Tremmel (below, with scent hound) and Steve Gerard, employees at New Century FS in Iowa, were part of the search and rescue effort after a tornado devastated Joplin, Mo. (above), last year.



rescue and recovery. He mustered a group of nine, including Jacoby Tremmel, New Century custom applicator and new recruit to the New Sharon Fire Department.

Upon arrival, the group was split into three teams. Each team served as support to a canine unit. When the trained search dogs found something, it was up to the support team to dig until they found whatever the dog detected.

"When we started our time in Joplin,

most of the homes had already been checked, but we were conducting a second sweep with the dogs to be sure nothing was missed," Gerard said. "There were times we had to crawl on our hands and knees to get into places where the dogs had identified something."

Part-time AGRILAND FS Inc. employee Dan Davis also volunteered, working three days to help clear trees and other debris.

"I met an elderly woman who had lost everything," he said. "She loved to garden, and when I found her garden hose and returned it to her, it brought a smile to her face."

All three men returned from the experience glad they could help in some small way. Tremmel is training his dog to serve as a search-and-rescue dog for future disaster relief efforts. Davis returned home with just the clothes on his back, leaving behind the rest of what he took for people who needed the clothing more than he did.

"You find out real quickly that material possessions mean nothing," Gerard said. "I'm just grateful we were able to help." ■

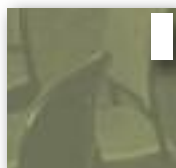
Learning from co-op closure



*Dissolution of Producers & Buyers Co-op holds
lessons for others pursuing institutional market*

Producer-members of Producers & Buyers Cooperative hold a caucus in 2010 to elect a farmer-director to the board of their multi-stakeholder cooperative. Despite initial successes selling to institutional food buyer-members, the co-op has ceased operations. Producer-members hope their experiences will help others avoid the pitfalls they encountered. Photos courtesy Producers & Buyers Cooperative

By Margaret M. Bau, Co-op Development Specialist,
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Interest in local foods is continuing to build with every passing month. Households in many regions now enjoy multiple options for direct access to locally grown food via farmers markets, roadside stands, pick- or fish-your-own businesses and through community supported agriculture (CSA) subscriptions. Independently owned restaurants and specialty grocers have long forged direct relationships with local growers, but even more of them are now looking to source local foods.

For decades, consumer co-ops have been at the forefront of offering natural and regionally grown food options in retail stores. But fewer inroads for local foods have been made with schools, universities, hospitals and nursing homes (also known as the “institutional food” market).

The Producers & Buyers Co-op in northwestern Wisconsin was a highly visible attempt to bridge that gap. It was a multi-stakeholder cooperative in which members represented all aspects of the local food system: producers, local processors, transport providers and regional institutions. For three years, the co-op coordinated the processing and delivery of locally grown chicken, beef, cheese, pork, produce, fish, eggs, bison and lamb to area hospitals.

On July 20, 2011, members of the Producers & Buyers Co-op voted to dissolve their cooperative. As with any business failure, a number of factors contributed to the downfall of the co-op. For the benefit of future groups engaged in rebuilding a system that connects local food to area institutions, this article attempts to identify lessons learned.

Lesson 1:

Multiple members are needed in each membership class; don't become identified as one member's project

Rebuilding a local food system needs to encompass the perspective of each piece of the puzzle — be it producer, processor, transport provider or buyer. To fully understand the needs of each perspective, multiple members are needed in each membership class. If multiple members are not brought into the co-op, the co-op can be unduly subject to the internal dynamics of a single member (which may not be representative of what is happening among all buyers or all processors).

The Producers & Buyers Co-op started at the initiative of a single, medium-sized hospital. A much smaller rural hospital (a sister hospital to the founding buyer) joined the co-op soon after the co-op's incorporation. Learning initially occurred between the multiple producers (representing a wide array of products) and the two hospitals.

The producers and processors had hoped that the clout of the founding hospital would help convince other regional hospitals, nursing homes, universities and school districts to join the co-op. After all, who better than an institutional buyer could convince its peers that local foods are worth the additional cost and effort?

As the hospital stepped into the state and national media spotlight for its role in supporting local foods, the co-op became identified as that institution's project. Initial interest expressed in joining the co-op by regional universities and other hospitals then waned, possibly because the co-op was so closely identified with another institution.

When personnel and policy changes occurred at its largest

Alan and Alaine Sonnenberg (far right) were dairy-farmer members of the co-op. Herby Radmann (below), who operates Bullfrog Fish Farm, is another ex-member of the co-op. He has long been involved in seeking ways to make small-scale farming sustainable and in helping to prepare future farmers to take over existing farms.

buyer-member, the co-op lacked sufficient additional buyers to offset the loss. It never recovered.

Lesson 2:

Raise sufficient capital before launching; hire an experienced manager

This is as true for cooperatives as it is for any other type of business. The Producers & Buyers Co-op incorporated in Wisconsin with the ability to offer preferred stock as a means to raise equity from both members and the local community. The co-op board and supporters should have taken the time to write a thoughtful stock prospectus as well as educational materials.

With a prospectus in hand, ordinary citizens and community-minded investors could have been approached for their financial support. A solid base of equity would have allowed the co-op to hire experienced staff, including a “problem solver” knowledgeable about coordinating food logistics, but who was still willing to think outside the status quo.

Equity would have provided a cushion to ride through inevitable problems that arise in any new venture. If sufficient capital could not be raised within a reasonable time window



(say six to nine months), this would have been a powerful signal to leaders that wider community support did not exist for the local food system concept.

But, as is so often the case, several buyer representatives and producers were in a rush to “just do something.” With limited funds, the co-op launched prematurely and tried to get by “on the cheap.” A young and relatively inexperienced operations coordinator was hired part-time.

With limited staff and so much to do, board members stepped forward to fill operational and managerial functions. Over time, the board found itself in a reactive mode, rather than playing a proactive role in setting policy. The co-op went through three part-time staff members within a year (and dealing with all the ensuing personnel issues that go with rapid staffing changes).

As months turned into years, board members started to “burn-out.” Valiant individuals tried to balance the demands of their business and personal obligations with the needs of the co-op. If the Producers & Buyers Co-op had sufficient start-up funds, it could have hired an experienced, full-time manager to establish and grow operations. This would have freed the board to concentrate its limited time on governance and policy setting.

An experienced manager could also have helped bridge the business-culture differences between the hierarchical way institutions operate and the realities of the way small-scale farming and processing work.

Lesson 3:

Require contracts between parties

Small-scale farmers and processors are often willing to work based on verbal agreements; sometimes just their word and the word of a buyer over the phone or a handshake is all that is required to seal a deal. This is not always the case with institutions, where turnover is frequent in both staffing and policies.

For example, a producer may have a verbal commitment with a buyer at a hospital or university. Depending on the item, it can take anywhere from three months to two years to raise the product to maturity. As the date for processing nears, the food buyer for the institution with whom the farmer made that verbal commitment may be long gone. To avoid this scenario, contracts should be signed.

In the current food system, institutions are accustomed to placing and cancelling orders with large food service providers. Large national distributors can absorb order changes by re-directing a product to someone else. This is not the case with small-scale producers and farmers. Farmers take on risk to raise a product to institutional standards (which can often differ from general consumer preferences). Even one cancellation of a large order can severely hurt a farmer's business.

To protect producers and processors from “institutional churn” and the risk of order cancellation, co-ops should use



contracts when accepting orders. As with a CSA subscription, the contract could require the institution to place 100 percent money down when the order is placed (effectively shifting the risk from the producer to the institution).

A more equitable way of sharing risk would be a system that is widely used in the small business community. These contracts require a 50-percent downpayment when an order is placed, with the other 50 percent paid upon delivery. Such contracts would be in everyone's best interests and protection. Farmers could invest with confidence for inputs and equipment. Cooks at institutions could have pre-season input to order items such as heirloom vegetables or other special varieties, locking in hard-to-source product at an agreed-upon price.

The Producers & Buyers Co-op did not require contracts between buyers and producers or processors. In organizing the co-op, more than a year was spent in discussions among all parties, resulting in strong mutual feelings of trust. With much fanfare, founding buyer-members publically pledged to buy 10 percent of their food locally. After one year, that pledge was increased to 15 percent. The co-op calculates that the institutions purchased about 7 percent of their food from Producers and Buyers.

Order cancellations by kitchen staff — often just days before animals were scheduled for slaughter — was another big problem, farmers say. Several producers — along with their small-scale supplier relationships — were severely affected by sudden cancellations.

To remedy the situation, the co-op's product committee suggested that buyer-members sign contracts with producer-members. But the buyer-member representative on the board would not agree. Trust began breaking down.

Producers and processors grew reluctant to do business through the co-op, and its cash-flow situation deteriorated. Shortly thereafter, the founding buyer-members announced that their health system owner had entered into a contract with a multinational corporation to manage dining services for all hospitals within the system.

While the co-op theoretically could have continued selling to the institutions through the new dining management contractor, it would have had to substantially increase its business liability insurance coverage and incur extra administrative costs. These costs made continuing business with the institutions economically infeasible, based on the rate at which the institutions were participating in the co-op.

Lesson 4: *Educate and train members at all levels*

Co-op principle No. 5 — which urges co-ops to provide education, training and information to members — is critical to rebuilding a local food system. Quality local foods may initially cost more than conventional food products. But there are numerous rewards for buying locally; these rewards must be continually identified and communicated to members.

Within institutions, "buy-in" is necessary at every level, including kitchen staff, purchasing directors, employees, patients and senior administrators. Understanding and valuing local food requires a cultural shift if institutions are to make long-term buying commitments to a co-op, despite shifts in personnel, policies and the economy.

Co-op members Vic and Mary Price on their Wisconsin farm. One of the functions Producers & Buyers Co-op did best was work as a coordinator among producers, processors, transporters and buyers.

Producer and processor members also need continual education to understand the differences in wholesale and retail pricing. The Producers & Buyers Co-op stressed to producer-members and potential applicants that this co-op should not serve as the only outlet for a farmer's product.

Savvy producers need multiple marketing strategies, of which selling to institutions is but one channel. For example, while institutions tend to use large amounts of ground beef, they use relatively few cuts of prime beef. Beef, pork, lamb and bison producers were all encouraged to develop or maintain their existing retail and restaurant relationships for selling prime meat cuts.

The Producers & Buyers Co-op was structured as a multi-stakeholder co-op so that all players in the local food system would have access to each other for cross-learning purposes. There were numerous instances in which processor members made suggestions regarding product use and marketing, which helped build bridges of understanding between small-scale farm production and institutional needs.

But producers felt hampered by their inability to gain access to, and information from, key players at some institutions. For example, producers say they needed greater access to kitchen staff to work more closely with menu planners and cooks on new ways to prepare fish and lamb. Farmers and processors also wanted more feedback from the cooks about how to package product for the institutional environment. The lack of connection between producers and kitchen staff severely hampered relations.

What worked? Co-op as coordinator

The role of the co-op as coordinator among producers, processors, transport providers and buyers worked well. Institutional buyers have limited resources and interest in identifying individual producers of local food. They are usually not aware of what constitutes safe and sustainable growing practices at the farm level. Nor are institutions interested in setting up individual orders and following through on each product all the way through production, processing and delivery.

When done well, co-ops can ensure an agreed-upon level of quality, aggregate product and assure follow through in



delivery and invoicing.

The Producers & Buyers Co-op operations were financed through a 5-percent fee assessed upon every transaction. The producer, processor and transportation company each paid 5 percent to the co-op on each item handled by the co-op. The buyers also paid 5 percent to the co-op for each item purchased.

This system worked, thanks to the efforts of a talented board treasurer (an accountant by training) who set up the co-op's spreadsheets. Future groups may wish to simplify the billing process and charge a single price to cover overhead.

The Producers & Buyers Co-op's financial design of managing purchases directly from institution to producer worked well on paper and in practice. This foresight helped ensure that all producers and processors were paid in full in a timely manner, despite the co-op's financial troubles and dissolution.

Avoiding pitfalls

Several of the lessons learned from the Producers & Buyers Co-op experience could apply to any cooperative: raise sufficient capital before launching operations, hire an experienced manager, provide ongoing training and don't let the co-op become identified as one member's project.

One lesson that is more specifically applicable to local food system co-ops is the cautionary tale about the differing ways that hierarchical institutions operate and the way that local producers and processors tend to do business. Be aware of how each stakeholder is accustomed to operating — everyone involved should be protected by the co-op insisting upon signed contracts and money down when orders are placed.

Sometimes the most important lessons are learned through failure. It would have been easy for the multi-stakeholder co-op pioneers of the Producers & Buyers Co-op to have quietly let their efforts fade from memory. But this group truly was committed to rebuilding a sustainable, local food system. The hard lessons they learned are offered here in the hopes that other groups may apply these insights to develop mutually satisfying, genuinely sustainable systems for connecting local food to hospitals and schools. ■

Legal Corner

Legislative, regulatory, court actions in 2012 impact cooperatives

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Ever-changing economic and financial environments during the past decade created major challenges for many cooperatives as they worked to successfully maintain their business operations. In response to these changes, Congress sought to implement various legislative measures to help prevent the recurrence of some of the conditions that contributed to the economic downturn that rocked the business world in recent years.

Legislation (particularly changes in tax law) that may adversely impact the profit margins of a traditional business may represent a triple threat to cooperatives and their members' businesses.

It is imperative for cooperatives to have a good grasp of decisions made in 2011 that may set a precedent for future decisions. Listed below are some highlights of legislative and regulatory actions taken by Congress this past year, as well as legal decisions made by various U.S. courts, which either directly, or indirectly, impact cooperatives.

- **February** — The Senate passed legislation to repeal expanded reporting requirements which would have made cooperatives submit a Form 1099 to the U.S. Internal Revenue Service (IRS) for non-credit card transactions of \$600 or more with any vendor in a given year. The House Ways and Means Committee approved two bills that support the

repeal, and in April President Obama signed H.R. 4 into law, repealing the expansion of the Form 1099 reporting requirements.

- **March** — Dean Foods Co. and the U.S. Department of Justice (DOJ) reached a settlement under which the larger of two processing plants it acquired from Foremost Farms USA (a cooperative) in Wisconsin must be divested because of the large share of the fluid milk market it gave the company. In the future, it must give advance notice to DOJ of any plans to acquire milk processing plants valued at more than \$3 million. While this settlement did not directly impact Foremost Farms or any other dairy cooperative, the case was nonetheless carefully monitored by co-ops and others in the dairy industry.
- **May** — IRS Code Section 3402(t) was put in place by the Tax Increase Prevention and Reconciliation Act of 2005 to require, in part, federal, state and local governments to withhold 3 percent when making payments for property or services in amounts of \$10,000 or more.
- **July** — The IRS issued a new draft Form 1120-C, U.S. Income Tax Return for Cooperative Associations and requested public comments. Cooperatives should pay close attention to this issuance since it may include, in part, changes to how patronage dividends and special deductions are treated for IRS purposes.
- **August** — The Commodity Futures Trading Commission stepped up regulatory efforts to implement Title VII of the Dodd-Frank Act, which regulates the over-the-counter (OTC) derivatives' market. Some farmer-

owned cooperatives use OTC derivatives, also known as commodity swaps, to hedge the commercial risk of their own operations and to provide customized risk management tools to farmers and ranchers.

- **September** — The American Jobs Act was proposed by President Obama to spur hiring and economic growth through various tax incentives for employers. Also in September, the Eastern Mushroom Marketing Cooperative filed a petition for its case to be reheard in the Third Circuit Court (Court), which held that defendant mushroom growers were "not a proper agricultural cooperative under the Capper-Volstead Act because one of its members was not technically a grower of agricultural produce." To date, the court has not provided a decision on this rehearing petition.
- **October** — The House approved H.R. 674, which would repeal the 3-percent withholding requirement for payments to government contractors (formerly proposed in May 2011).
- **November** — H.R. 674 passed in the House and was sent to the Senate, which added amendments that include two new tax credits for employers that hire military veterans.
- **December** — In the *Fresh and Process Potatoes Antitrust Litigation* case, a U.S. District Court judge concluded that Capper-Volstead Act protections do not apply to pre-production supply control activities, such as acreage reduction and production restrictions, and ruled that a fact-specific inquiry must be made as to whether integrated growers qualify for Capper-Volstead protections. ■



CHANGING COURSE

Milk producers tackle dairy policy, other key issues at annual meeting

By Carolyn Liebrand, Ag Economist
Cooperative Programs
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"Success in dairy policy reform [means] working together to get something better than before," Randy

Mooney, chairman of the National Milk Producers Federation (NMPF), said at the organization's annual meeting in San Diego in November. One of NMPF's main goals this year was to explain to its members and guests how features of its Foundation for the Future (FFTF) program — which calls for major changes in the nation's dairy program — became included in the proposed Dairy Security Act of 2011 (HR 3062).

Jerry Kozak, CEO and president of NMPF, said he and the senior staff

spent part of the summer of 2011 touring the country and speaking directly to farmers about dairy policy reform, the FFTF program and why it was developed by NMPF. The tour also allowed NMPF staff to listen to producers, hearing directly from the people on the farm about where the program might be improved, Kozak told attendees at the meeting, which NMPF holds jointly along with the National Dairy Promotion and Research Board and United Dairy Industry Association.

"Best solution to what isn't working"

Congressmen Collin Peterson of Minnesota and Mike Simpson of Idaho were praised by Mooney for their leadership in co-sponsoring the legislation. Representative Peterson said via a video presentation that he believes

the proposed Act is the "best solution to what isn't working."

The bill before the subcommittee on Livestock, Dairy, and Poultry gives individual producers the option to participate in the dairy producer margin-protection plan, along with the dairy market stabilization program. (In NMPF's original plan, dairy producer participation was mandatory). The proposed legislation also requires USDA to hold a national hearing on the method of setting Class III milk price competitively, with a new feature of reverting to the existing order terms, rather than terminating the order completely, in cases where producers do not adopt the proposed changes to the order.

This legislation, if approved by Congress, would replace the current dairy programs: the Milk Income Loss Contract Program (MILC) and the



Producers listen intently (facing page) during the “town hall” meeting, always one of the highlights of the annual meeting of the National Milk Producers Federation (NMPF). Above: A panel of NMPF officials field questions during the town hall session. From left are: Jaime Castaneda, staff senior vice president, strategic initiatives and trade policy; Dana Brooks, senior vice president, government relations; Jerry Kozak, president and CEO; Jim Tillison, senior vice president, marketing and economic research/COO of Cooperatives Working Together; and Randy Mooney, board chairman. Photos courtesy NMPF

Dairy Product Price Support Program (DPPSP).

Producing for the market

Responding to questions from the floor, NMPF staff explained that eliminating the DPPSP may help dairy processors become more attuned to producing products the market desires. Other questions regarded how effective the FFTF program will be if participation is not mandatory. NMPF staff responded that analysis by the Food and Agricultural Policy Research Institute (FAPRI) indicated that if even 50 percent of the nation’s milk volume is enrolled, there would be positive results. The Congressional Budget Office (CBO) has projected that producers accounting for 60 percent of the milk supply will participate in the program.

NMPF also reported on its work on

other issues that impact dairy producers, including somatic cell count standards, drug residues in dairy beef, immigration policy and tax issues. While NMPF pushed for a gradual reduction in the maximum threshold of allowable somatic cell counts from the current 750,000 to 400,000, the National Conference of Interstate Milk Shipments (NCIMS) failed by one vote to approve such a measure.

However, Mooney noted that the European Union has been pushing the United States to certify that its dairy exports meet a 400,000 cell-count limit on individual farms — implying that U.S. producers may be compelled to meet that somatic cell standard eventually, regardless of the NCIMS vote.

“An ounce of prevention...”

Kozak highlighted the efforts of NMPF in addressing the issue of drug

residues in the tissues of culled dairy cows. NMPF provides education to dairy producers on the best practices for using antibiotics and other cattle drugs, including a free manual, intended to help producers avoid drug residues and other problems.

However, the U.S. Food and Drug Administration (FDA), noticing that a significant portion of residue violations are being found in culled dairy animals, is developing a residue-screening program aimed at the dairy industry. Mooney outlined NMPF’s concerns with FDA’s proposed screening program, including the legality of taking samples from testing labs and the potential lack of anonymity for producers.

Mooney and Kozak reported that NMPF also worked last year to ensure that milk producers can obtain needed agricultural labor. Other U.S. policies

that NMPF tackled on behalf of its members included:

- Overturning a new tax reporting requirement, known as Internal Revenue Service (IRS) form 1099, which would have increased farmers' paperwork burden;
- Minimizing the impact of the estate tax on the farming community; and
- Obtaining an exemption from the U.S. Environmental Protection Agency's (EPA) Spill Prevention, Control, and Countermeasure (SPCC) rules for farmers' bulk milk storage equipment.

Efforts by NMPF in the area of long-term trade policies sought by dairy producers came to fruition with: the passage of three Free Trade Agreements (with Columbia, Panama and South Korea); allowing greater flexibility in truck traffic flow between the United States and Mexico (the existing rules were causing a negative impact on U.S. cheese exports to Mexico); and the application of the national dairy check-off program for imported products, under which importers of dairy products will be assessed 7.5 cents per hundredweight (or the equivalent) to help fund promotion and research, as specified in the 2008 Farm Bill.

Officer election

Several new officers were elected, while many were re-elected to their current or new positions. Mooney, from Rogersville, Mo. (representing Dairy Farmers of America), was re-elected as NMPF chairman, a position he has held since 2008. Ken Nobis, from St. John, Mich. (representing Michigan Milk Producers Association), was elected first vice chairman. Nobis had been serving as NMPF treasurer. Cornell Kasbergen, from Tulare, Calif. (representing Land O' Lakes Inc.), was re-elected as second vice chairman. Mike McCloskey, from Fair Oaks, Ind. (representing Select Milk Producers Inc.), was elected as third vice chairman; he had been serving as assistant treasurer. Dave Fuhrmann, from Baraboo, Wis. (representing Foremost Farms USA) was re-elected as board secretary.



An ice cream break in the exhibit hall provided "cool refreshments" between meeting sessions. Below: Producers ask questions during the town hall meeting.

Newly elected officers include: Treasurer Pete Kappelman, from Two Rivers, Wis. (representing Land O' Lakes Inc.); Assistant Treasurer Adrian Boer, from Jerome, Idaho (representing the Northwest Dairy Association); and Assistant Secretary Doug Nuttelman, from Stromsburg, Neb. (representing DFA).

Top awards

Long-time NMPF board member and First Vice Chairman Clyde E. Rutherford was inducted into the NMPF Leadership Hall of Fame. Rutherford was instrumental in helping to create the Cooperatives Working Together (CWT) program, which continues to operate through 2013 with 70 percent of the nation's milk supply committed to it. Rutherford has served on the boards of a number of co-ops and dairy organizations, including DairyIdea Cooperative Inc., where he has

been president since 1978, and DFA, among many others.

Foremost Farms USA's extra sharp cheddar cheese was awarded the Grand Champion Cheese award at the 2011 NMPF cheese competition. The cheese, made in Marshfield, Wis., received a score of 99.8 from the judges. The Foremost Farms Cheddar was selected from among 149 entries to this year's contest.

The 2011 NMPF Communicator of the Year award was presented to Frances Lechner of United Dairymen of Arizona (UDA), in Tempe, Ariz. In addition to directing UDA's communications, Lechner also serves as the cooperative's member relations manager, oversees its Young Cooperator program and serves on NMPF's scholarship committee. ■

In the Spotlight

Richard Cotta: a life devoted to dairy and co-ops



Richard L. Cotta, who recently retired as president and CEO of California Dairies Inc. (CDI), has been a major force in the California dairy industry for more than four decades. During a career of service to the dairy industry, Cotta has been involved in virtually all aspects of the business, from dairy genetics to dairy processing and “dairy politics.”

Acknowledging his broad expertise, Cotta has been called to testify on key industry issues before the U.S. Congress and the California legislature on behalf of the dairy industry. At the request of the U.S. Secretary of Agriculture, he has participated in world trade missions to open more overseas dairy markets for U.S. producers.

In 1980, Cotta was named to his first real leadership role: CEO of United Dairymen of California, a producer trade organization. Previously, he had worked as a sire analyst for American Breeders Service, a classifier for the Holstein Association and for several years was a dairy consultant on feeding, breeding and management systems.

When United Dairymen merged to form Western United Dairymen (California’s largest producer trade organization) in 1984, Cotta was the choice for CEO. He held that position until 1993, when he became general manager of San Joaquin Valley Dairymen, a dairy processing and marketing co-op.

In 1999, San Joaquin Valley Dairymen merged with Danish Creamery and California Milk Producers to form CDI. Cotta was named the co-op’s senior vice president



Richard Cotta

of producer affairs and government relations, a role he held until he was selected as CEO in 2007. Under his leadership as CEO, the co-op’s profits have reached record levels.

Cotta graduated, with honors, from California State Polytechnic University-San Luis Obispo with a degree in dairy husbandry. He currently sits on the boards of the University of California-Davis Dean’s Advisory Council, California State University Chancellors Ag Advisory Council, Sacred Heart School Foundation and the Innovation Center for U.S. Dairy. In addition, he sits on the Globalization Operating Committee for U.S. Dairy Export Council.

Although retiring from the dairy industry, Cotta will remain active in agriculture as owner/operator of Cotta Farms and as a partner in Terra Bella Farms. Both are almond farming operations.

Cotta shares some of the insights he gained during his career in the following Q&A.

Question: *What is the most important thing you learned about building a strong working relationship with a co-op board?*

Cotta: “The key to building a strong relationship with any board is trust, transparency and full disclosure. All companies face the good, bad and the ugly at some point. Being open and straight forward with the board about how we got there and how we will solve the problem is the key and helps build trust and confidence.”

Q. *What is the most important thing you learned about meeting the needs and expectations of co-op members?*

Cotta: “Probably the biggest hurdle to overcome is unrealistic expectations by cooperative members. A co-op is no different in its daily operations than any other company. We compete at every segment of the industry. How one measures and evaluates expectations, and how that is presented to members, is critical. Return on investment is but one of the measures to reasonable expectations.”

Q. *What was the co-op’s greatest accomplishment during your tenure — the one you are proudest of?*

Cotta: “It is difficult to limit this to one item because the end results overlap each other. The movement away from a commodity-driven business to one of ever-increasing “value-added” products was a major accomplishment. Our value-added gains have increased by several million dollars per year.

“Our return on investment has been a great story. Over the past three to four years, CDI has consistently

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Organic federation seen as a

strategy

for family farm survival, regional competitiveness



By Thomas W. Gray, Ph.D.
Rural Sociologist
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Editor's note: The author welcomes feedback from readers on this article. Their thoughts may be used in future articles and can be e-mailed to: Thomas.Gray@usda.gov. Supportive research is referenced by author's name and university affiliation. This article draws heavily upon "Is Relationship Marketing an Alternative to the Corporatization of Organics? A Case Study of OFARM," by Amy Guptill and Richard Welsh.



During the past several decades, the number of U.S. farms has declined while the size of remaining farms

(measured by acreage and volume of output) has increased, although there has been an increase in number of the very smallest farms. A similar trend has occurred in the U.S. industrial sector, with small- to mid-size firms declining

in numbers while much larger, often global, firms have grown in influence and in proportion of total market share.

This is particularly the case in the agribusiness sector, where — through a process of vertical and horizontal integration and the formation of joint ventures and strategic alliances — large agribusiness firms have come to dominate the sourcing, processing, distribution and selling of many agricultural products. Such market positions afford these very large firms tremendous market power relative to mid-size, often family-run, farms.

Mid-size farms are caught in a market structure (i.e., few large and many small actors) that results in their purchasing of high cost, industrially provided inputs — feed, seed, and fertilizer — while selling their production at less-than-sustainable prices. This is generally referred to as the cost-price squeeze.

Individual farmers lack power

Individual farmers essentially end up with little or no power in this context.

One of the most precious values U.S. farmers have held historically is autonomy. Little autonomy exists within such market structures for owners of family-sized farms. Survival is precarious, and many people leave farming because of the low or negative margins.

These processes have led to the often repeated question of how to sustain a family-sized scale of production when farmers are confronted with pressures from large, global agribusiness firms. If no response is found, it means more farms will be lost, with associated, negative impacts on rural development. Research studies have shown repeatedly that "family-sized agriculture," with a mixture of larger farms, has the greatest benefit (including multiplier effects) on agriculturally dependent counties (Rich Welsh, Clarkson University).

The late Tom Lyson of Cornell University suggested that in order to escape the "cost-price squeeze" that most small- to mid-size farmers face, it may be necessary to build alternative forms of production and marketing that



Charlie Johnson (left), owner of Johnson Farms in Madison, S.D., discusses his harvesting plans with Tim Ennis, a marketer with NFOrganics. "If Michael Jordon has an agent, I should be able to have one too when it comes to marketing," says Johnson. NFOrganics is a nonprofit that works with five cooperatives that formed OFARM as a federated co-op. It has members in 18 states and Canada. Photos courtesy OFARM

are beyond the influence of conglomerate agribusiness firms.

Alternatives in production

Organic foods have shown promise for smaller producers. The qualities of organics are not as easily conventionalized into commodities (i.e., mass produced, homogenous products). Costs can be contained with less, or even no, reliance on purchased inputs with a high "carbon footprint." Demand for organic foods has been climbing steadily, resulting in relatively high prices for organically produced farm products. These price premiums are often sufficient to help sustain family-sized production units.

However, organics alone cannot be the whole story for protecting family farm structures. Julie Guthman (University of California-Santa Cruz) suggests that traditional agribusinesses are getting involved in "high-value, high-turnover" organics, including postharvest processing, distribution and retailing. Amy Guptill (State University of New York-Brockport) and Rick

Welsh (Clarkson University) argue that these firms often work to compromise organic standards (e.g., not rotating crops, limiting free range and grass grazing). The result is that organic production is actually being re-fitted to conventional commodity systems. In this process, organic farmers often lose control of their product (and its value) as they are reduced to lesser participants in the market. To protect family-sized farms, not only alternative production, but alternative business organizations may be necessary.

OFARM offers survival strategy for farms and regions

In their classic work: *The Second Industrial Divide: Possibilities for Prosperity*, Michael Piore and Charles Sabel identify small manufacturing firms that have survived in the context of large global corporations. They have succeeded by creating products that are high in quality, craft oriented, small-batch produced and customized for particular consumer interests.

Such products have emerged in

furniture, luxury shoes, motorbikes, textiles, specialty steel and precision machines tools, to name a few. These products are often produced in networks of subcontracting and specialized information sharing. Competition is built around product quality more than price.

Cooperatives have had a long history of being able to respond to farmers' needs to gain higher prices and more favorable terms of trade and power in the market place. Farmers marketing together are often able to realize better prices and terms of trade through cooperative organization.

Guptill and Welsh suggest that OFARM (Organic Farmers' Agency for Relationship Marketing) addresses some of these traditional strengths of cooperatives. OFARM also fits Piore and Sabel's profile of a survivable firm (e.g., subcontracting and specialized information sharing) in a context of powerful global conglomerates.

Formed in 2001, OFARM is a federation of six member cooperatives and one nonprofit firm. Members are:

UNLOCK the Potential of Co-ops



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

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



Keys to Successful Co-op Housing (SR 54)

A guide reviewing successful practices in establishing and operating housing cooperatives. Offers important information on planning and organizing, management, cooperative finances, and dealing with membership.



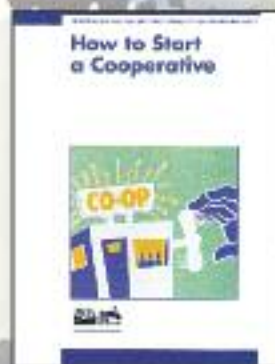
Cooperatives: A Housing Alternative for Rural America (SR 45 – Web only)

Housing cooperatives offer members affordability, a sense of empowerment and control, and the permanence and stability that come with home ownership. This publication offers basic information about how they work and how they are formed. Intended for prospective co-op members and development specialists.



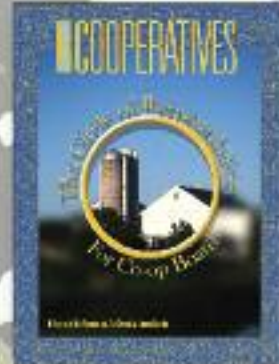
A Guide for the Development of Purchasing Cooperatives (CIR 64)

Purchasing cooperatives can often make a big difference in lowering costs and improving services to independent retailers as well as farmers. This publication includes an overview of purchasing cooperatives and provides the basic steps for organizing such a co-op.



How to Start a Cooperative (CIR 7)

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



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

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

From the keys to operating a successful housing co-op to the seven critical steps for conducting a feasibility study for a new co-op, the publications on these pages can be valuable tools.

Most of these publications are available in hard copy; all are available as downloads on the Web. Either way, there is no cost. For hard copies (please indicate title, publication number and quantity needed), e-mail: coopinfo@wdc.usda.gov, or call: (202) 720-8381. Or write: USDA Co-op Info., Stop 0705, 1400 Independence Ave., SW, Washington DC 20250. To download from the Web, visit: www.rurdev.usda.gov/rbs/pub/newpub.htm.



Vital Steps: A Cooperative Feasibility Study Guide (SR 58)

A feasibility study is an important step in deciding whether to start a new cooperative. This publication shows you how to do it.



Basics of Organizing a Shared-Services Cooperative (SR-46 – Web only)

Shared-service cooperatives are tools for private businesses and public entities to increase their efficiency by jointly obtaining services. This publication provides basic information on organizing one.



Nominating, Electing and Compensating Co-op Directors (CIR 63)

Being a good judge of people is an important skill when it comes to choosing a cooperative board, management, employees, or business partners. This is a reprint of three articles in *Rural Cooperatives* addressing this important issue.



Understanding Cooperatives (CIR 45)

A series of 15 4-page flyers covering topics ranging from the Legal Foundations of Cooperatives (section 9) to How to Start a Cooperative (section 14). Each section is easily adaptable by teachers for use in classrooms, or can be used as a handout for almost any type of co-op education activity.



Understanding Cooperatives (CIR 45, Compact Disk)

Available for years in hard copy, you can now get Understanding Cooperatives on compact disc. The program consists of lesson plans, handouts, exercises, reference materials, quizzes and other information, all included in electronic format on one CD.



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

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

Buckwheat Growers Association of Minnesota, Kansas Organic Producers Association, Midwest Organic Farmers Co-op, Montana Organic Producers Co-op, Organic Bean, Wisconsin Organic Marketing Alliance, and NFOrganics (the nonprofit).

According to Guptill and Welsh, OFARM is the largest single organized block of producers growing organic field crops in North America, covering 18 states and the province of Ontario. Like the Piore and Sable firms, it is specialized in facilitating the production, not of motorbikes and luxury shoes, but in specialty food products.

Founding members say OFARM was formed to prevent conventionalization of organics and the falling prices and loss of control that typically occur when multinationals enter a new market segment. Among its several missions, the federation seeks to provide a forum for: (1) the exchange of pricing and marketing information; (2) the education of policymakers; (3) facilitation of a bargaining function for member products; (4) assistance to farmers in the adoption of new crops and agronomic practices, particularly in reference to crop rotations.

As small- to mid-size enterprises (SMEs), OFARM and its seven member firms fit Piore and Sabel's conception of SMEs. They are "information dense" organizations that pool resources for research and development and information sharing while exercising influence on the market. In their processes of operation, Piore and Sabel maintain, these kinds of firms support innovation and enhance firm and regional competitiveness.

OFARM's strength

The information services that OFARM provides — for market prices, weather data and supply and quality of product across the country — help facilitate a much stronger market position for sellers. "Through OFARM, we actually do a supply-and-demand situation," with suppliers using OFARM market intelligence and technical



This Buckwheat Growers Association of Minnesota mill in Wadena, Minn., not only performs grinding, it also cleans and de-hulls buckwheat and other grain crops. The co-op has rail-side access.

assistance in the writing of contracts (as cited by Guptill and Welsh).

In addition to comprehensive marketing services, OFARM provides such ancillary services as legal counsel, office support and conference calling help as well. As a result of this market rationalization, shipping generally occurs to closer locations in a manner that favors higher prices for farmers.

Gift and a challenge

The booming demand for organic products has been both a gift and a challenge to OFARM and its members. It facilitates trust and collaboration among members by setting a floor price that is generally profitable. The solidity of the price facilitates mentorship, mutual support and joint promotion.

However, the seemingly inexhaustible demand for organics also means farmers have many choices, including selling to large corporations. OFARM membership involves a marketing charge for its services. Deep-pocketed corporations can at times compete by paying a higher price without having to make a marketing-deduction charge. They simply take possession of the product by purchasing it. This can put the federation and its member organizations at a competitive disadvantage.

However, multinational firms' prices often come with production contract agreements that place the greatest risks on farmers and that minimize farmer

control and influence on their own production. Farmer loyalty (and farm survival) can be a challenge, if members accept these short-term prices.

Conclusion

OFARM was organized to help maintain family-farm-scale production in the face of large corporate market concentration. Large corporations may at times offer better prices to break a cooperative advantage. Once an advantaged market position is attained, these prices typically are dropped to the lowest point possible, further pushing farm consolidation.

What large corporations cannot offer is member control and democratic governance. OFARM helps empower its member organizations and member farmers by facilitating scale, assembly, marketing and purchasing functions in order to improve the viability of small local entrepreneurs.

Cooperatives, as do few other businesses, build institutions up from local relationships and maintain them in their local communities. Ultimately, OFARM provides a democratization function by providing an offset to multinational market concentration while seeking to keep family farmers in business. As an information-dense SME that pools resources for research and development, it is also the kind of firm that supports local innovation and regional competitiveness. ■

Study raises important questions about co-op education efforts

James Wadsworth, Ag Economist
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A USDA study found that 85 percent of farmer cooperatives provide co-op education to their

members, directors, managers, employees or the general public. The type of education efforts vary, ranging from publications and websites for members to workshops and training sessions for directors. The primary audiences for these efforts are directors, employees and management.

Not surprising, larger cooperatives tend to conduct more co-op education than do smaller cooperatives. Education efforts of large co-ops most often target their directors, more so than with smaller co-ops.

The co-ops surveyed indicated that that the audiences with the biggest need for co-op education (in order) are: the general public, members, employees, directors and management. However, while the general public is most lacking in co-op knowledge, most co-ops see education for directors, employees and members as the most critical need.

Cooperative education efforts are most often conducted by co-op staff members, followed by education programs of cooperative councils or other co-op organizations that offer workshops.

Looking at farmer co-ops by type, more than 80 percent of grain and oilseed, farm supply, service and cotton and cotton gin cooperatives provide co-op education. More than 70 percent of dairy, fruit, vegetable and nut cooperatives provide education.

Cooperative educational materials



USDA graphic by Stephen Thompson

and programs used by co-ops most often come from USDA, cooperative councils and other cooperatives. About 76 percent of co-ops said that there are sufficient educational resources available, while 17 percent did not feel there are enough and 8 percent said they “didn’t know.”

Co-op finance is the No. 1 education topic for directors, followed by tax and legal issues, leadership, governance, board meeting functions and “cooperative basics.”

The full study (available from USDA) contains more information on farmer co-op educational activities and shows breakouts by co-op type, size and location.

Key questions

The general public and members are the two audiences deemed by cooperatives to need co-op education the most, according to the survey, but they are not the primary audiences being focused on by co-ops. Why not, and what can be done to motivate co-ops to focus more effort on general public and member education? What educational initiatives or materials

should cooperatives use to reach these audiences?

While co-op education is being broadly conducted, are these educational activities adequate to properly educate the target audiences? Are the educational delivery methods being used sufficient to reach all audiences?

Are cooperatives using internal staff to develop educational materials, or using existing educational resources? Why aren’t some types of cooperatives using cooperative council education programs more?

While a majority of cooperatives feel that there are enough educational resources available, are they meeting all education needs, and are some cooperatives unaware of their availability from USDA and others? What other kinds of educational resources need to be developed?

Do cooperatives feel that educating the general public is “beyond their means or ability,” and therefore expect others to take on that responsibility? What role do they feel they can play?

Are director education efforts sufficient? Are cooperatives regularly

evaluating their director educational needs?

These are questions that co-ops and organizations that support co-ops need to weigh carefully and to develop plans for addressing.

Recommendations from the study

More co-ops should become involved in cooperative education. They

need to ensure that their efforts address pertinent topics for directors (and other audiences). Cooperatives need to better educate members by providing more materials and programs or by holding special events. They need to actively search for good education materials and programs.

Co-ops need to reach out to educators when they feel gaps exist in materials and programs, and to work

with educators to fill those gaps. At the same time, educators need to effectively promote their materials and programs to ensure that cooperatives are aware of and have access to them.

Finally, further research should be conducted to gain a better understanding of the content of cooperatives' education programs in order to develop better targeted education materials and programs. ■



New publication looks at education needs

Education Initiatives of Farmer Cooperatives (Research Report 223) examines how farmer cooperatives promote co-op education for members, directors, management, employees and the general public. It addresses whether co-ops provide education, the audiences they reach, the delivery methods they use, the topics covered, where they get their educational resources, whether they feel there are enough resources available, and what topics are most important for educating directors.

The data used for the study came directly from farmer cooperatives. Of the 2,389 cooperatives surveyed, 31 percent, or 751 co-ops, responded. To order a copy of the report, please send an e-mail to: coopinfo@wdc.usda.gov, or call (202) 720-8381.

Select Education Initiative Statistics*

Co-ops providing education 84.7%

Percent of cooperatives educating different audiences / audiences perceived to need education the most

Directors	82.2% / 2.9 rating (1 = least important, 5 = most)
Employees	70.0% / 3.0
Management	66.3% / 2.6
Members	34.9% / 3.3
General Public	14.8% / 3.4

Delivery methods

Internally with co-op staff	64.3%
Externally through a co-op council or organization putting on a Workshop	59.8%
Internally through use of publications & materials	38.5%
Attendance at a state or national conference where education is provided	34.4%
Internally using a consultant	30.2%
Joint educational meeting with another co-op	15.4%
Internally through an online course	7.6%
Externally through an online course	6.3%

Enough educational resources 75.6% yes, 16.8% no, 7.6% don't know

Topics Directors Most Need

Finance	3.4 rating (1 = least, 5 = most)
Tax and legal issues	3.2
Leadership	3.1
Governance	3.0
Board meeting functions	2.9
Co-op basics (what they are, principles, roles, practices, etc.)	2.8

Financial

Average total sales	\$86.7 million (co-ops with education programs); \$31.5 million (co-ops without education programs).
Return on equity	17.3% (co-ops with education programs); 14.4% (co-ops without education programs).

*Full report contains more data (with breakouts by type, size, and location).

Keeping the sign on


Canadian conference promotes employee ownership as alternative to business closures

By Bruce Reynolds, Ag Economist

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 The retirement of the baby-boom generation will have major economic effects in the United States, Canada and many other nations. Among these effects will be high turnover rates in ownership — or closure — of many small businesses.

When the present owners wish to retire, the most readily available buyers are often local or regional competitors. Yet, many businesses acquired by competitors will be closed once they change hands. A new owner may buy a business simply to prevent a competitor from operating it. This closure outcome can often be avoided with succession planning that includes employees or others potential owners. The challenge of sustaining small, mostly family-owned businesses is confronting many countries.

Canadian cooperative organizations hosted a conference on business succession and employee ownership in Quebec City last October. (see conference highlights at: www.cooperation2011.coop). The conference proved to be an extraordinary event, both in its international scope and in the expertise that speakers and audience brought to the discussion of issues surrounding the ways to transition business ownership to employees.

Quebec City was an appropriate location for such a conference. The province of Quebec has an exemplary



track record for cooperative development, as noted in the March/April 2001 issue of *Rural Cooperatives*. Quebec is home to more than 2,700 cooperatives and has pioneered the development of the multi-stakeholder co-op model. Desjardins, a credit union, has 5.8 million members and is a leading financier of cooperative development

projects in the province. Canada has about 615 worker cooperatives, of which 394 are in Quebec.

Canadian research findings

Quebec's Ministry of Economic Development, Innovation and Exporting has done a survey on ownership succession of small businesses in the province. It is

USDA graphic by Stephen Thompson

projected that about 55,000 Quebec business owners will retire from 2010 to 2018, 50 percent of whom have an inadequate or non-existent plan for the succession of their businesses. The age of employees is an important factor in successful business transfers, researchers have found. Successful transfers frequently have a core group of employees between the ages of 40 and 55. When the bulk of employees are over 55, there is an insufficient time horizon to finance ownership transfers.

Transfer of ownership when a large percentage of employees are in the 25-35 age range can also be difficult, due to the lack of commitment and limited work experience often found in that age group. However, people in their 20s are very active in start-ups of worker cooperatives, especially in businesses that appeal to a younger demographic group, such as bicycle shops.

The Canadian Worker Co-operative Federation, a co-host of the conference, is actively involved in the development of cooperatives and is also focusing on saving businesses through succession planning (for more information on this federation, visit: www.canadianworker.coop). Conference speakers cited a study in Canada that reports an estimated 200,000 small businesses (not self-employed entities) will be for sale by 2020. Several Canadian government and trade association officials voiced their concern over the impending decline of many rural communities from closures of small businesses.

Farms and ranches have a similar process of succession planning, although in contrast to small businesses, they more often stay in production either with new owners or in rental contracts. Nevertheless, retirements of both business owners and farmers are

depopulating many rural communities.

The negative impacts on local economies from business and population decline are a problem that both Canada and the United States must confront.

International perspectives

Speakers from the United States, Italy, France and Argentina also made presentations at the conference. Worker ownership in the United States is frequently organized as an employee stock ownership plan (ESOP), which is a distinct business model in the international context. Don Jamison of the Vermont Employee Ownership Center gave a presentation about ESOPs, during which he noted that the tax advantages for ESOPs have contributed to more than 11,000 U.S. businesses operating with employee owners.

Continental movement: *worker co-ops join forces in Quebec*

By Melissa Hoover, Executive Director
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Although a relatively small slice of the cooperative world, worker co-ops in the United States and Canada (and their co-op “umbrella” organizations and federations) have been growing steadily in recent years. Now they’ve organized on a continental scale with the formation of a North American regional organization of worker cooperatives.

CICOPA (the International Organization of Industrial, Artisanal, Worker Cooperatives) North America was formed in Quebec this past October during a nearly week-long series of conferences, jointly organized by U.S. and Canadian worker cooperative organizations. The conferences, attended by several hundred worker cooperators (including some from around the world), were designed to address a broad range of worker co-op development issues.

The Quebec City location of the conferences helped to attract attendance by members of all of the Quebec-based worker co-op federations. The event marked the forging of a closer relationship between English and French Canadian

worker cooperative groups — an important development for Canadian cooperative movement-building. For the first time, Le Réseau de la Coopération du Travail du Québec (the general worker cooperative network for Quebec), La Fédération Québécoise des Coopératives Forestières (a forestry worker cooperative federation), and Fédération des Coopératives des Paramédics du Québec (a paramedic/ambulance worker cooperative federation) joined the Canadian Worker Cooperative Federation (CWCF).

Attendees from the United States included the board members and staff of the United States Federation of Worker Cooperatives (USFWC), staff from Ohio and Vermont employee-ownership centers, and both longtime and new worker cooperative developers and supporters. Conference planners included USFWC and the North American Students of Cooperation (NASCO) from the United States, and Canadian Worker Cooperative Federation and Le Réseau from Canada.

International Support

International co-op leaders in attendance included: José Orbaiceta, president of the Federation of Worker Co-ops of Argentina (FECOOTRA); Alberto Zevi, president of the

The application of the worker cooperative model for ownership succession in the United States was described in a case study by Roy Messing, director of a Rural Cooperative Development Center that is affiliated with the Ohio Employee Ownership Center. He also gave a presentation on organizational steps and resources for transitioning closely held businesses to employee ownership, pointing out the key roles for business owners' trusted advisors in making such transitions feasible.

According to Messing, the target audience for how to plan business successions to workers should not only be retiring owners but ought to include the accountants and lawyers who serve as trusted advisors to small businesses. By informing such advisors about the process of transitioning businesses to employee ownership and the benefits to

the community of sustaining the operations of companies after their primary owners have retired, more transitions will be facilitated.

Worker co-ops popular in Italy

There are about 20,000 worker cooperatives with a combined membership of about 700,000 worker-owners in Italy, with the Emilia Romagna region being a major center for these co-ops. Most of the worker cooperatives were organized as start-up businesses, whereas the U.S. experience with employee ownership has largely served as a strategy to keep businesses in operation. Alberto Zevi, president of the Legacoop Education Center, gave a couple of presentations about worker cooperatives, including a case study of succession of a family business to employee ownership.

Zevi emphasized the lack of

succession planning as a major cause of closures of small businesses in Italy. He advocates for the adoption of "employee-share ownership plans," which are similar to employee stock purchase plans in the United States. Such plans are the start of a gradual process of ownership transfer, reducing the burden of financing a buy-out all at once.

France promoting worker co-ops

The perspective from France was presented by Patrick Lenancker, president of the Confederation Generale des Societies Cooperatives et Participatives. Similar to the case study presented by Roy Messing, he discussed examples of forming worker cooperatives in France that include the soon-to-retire business owners as co-op members for at least a few years while

continued on page 46

Legacoop Education Center, Italy; Patrick Lenancker, president of the National Confederation of Worker Co-ops (CG Scop), France; Mikel Lezamiz, director of Co-operative Dissemination, Mondragon, Spain; Bruno Roelants, secretary general of the International Organization of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA) in Belgium; and Félice Scalvini, co-president of Cooperatives Europe and vice-president of International Co-operative Alliance (ICA), Italy.

The international guests shared their enthusiasm for the work of the North American worker cooperatives, as well as stories and lessons from cooperative organizing in their countries.

U.S. Federation Board President Rebecca Kemble of Union Cab Cooperative of Madison, Wis., was elected president of CICOPA North America. The organization's first governing body was also selected, which drafted bylaws for the fledgling entity. Kemble, representing USFWC, Alain Bridault of the Canadian Worker Cooperative Federation, and the presidents of the three Quebec worker cooperative federations, jointly signed the "Quebec Declaration," pledging their commitment to work together.

The declaration notes that worker cooperatives are

"enterprises that are owned and controlled by their workers. Their purpose is to provide their member-owners with a work environment which facilitates their professional and human development, and provides the best wages and benefits possible within the capacity of their businesses. Worker co-ops are run democratically on the principle of one person, one vote." The full text of document is posted online at: www.canadianworker.coop/news.

South American counterpart formed

A parallel conference was held about the same time in South America, resulting in the formation on Oct. 20 of CICOPA Mercosur, a sub-regional organization of CICOPA. José Orbaiceta, president of the Worker Cooperative Federation of Argentina (FECOOTRA), was elected as its president. Mercosur is an economic and political agreement among Argentina, Brazil, Paraguay and Uruguay to pursue trade.

The North and South American sub-regional organizations integrated to form CICOPA-Americas on Nov. 15 in Cancun, Mexico. Through the two sub-regional entities, it is hoped that more effective collaboration will occur throughout the Americas to spread the development of worker co-ops. ■

Focus on: Sevier Farmers Co-op

Renovated Tennessee supply co-op attracts 3,000 to 'reopening' event

By Chris Villines

Editor's note: this article is slightly condensed from the December 2011 issue of Tennessee Cooperator, the member publication of Tennessee Farmers Cooperative. Villines is a communications specialist with the co-op.



As the gateway to the Great Smoky Mountains, Sevier County is known for its variety of attractions for out-of-towners and locals alike.

Judging by the overwhelming turnout for the grand “reopening” of Sevier Farmers Cooperative’s beautifully renovated campus on Saturday, Oct. 8, the co-op is another must-see destination to add to the list. More than 3,000 people took advantage of comfortable, picture-perfect fall weather to visit the co-op’s \$3 million redesign and expansion at its 17-acre property.

“It’s been a great day,” said Sevier Farmers Co-op General Manager Anthony Hastings as he shook hands with a group of attendees. “The response of the community has just been excellent, and the feedback we’ve been receiving has been very positive.”

Current co-op director James Gibson, surveying the activities from a comfortable rocking chair near the store’s entrance, said the new structure — designed by Michael Brady Inc. and built by Merit Construction, both based in Knoxville — represents a marked improvement for the farmer-owned business, especially in visibility.

“You can see it from one end of Sevierville to the other when you come across the hill,” said Gibson, a member

of the co-op for 34 years. “Before, there were people who didn’t even know where the co-op was, and some of them had been living here for a while. We spent a year and a half coming up with ideas on what to do here, and we’re very happy with the results. It was a big decision.”

Customer Patty Hanson of Wears Valley and her sister, Debra Kelly of Sevierville, gave the co-op high marks as they admired its updated look. “I love the stonework,” said Hanson, who also brought along her husband, Sven. “They picked a beautiful color to paint the building, too. It just adds to the charm of the entire area. It’s going to be a lot of fun shopping here.”

Grand opening festivities included a mix of product demonstrations, live bluegrass music, antique tractor displays, free food and soft drinks, kids’ activities, and door prizes. Visitors enjoyed some 1,000 hot dogs, 62 pounds of beef, 40 pounds of popcorn, and 30 gallons of ice cream served during the event.

But the main attraction for attendees was waiting inside — the co-op’s sparkling new showroom, which debuted with expanded business hours: from 7:30 a.m. to 7:30 p.m., Monday through Saturday.

“I’m at the co-op once, sometimes twice, a week, and I couldn’t always get there by the time they closed, so I appreciate them staying open later,” said part-time farmer Jeff Matthews of Sevierville, who attended the event with his wife, Karen. “And this place is just wonderful now. They’ve done a great job of modernizing everything and offering more products. Today, you have to stay up with the times to spark people’s interests and keep them



coming through the doors or you will lose business.”

Along with the co-op’s core farm supply products, the showroom also features expanded sections for equine products, pet care, wild birds, outdoor power equipment, apparel, gift items, and a separate Lawn and Garden Center that is connected to the main building by a walkway under the towering new entrance to the co-op’s automotive center. Outdoors, lawn and farm equipment and a complete line of EZ-Go all-terrain and golf carts are displayed, and an expanded fuel center

offers both traditional and diesel fuels.

The exterior of the fertilizer-blending facility has been redesigned to include signage for the co-op's seasonal farmers market, which operates Wednesdays and Saturdays from June through October.

All told, the co-op now has 15,000 square feet of retail space, doubling its

said Smith, who was joined by daughter Valerie and son Alex. "It's like a shopping mall. And outside, it has more curb appeal with all of the flowers and the nice-looking building."

Since incorporating in March 1948, the 2,750-member co-op has been a constant source of products and services for the area's farmers. But with few full-

Foresight of strong leaders and continuing support of people in Sevierville and the surrounding communities have allowed the co-op to effectively serve a new generation of farmers, homeowners, and everyday consumers, said Hastings. And with its fresh new look, expanded range of products, and increased business hours,



Photo by Neil Crosby/Neil Studios

previous size.

"We've added a lot of new products that we haven't been able to display before," said another Sevier Farmers director, David Sarten. "It takes a lot of work by a lot of people to make a project like this come together. You can see that the results were worth the wait. We're real pleased."

Amelia Smith of South Knoxville, who filled a shopping cart with products for her sheep and chickens, said she was "blown away" by the upgraded store.

"They've got everything in here,"

time farmers left in Sevier County, Hastings said it was imperative that the co-op adapt to the changing demographic of its customers.

"Our goal is always going to be to serve farmers, but to remain serving them you have to offer other products and services that are profitable," he explained. "Pet care is such a big customer base, and the wild bird market is an area of opportunity because it is not really serviced in this community. When you're talking about feeding and growing, no matter what the animal, the co-op should be the expert."

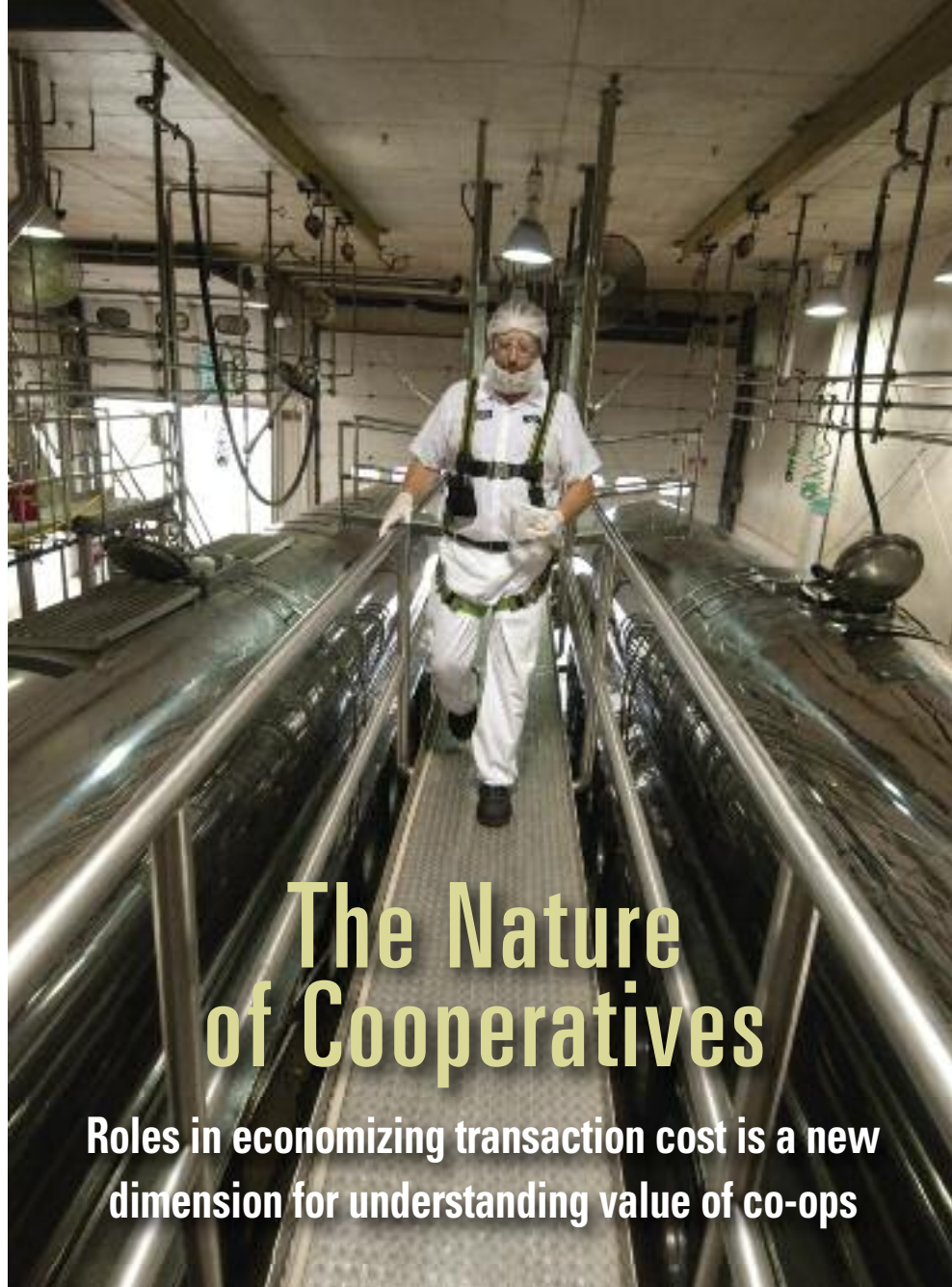
he is hopeful that even more new customers will be drawn to the co-op.

"More and more people are getting back to their roots and embracing the rural lifestyle," he noted. "These are people who work a full-time job, then grow a garden or raise animals on a part-time basis. And because of where we're located, we have a large market to pull from — more than 100,000 people stay in Sevier County each night. You have to go beyond traditional co-op hours to serve these customers. That's just reality. We're starting a whole new era for Sevier Farmers Co-op." ■

A worker prepares to pull milk samples from co-op tankers. The samples are checked before a tanker is cleared for unloading. USDA photo by Lance Cheung

By K. Charles Ling, Ag Economist
USDA Rural Development
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Editor's note: This completes a series of five articles that examine the characteristics that make agricultural cooperative businesses unique and valuable in our economy. The previous articles in the series were: "What Cooperatives Are (and Aren't)" (November/December 2009 issue); "What Cooperatives Do" (March/April 2010); "Dairy Co-ops: What They Are and What They Do" (March/April 2011); and "How Co-ops Do It: Dairy Co-ops Are a Prime Example of the Economics of Co-op Marketing," (November/December 2011). Past issues of Rural Cooperatives are posted on the USDA Rural Development website: www.rurdev.usda.gov. Hard copies can be obtained by e-mailing requests to: coopinfo@wdc.usda.gov, or by calling (202) 720-8381.



The Nature of Cooperatives

Roles in economizing transaction cost is a new dimension for understanding value of co-ops



his series of articles has attempted to clarify the nature of the cooperative business model in our free-market economy by explaining the cooperative's unique economic structure as an aggregate of independent economic units (member-farms). Co-ops are organized to achieve a common goal(s) using organization, governance, equity financing, operations and economics that are unique to cooperatives. Cooperatives have been shown to be pro-market, helping farmers gain market access and exercise countervailing market power, and serving as a competitive yardstick for their industry.

This final article attempts to show how cooperatives relate to other market participants through their roles in transaction governance, or "in aligning incentives and crafting governance structures that are better attuned to their exchange needs" (Williamson, 2002, p. 172).

As it has been in some of the previous articles, the dairy industry will again be used as an example to demonstrate the role of the co-op. In marketing milk and milk products, farmers and their cooperatives may engage in the following transaction scenarios.

Scenario I. — In a subsistence agricultural economy, farm production in excess of family consumption may be sold off farm. For example, a farm family may have one or two cows for producing milk to satisfy the family's food needs. If there is surplus milk, it may be sold to neighbors (food safety regulations permitting). The transactions are incidental to subsistence farming, do not require specific assets, and are primarily operations of a bygone era in the United States.

Scenario II. — Commercial milk production requires substantial capital investment in specialized assets: milk cows; barns, milking parlors and other buildings; machinery and equipment; skilled labor and management, etc. Most of these assets are specifically for producing milk and cannot be easily employed for alternative uses. Furthermore, milk is a "flow" product and is highly perishable. Its market is inherently volatile due to daily, as well as seasonal, variations of milk production and fluid milk demand. Supply and demand variations are not coordinated.

Asset specificity, high product perishability and market volatility make dairy farmers vulnerable when dealing with milk buyers (usually dairy food processors). There are many dairy farmers, but a small number of milk processors. Processors also must deal with "asset specificity" — they own dairy plants that are capital- and technology-intensive and require large size to take advantage of the economies of scale. But they are in a dominant bargaining position *vis-a-vis* individual dairy farmers.

Farmers organize cooperatives to gain bargaining and countervailing power. However, asset specificity still causes uncertainty and poses hazards to the investment of the dairy farmers and the processors if there is no credible contractual safeguard. Contracts that spell out the terms of trade as legal rules may be formulated in an effort to relieve the hazard.

But it is impossible to foresee and encompass all contingencies in a contract, due to human limitations. Relying on courts for relief is time-consuming and costly. This is a scenario of transaction without credible contracting, and the transaction does not have safeguards to relieve the investment hazard and protect the investment.

Scenario III. — For a highly perishable commodity such as milk, it is vitally important for both producers and processors to work together to make sure milk flow is smooth and without interruption. Producers need to have an assured outlet for the milk once it is produced, while processors require a steady supply of fresh milk to manufacture high-quality dairy products and efficiently utilize plant capacity.

The dairy industry has evolved in such a way that many dairy cooperatives and processors have developed a high degree of bilateral dependency. Because dairy cooperatives are organizations of farmers, they have the comparative advantages of working closely with members for assembling milk, providing field services and performing farm-related functions (84 percent of U.S. dairy farmers marketed milk

through cooperatives in 2007, the year of USDA's latest dairy cooperatives survey).

Many processors rely on dairy cooperatives for milk supplies that are tailored to their requirements for volume, quality, composition and/or delivery schedule, so they can focus their attention on processing and packaging dairy products. Under such an arrangement, the transactions between cooperatives and processors are assisted with what is called credible contracting and supported by inter-firm contractual safeguards. Instead of a set of legal rules with court enforcement, the contract here is a framework or a set of guidelines for interactions between the firms.

Discrepancies in performance are resolved through amicable consultation or negotiations or by arbitration. The court is only used as a last resort remedy.

Scenario IV. — Besides selling members' milk to buyers (processors), it may be necessary for a dairy cooperative to forward-integrate into processing some or all of its members' milk into various dairy products. Being marketers of members' milk, many cooperatives have to maintain plant capacity to balance milk supply and manufacture reserve and surplus milk into storable products. Otherwise, the surplus milk will be at the mercy of the market and lead to depressed milk prices. In order to generate higher margins from the market for members' milk, some cooperatives also may choose to integrate into processing fluid products or specialty dairy products, or further processing hard products. These processing enterprises are under the cooperative's hierarchical administrative control.

Transaction governance structures

The roles of a cooperative in the above scenarios fit with the analysis of the roles of a firm in transaction governance that constitute the core of transaction-cost economics (Williamson, 2010, 2007, 2005, and 2002).

In Scenario I, transactions between numerous suppliers and buyers are for an undifferentiated product. The product is made with a general purpose technology and does not require assets that are specific for its production (asset specificity is zero). Transaction governance is accomplished through market competition. The transaction governance mode is unassisted market.

When the product uses special purpose technology that requires specific assets for its production, as described in Scenario II, asset specificity is greater than zero. Asset specificity causes uncertainty and poses hazards to the investments of the suppliers and the buyers. Contracts that are formulated as legal rules may provide no safeguards to protect against investment hazards. Here, transaction governance is still the market, and the transaction governance mode is unrelieved contractual hazard.

In Scenario III, firms seek out reputable, trustworthy counterparts to reduce investment hazards. Such transactions give rise to bilateral dependencies, and the parties have

incentives to promote a continuous, long-term relationship, thus safeguarding specific investments. Transactions are supported by inter-firm contractual safeguards; the contract here is a set of guidelines for mutual adaptations. The transaction governance mode is credible contracting, a hybrid mode between (unrelieved hazard) market and full integration.

Successive, technologically separable stages are brought under unified ownership and vertically integrated and controlled in Scenario IV. In this scenario, the transaction governance mode is hierarchical administrative control. This mode occurs when a higher degree of asset specificity and added uncertainty pose greater needs for cooperation in mutual adaptations between successive stages.

The transaction governance modes are summarized in table 1. Each mode in the table represents a generic mode of governance, and each generic mode of governance embodies its own internally consistent attributes of incentive intensity (reward for effort), administrative control, and contract law regime – and, therefore, has its own strengths and weaknesses.

The governance structure Mode A is the unassisted market. The governance structure Mode B is the market where asset specificity exposes transacting parties to uncertainties and, without safeguards, to unrelieved contractual hazards to their investments. Mode C is where

fiat), and forbearance is the implicit contract law of internal organization (the parties must resolve their differences internally).

Transaction governance in practice

Dairy cooperatives may be classified into one of four categories, based on the main marketing function(s) they perform (table 2). Their transaction governance roles depend on their lines of business.

All four categories of dairy cooperatives may have joint ventures with other cooperatives or firms to process and market certain dairy products. The cooperative supplies dairy inputs and the partner(s) provide technical or marketing know-how to the joint venture.

This is one way of bringing product processing under the cooperative's partial control. In this case, transaction governance mode may be viewed to fall somewhere between Mode C and Mode D.

Conclusions

Cooperatives are transaction governance structures, as are non-cooperative firms. Depending on the lines of business of a cooperative or other type of a firm, transactions can occur under all possible governance modes. Cooperatives adapt to various governance modes for economizing on the transaction cost, just as other firms do.

Table 1—Transaction governance modes and attributes

Transaction governance mode	Asset specificity	Investment hazard safeguard	Incentive intensity	Admin. control	Contract law regime
A: Unassisted market	0	0	High	Little	Competitive norm
B: Unrelieved hazard	>	0	<	>	Legal rules contract regime
C: Hybrid (Credible contracting)	>	>	<	>	Credible contracting
D: Hierarchy (Administrative)	>	>	Low (Pricing for successive stages is cost-plus)	Considerable (by fiat)	Internal implicit contract law (Forbearance)

Source: Adopted from *Williamson, 2005*, Figure 1: Simple Contractual Schema.

Note: ">" indicates a mode having a higher intensity of the particular attribute than the mode above it.

"<" indicates a mode having a lower intensity of the particular attribute than the mode above it.

the market is assisted with credible contracting. All successive production stages are integrated under hierarchical control in transaction governance Mode D.

The attributes of a market mode are high incentive intensity, little administrative control, and a legal rules contract regime. On the other hand, attributes of hierarchy are low incentive intensity (where pricing for the successive stages is cost-plus), considerable administrative control (by

For entering into credible contractual relationships with buyers (processors), the cooperative's functions of providing market access and exercising countervailing power put its members, collectively through the cooperative, on a relatively more equal footing with buyers. This should make credible contractual relationships between sellers and buyers more attainable and stable.

Furthermore, as its members' collective marketing agency,

Table 2—Category of dairy cooperatives by marketing function(s) and their transaction governance roles

Category of cooperatives	Main function	Dimension	Transaction governance mode
Bargaining	Negotiate with milk buyers for milk prices and terms of trade; a few may operate milk handling facilities but not milk plants.	108 cooperatives (out of 155 U.S. total, or 70 percent). Together handled 23 percent of the 155.8 billion pounds U.S. cooperative milk volume, but few handled more than 1 billion pounds of milk each.	Regular milk sale is usually Mode C (hybrid); may be Mode B (unrelieved hazard) for spot milk sales.
Niche marketing	Own or retain plant capacity to process members' milk into specialty/niche products.	19 cooperatives. Most handled less than 50 million pounds of milk each. Together handled less than 1 percent of U.S. cooperative milk volume.	Product processing stages are Mode D (hierarchy); wholesale distribution of products is usually Mode C and may be Mode B; and retail sales are usually Mode B.
Fluid processing	Own or retain plant capacity to process members' milk into fluid products. May also process soft and cultured products.	Four cooperatives. Milk volume processed was moderate. Together handled less than 1 percent of U.S. cooperative milk volume.	Product processing stages are Mode D; wholesale distribution of products is usually Mode C.
Diversified	Perform bargaining and all or most other marketing functions. As a group, sold 53 percent of milk to other handlers (bargaining), while manufactured the remaining 47 percent into various products.	24 cooperatives. Three out of four cooperatives in this group handled 1 billion or more pounds of milk and none handled less than 50 million pounds. Together handled 75 percent of the U.S. cooperative milk volume.	Bargaining function is usually Mode C; product manufacturing and further processing stages are Mode D; wholesale distribution of products is usually Mode C and may be Mode B; and spot milk sales may be Mode B.

Table source: All dairy cooperative statistics cited are 2007 data, the year of USDA Cooperative Programs' most recent dairy survey.

the cooperative serves as a single transaction entity for credible contracting with buyers. It also introduces order and eliminates conflicts among members who would otherwise be competing individually for customers. As a result, transaction costs should be reduced.

A cooperative does not own the assets for producing the milk (for example) that the cooperative markets for its members; the assets and the investment hazard associated with asset specificity belong to member-farms. By pooling members' milk in its marketing efforts, the cooperative, in essence, also pools the investment hazard. As a result, each member's share of the hazard conceivably is less than if they individually market their products. The fact that asset specificity and the associated investment hazard belong to individual members reaffirms the cooperative's unique economic structure of being an aggregate of its member-farms.

These analyses show how cooperatives relate to other market participants through their roles in transaction governance and will hopefully broaden understanding of the cooperative's place in the market economy. Together with the

earlier work on cooperative basics, they should clarify the nature of the cooperative.

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Utility Co-op Connection

Telephone co-ops build broadband, create rural jobs

By Anne Mayberry

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We have a saying in Montana: “There’s a lot of dirt between light bulbs,” says Bonnie Lorang, general manager of Montana Independent Telecommunications Systems. What that means, she continues, “is that there are not many people in rural Montana; but through collaboration, we can deliver services that otherwise would not be available.” The advantages of combining broadband with the cooperative business model is delivering high-speed Internet service crucial to the advancement of rural areas throughout the state, she says.

Broadband and collaboration have provided residents with tools to establish small businesses and deliver services to Montana’s rural communities.

For USDA Rural Development Under Secretary Dallas Tonsager, the ability of broadband projects to deliver economic opportunities to rural communities across the country is why funding rural broadband projects is so important. “Broadband takes local markets and makes them global,” Tonsager says. “It has the capacity to open business opportunities in unparalleled ways. With broadband, rural consumers have better access to health care. Increasingly, rural schools for the first time have access to advanced placement and foreign language classes. Broadband expands services and increases business



Sarah Calhoun is founder and owner of Red Ants Pants, a women’s work-clothing business that operates out of rural Montana, thanks to broadband service. She designs the products, manages production, finance, marketing and sales. Photo courtesy Red Ants Pants

opportunities, which means jobs.”

Broadband projects help rural areas overcome the barriers of time and distance. “This is about our overall competitiveness,” Tonsager says. “Broadband in rural areas gives businesses the ability to compete globally. For kids, it opens the door to the world. Without broadband, we cannot fully compete in the world’s economy.”

Funding for rural electric and telephone cooperatives nationwide was originally authorized under the U.S. Rural Electrification Administration (REA) to deliver electric and telecommunications services to rural areas. In Montana, these cooperatives collaborate to offer high quality, scalable services that otherwise would not be available to their rural

consumers. “Cooperatives’ commitment to their communities is among their principles and part of the cooperative business model,” Tonsager noted.

Triangle Telephone Cooperative provides broadband services for rural Montana communities that have created and expanded business operations, improved rural economies and helped create jobs. Among the businesses and services that have resulted from broadband efforts are medical centers that can offer technologically advanced services for rural residents.

With broadband service, a rural cookware manufacturer can market products worldwide. Women thousands of miles away can purchase work pants, made in Montana, from Red Ants Pants. Web hosting, design and search services around the globe depend on a

growing Montana company. Communities benefit not only from broadband services but also from the jobs that they create when companies expand their markets.

"It makes complete sense to use the cooperative business model in rural areas, especially in areas with smaller populations," says Gail Rainey, assistant general manager for Hill Country Electric Cooperative and Triangle Telephone Cooperative. Both the electric and telephone cooperatives are aware of the need for robust economic development programs.

"We elected to focus on business and youth. We want to keep people in the community because that's how we succeed," Rainey says. Because co-ops are member owned and rely on feedback from members, members value what co-ops offer.

"We work with schools and nonprofits to provide help financially, offer business guidance and provide services," Rainey adds. The growth of the Internet and broadband service contributed to these efforts, Rainey notes. "Broadband opens up the whole world to everybody."

Rural telecommunication cooperatives nationwide work together, and, with their investor-owned counterparts, they combine resources and leverage their abilities to deliver a range of services that their communities might otherwise not be able to access.

Montana telecom providers, for example, joined forces to establish Vision Net, an information technology services provider that employs more than 100 people and offers a full range of advanced networking services to Montana's schools, businesses and other institutions. Vision Net deploys its services using over 4,000 miles of fiber network. In addition to serving Montana, Vision Net has clients nationwide, from Alaska to Maine and is staffed to provide technical support round the clock.

Vision Net CEO Rob Ferris explains that Vision Net was formed in 1995 to provide distance learning via interactive video conferencing to small, rural

schools. The growth of the Internet led to a change in its business model. Broadband technology, Ferris notes, has made it possible for rural students to benefit from advanced calculus classes and for soldiers stationed in Iraq and Afghanistan to see and talk to their families here at home.

Because the video learning experience is so popular, Vision Net has hired an employee to assist the schools with class scheduling and to promote unique virtual learning opportunities. "Two of the more popular classes were with the National Aeronautics and

"Broadband takes local markets and makes them global."

—Dallas Tonsager

Space Administration (NASA) and the Montana State Forensics Labs," Ferris says. "With NASA, students were able to talk to former astronauts. For the forensic class, we connected a high school crime scene investigation class with a crime lab where a scientist walked students through an investigation on ballistics."

Thousands of miles from Montana, Trevor Bonnstetter, CEO of Telecom Management Services, manages telephone companies in West Kentucky and Tennessee that deliver a range of technology services, including "megasites" designed to attract large business. One such site serves the Tennessee Valley Authority.

"We have a global economy. Rural telephone cooperatives can help their communities compete by providing Internet services that can be used to recruit employees in areas with high unemployment and draw business to such areas," Bonnstetter says.

"Technology allows business to provide jobs, products and services in areas where in the past, it was not feasible," Bonnstetter points to Ag Connections, a Kentucky company that develops crop management software to

help farmers more efficiently manage production, control inventory, develop financial reports, map fields and make marketing decisions using technological tools. In Tennessee, broadband has helped a public power utility offer smart grid applications that increase the utility's efficiency through automated meter reading and can help manage electric load. "These types of services can't happen if there is no broadband buildout," Bonnstetter says.

A 2009 USDA Economic Research Service study found that employment growth is higher and non-farm private

earnings greater in counties with a longer history of broadband availability. Yet, Tonsager notes that while broadband has triggered one of the biggest technological transformations ever seen in this country, we still do not deliver affordable and reliable service to rural areas that could benefit from Internet access.

"USDA will continue to support the efforts of rural telephone and electric cooperatives, which have played a significant role in bringing broadband to rural communities."

USDA funding has delivered broadband service to more than 2 million rural residents in the past three years. In addition to traditional infrastructure program for rural telecommunications cooperatives, USDA's Farm Bill broadband program is an important tool that can finance broadband service in rural areas. USDA Rural Utility Programs has general field representatives in most states to provide assistance in applying for broadband funding and ensuring that the proposed system will provide sustainable service for rural residents.

For more information, visit: www.rurdev.usda.gov. ■

Co-op developments, coast to coast

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

Mikhalevsky to lead California Dairies

California Dairies Inc. (CDI), the nation's second largest dairy processing cooperative, has named Andrei Mikhalevsky as president and chief executive officer. He succeeded Richard L. Cotta, who retired Dec. 31, 2011 (see page 19 for more on Cotta).

Mikhalevsky brings more than 35 years of leadership experience to CDI.

For the past five years, he has served as the managing director of global ingredients and foodservices at Fonterra Cooperative Group Ltd., the world's largest dairy exporter. In this role, Mikhalevsky was responsible for developing and building many of Fonterra's global customer partnerships. In addition, he oversaw Fonterra's research and innovation division and its branded business in Latin America.

Previously, Mikhalevsky held executive positions at Campbell Soup Co., Georgia Pacific Corp. and Symrise Inc. Mikhalevsky is a graduate of Stetson University with a BA in business administration in finance. In addition, he has attended the Food Executive Program at the University of Southern California.

"As we considered candidates, Andrei's breadth of experience and strategic vision identified him as the clear choice to lead our cooperative," says CDI Chairman Brian Pacheco. "We are confident his ability to implement visionary strategies will lead CDI into the future as a dairy processing cooperative committed to developing and delivering the dairy products the world demands."

Pacheco also saluted Cotta for his many years of service. "As CEO the last

five years, Richard has led the company to experience unprecedented growth and profits. His knowledge, expertise and leadership have been fundamental in CDI's expanded product offerings and entrance into new markets. He leaves CDI in a strong position poised for future growth."

"As the largest dairy processing



Andrei Mikhalevsky

cooperative in California and the second largest in the nation, CDI is uniquely positioned to capture growth opportunities in the U.S. and in the global market," Mikhalevsky says. "I look forward to leading CDI in its continued success."

CDI is co-owned by more than 450 dairy producers, who ship more than 17 billion pounds of milk annually. The co-op is a manufacturer of quality butter (including the Challenge and Danish Creamery brands), fluid milk products and milk powders. Its dairy

products are available in all 50 states and in more than 50 foreign countries.

CHS posts record earnings, revenue

CHS Inc., the nation's largest farmer cooperative, reported earnings of \$961.4 million for fiscal 2011, the highest in the farmer-owned energy, grain and food company's 80-year history. Earnings for fiscal 2011 (Sept. 1, 2010 – Aug. 31, 2011) increased 91 percent over the \$502.2 million for fiscal 2010. The co-op's previous record earnings were \$803 million in fiscal 2008.

"While we celebrate record results for fiscal 2011, our greatest achievement this past year continued to be adding value for our producer and member cooperative owners, who count on CHS as a source of energy and crop production inputs, a connection to domestic and global grain markets, and access to risk management tools," says Carl Casale, CHS president and chief executive officer.

Revenue for fiscal 2011 reached \$36.9 billion, compared with \$25.3 billion for fiscal 2010, reflecting continued higher values for the energy, grain and crop nutrients products that comprise the majority of CHS business. The previous revenue record, also set in fiscal 2008, was \$32.2 billion.

CHS provided a strong financial return to its owners in 2011 — based on fiscal 2010 results — in the form of \$227.3 million in cash patronage, equity redemptions and preferred stock dividends. In fiscal 2012, based on 2011 earnings, the company expects to return a record \$421 million to its owners.

CHS' energy operations — including

refined fuels, propane, renewable fuels marketing and lubricants — led all units for earnings. This was due primarily to improved margins from the refined fuels manufactured at the CHS Refinery at Laurel, Mont., and the National Cooperative Refinery Association (NCRA) of McPherson, Kan., in which CHS owned nearly 75

percent.

On Dec. 1, it was announced that CHS was buying the shares of the two minority owners of NRCA: GROWMARK Inc. and MFA Oil Co. The purchase will be made in four transactions, culminating Sept. 1, 2015. NCRA's 650 employees will then become CHS employees.

CHS renewable fuels marketing and distribution business also generated record earnings. The company's lubricants and propane businesses, while profitable, were down from fiscal 2010 performance.

CHS Country Operations — its locally controlled retail locations — generated record earnings within the

NCB Co-op 100 shows revenue near \$194 billion



The latest *NCB Co-op 100* report shows that the nation's top 100 revenue-earning cooperative businesses posted total revenue of about \$193.8 billion in 2010. The report (issued in October) marks the 20th anniversary of the *NCB Co-op 100*, published annually by National Cooperative Bank (which has shortened its name to NCB).

"The boom of cooperative organizations and the key role they play in both our national and global economy is clearly evidenced in the growth and expansion highlighted in this year's report," says Charles E. Snyder, president and CEO of NCB. "As a cooperative business ourselves, we are proud to support these efforts and participate in the United Nations General Assembly declaration of 2012 as the International Year of the Cooperative, to educate the public on the benefits of cooperatives. Our report is just one of the many ways we work to inform the public on the advantages of cooperatives in all fields of enterprise."

The top two revenue producers in each primary business sector in 2010 for the *NCB Co-op 100* are:

Agriculture co-ops:

- **CHS Inc.**, Saint Paul, Minn.; \$25.3 billion in revenue in 2010, maintaining its first place position in both the ag sector and on the overall NCB Co-op 100 list.
- **Land O'Lakes Inc.**, Saint Paul, Minn.; \$11.1 billion in revenue, earning the number two ranking again this year in both the ag sector and on the overall list.

Grocery co-ops:

- **TOPCO Associates LLC**, Skokie, Ill.; \$10.4 billion in revenue, also holds the number three spot overall on the Top 100.
- **Wakefern**, Elizabeth, N.J.; \$9.5 billion in revenue (fifth overall).

Hardware & Lumber co-ops:

- **ACE Hardware**, Oakbrook, Ill.; \$3.5 billion in revenue (11th overall).
- **Do It Best Corp.**, Fort Wayne, Ind.; \$2.3 billion in revenue (18th place overall).

Finance co-ops:

- **Agribank FSB**, Saint Paul, Minn.; \$4 billion in revenue (eighth overall);
- **Navy Federal Credit Union**, Merrifield, Va.; \$3.1 billion in revenue (14th place overall).

Healthcare co-ops:

- **HealthPartners Inc.**, South Bloomington, Minn.; \$3.6 billion in revenue (10th place overall).
- **Group Health Cooperative**, Seattle, Wash.; \$3.2 billion in revenue (13th place overall).

Energy & Communications co-ops:

- **National Cable Television Cooperative Inc.**, Lenexa, Kan.; \$2.1 billion in revenue (19th place overall).
- **Basin Electric Power Cooperative**, Bismarck, N.D.; \$1.5 billion in revenue (29th place overall).

To see the entire list, visit the publications section at: www.NCB.coop.

Released annually in October during National Co-op Month, the bank says that the *NCB Co-op 100* is just one way it strives to educate and promote the importance of the co-op sector. This year it is also supporting the 2012 International Year of Cooperatives initiative. The global campaign led by the United Nations, with the official slogan "Cooperative Enterprises Build a Better World," is focused on educating and informing the public of the contributions cooperatives make to socio-economic development. ■

co-op's Ag Business segment, due to higher grain volume and increased margins. The Ag Business grain marketing, crop nutrients and oilseed processing operations also contributed income that exceeded 2010 levels. Ag Business earnings also reflect a pre-tax gain of \$119.7 million on the sale of CHS' investment in Multigrain AG, a Brazil-based joint venture.

CHS-owned insurance, risk management and financing businesses reported increased earnings for 2011, much of which was due to increased market volatility. The company recorded strong contributions from its 50-percent ownership of Ventura Foods LLC, a vegetable oil-based food manufacturing business. The 24-percent CHS share of Horizon Milling LLC, the nation's leading wheat miller, generated record returns, primarily due to improved margins.

Wisconsin co-ops to merge with United Co-op subsidiaries

Members of Mid-County Cooperative, Shawano, Wis., and Pulaski Chase Cooperative, Pulaski, Wis., have voted in favor of mergers with wholly-owned subsidiaries of

president and CEO. The merger should result in better products and services for member-patrons in northeastern Wisconsin and upper Michigan, he adds.

With its feed, grain, automotive and energy departments, Mid-County Cooperative revenue topped \$23 million in fiscal 2011. Pulaski Chase Cooperative has feed, grain, agronomy, and energy departments, as well as a hardware store and an automotive and machinery parts business. It had \$22 million in sales during fiscal 2011.

USDA grant to help create Great Lakes Co-op Center

The University of Wisconsin Center for Cooperatives and Cooperative Network were recently awarded \$225,000 through USDA Rural Development's Rural Cooperative Development Grant program to help create the Great Lakes Cooperative Center. This new co-op development center in Madison, Wis., will provide technical assistance and counsel to existing cooperatives, as well as groups interested in forming cooperative businesses in the Upper Midwest.

In the coming year, the UW Center

Network will work with cooperatives in the fields of health care, energy efficiency and senior housing.

Under USDA's Rural Cooperative Development Grant program, grants of up to \$225,000 may be awarded to colleges, universities and nonprofit groups to create and operate centers that help individuals or groups establish, expand or operate rural businesses, especially cooperatives and mutually owned businesses. Grants may be used to conduct feasibility studies, create and implement business plans, and help businesses develop new markets for their products and services. For more information on this and other USDA Rural Development programs, visit: www.rurdev.usda.gov.

Snokist files for bankruptcy

Snokist Growers, Yakima, Wash., filed for bankruptcy in December, according to a report in the *Yakima Herald-Republic*, which said that the 108-year-old co-op cited causes that included the business lost in the wake of a critical federal Food and Drug Administration (FDA) report and difficulties securing operating loans.

Snokist employs more than 600 mostly seasonal workers in its food processing plant in Terrace Heights and several warehouses across the Yakima Valley. The cooperative is owned by more than 150 growers who ship their apples, pears, cherries and plums to the co-op to be canned or turned into fruit cups, purees and juices.

The *Herald-*

Republic reported that the co-op has debts of nearly \$73.4 million owed to more than 2,000 creditors, vs. total assets of \$69.6 million, according to bankruptcy documents filed in U.S. Bankruptcy Court. Last spring, Snokist voluntarily recalled 3,300 cases of gallon-size cans of applesauce, with six cans in each case, after the food was



United Cooperative's South Beaver Dam (Wisconsin) facility is one of its largest grain locations. Two other Wisconsin co-ops recently voted to merge with United.

Beaver Dam, Wis.-based United Cooperative. Both mergers become final on Feb. 1, 2012.

"We look forward to serving patron members from both cooperatives with the assets obtained through the mergers, in addition to future equipment and facility investments," says David Cramer, United Cooperative

for Cooperatives will focus its efforts on developing cooperative businesses ventures within regional food systems. These ventures will provide agricultural producers and rural communities with increased opportunities for meeting the growing demand for local products from retailers and institutions such as hospitals and schools. Cooperative

Former MFA President Bud Frew dies

Editor's note: *this item is reprinted from, and courtesy of, Today's Farmer, the member publication of MFA Inc. It was written by Chuck Lay, the co-op's communications director.*

Standing at the lectern during the kickoff meeting in 1997 just months before he retired, B.L. Frew told those assembled that honesty and integrity are the keystones of MFA Incorporated. "I don't want this organization to ever lose that," he said. "Remember who owns you," he boomed into the microphone to the assembled group for the final time as president and CEO.

"It's been a real ride," he said. "But I've gotten more from the organization than it's gotten from me. The quality of the employees, the quality of the managers, the support, dedication and the hard work. Never in my whole time have I asked anything that you haven't done and done well.

"Always remember," he said, "what's good for the company, not what's good for me, for my division, for my area. It's what's good for the company. I've always tried to search out what is right, to do what is right and try to make a difference. If you'll continue to do that, the organization will continue to shine."

He died Sept. 25 at age 77. B.L. (always known as Bud) Frew was president and CEO of MFA Incorporated from 1985 to Jan. 31, 1998. He leaves behind his wife, Kit, and children, Scott Frew and Suzette Marsch in addition to his grandchildren.

Current MFA President and CEO Bill Streeter said Bud Frew's contribution to MFA is a legacy of a professionally managed business organization focused on serving farmers and ranchers. "He was the force behind employee training at all levels. He constantly sought

improvement. He wanted updated, modern locations, an informed and well-trained workforce, and professionalism at all levels. Bud Frew instilled pride and financial responsibility. People wanted to live up to his standards. People wanted to be associated with him and his efforts. He made you believe."

Frew began his career at MFA in 1970 when he was hired as director of exchange operations. Within a year, he was selected to manage the Exchange Division (later called Retail Distribution). He came to MFA from FS

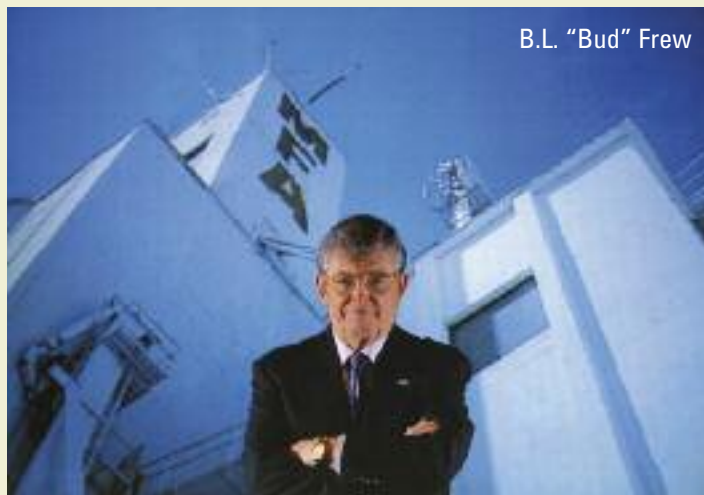
Services Inc. (now Growmark), where he had worked since 1960 after having graduated from Bradley University with an engineering degree.

By 1981, he had become MFA's chief operating officer. Within four years, MFA Incorporated's board of directors hired Frew as president and CEO. He proceeded to

strengthen the financial position of MFA by instituting a series of financial measurements with specific emphasis on strategic planning as well as streamlining the cooperative by closing non-profitable locations and investing money into profitable locations and ventures. He retired after having presided over 12 straight years of profitability.

Frew focused first and foremost on the people and company's image, from managers at locations to people throughout the organization. Before retiring he listed as his three most important accomplishments at MFA: 1) the people who do their jobs and do them well; 2) the culture of the organization that is built around mission, strategy, honesty and integrity; and 3) a focus on business decisions that advance the mission and profitability of the cooperative.

His legacy is one of accomplishment. ■



linked by FDA to temporary upset stomachs among nine schoolchildren in North Carolina, the paper said.

Record sales for Blue Diamond

Blue Diamond Growers, which achieved record sales of \$825 million in 2011, is heading into 2012 powered by growth in all business segments, new product launches and a manufacturing expansion plan that will support its global business, President and CEO Mark Jansen told the cooperative's grower-owners at their 101st annual meeting. Based on current growth trends, the co-op is slated to be a billion-dollar business within the next two to three years.

Jansen said Blue Diamond led the California almond industry with grower returns (crop payments) on the 2010 crop. With farming costs increasing for fuel, fertilizer and chemicals, almond revenues must increase on a per acre basis to ensure grower profitability. Blue Diamond projects the 2011 crop should achieve a new record in returns per acre.

The record sales year was driven by a 34-percent increase in the global use of almonds as an ingredient in other foods, by double-digit growth in every U.S.-branded consumer product line and by a new plan to expand distribution of snack almonds in the United Kingdom, Jansen reported. Major new product introductions last year included Nut Chips and a new Almond Breeze almond-coconut milk blend.

To support the co-op's drive to add value to all business segments globally and to meet consumer demand for healthy products, Blue Diamond recently purchased 88 acres of land in Turlock, Calif., (near Modesto) as the site for its newest manufacturing facility. The first phase of the facility will open in May of 2013. Plant upgrades are also planned for the co-op's almond plants in Sacramento and Salida.

"This is an expansion plan, not a relocation plan," Board Chairman Clinton Shick said during the meeting, according to the *Modesto Bee*. "Our

business is booming, and we need more room to grow."

RFA: report shows ethanol not leading to cropland expansion

An in-depth analysis of U.S. land-use patterns released Dec. 21 by the U.S. Department of Agriculture shows total cropland decreased by 34 million acres from 2002 to 2007, reaching the lowest

a period when ethanol production more than tripled."

Meanwhile, the report shows that land dedicated to urban areas and special-use areas (roads, industrial areas, rural residences, etc.) increased dramatically. "It is ironic that the land use debate has fixated on biofuels, when the actual culprit of land conversion has clearly been urban and suburban



A biofuels trade group says a recent acreage report shows that ethanol production has not resulted in losses of grasslands, forests or rangeland. USDA photo by Dan Campbell

level since USDA began collecting this data 1945. The USDA report also shows that significant increases in forestland, grassland and rangeland occurred during the five-year period.

The Renewable Fuels Association (RFA) says the new report adds to a mounting body of evidence that proves increased ethanol production has not resulted in expansion of total U.S. cropland or a decline in grassland and forest.

"Using real data from the real world, this report from USDA shows yet again that U.S. cropland is not expanding in response to increased ethanol demand," says RFA President Bob Dinneen. "The report also shows that forest and grassland increased dramatically during

sprawl," Dinneen says.

According to the report authors, urban land acreage quadrupled from 1945 to 2007, increasing at about twice the rate of population growth over this period. Land in urban areas was estimated at 61 million acres in 2007, up almost 2 percent since 2002 and 17 percent since 1990 (after adjusting the 1990 estimate for the new criteria used in the 2000 Census).

The estimated acreage of grassland pasture and range increased by 27 million acres (almost 5 percent) between 2002 and 2007, while forest-use land increased 20 million acres (3 percent) from 2002 to 2007, "continuing a trend that became evident in 2002 and reversing an almost 50-year

downward trend.”

CoBank closes merger with U.S. AgBank

CoBank announced Jan. 3 that it had successfully completed its merger with Wichita-based U.S. AgBank. The merger, which formally closed on Jan. 1, creates an \$85 billion financial services institution that serves as a leading source of credit to the U.S. rural economy. The combined bank's customer base includes agricultural cooperatives and rural power, water and communications service providers in all 50 states. The bank also offers wholesale financing to 29 Farm Credit associations that provide loans and financial services to more than 70,000 farmers, ranchers and other rural borrowers.

The combined bank continues to do business under the CoBank name and remains headquartered outside Denver, Colo., with Robert B. Engel in the role of president and chief executive officer. The bank retains its cooperative structure, with qualified borrowers earning cash and equity patronage in proportion to the amount of business they do with the organization.

For the first year following the merger, the bank will be governed by a 32-member board of directors consisting of the entire former CoBank and U.S. AgBank boards. On Jan. 1, 2013, the size of the board will be reduced to 24 directors elected by customer-owners in six geographic voting regions. There will also be at least two, and as many as five, appointed directors.

CDF cites achievements in 2011

Among its accomplishments in 2011, the Cooperative Development Foundation (CDF) reports that it:

- Awarded \$144,000 in grants scholarships to support the growth, development and recovery from natural disasters of cooperative business enterprises;
- Raised \$206,500 for co-op recovery from devastating natural disasters in the United States and Japan;

- Through administration of United Co-op Appeal (a workplace giving program), it raised more than \$65,000 to support other cooperative development organizations;
- Received foundation and federal government grant awards of \$225,000 to support its cooperative development efforts;
- Raised more than \$250,000 through special events and contributions to support its operations.

“But dollar amounts are only one measure of what's been accomplished. Equally important are the new partnerships we've launched, the new visibility we've given to the cooperative business model, and the tangible outcomes achieved over a longer period of time,” CDF Executive Director Liz Bailey said in a letter to supporters. (Bailey was recently named interim president of the National Cooperative Business Association; see news item, below.)

Bailey also cited progress in developing co-ops for direct home care workers. “The home care co-op is not only a solution for the growing number of seniors and individuals with disabilities who simply need help with daily living, but it's a solution for home care providers who now have benefits and a living wage, access to training, increased self-esteem, and a stake in running/governing their own co-op businesses.”

Liz Bailey named interim CEO at NCBA; search firm hired

Liz Bailey has been named interim president and CEO of the National Cooperative Business Association (NCBA), effective Feb. 1, when Paul Hazen is stepping down. Bailey had been serving as NCBA vice president for Policy and Domestic Development and executive director of the Cooperative Development Foundation. She will continue with her responsibilities for both of those jobs during her time as interim president and CEO.

NCBA has formed an executive search committee, headed by Martin Lowery, immediate past chair of the

NCBA board, to look for the organization's next leader. The committee has retained the firm of Kincannon and Reed to assist in the search, which it says may not be complete until mid-year 2012. Supporting Bailey in the interim will be other members of the NCBA senior leadership team: John Gillespie, interim chief operation officer/chief financial officer, and Amy Coughenour, vice president for the CLUSA International program. The positions of vice president of domestic cooperative development and vice president of public affairs and member services have been eliminated as part of organizational changes.

Hazen, meanwhile, has accepted the position of executive director of the Overseas Cooperative Development Council, also effective Feb 1. He will continue in his role as a delegate to the International Co-operative Alliance, where he currently serves on the organization's board of directors.

A recent letter to members and supporters said NCBA was making organizational changes to help meet the strategic vision set by the board to achieve three primary objectives:

1. Forge a cohesive and mutually supportive partnership between NCBA's CLUSA International and Domestic divisions in order to leverage the strengths of these divisions to achieve our global vision.
2. Increase public awareness of cooperative enterprise and of NCBA. NCBA has a great story to tell, and we want to start telling it better.
3. Upgrade operations infrastructure by investing in new systems to better support the International, Domestic and Marketing and Communication teams.

USDA REAP funds create jobs while reducing energy costs

USDA in December announced loans and grants for agricultural producers and rural small businesses across the country to help implement renewable energy and energy efficiency measures in their operations. The

funding is provided through USDA Rural Development's Rural Energy for America Program (REAP). Under Secretary for Rural Development Dallas Tonsager made the announcement on behalf of Agriculture Secretary Tom Vilsack during a conference in New Orleans that focused on energy efficiency.

It was noted that stable energy costs create an environment for job growth in rural America. Collectively, the REAP-funded projects announced in December, and those announced earlier by USDA, are expected to lower energy use by 2 billion kilowatts and prevent nearly 2 million metric tons of emissions from being released into the environment. REAP, authorized through the 2008 Farm Bill, provides loans and grants for farmers, ranchers and rural small business owners to purchase and install renewable energy systems and make energy-efficiency improvements. These federal dollars are leveraged with other funding sources for the projects.

Tonsager said that in fiscal 2011, USDA Rural Development's REAP program provided \$23.2 million for energy efficiency projects, \$20.9 million for biodigesters, \$20.3 million for solar energy projects, \$8.2 million for hydroelectric systems, \$7 million for biomass energy projects, \$4.28 million for flexible fuel pump projects, \$3.9 million for wind energy projects, \$1.4 million for geothermal installations.

USDA Rural Development funded more than 280 projects last year to help reduce energy costs. Overall, USDA funded more than 1,100 energy efficiency projects in fiscal 2011, including improvements in aquaculture, poultry lighting and ventilation, irrigation system upgrades, maple syrup production efficiency, small business heating and cooling, rural grocery cooler replacement and others.

Cooperative Network elects two new directors

Cooperative Network, the trade association for Minnesota and Wisconsin cooperative businesses,

elects two new directors at its annual meeting Nov. 15 in Rochester, Minn. The new directors are: Elaine Eckendorf, Central Wisconsin Electric Cooperative, Custer, Wis., who represents electric cooperatives and replaces retiring director Lynn Peterson, and Mark Clark, Land O'Lakes Inc., Rollingstone, Minn., who represents Minnesota dairy cooperatives and replaces director Steve Schlangen. Jim Hathaway, Dunn Energy Cooperative, joins the executive committee as the new treasurer.

Proposed rule extends minimum wage to home care workers

A proposed rule announced Dec. 15 by President Obama and U.S. Secretary of Labor Hilda Solis would extend minimum wage and overtime protections to home care workers under the federal Fair Labor Standards Act. Home care workers are currently excluded from minimum wage and overtime protections because they are considered "companions," a ruling that "fails to account for the health and personal care services they provide to elders and people with disabilities," according to the Direct Care Alliance.

"Extending minimum wage and overtime protections to home care workers has been the Direct Care Alliance's flagship issue since the Supreme Court ruled against Evelyn Coke," says Leonila Vega, executive director of the Direct Care Alliance (DCA). Coke was a home care worker who challenged the companionship exemption in court. Her case went to the U.S. Supreme Court, which ruled in 2007 that the U.S. Department of Labor was acting within its authority in upholding the

exemption.

"The nearly 2 million in-home care workers across the country should not have to wait a moment longer for a fair wage. They work hard and play by the rules and they should see that work and responsibility rewarded," President Obama said in a White House press release.

The rule was announced at a Dec. 15 event at the White House, which attracted advocates for home care workers from across the country, including home care worker and DCA Board Chair Tracy Dudzinski. "I was thrilled to be part of this special occasion," says Dudzinski. "My state, Wisconsin, happens to have minimum wage and overtime laws that cover home care workers, but hundreds of thousands of my peers in other states don't have the same protections. That's just not right."

Dudzinski is also board president of Cooperative Care in Wautoma, Wis., a home care workers co-op organized in 1998 that has received extensive co-op development technical assistance from USDA Rural Development's Wisconsin state office. Cooperative Care was named a semi-finalist in the prestigious 2002 Innovations in American Government Award from Harvard University and the 2003 Top Rural Initiative by

Wisconsin Rural Partners.

Written comments on the proposed rule can be submitted on or before Feb. 27, 2012. Comments may be submitted via Direct Care's website, www.directcarealliance.org. Just click the appropriate link in the "Action Alert" portion of the home page. Or visit: www.regulations.gov, and indicate "proposed rule" and "RIN 1235-AA05" in the appropriate boxes. ■



President Obama announces a proposed rule change that would give basic labor protections to home care workers. Among the home care worker leaders attending the ceremony was Tracy Dudzinski (far right), board president of Cooperative Care.

Commentary

continued from page 2

■ Rural Cooperative Development Grants (RCDG) —

This program provides funds to cooperatives and development centers to assist individuals and business owners



The grand opening of the Placerville Natural Foods Co-op, which was assisted by the California Center for Cooperative Development and USDA.

in rural communities who require startup, expansion and operational improvement assistance. The grant program also helps rural communities improve their economic conditions, create and retain jobs and develop new rural cooperatives and value-added processing. In fiscal 2011, 26 states and the District of Columbia received 36 RCDGs worth more than \$7.9 million from Rural Development.

Examples of funded projects include:

- The Mississippi Association of Cooperatives used an RCDG to provide small and minority farmers with development assistance. The Center focuses the vast majority of its efforts on the most distressed rural areas of the state. The group also helps minority farmers establish financially sound businesses.
- The California Center for Cooperative Development helps develop new cooperatives, promote community-supported agriculture, strengthens the marketing of

small farm production and develops systems to link growers with regional consumers. The Center also helps local farmers form cooperative corporations to enhance their marketplace position.

■ Small Socially Disadvantaged Producer Grants (SSDPG) —

This program awards grants to eligible cooperatives and associations of cooperatives that provide technical assistance to small, socially disadvantaged agricultural producers in rural communities. In fiscal 2011,

USDA Rural Development awarded 19 SSDPG grants totaling more than \$2.9 million to African-American-, Hispanic-, Native-American-, and women-owned cooperatives that will use the grants to assist 1,469 businesses. Examples of grant awardees include:

- The Louisiana Association of Cooperatives will use a \$200,000 SSDPG to provide technical assistance to small producers in 41 rural parishes throughout the state, including areas affected by Hurricane Gustav.
- In South Carolina, the 31-member Piedmont Farmers Marketing Cooperative used a \$43,600 SSDPG to complete seminars and workshops on animal husbandry, vaccination requirements and breeding and rearing techniques. The SSDPG will also allow co-op members to visit a facility that converts livestock waste into renewable energy. The energy produced will help reduce the facility's operating costs.

■ Rural Business Enterprise Grants (RBEG) —

The RBEG program provides grants for rural projects that finance and facilitate development of small and emerging rural businesses and helps fund distance learning networks and employment-related adult education programs. To assist with business development, RBEGs may fund a broad array of activities. An example is the Island Grown Farmers Cooperative (IGFC) in Bow, Wash., which operates a mobile processing unit that was the first USDA-inspected mobile slaughter facility for red meat in the nation. A \$55,000 RBEG grant was used to provide technical assistance to develop the USDA-certified mobile meat processing facility to serve remote rural island farmers.

The cooperative business model is a time-tested tool for rural producers and communities to use in filling a void in the marketplace and keeping resources in the community. Cooperatives can use USDA Rural Development programs to offer increased opportunities for long-term, sustainable economic gains for their member and for rural America. ■

workers gain management skills. Although these are one-member/one-vote cooperatives, there are covenants that protect original owner's rights until they receive total payment for their ownership shares and then retire.

Lenancker emphasized the differing mentalities between business owners and their employees. In addition to the legal and financial steps required for transfer, there is a critical process for all participants to reorient themselves to new roles and responsibilities.

His organization has developed programs for mentoring workers and helping the original owners adjust to a new role of teaching the new owners how to operate these businesses successfully.

Rapid conversions in Argentina

The South American nation of Argentina provides a special case of rapid and widespread conversion of businesses to worker ownership that occurred after the country defaulted on its international debt in 2001. When Jose Orbaiceta, president of the Federation of Worker Co-ops of Argentina, opened his address by thanking the host country for providing him with political asylum 27 years ago, the audience could anticipate that his presentation would cover some dramatic events.

As credit dried up in Argentina, most of its manufacturing industries closed with no indications of when they might reopen. Out of desperation, workers from many of these factories eventually returned to "recuperate" these businesses, which involved more than just doing their previous jobs but also everything from procuring inputs to selling products. Worker cooperatives became the model for "recuperating" many of the businesses that closed in 2001.

The legal and policy issues that ensued from "recuperation" are too lengthy to describe in this article, but Orbaiceta discussed some of the conflicts that ensued when owners of these factories initiated lockouts. In some cases, factory owners had equipment moved out during the night for sale to competing companies in neighboring countries, such as Chile.

In response to these conditions, the government modified its bankruptcy laws to give workers legal standing. Workers who lost their employment would have to be indemnified, and — under some circumstances — the government oversaw legal and financial transfers of ownership to worker cooperatives.

Currently, there are about 6,000 worker cooperatives in Argentina that provide about 300,000 jobs and produce about 10 percent of the nation's gross domestic product (GDP).

Although the developments in Argentina are unique, its experience with worker ownership highlights a point that is applicable to all countries. Workers either re-occupying or

buying closed businesses is not a new phenomena. There is a long history in many countries of transferring ownership of businesses to the workers when the equipment and facilities are worn-out or obsolete. The Argentine experience involved many factories in good condition, which is the basis for the sustained success of its worker co-ops.

Conference 'takeaways'

A conference of this type offers more "takeaways" than can be succinctly described in this article. Furthermore, many of the workshops were concurrent, but some of the key conference presentations can be viewed at this website: www.coopzone.coop/en/node/3771.

There are many key points to understand about making a transfer of business ownership to employees, but a selected few are presented here:

- Small business owners can improve their opportunities and options for transferring ownership in the future if they get an early start on succession planning. ESOPs provide a way for employees to gradually buy portions of a business prior to the event of the initial owner's retirement. In other cases, owners may convert from a sole proprietorship to alternative forms so that employees may purchase shares of a business with small deductions from wages, which eases the financial burden as compared to a one-time complete transfer to a worker cooperative. The key is to get an early start on planning.
- The relationship of an owner with employees needs to be sufficiently congenial so that adjustments in attitudes and orientations of both parties can be made to form a cooperative that can complete a transfer of ownership shares, responsibilities and know-how in a timely manner.
- Businesses should have a core group of employees with several years of experience, typically in the age group of 40-55 years old.
- Businesses that are suitable for ownership transfers need to be examined in terms of their future prospects. At a minimum, such businesses must have an established market of repeat customers and be positioned with physical capital that is in good running order and not in need of immediate replacement.
- A target audience for conveying information on succession planning for employee ownership is the trusted advisors or estate planners. They are typically local accountants and lawyers. Over time, each such advisor is likely to help numerous owners plan their retirements and the sale of their businesses.

The above points do not cover the many steps and actions that have to be taken to transfer businesses to employees. These points are a sampling of insights that international experts shared with their audience at the Business Succession and Employee Ownership Conference in Quebec City last October. ■

In the spotlight: Richard Cotta
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returned 35 to 40 percent on our members' investment in the co-op."

Q. What one thing would you liked to have done differently?

Cotta: "Even though the dairy industry has gone through some very tough economic times, I would have pushed harder for a greater financial commitment to continue to invest in, and accelerate, CDI's move toward more value-added lines. We should have done more because, in the end, this serves the members well."

Q. On the marketing front, do you see

the export market being more important to the future of the co-op, or the U.S. dairy industry in general? Where are the greatest export opportunities?

Cotta: "Exports offer a unique opportunity for U.S. dairy producers and processors. The domestic market is a mature market. Any substantial growth will come from exports and/or new products. The greatest opportunities will be in China and Southeast Asia.

"The Middle East and North Africa also are growing markets. With the passing of time, even though India is currently the largest dairy-producing country in the world, I believe reality will set in and current barriers to exporting into India will come down, creating new market opportunities."

Q. What are the other best opportunities you see for the dairy industry, focusing on the domestic front?

Cotta: "The dairy industry needs to get on the 'health and wellness' bandwagon as quickly and as vigorously as possible. We compete with all other beverages and food companies for the consumer's dollars. PepsiCo, Coca-Cola and most recently Starbucks, with its acquisition of Evolution Fresh to cater to consumers' desire for 'better for you' foods, make it imperative that dairy becomes a bigger player in this game. All snack food companies will try to capitalize on the 'better for you' trend. After all, dairy is the original, natural health and wellness food." ■

It's Here!

The 2010 Cooperative Statistics Report

A survey of 2,310 U.S. farmer, rancher, and fishery cooperatives ending their business year during calendar year 2010 showed a net business volume of \$146.1 billion, with a net income of \$4.0 billion.

This USDA report presents a wealth of detailed information about 2010 for the nation's cooperatives, including co-op assets, financial ratios and numbers of members and employees. Balance sheets and income statements for various co-op commodity sectors are presented, both by size and products sold, to help management and board members see how their cooperatives compare with similar cooperatives.

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