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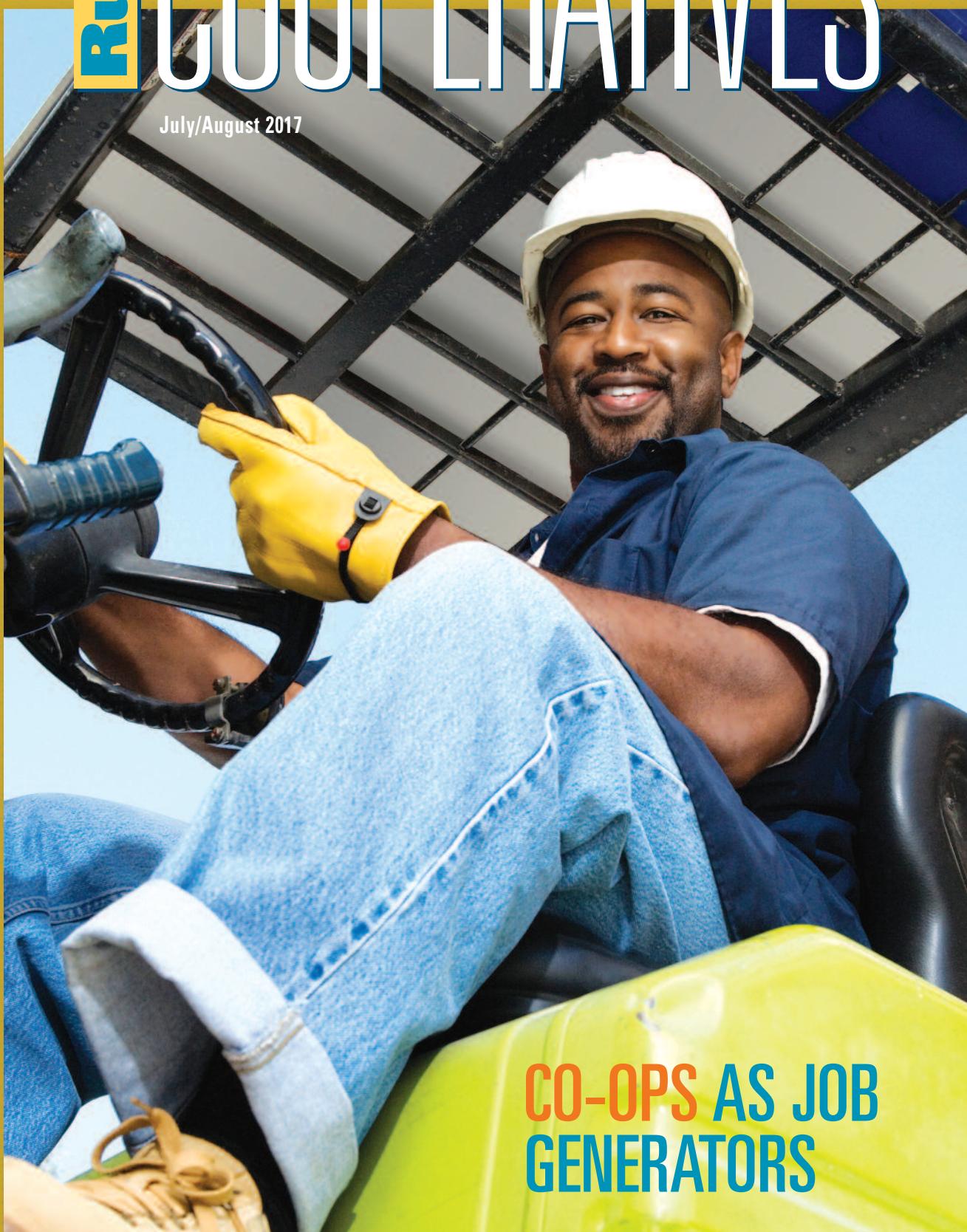
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Rural

# COOPERATIVES

July/August 2017



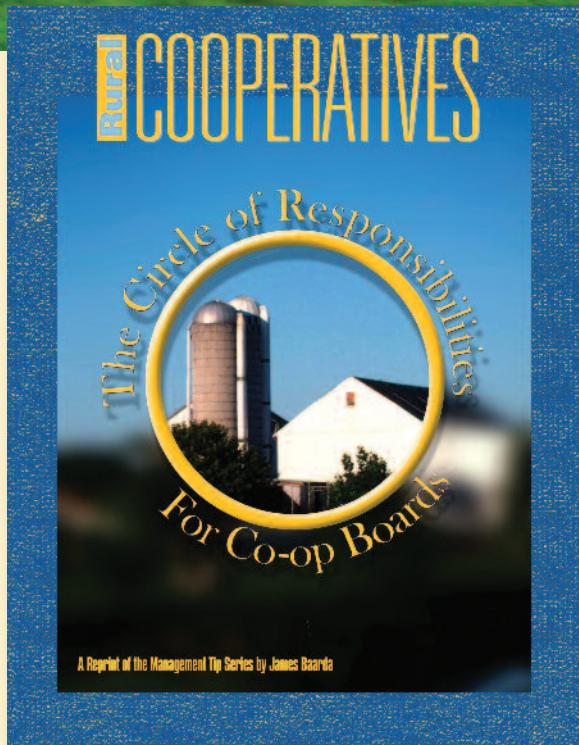
CO-OPS AS JOB  
GENERATORS



United States  
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# The Buck Stops Here

*The Circle of Responsibilities for Co-op Boards*



Increased scrutiny of board actions is not always accompanied by better information about exactly how directors should perform their many duties. This series of articles provides a practical guide and underlying principles for actions board members can take to improve their service to cooperatives. By James Baarda; 16 pages.

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# Features



p. 4



p. 10



p. 36

## 4 Job Generators

Number of ag co-op workers continues to rise, despite dip in co-op numbers

By James Wadsworth

## 14 From Rivals to Cooperators

Cattle co-op gains market power by uniting once 'fierce competitors'

By Dan Campbell

## 18 Top 10 Traits of a Successful Grazing Land Manager

By Jeff Goodwin

## 20 Learning from Food Hub Closures, Pt. II

Kentucky food hub suffered when it emphasized social mission over financial viability

By Lilian Brislen, James Barham and Sasha Feldstein

## 24 Farmers using co-ops to handle 'big data'

By Alan Borst

## 26 Priority voting system may offer advantages for changing co-op sector

By Thomas W. Gray, Ph.D.

## 28 How do we foster a new generation of cooperators?

By Meegan Moriarty

## 32 Understanding the role of values in traditional and hybrid cooperatives

By Julie A. Hogeland

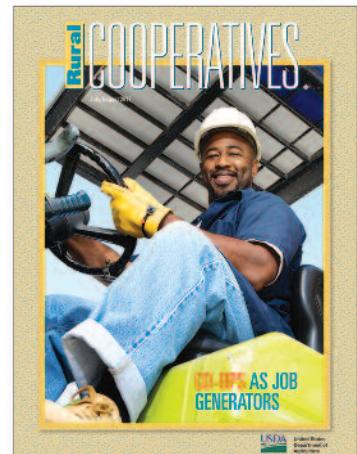
# Departments

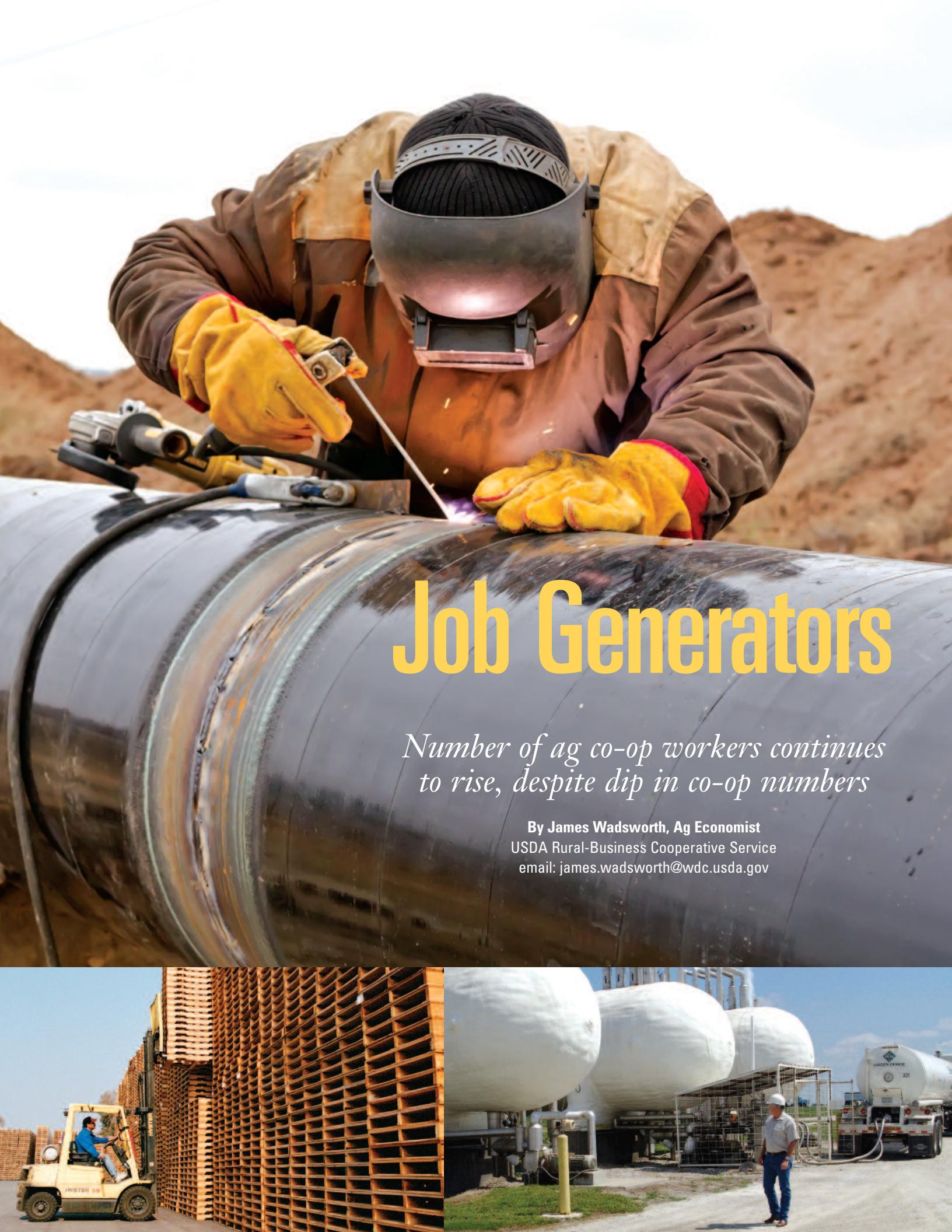
## 8 IN THE SPOTLIGHT

## 10 UTILITY CO-OP CONNECTION

## 36 NEWSLINE

**ON THE COVER:** U.S. agricultural cooperatives are a major source of good jobs — 187,000 of them — according to USDA's latest survey of ag co-ops. These jobs are located all across rural America and in many cities. See page 4.





# Job Generators

*Number of ag co-op workers continues to rise, despite dip in co-op numbers*

By James Wadsworth, Ag Economist  
USDA Rural-Business Cooperative Service  
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They mix and deliver the livestock feeds that keep cattle herds and hogs thriving; they hover over computer monitors and cell phones to market their members' crops around the nation and the globe; they run the grain elevators that store the bountiful harvest of the land, then load it onto trains and barges; they work in laboratories to develop new food products; they haul milk from farm to processing plant and deliver fuel from plant to farm — and they do it in every kind of weather on roads that others fear to tread; they provide the technical advice that helps farmers use high-tech tools to produce food and fiber while reducing the impact of farming on the land.



They do these and the 1,001 other jobs required to keep their members farms and co-op facilities humming. They are the men and women — from the manager's office to the cashiers working the counter of a farm supply store — who provide the muscle, skills and brains to power the nation's 2,000 agricultural cooperatives, owned by nearly 2 million producer-members. They are the critical link who "fuel" our co-ops, which in turn are a major factor in the health of the nation's economy.

Although not always well publicized, agricultural cooperatives are major employers all across rural and urban America. The salaries co-op workers earn and spend in their communities are especially important in rural communities, where co-ops are often one of the major sources of good jobs, and they generate tax dollars needed to maintain civic services.

### **Co-op employment trending up**

There were 2,698 agriculture co-ops in USDA's database in 2006 (Table 1). By 2015, the number had dropped to 2,047, a decrease of 651 co-ops, or 24 percent. That's an

annual 2.7-percent attrition rate. The drop in co-op numbers is the result of business consolidations, mergers and dissolutions.

During the same 10-year period, however, the number of full-time ag co-op employees grew by 10,885, to a high of 136,300 people in 2015. The total number of employees (full- and part-time) was 187,300 in 2015, down slightly from 2014, when co-ops employed 191,300 people. The decline is attributable to a dip in part-time jobs; full-time jobs in 2015 actually increased slightly from the previous year.

The fact that fewer co-ops are employing more people implies that the remaining cooperatives have grown in scale and need more employees to operate. Often, a cooperative formed through a merger will still continue to operate all, or most, of the branches that the pre-merger co-ops operated.

The average number of full-time employees per co-op was 46.5 in 2006, but rose to 66.6 workers by 2015. During the past 10 years, ag co-op employment has averaged 184,600 people, with the lowest year of the period being 2008, when the co-op workforce was 178,300. While



*The more than 187,000 people employed by agricultural cooperatives do virtually every type of work imaginable for the nation's 2,000 ag co-ops. Despite a slight dip in employee numbers in 2015, the 10-year trend for co-op jobs is climbing.*

these numbers include both full-time and part-time workers, a large majority — 73 percent — of the jobs are full-time positions.

The average annual growth rate in all co-op jobs during the past 10 years (2006 to 2015) was 0.13 percent. Full-time employment grew by 0.84 percent a year while part-time jobs declined by 1.5 percent a year over that period. Part-time employment accounted for about 30 percent of the co-op workforce during most of the past 10 years but had declined to 27 percent of co-op employees by 2015.

Cooperatives employed 161,800 full-time employee equivalents (or FTEs, a figure which combines full-time and part-time jobs; see Table 1 for further explanation) in 2015, compared to 155,200 FTEs in 2006, an increase of 6,700 FTEs and an overall increase of 4.3 percent. The average number of FTEs per cooperative hit a high of 79 in 2015, an average increase of 21.5 FTEs per co-op since 2006; during the 10-year period, the average annual FTE growth rate was 3.2 percent.

## Personnel expenses top \$9 billion in 2015

Cooperatives had an all-time high of \$9.2 billion in personnel expenses (which includes salaries/wages, benefits and employment taxes) in 2015, topping the previous record of \$9.1 billion set in 2013 (Table 2). Personnel costs grew by \$2.6 billion (38.9 percent) from 2006 to 2015. However, in real terms (all years in 2015 dollars), personnel costs were \$7.8 billion in 2006 and grew by \$1.4 billion (an 18 percent increase) to \$9.2 billion in 2015. Over the 10-year period, personnel costs (in real terms) grew an average of 1.7 percent annually, averaging \$8.6 billion a year in 2015 dollars.

Personnel costs per FTE grew from

\$50,097 (real terms) in 2006 to \$56,777 in 2015, an increase of 13.3 percent. The average growth rate for personnel costs per FTE was 1.3 percent a year over the period.

The larger commodity sectors obviously have the highest total payroll expenses. Thus, grain/oilseed co-ops paid the most for employees (\$1.7 billion), followed by dairy co-ops (\$1.4

## Ag co-op job survey highlights (2015)

- Total ag co-op personnel costs: \$9.2 billion
- Total number of jobs: 187,300, or 161,800 full-time equivalents (FTE)
- 73 percent of jobs are full-time positions;
- Average cost (salary, benefits and taxes) per FTE: \$56,777
- Worker expenses averaged 48 percent of total co-op operational costs
- The average U.S. ag co-op employs 79 FTEs

Personnel costs per cooperative grew from \$2.9 million to \$4.5 million during the 10-year period, or by 56 percent. This resulted in an average annual growth rate of 4.5 percent.

### Employee expenses, by co-op type

Personnel costs as a percent of total co-op operational expense was almost 48 percent in 2015, but that figure varied relative to co-op type (Table 3). For marketing co-ops — those that process and/or market members' crops, dairy and livestock products — personnel costs averaged 43.4 percent of all expenditures. For farm supply co-ops, personnel costs averaged 54.4 percent of total operational expenses while service co-ops averaged 37 percent.

Among marketing co-ops, fruit/vegetable co-ops had the highest personnel costs, averaging 54 percent of total operational expenses. Next were: livestock co-ops (52 percent) and dairy co-ops (49 percent). Nut co-ops had the lowest employee costs (22 percent) followed by poultry co-ops (24 percent).

billion), fruit/vegetable co-ops (\$955 million) and sugar co-ops (\$489 billion).

The highest personnel costs on a per FTE basis, by commodity sector, belonged to rice co-ops, at \$77,337. Following were: grain/oilseed co-ops (\$61,971); dairy (\$60,792); cotton (\$59,234); sugar (\$56,467); fruit/vegetable (\$45,942); and livestock (\$43,719).

In 2015, average personnel costs per FTE were \$58,686 for farm supply co-ops, \$55,541 for marketing co-ops and \$45,462 for service co-ops. The much lower relative difference for service co-ops is because they typically employ more part-time labor as a percentage of their total labor, as compared to farm supply and marketing co-ops.

### Workforce size varies by sector

Looking at total jobs in 2015, marketing co-ops employed 90,674 FTEs, supply co-ops 69,935 and service co-ops 1,179 FTEs. Within the marketing co-op group, grain/oilseed co-ops had the largest workforce (27,965), followed by fruit/vegetable

***continued on page 43***

*Editor's note: This article is based on analysis of the agricultural cooperative statistics collected annually by USDA's Cooperative Programs staff. To receive the most recent statistics report, request Service Report 79, Agricultural Cooperative Statistics, 2015. Email: coopinfo@wdc.usda.gov, or call (202) 720-7395, or write to: USDA Co-op Programs Info., Stop 3254, 1400 Independence Ave. SW, Washington, D.C. 20250-3254.*

**Table 1—Number of employees and cooperatives, 2006-2015**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Full-time Employees (1,000)	125.4	125.2	124.5	123.4	129.0	130.8	129.4	136.2	135.6	136.3
Part-time Employees (1,000)	59.5	56.2	53.8	57.6	54.1	52.4	55.8	54.5	55.7	51.0
Total Employees (1,000)	184.9	181.4	178.3	181.0	183.1	183.2	185.2	190.6	191.3	187.3
Percent full-time	67.8%	69.0%	69.8%	68.2%	70.5%	71.4%	69.9%	71.4%	70.9%	72.8%
Percent part-time	32.2%	31.0%	30.2%	31.8%	29.5%	28.6%	30.1%	28.6%	29.1%	27.2%
Full-time equivalents (FTE)*	155.2	153.3	151.4	152.2	156.1	157.0	157.3	163.4	163.4	161.8
Cooperatives (no.)	2,698	2,608	2,497	2,406	2,327	2,294	2,236	2,186	2,106	2,047
FTEs per cooperative (average)	57.5	58.8	60.6	63.3	67.1	68.4	70.4	74.8	77.6	79.0

\*FTEs are calculated as an employee FTE proxy: FTEs = full-time employees plus ½ of part-time employees.

**Table 2—Co-op personnel costs, in nominal and real terms (2015 dollars), 2006-2015**

Nominal terms	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Personnel costs* (\$1,000)	6,611,080	6,854,932	7,248,849	7,682,336	8,053,386	8,410,555	8,708,507	9,070,692	8,718,400	9,185,728
Personnel costs per FTE**	42,611	44,716	47,879	50,475	51,608	53,570	55,360	55,511	53,341	56,777
Personnel costs per total employees	35,755	37,789	40,655	42,444	43,984	45,909	47,023	47,579	45,579	49,046
Personnel costs per co-op (\$1,000)	2,450	2,628	2,903	3,193	3,461	3,666	3,895	4,149	4,140	4,487
<b>Real terms = 2015 dollars***</b>										
Personnel costs (\$ thousands)	7,772,512	7,837,604	7,979,919	8,487,320	8,753,666	8,862,156	8,976,573	9,228,777	8,728,749	9,185,728
Personnel cost per FTE	50,097	51,126	52,708	55,764	56,095	56,447	57,064	56,479	53,405	56,777
Personnel costs per total employees	42,036	43,206	44,756	46,891	47,808	48,374	48,471	48,408	45,633	49,046
Personnel costs per co-op (\$ thousands)	2,881	3,005	3,196	3,528	3,762	3,863	4,015	4,222	4,145	4,487
CPI	201.600	207.300	215.303	214.537	218.056	224.939	229.939	232.957	236.736	237.017

\*Personnel costs = total employee salaries/wages and employee benefits (including payroll taxes, group insurance, commissions, and any related benefits).

\*\*For FTE calculation, see explanation in Table 1.

\*\*\*Real terms in 2015 dollars using consumer price index (CPI). Real 2015 personnel costs = Z year personnel costs times (2015 CPI divided by Z year CPI).

**Table 3—Co-ops, personnel costs, total operating expense, and employees, by co-op type, 2015**

Co-ops No.	Personnel costs*	Total expense*	Personnel cost to total expense	Full-time employees	Part-time employees	FTEs**
Cotton	14	60,596	191,376	31.7%	946	154
Cotton ginning	107	57,533	179,534	32.0%	640	1,814
Dairy	112	1,350,441	2,727,917	49.5%	21,383	1,662
Fish	37	26,104	54,010	48.3%	685	208
Fruit & vegetable	125	954,550	1,759,232	54.3%	14,030	13,495
Grain & oilseed	448	1,733,016	4,033,240	43.0%	23,607	8,716
Livestock	86	46,167	89,266	51.7%	563	986
Rice	10	185,184	524,677	35.3%	2,249	291
Sugar	28	489,091	1,495,107	32.7%	6,462	4,399
Poultry	11	59,092	250,656	23.6%	1,801	295
Nuts	12	34,845	156,514	22.3%	1,474	91
Other marketing	89	31,310	114,343	27.4%	581	394
Total marketing	1,079	5,027,929	11,575,873	43.4%	74,421	32,505
Total supplies	874	4,104,199	7,541,658	54.4%	61,093	17,683
Total services	94	53,601	144,677	37.0%	771	816
<b>Total</b>	<b>2,047</b>	<b>9,185,728</b>	<b>19,262,209</b>	<b>47.7%</b>	<b>136,285</b>	<b>51,004</b>
<b>161,787</b>						

\*In millions of dollars.

\*\*For FTE calculation, see explanation in Table 1.

# In the Spotlight

## Sheryl Meshke and Donn DeVelder

co-CEOs of AMPI, New Ulm, Minn.

Associated Milk Producers Inc. (AMPI), one of the nation's leading dairy cooperatives, marketed 5.5 billion pounds of milk and had \$1.6 billion in sales in 2016. The co-op is owned by 2,100 farm families in Wisconsin, Minnesota, Iowa, Nebraska, South Dakota and North Dakota.

AMPI and its 1,250 employees operate 10 Midwest manufacturing plants, which produce 10 percent of the nation's American-type cheese, butter, dried whey and sliced American cheese. The New Ulm, Minn.-based cooperative's award-winning cheese, butter and powdered dairy products are marketed to foodservice, retail and food ingredient customers.

In 2014, AMPI opted to entrust the leadership of the cooperative to two individuals who would share the position of Co-President/CEO: Sheryl Meshke, who had previously been the co-op's executive senior vice president for public affairs, and Donn DeVelder, who had been serving as AMPI's executive senior vice president for fluid marketing and member relations. Below, they share some thoughts on how this co-leadership business model works, as well as what's on the horizon for the co-op.

**Question:** After 2.5 years of serving as co-CEOs of AMPI, have you each staked out areas of expertise for which you have primary responsibility? If so, in broad terms, what are those?

**Answer:** Together, we have a combined half-century of service with AMPI. We have worked alongside three generations of AMPI member-owners and still work with many colleagues who were with AMPI when we started. That amount of time, along with the relationships and trust developed, provides a deep understanding of AMPI and the cooperative business model.

There are certain areas of the business where we share equal responsibility in the decision-making process — the co-op's finances are a prime example. In other areas, we trust in one another to make the right decision for the cooperative.



Sheryl Meshke and Donn DeVelder have been Co-President/CEOs of Associated Milk Producers Inc. since 2014. Photo courtesy AMPI

**Q. Did it take a while to develop your system of shared-management?**

Within days of being named interim co-CEOs, and then — shortly thereafter — co-CEOs, AMPI experienced a fire at its largest consumer-packaged cheese plant in Portage, Wis. The dairy market at the time was also in a downturn. The focus at that time was to work together as a team and tackle the tasks at hand. We kept doing what we had been doing, with additional duties.

Since that time, we have continued the team-oriented approach. We work to place the right people in the right positions to move the co-op forward. We operate with a flat-

***“We operate with a flat-line management style, utilizing the skills and expertise of the collective management team.”***

line management style, utilizing the skills and expertise of the collective management team. We are in sync and in constant communication with one another.

We want employees to know how the business is performing. This “open book” style means there is a higher level of insight into the business. Neither of us operate with a personal agenda, but we are constantly driven to achieve the best possible outcomes for AMPI’s member-owners and employees.

**Q. Did you both bring similar professional backgrounds to the office — or were there substantial differences in your prior experiences and skill sets?**

The philosophy of “two heads are better than one” is certainly illustrated at AMPI. At the time of the appointment, Donn had more than 33 years of field service and milk procurement experience. Sheryl had worked for the co-op for 23 years in communications, public affairs, policy and strategic planning.

**Q. What are the main advantages to having two CEOs? Any disadvantages?**

Decisions are made at twice the speed, and with complete trust in one another to make the right decision. We talk through situations and decisions, solidifying our confidence in the determined direction. In addition, we are constantly accountable to one another — in our decisions and our actions. ■

In many ways, a co-CEO structure is in keeping with the cooperative model of working together to achieve success. This management structure forces more dialog and collaboration, achieving a greater knowledge of the business.

**Q. Had you been aware of other co-ops, or even non-co-ops, having had two CEOs?**

Yes, and we reached out to those we knew, following the appointment as co-CEOs, to gain their insight.

**Q. What happens when you two are locked-in on opposing courses of action? Do you just present both recommendations to the board and let the directors decide? Has this happened yet?**

We haven’t had that situation and don’t see a circumstance where it would arise. If we are ever at a point of opposition, we bring in the whole management team, talk through the situation and arrive at a decision.

**Q. What’s been the general reaction from members to this co-leadership model?**

Because we’ve both been with AMPI more than 25 years, there aren’t many surprises with how we operate. AMPI members knew what they were getting when they asked us to serve in this role.

**Q. What’s the biggest, or hardest, decision you’ve had to make so far as CEO? The biggest current challenge to the co-op and/or its producers?**

Developing a strategic business plan that will provide the most internal growth in AMPI’s history.

**Q. What’s on the drawing board at AMPI right now that you feel has the greatest potential to benefit the members and their co-op?**

The cooperative is investing in new cheese-making technology and expanding processing capacity. The initiatives are spurred by strong demand for AMPI-made cheese, just as milk produced on member farms is growing.

**Q. Based on your experiences working with co-ops, both as CEOs and in your previous jobs, why is the co-op business model still so popular in agriculture today?**

The seven principles cooperatives share are timeless and respected. Farmers coming together to help fellow farmers is a noble cause. In addition, a business structure concerned about the community is appealing to potential employees. ■

# Utility Co-op Connection

## Co-ops play vital role in extending broadband in rural Tennessee

By Anne Mayberry

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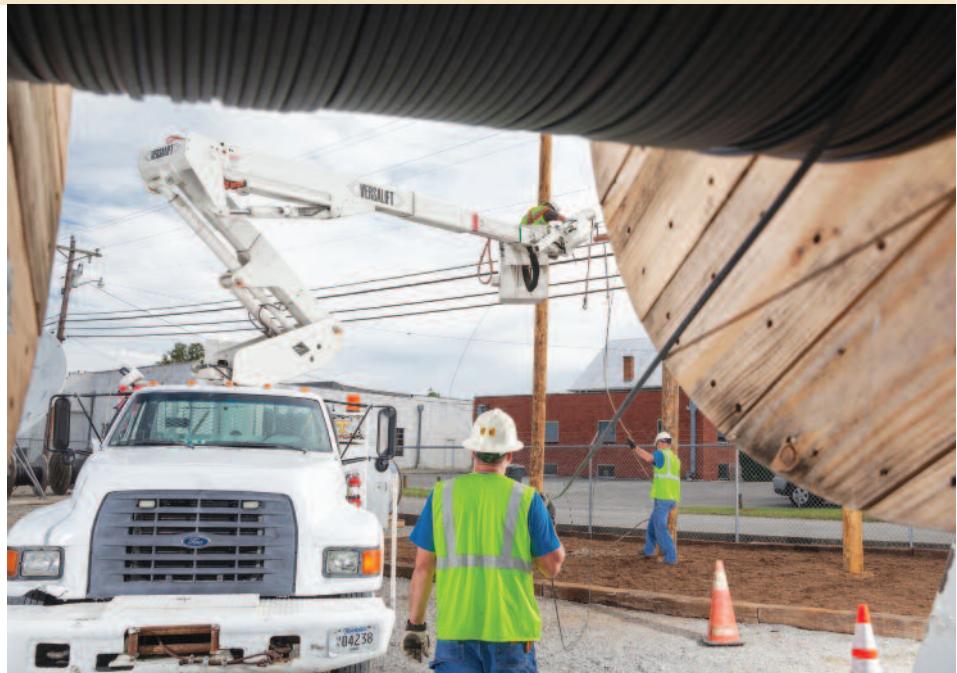
Broadband service delivers tremendous economic and educational value to people, with study after study demonstrating that areas with broadband have stronger economies, better access to jobs and higher median household income. Yet, a large portion of rural America lacks robust, affordable broadband service.

“Distance, density and demographics combine to make it costly to build rural broadband infrastructure,” says Chris McLean, acting administrator for USDA’s Rural Utilities Service (RUS). “Rural broadband service territories often cover hundreds, or even thousands, of square miles. The expense of building and supporting such a large service area — with far fewer customers paying for that service — has historically been among the greatest impediments to expanding rural broadband access.”

Building broadband infrastructure in rural areas is just as important today as was providing electricity to rural Americans 80 years ago, McLean continues. “Broadband investments help rural communities attract new businesses, allow schools to improve educational opportunities through distance learning and improve healthcare by providing cost-effective remote diagnosis and care.”

### Co-ops, USDA support effort

In many cases, the private sector has been reluctant to build broadband



*Fiber optic cable is being strung in many parts of rural Tennessee, as seen here, greatly increasing the ability of these areas to attract new, broadband-dependent jobs. Photo courtesy of Bledsoe Telephone Cooperative*

infrastructure in rural areas due to low population density. The federal government thus plays a necessary role in partnering with local institutions and communities to deliver broadband to rural areas.

Some state governments are assuming a more active role in the expansion of rural broadband. In May, Tennessee enacted the Tennessee Broadband Accessibility Act, which directs that \$45 million in grants and tax credits be used during the next three years to deliver broadband in rural areas currently lacking internet connectivity. The law also allows rural electric cooperatives to provide broadband service.

As is the case in several states, rural electric cooperative utilities in Tennessee were previously prohibited from providing broadband service for

their customers. Both rural telecommunications providers and rural electric cooperatives view the new law as one more tool to deliver necessary broadband service to areas where it currently does not exist.

“We need more support if we want to see full broadband coverage,” says Mark Patterson, manager of Highland Telephone Cooperative Inc. (HTC), which serves an area northwest of Knoxville, including a portion of Kentucky. The area is very rural and economically depressed.

“Western Tennessee has a lot of flat farmland, but in our service area there are hills, valleys and rocky outcroppings, which makes broadband difficult and costly to build,” Patterson continues. “We have higher costs but fewer subscribers to pay for service and operations.”

On average, the co-op serves just six customers per mile, although Patterson says “that number can be misleading. In some areas, the density is as many as 25 customers per square mile, but in others it’s one or two per mile.”

To put the situation into perspective, the Hudson Institute reported in its April 2016 study, *The Economic Impact of Rural Broadband*, that “New Jersey is the most densely populated state, with 1,195.5 residents per square mile. Distance between customers accounts for a substantial portion of the cost of providing telephone service.”

## **Broadband necessary for rural growth**

“We serve more than 1,500 business connections — many are mom-and-pop retail [customers], but we also have businesses with dozens to hundreds of employees,” says Chris Townson, manager of Dekalb Telecommunications Cooperative (DTC), which serves a rural region east of Nashville. “Broadband is vitally important infrastructure. It provides a platform for economic development, education and

“Medical facilities send x-rays out for a radiologist to review almost instantly,” Patterson says. But most of rural Tennessee still lacks broadband, he notes.

Highland also provides internet access for local schools, which save money through the use of online textbooks. Through broadband, people can attend colleges and technical schools. “The need for broadband is growing — we are still adding customers because people understand they get more services, including entertainment, with broadband,” Patterson says.

## **Broadband boosts education**

Tennessee telecommunications providers have been building broadband infrastructure for many years, often with the help of RUS telecommunications infrastructure loans, Distance Learning and Telemedicine grants and Community Connect grants (awarded for rural areas lacking broadband service).

Many of these service providers have also been awarded American Recovery

(NCTC) in Lafayette, Tenn. “We have been in the rural telecommunications business for 65 years, and we are still building to serve customers.”

White says ARRA funding built the co-op’s fiber network and helped connect rural communities to useful services, including healthcare, education, business and social services. Telemedicine service, made possible by broadband, is helping to improve local healthcare service. Rural healthcare clinics can send x-rays to hospital radiologists and offer specialized treatment, including for those who have suffered strokes or need psychiatric care.

NCTC’s service territory, north of Nashville, is economically challenged, White says, as is the case with most rural Tennessee telecommunications service territories. She is concerned about what could happen to rural communities here if they lose federal funding that supports broadband service.

“This would affect our future direction and that of our customers,” White says. With broadband, she adds,

*“Broadband is a tool that can help attract more jobs and decrease unemployment in rural areas.”*

healthcare improvements. Broadband opens doors to unrealized opportunities.” Economic growth slows the further away one gets from Nashville, he notes.

Patterson agrees. “The Tennessee economy is booming in rural communities close to metro areas. But businesses in rural areas need broadband,” he says. “Broadband allows more people to work at home. Small businesses can connect with larger companies.”

Highland Telephone Cooperative provides round-the-clock service to the local manufacturing industry, providing it with global market accessibility.

and Reinvestment Act (ARRA) funds from USDA Rural Utilities Service. These funds have been used to improve rural connectivity and strengthen rural economies. Nationwide, nearly \$3 billion in ARRA funding provided broadband service for 250 projects in 44 states, as well as in American Samoa.

While Tennessee’s new law will help build broadband infrastructure needed for rural growth, lack of population density — customers needed to support the costs of broadband operations — still presents a challenge.

“We could not exist without RUS,” says Nancy White, manager of North Central Telephone Cooperative

those who live in rural areas can do telework and connect to online education and job training.

Charles Boring, manager of Bledsoe Telephone Cooperative, southwest of Knoxville, agrees that broadband can help strengthen communities and improve rural economies. “People used to leave small towns to find work and to make purchases,” Bledsoe says. “Now, you can do all this with broadband, which keeps people in our small rural communities. Broadband is a tool that can help attract more jobs and decrease unemployment in rural areas.”

On the other hand, Boring notes that broadband connectivity has not

won over every resident, which can create challenges in areas where every possible subscriber is needed to help support operations. Yet, he suspects that may change.

"Broadband will continue to grow," he says. "Look at all that can be done online now. [Much of] the older generation prefers face-to-face contact. The younger generation, however, is driving increased broadband access in rural communities. Broadband offers the ability to work from anywhere. People come back to this area to start a business."

## Broadband key to rural future

Rural telecommunications providers are taking an active role in preparing for the future. White notes that large

Many rural telecommunications providers hope to work with rural electric cooperatives to extend broadband service to unserved areas. Building this infrastructure can take five years or more, but if rural communities don't offer better broadband access to businesses, educational institutions and healthcare providers, their economies will not grow.

"To sustain and strengthen our communities, we need to add jobs and attract business," White observes. She points to the recent Community Connect grant NCTC received that will help connect an area that otherwise would not have affordable broadband. "This means that we can now offer gig-[high] speed internet at reasonable rates, which supports IPTV [internet

to educate students about the expanding frontiers of new technology.

"It opens with a drone coming up on a big screen — kids love it! We have Wi-Fi basketball [a basketball with a sensor that measures the arc of the shot, connecting to an application with audio and video feedback], complete with tech coaches. We show students virtual reality and 3D printers. In STEM [science, technology, engineering and math] classes, we bring in robots. All of this raises awareness of the possibilities of a career in technology and the internet of things."

Greater band capacity is needed to accommodate the rapid expansion in use of "smart" TVs, online video viewing, electronic games, cell phones and computers. "About 94 percent of our customers now stream video, and 43 percent play online games," White says. "The Tennessee legislation will make a difference, because the focus is on unserved areas."

Twin Lakes Telephone Cooperative in Gainesboro, Tenn., has worked to connect every school, hospital and

*The last mile: extending fiber optic cable to a rural Tennessee home. Rural telecommunications providers in Tennessee can now work with electric co-ops to expand broadband service. Photos courtesy of Bledsoe Telephone Cooperative*



telecommunications carriers abandoned rural communities years ago, which led to formation of telephone cooperatives and other independent service providers. Tennessee's new legislation can help address the broadband gap by providing financial assistance and reducing state regulations that prevent rural electric cooperatives from using their infrastructure to address the lack of high-speed internet access.

protocol television, which provides television content over computer networks] security systems and 'cloud' systems that provide internet access to data and services — all in a tornado-resistant facility."

Like other rural telecommunications providers, NCTC does more than connect communities. For example, White says NCTC developed a video



medical facility in its service area to broadband. Yet, Manager Jonathan West echoes Patterson's observation: "High-cost buildout has not grown in this area. The Tennessee legislation is

an important initiative. This will allow nontraditional businesses to grow. With reliable connectivity and tech support, we'll see more rural businesses that contribute to the economy."

West says call centers, medical transcribers and accounting firms are among those contributing to rural economies by letting people work from home. "It is difficult to think of any business today without at least a single

more jobs to the area," she says, adding that it does much to enrich rural lives.

"Children can do their homework at home and submit it online, [rather than] families needing to drive to the nearest fast-food restaurant or library, searching for WiFi," Cope says. Young adults who want to stay close to home and still enjoy meaningful careers have that option more than ever before, thanks to current connectivity

of college, she notes.

"We could not do this without broadband," Cope stresses, adding that the cooperative works with the high school and community leaders to help provide students options for internships and jobs after they graduate, including two students who are assisting in Ben Lomand's customer response center. "The work these students do, and the pay they receive, can contribute to the

## *"History shows us the importance of connectivity. Distance and poverty are barriers to adequate health care and a good education."*

link to the internet; the outlook is grim for those who do not have internet access."

Rural telecommunications providers must build the foundation, West stresses. "Which is hard to do in places where it doesn't exist." Broadband has practical applications that will drive productivity, he believes.

"With broadband connectivity to the internet, we will continue to see tremendous change," West says. "We need to make that commitment to grow together — history shows us the importance of connectivity. Distance and poverty are barriers to adequate health care and a good education."

### **Helping rural business expand**

Ben Lomand Rural Telephone Cooperative, far west of Knoxville, serves a very rural, 3,200-square-mile area. Yet its customers include businesses, small farms, universities, medical facilities, banks and law offices. The service territory encompasses valleys, mountains and waterways, along with four industrial parks and 21,000 rural subscribers.

Lisa Cope, the co-op manager, says that as businesses consider expanding in the area, the deciding factor is broadband availability. "Broadband keeps our communities in the running for business opportunities and attracts

availability, she notes. Families in remote areas have access to world-class pediatricians with local tele-health programs.

"It's not just business — it's entertainment, too," Cope notes. "We have blue grass music concerts here, and downtown WiFi helps facilitate local tourism initiatives."

Ten years ago, the area went through an economic slowdown, she says. Today, jobs are returning, including manufacturing firms that hire blue-collar employees who can earn middle-income salaries.

A local college provides "mechatronics" classes that teach high-tech engineering skills and will soon be offering training in robotics — fields that offer ample, secure jobs.

"Manufacturers today want employees with technical skills and knowledge, and our county school system has cultivated a feeder program for the local college," says Cope. "Students have exposure in middle school and secure hands-on experience while in high school. Now, employees can use robots to operate machines and connect to satellite locations around the country and world."

Demand is strong for the skilled workforce being developed through such courses. Entry-level jobs can pay \$60,000 per year for graduates right out

household income, which is extremely helpful for parents — especially single parents, some of whom work two jobs."

DeKalb Co-op's Townson also notes the value of rural broadband to the economy. "Surveys indicate that rural telecommunications cooperatives bring in about \$24 billion to the states that they serve. In many places today, you cannot buy gas for your car without broadband service — an increasing number of purchases won't work with cash."

Broadband infrastructure can take as long as five years to build out in rural areas, and it often takes longer to attract a substantial amount of subscribers to help support the systems. The new Tennessee broadband legislation may help address this by offering financial incentives and by opening the door to allow rural electric cooperatives to offer broadband service.

Yet, the strongest element in Tennessee's efforts to expand broadband in rural communities may come from rural telecommunications providers and electric cooperative utilities, which have a history of building infrastructure in rural areas, pursuing partnership opportunities and collaborating. Says Cope, "We see a difference in our communities because of the work we all do." ■



# From Rivals to Cooperators

## Cattle co-op gains market power by uniting once 'fierce competitors'

By Dan Campbell, editor

dan.campbell@wdc.usda.gov



Watching truckload after truckload of beef cattle pass by the feedlot in central Kansas he was

managing, Lee Borck knew something had to be done if his operation was going to survive. The feedlot was being bypassed because packers in western Kansas could afford to pay an additional 50 cents per hundredweight (cwt) for cattle from the larger feeding operations. Those larger feeding operations not only had the advantages of scale, but they were also located closer to the major beef processing facilities, which gave them a substantial competitive edge.

"Volume was the name of the game," Borck recalls of those years in the late 1980s. "The more cattle you had, the more attention [and better prices] you got." Other small feedlots in central Kansas were facing the same dilemma.

The operators needed to put their heads together to come up with a new strategy, Borck felt.

Trouble was, the small beef operations not only competed for business with the big feedlots, located about 100 miles to the west, but were also competitors with each other — "fierce competitors," Borck stresses. And while competition is one of the pillars of our capitalistic economy, for producers of farm commodities it can sometimes result in mutually assured self-destruction. The agricultural cooperative business model was born as a marketplace equalizer for producers in such straits.

A meeting of the owners or managers of 11 small feedlots in central Kansas was convened in 1988 in Great Bend, Kan. So high was the level of suspicion and distrust among the attendees that they hired a professional court reporter to keep a record of what transpired.

Essentially, they said we have to "check our guns at the door" and figure

out a way to be more competitive, says John Butler, CEO of the Beef Marketing Group cooperative. "They had to make some sacrifices to do that — it meant giving up some of their independence."

They agreed on a cooperative business structure for a couple of reasons, Butler continues. "It was a natural business structure to put their vision into place. It also allowed some protection under the Capper-Volstead Act [which provides cooperatives with limited antitrust protection] so that the feedyards could work directly with major beef processors."

The agreement they forged at that meeting included developing their own price-reporting system which would use cutting-edge technology of the day: the fax machine. "That way, we would get immediate price reporting much faster than from the news wires of the day," Borck says. Eventually, the cooperative took on additional responsibility, including joint marketing of the cattle. Nine of the 11 feedyard owners at the

meeting agreed to the proposal. By spring, they were working together to arrange large-scale cattle sales. The biggest deal involved offering 50,000 fed-Holsteins to Excel (now part of Cargile) in Dodge City, Kan. Not only did Excel agree to buy the 50,000 cattle, they agreed to pay a 50-cent per cwt premium in return for the large, assured beef supply.

"This was very exciting for us," Borck says, and was the beginning of an ongoing business relationship that lasted for many years between Excel and the still informal co-op of small feedlot operators.

### **Marketing effort condemned by others**

There were others in the cattle industry, however, who were "up in arms" over what the group of central Kansas feedlot operators was doing. "It just wasn't considered kosher," Borck says.

Undaunted, the group decided to formally incorporate as a cooperative and, in 1990, the Beef Marketing Group (BMG) was launched, qualifying the business for antitrust protection under the Capper-Volstead Act. At that point, there were eight feedlot members, one having dropped out due

The partnership with Excel continued until the winter of 1993, when BMG switched to a supply agreement with IBP (Iowa Beef Processors, today part of Tyson Foods) — a business relationship that continues today.

By about that time, BMG "had matured and was better organized and was handling a greater volume of cattle," Borck says. The long-term goal of the co-op was "to get our product into the meat case — past the packer, directly to the consumer. It took a long time to get there."

As the co-op's cattle capacity continued to grow, BMG entered into further agreements with packers. The co-op also added more services for its members, including group purchases of cattle feed and animal health products. When the ethanol industry started to expand, BMG arranged group purchases of wet distiller's grains, a byproduct of ethanol production and a valuable source of starch in cattle feed.

### **Quality grid revolutionizes industry**

By 1995, the co-op was selling cattle on a price grid, which rewarded producers for meeting quality standards. "That was a relatively new

doing anything illegal. But we were still newbies at that point, and we were scared as heck when we got taken to court," Borck recalls. "As one of my partners said at the time 'we have to be friends, because it seems like everybody else is against us.'"

Things did indeed look bleak when IBP lost the case in court. IBP appealed the decision to the 8th Circuit U.S. Court of Appeals in St. Louis, which reversed the lower court's ruling. After that, some of those in the industry who had been opposing BMG started forming new business arrangements that borrowed some of the same practices the co-op was using, Borck says. It became increasingly accepted to sell cattle on a quality grid, where prices are indexed against cattle sold on a cash basis.

Indeed, selling on the grid became so popular that today the number of "cash cattle" sales has declined to the point that more cash-basis sales are needed to maintain an effective indexing system, Borck says.

### **Responding to new consumer demands**

BMG was also ahead of its time as an early proponent of taking action to bolster consumer confidence in beef. In

*So high was the level of suspicion and distrust among the meeting attendees that they hired a professional court reporter to keep a record of what transpired.*

to the extreme negativity being directed at the co-op by others in the industry.

Cattle ranchers, however, were generally quite supportive of what BMG was doing, Borck says. At that time, many ranchers retained ownership of their cattle after delivery to the feedlot. Thus, the ranchers were directly benefiting from the stronger prices BMG was able to generate for their cattle when "finished."

concept in 1995–96, but it came to be the standard," Borck says.

The co-op still faced strong opposition from others in the industry, and in 1998, the USDA Packers and Stockyards Administration took legal action over the co-op's business partnership with IBP, which it alleged had entered into unlawful purchase of cattle via the BMG supply agreement.

"We couldn't see where we were

the late 1990s, food safety and traceability issues for beef were on the rise, exacerbated by cases of e-coli food poisoning that were much in the news. Consumers were also increasingly expressing concerns about animal welfare.

"We felt these consumer concerns were a trend, not a fad, and knew that we needed to act accordingly," Borck says.

To better meet evolving consumer

demands, in 2001 the co-op developed Progressive Beef, a food safety and animal welfare program. The timing was good, because food safety and animal welfare issues continued to grow in importance. "So I am glad BMG was on the front end of industry efforts to address these concerns," Borck says.

Now in its 16th year, the Progressive Beef program entails 43 production standards to ensure that cattle are raised sustainably and humanely. These standards cover everything from the quality of water provided to cattle to their time on pasture and handling practices used for transporting animals.

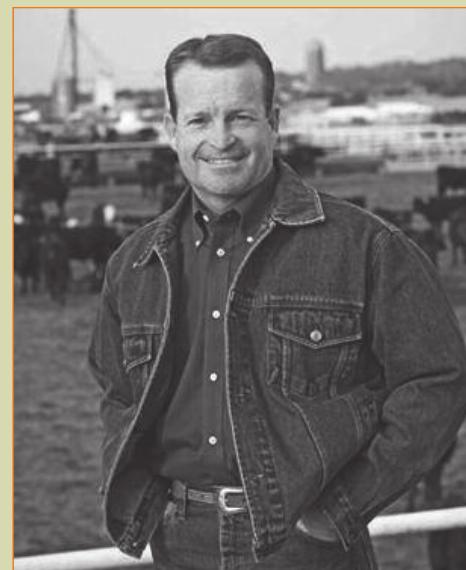
To ensure adherence to these standards, all BMG feedlots are subject to three annual audits, including a third-party audit by a USDA inspector. The auditors look at things such as whether each animal has a sufficient supply of clean water, how illnesses are

treated and the handling practices used to move cattle.

"We work closely with a vet on the use of antibiotics and medicines; we record all uses — it is all very transparent," says Butler, whose hiring 12 years ago as CEO of BMG is considered an important step forward for the co-op.

The advisory board for Progressive Beef includes Temple Grandin, professor of animal science at Colorado State University and a national authority on animal behavior and humane livestock-handling practices. As a person with Asperger's Syndrome (or high-functioning autism) Grandin is also a frequent speaker at autism conferences.

"Temple has led training sessions where we bring her to one of our facilities to spend a day looking at load-out facilities and the best way to move



*In addition to being CEO of the Beef Marketing Group (BMG), John Butler also chairs the U.S. Roundtable for Sustainable Beef. Photos courtesy BMG*

animals with minimal stress; she helps us better understand how animals think. She is amazing."

## Progressive Beef reflects co-op's commitment to sustainability

The way John Butler sees it, if a new rulebook is being developed for your industry, you better be part of the rule-making committee. The steady growth of consumer demand for sustainable foods is creating a new set of rules for those who wish to meet that demand, he believes.

"The beef industry cannot leave the job of developing a new rulebook to parties that do not really understand the beef supply chain and how it works," he stresses.

That view dovetailed perfectly with the view of Beef Marketing Group, a Manhattan, Kan.-based cooperative of feedlot operators, which hired Butler in 2005 to lead the co-op and its then-new Progressive Beef program, launched a few years earlier to help the co-op meet demand for sustainably produced beef.

Progressive Beef is not a brand name, Butler says. Rather, by building exclusive relationships with a customer's existing brand, such as Performance Food Group's Braveheart beef brand, he says the co-op's production methods and overall story enhance existing brands.

Butler has become a leading figure in the industry on issues concerning sustainable beef, which includes serving as chairman of the U.S. Roundtable for Sustainable Beef (USRSB), a

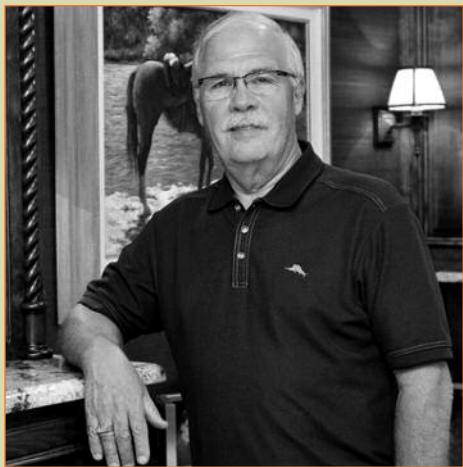
multi-stakeholder, global effort to improve the sustainability of beef production. "The roundtable includes everyone from The Nature Conservancy to ranchers, feeders, packers and retailers," Butler says. "The charge is to build a framework of key indicators and metrics so we can measure, by sector, how we can reduce our environmental footprint."

USRSB asks: "Do you, as a rancher, have a grazing management plan that shows how the ranch manages its resources? USRSB has established such metrics for use at the cow-calf level, at the feeder level and the packer level," Butler explains.

"USRSB is helping to show how beef production can become more sustainable — that is, more responsible and more efficient regarding the resources our cattle touch." This involves reducing the carbon footprint of operations at each level of the beef industry and improving the level of animal care all along the way, Butler says.

### Noble Foundation leads new project

The Samuel Roberts Noble Foundation (Noble) — the largest independent agricultural research organization in the United States — is also a member of the USRSB and has "done some



*The Beef Marketing Group had to overcome many obstacles in its early years, says Lee Borck, the driving force behind the co-op.*

## A new day for industry

It is a new day for beef feeders, Butler says. "We no longer look at ourselves as just feeders — we play an integral role in the beef value chain. How can we better meet consumer expectations, including the retail and

food service sectors, and through them to the end consumer? How do we help them make their meat cases or menus more competitive — that is, more attractive to consumers? These are the questions we are answering."

Before going to work for BMG, Butler managed another cattle cooperative, Ranchers Renaissance, which built a supply chain for a branded beef product that emphasizes tenderness. It is now sold in 2,600 stores nationally.

BMG has also forged a partnership with the Performance Food Group, the nation's third-largest food distributor, which is buying 230,000 head annually from the co-op for its Braveheart beef brand. Borck says Performance Food Group was attracted to BMG by the co-op's story and its history of commitment to sustainable beef production, including its auditing

system and ability to trace beef back to the feedyard that produced it.

"They are willing to pay a premium for process-verified beef," Borck says. Today, BMG has a total feeding capacity of 325,000 cattle. Borck's own operation, Innovative Livestock (ILS), now accounts for roughly 60 percent of the co-op's cattle.

Past criticism arising from competitors for BMG's "rocking the boat" of the beef industry has largely given way over the years to respect for Borck's role in bringing needed changes to the industry. For his achievements and support of the cattle-feeding industry, Borck was inducted into the Cattle Feeders Hall of Fame in 2011.

Looking back over the past 30 or so years, Borck says: "There is a reason windshields are larger than rear view mirrors...Most all opportunities are in front of you." ■



tremendous work with a large number of ranches in developing grazing management plans," Butler says.

Now BMG, Noble Foundation, McDonald's USA, Tyson Foods and Golden State Foods are partnering in a two-year pilot research project that seeks to identify methods to improve sustainability across the entire beef value chain, using metrics established by USRSB. The Noble Foundation is coordinating and providing project management services for the overall project.

"Our efforts will examine every step of beef production, from the ranch to the consumer's plate," Billy Cook, director of the Noble Foundation Agricultural Division, says in an announcement of the project. "For generations, agricultural producers have

found ways to increase production through more efficient practices and responsible land stewardship. This project translates this approach of continuous improvement into a real-world, systems-wide application that holds the potential to someday benefit producers and customers around the globe."

The Noble Foundation has a program called Integrity Beef, which Butler likens to BMG's Progressive Beef. "It implements programs that cover everything from genetics to how calves are weaned and what resources are used," Butler says. "It is already in place at the ranch level, and we want to link it to what we are doing at the feedyard level." Likewise, he says, Tyson and McDonalds use their own indicators and metrics to ensure that they are accountable for the resources they use.

"Our goal is to measure ourselves against all of these indicators to show how we are raising beef, from a sustainability prospective," Butler notes. "We hope to be able to determine things like how much water we use per cow at the ranch level. To do better, we have to understand where we are today."

Consumers will continue to demand more information about their food and where it comes from, Butler believes. "We, as an industry, have not always been as transparent as we could have been. We want to build a sustainable business model by producing a healthy, wholesome product that the marketplace wants."

— By Dan Campbell

# Top 10 Traits of a Successful Grazing Land Manager

By Jeff Goodwin

Pasture and Range Consultant

Samuel Roberts Noble Foundation



According to recent data, the number of people moving to the Southern Great Plains states, including Texas, is more than 1,400 per day. Private lands in the United States are undergoing significant changes, with more than one acre of farmland lost per minute.

Most of these lands are privately owned and play an unseen, yet critical, role in water and food sustainability, as well as in national and energy security.

Recent data from Texas A&M University suggests that of the 26.9 million residents in Texas, less than 10 percent live in rural areas, and less than 1 percent are private landowners. Data from USDA's National Agricultural Statistics Service estimates the average age of today's agricultural producer is 58. It's more important now than ever that we recognize and support successful land stewards, who provide the other 99 percent of the population with ecological benefits, such as clean water, clean air, sustainable livestock products and wildlife habitat.

A survey was recently conducted of 14 resource



Photo courtesy Samuel Roberts Noble Foundation

professionals who have spent their entire careers assisting these land stewards through the good and tough times. They are from respected institutions such as the Noble Research Institute, Texas Christian University Ranch Management Program, the King Ranch Institute for Ranch Management, Caesar Kleberg Wildlife Research Institute, USDA Natural Resources Conservation Service, Texas A&M AgriLife Extension and several private consultants. Together, these professionals total more than 469 years of experience.

Their responses were used to compile the following.

## Top 10 Traits of Successful Grazing Land Managers

### 1 Are flexible and adaptive

Most successful managers are continually updating plans based on new knowledge. Many times the reason for their success is that they are not rigidly managing. Stocking rates [cattle per acre] are the most critical decision a producer has to make, and this decision should be flexible with weather and markets. Many of the biggest ranch failures, ecologically and economically, resulted from having rigid stocking rates, despite changing forage conditions. Successful grazing land managers understand there are no easy answers, no simple solutions, no "cookbook recipes" for success, no magic wonder grass, no magic breed and no magic herbicide. They succeed because they are flexible and adapt.

### 2 Manage the ranch as a business

These managers make decisions based on the physiological needs of the vegetation, the nutritional and habitat requirements of the animals, and the financial realities of the ranching business. They scrutinize every dollar spent, limiting unnecessary and nonproitable inputs. They completely understand that profitability will often come down to how they control costs.

### 3 Understand ecological principles

Most successful managers have the ability to observe climate, animal and plant interactions; they make management decisions that capitalize on those conditions. They understand the real purpose of roots vs. leaves and where the plant makes its food. They may not know the name of the plant, but they understand plant selectivity and production differences. They understand that soils are building blocks, teeming with life — and that biology drives most systems such as nutrient cycles, water cycle, etc.

## *Private lands in the United States are undergoing significant changes, with more than one acre of farmland lost per minute.*

### **4 Have an inquisitive and passionate mind**

Inevitably, if you ranch long enough, somebody's going to say: "You're doing it wrong." Inquisitive and passionate ranchers often are the innovators, asking questions and continually evaluating everything. Most are quick to disregard practices that do not work, then searching for new solutions. This requires a creative and innovative mind that is always thinking. They are keen observers who often reject the "that won't work here" or "this is how we've always done it" paradigm. Many come from a non-traditional ranch background.

### **8 Have clear, measurable and attainable objectives**

Successful outcomes are very often a result of having carefully planned objectives. To achieve success, you must also know when you get there. It is often said that "You can't manage what you don't measure." From available forage to production costs, it's hard to take advantage of an opportunity if you don't know you had an opportunity in the first place. Monitoring and keeping good records is a common practice among successful ranchers.

### **5 Lifelong learner**

Successful managers stay up-to-date on new techniques and technologies, and they are not afraid to cautiously try them. Often, they keep updated by staying active in professional development and associations. However, being involved is not enough. They have the ability to not just hear, but to listen. They understand that they can learn something from anyone, often learning the most valuable lessons from the most unlikely situations.

### **9 Willingness to share knowledge**

George Bernard Shaw once wrote: "If you have an apple and I have an apple, and we exchange these apples, then you and I will still each have one apple. But if you have an idea and I have an idea, and we exchange these ideas, then each of us will have two ideas." Most successful producers often get great ideas from their peers. They talk and learn from each other, many times gaining more satisfaction from seeing others succeed than themselves.

### **6 Big picture thinker**

Big picture thinkers don't get caught up in the weeds. Meaning, they focus on big picture outcomes and don't get derailed by minor setbacks. Where others tend to find problems, they try to find opportunities and structure their business to decrease risk and be positioned to capitalize on opportunities inherent in turbulent conditions. They understand how all the pieces of their operation are interrelated and find leverage to change the system for the better of the entire operation.

### **10 Cautious risk taker**

Cautious risk takers have an open mind and are willing to consider more effective and efficient methods of doing things. They often carefully consider new technologies and might implement a test on a small portion of their operation. Many times they are willing to try new ideas and concepts. They take risks based on knowledge, experience and sometimes hunches, but on a limited basis. They rarely risk everything and always operate within a safety margin.

### **7 Have a conservation ethic**

In 1949, Aldo Leopold said "We abuse land because we regard it as a commodity belonging to us. When we see land as a community to which we belong, we may begin to use it with love and respect." Successful managers want to leave their properties for the next generation better than when they received it. This requires an inner conviction to be a responsible caretaker of the land and all its parts.

Concentrating on developing any single trait on this list is a move in the right direction. However, the best grazing land managers will possess some aspect of all of these traits. ■

*Editor's note: This article is slightly abridged and adapted from one originally posted on the Samuel Roberts Noble Foundation website. To read the original and to learn more about the foundation, visit: <https://www.noble.org/news/publications/ag-news-and-views/2017/april/top-10-grazing-manager-trait/>.*

# Learning from Food Hub

# Closures

PART 2



Food hubs are especially important in helping to meet the needs of small and "ag of the middle" farmers. When a hub closes, it can be a serious setback for small farmers. USDA photo by Lance Cheung

*Kentucky food hub suffered when it emphasized social mission over financial viability*

By **Lilian Brislen, James Barham and Sasha Feldstein**

*Editor's note: Brislen is the executive director of the Food Connection at the University of Kentucky; Barham is a food systems specialist with the USDA Rural Business-Cooperative Service; Feldstein is a former research fellow (USDA). The first article in this series was published in the May-June issue of this magazine.*

*This article is excerpted from the upcoming report "Running a Food Hub, Volume 4: Learning from Food Hub Closures," and incorporates portions of a case study, "Grasshoppers Distribution: Lessons Learned and Lasting Legacy" by Lilian Brislen, Timothy Woods, Lee Meyers and Nathan Routt. The full report can be accessed at: <http://www2.ca.uky.edu/agcomm/pubs/SR/SR108/SR108.pdf>*

*Another case study will be presented in the next issue of Rural Cooperatives.*



It is often said that we learn as much, and sometimes more, from our failures as we do from our successes. In this spirit, USDA has been reviewing case studies of recent food hub closures to identify any general lessons that may help other food hubs avoid making the same mistakes.

Six food hub case studies were conducted across the United States to examine reasons for closure. In this article, we look at the case of Grasshoppers Distribution in Kentucky.

There are about 360 active food hubs in the United States, three-quarters of which were established during the past decade. USDA defines a food hub as a “business or organization that actively manages the aggregation, distribution and marketing of source-identified food products, primarily [coming] from local and regional producers...” The overall goal is to “strengthen their ability to satisfy wholesale, retail and institutional demand.”

Food hubs are especially important in helping to meet the needs of small and “ag-of-the-middle” farmers who often lack the capacity to meet the specific volume, quality and consistency requirements of larger scale buyers, such as retailers, wholesale distributors and institutions.

While four of the six food hubs studied by USDA opened their doors during the 2008 recession, it is important to note that external factors were rarely the main reason for closure. Instead, internal management and board governance issues were far greater determinants of food hub success or failure.

## Grasshoppers Distribution LLC

**Location:** Louisville, Ky.

**Business structure:** Initially a farmer-led LLC, then as an investor-led LLC

**Business model:** Multiple business lines over time. Wholesale, direct market subscription service, custom online ordering, value-added products, institutional sales.

**No. of producers served:** ~70

**Financing:** Farmer-owner investments and loans, sweat equity, State and Federal loans and grants, followed by Series A investments

**Sales growth:** \$40,000 in 2007 to almost \$1 million in 2013

**Established:** May, 2007

**Closed:** December, 2013

Food hub leaders, as well as others who worked closely with the food hub, provided much of the language and information for the respective case studies.

Most of these food hubs studied for this report were not incorporated as cooperatives. However, most of them can be viewed as “quasi-cooperatives,” in that they share similar business structures with co-ops, including collective marketing and supply-chain transparency. Food hubs also share basic cooperative values, such as shared risk and the equitable distribution of benefits.

## Beginnings

The main goal of Grasshoppers Distribution was to assist small farmers during a time of significant change for Kentucky’s agricultural economy. Due to a 1998 tobacco master settlement agreement and the end of a guaranteed price program for tobacco in 2004, Kentucky farmers were searching for new markets to fill the significant economic hole left by the “golden leaf” and ensure the future of their farms.

Grasshoppers Distribution sought to bridge the gap while also improving accessibility of fresh local products in the underserved communities of West Louisville.

Spurred by a feasibility study for a food-based enterprise to serve West Louisville, Grasshoppers was started by a group of four farmers who had significant experience in direct marketing, organic horticulture, community supported agriculture (CSA), operating a mid-sized meat-processing facility and with integrated value chains. The farmer-owners were highly involved in the early organization and operations of the business. However, as operations grew, responsibility fell to Grasshoppers’ general managers (there were five GMs over the life of the business), and a later-installed board of Series A investors.

## Challenges along the way

The original business model sought to support transitioning farmers while simultaneously improving fresh food security for marginalized community members in Louisville and tapping the growing high-end market for local food through restaurants and other wholesale outlets. Grasshoppers Distribution was to “provide an income to family farmers and micro-enterprise owners while experimenting with the pricing of products so that we can feed a food access deprived community.”

Unfortunately, due in no small part to the onset of the U.S. economic recession in 2008, Grasshoppers’ nonprofit partners foundered, and so too did Grasshoppers’ ability to engage in those efforts.

On the wholesale front, early roadblocks in increasing farmer production capacity and limitations in Grasshoppers’ in-house logistic expertise and infrastructure led to an inability to adequately supply larger wholesale accounts, such

as schools or institutions. Despite their professed interest and intention to work with Grasshoppers, key wholesale buyers identified in the preliminary marketing plan found that Grasshoppers was unable to provide an advantage over working with individual growers for convenience, price, quality, or selection.

Additionally, former employees identified a particular challenge in securing farmers who could consistently produce wholesale quantities of high-quality products that could be handled and packed appropriately for institutions.

The difficulty faced in wholesale distribution led to the

overhaul of the business model, which transformed Grasshoppers into a subscription program marketed as a community supported agriculture (CSA) program. Two years into the CSA program, and still unable to achieve financial viability, a decision was made to switch the format to an “online marketplace” that allowed customers to build custom orders on a weekly basis, in lieu of the CSA’s pre-packaged, season-long share.

### **Too much “churn”**

While this change in services did expand the customer base, it also increased weekly “churn” (i.e., there was a lack of consistent, week-to-week purchases by customers). Many customers opted in and out at will, thereby creating a lack of

## **Lessons Learned**

### **■ *Food hubs need to invest in expertise and sufficient infrastructure when getting started.***

Finding and retaining qualified staff in key leadership roles was a significant challenge faced by Grasshoppers. This was caused primarily by a lack of adequate working capital to invest in such expertise and the strain placed on a series of managers tasked with developing the enterprise. The complex business model that Grasshoppers worked to develop required a high level of expertise in a number of specialized fields for tasks such as setting up protocols and logistic systems, inventory and warehouse management for highly perishable products, and day-to-day operations of a subscription-delivery service.

Rather than a learning-by-doing approach to develop the business, an early investment should be made in a staff person or consultant with intimate knowledge of fresh-produce wholesaling and supply-chain management. This person can help the hub avoid burning through capital in correcting for early missteps and mitigate “burn-out” of staff and management (a significant concern that is not to be taken lightly). However, it is important to acknowledge that acquiring expert staff or services comes with significant cost and may present an early fundraising hurdle for new enterprises.

### **■ *Clear plans and metrics should be used to help guide development decisions.***

The initial, values-based mission of Grasshoppers was clear: to help small farmers and assist underserved consumers in accessing local foods. But it was a challenge to develop and implement a specific plan for

how the mission would be achieved.

Frequent — almost annual — changes to the business structure in response to capital shortfalls and a changing market environment posed a serious obstacle to developing needed efficiencies and expertise. Lacking a thorough understanding of its local market — including the available supply, the scope of existing demand, and the infrastructure required to connect supply and demand — Grasshoppers expended a great deal of time and capital on frequent changes to its business model.

These issues were compounded by the logistic complexity of housing several different types of business lines without the capacity to evaluate and achieve efficiencies within them. In essence, Grasshoppers never knew exactly what business it was in or how to evaluate the specific activities it was engaged in. Thus, the hub was not able to make strategic decisions based on a clear vision of where the business needed to go and the best way to get there.

### **■ *The success of the enterprise needs to be part of the mission.***

A consistent challenge during the life of Grasshoppers was how to translate the abstract, overarching goal of “helping small farmers” into the concrete, day-to-day reality of running a wholesale food-distribution enterprise. For the leadership of Grasshoppers, the price paid to farmers was a key mechanism for realizing producer development. Many producers recognized that the prices Grasshoppers paid were generous — indeed, that they were actually “too high” and seemed at odds with a business model dependent on tight margins.

*Many producers recognized that the prices Grasshoppers paid were generous — indeed, that they were actually “too high” and at odds with a business model dependent on tight margins.*

stability and great uncertainty.

Additional change occurred in 2010, when a major capital shortfall led to Grasshoppers very nearly shutting its doors. To prevent the closure, a new general manager (its fourth) led a recapitalization effort through a Series A investor

offering, which led to the reorganization of Grasshoppers' ownership into an investor board.

This board consisted of five voting members, including a representative of the original farmer-owners, the general manager (whose title switched to president after the investor offering), as well as Series A investors and non-voting members.

In 2013, a consultant was brought on to take over management and restructure the enterprise. Again, Grasshoppers switched its business model to focus on processing and manufacturing value-added products. But while these efforts were met with mixed success, Grasshoppers was under such financial constraint that it still

*continued on page 43*

Additionally, Grasshoppers' leadership adopted a policy of avoiding competition with farmers on any front within the local food market. For example, while the practice of targeting customers outside of the traditional “local food” market — as well as encouraging customers to join farm-based CSAs — may have seemed ideologically important, it went against the needs of the enterprise.

Food hub leaders should identify a strategic, frugal set of core services that address the highest needs within the context of the region's existing agro-food system. Recognizing the core competencies or value proposition of the food hub allows management to focus efforts on innovation and efficacies while having the confidence that success as an enterprise, in and of itself, is the realization of the food hub's mission.

The greatest opportunity Grasshoppers provided for farmers was serving as a reliable, high-volume buyer, which increased producer access to wholesale market channels. Though the additional services were appreciated, it was Grasshoppers' activities as a food aggregator and distributor that were, in the end, the greatest help to farmers.

#### **■ Food hubs need support from other organizations to help develop producers, consumer demand and infrastructure.**

While the enterprise was able to secure public and private funds to pay for infrastructure and operations, it needed more technical assistance. In a very real sense, the staff and owners of Grasshoppers had to build the food-system foundations on which their business was expected to stand — the necessary preconditions to support such an enterprise were simply not there.

As a values-based enterprise, Grasshoppers' mission included a broad set of social and environmental goals that motivated managers and staff to go “the extra mile” in providing technical assistance and general support for producers. The variability of growers in size, marketing skills and production expertise required a very extensive and costly level of support. The competing demands of these goals on staff and management's time diluted the effort on the core business needs of the food hub.

As previous studies have shown, successful food hubs thrive within an integrated system of support that includes Cooperative Extension, public health agencies, nonprofits, state services and national programs. While there were attempts on the part of Grasshoppers to partner with public, private and nonprofit organizations, partnerships fell well short of specific needs. Strategic and committed support, beyond financing, from partner agencies and organizations allows food hubs to focus on the core business and supports the broader development of a vibrant regional food system.

Acknowledging that not all regions have equal access to the same level of agricultural support services and technical assistance, there will inevitably be instances where a food hub must take on additional food-system development activities to fulfill its goals and mission. In this case, it is recommended that these activities be conceived of as a separate business line and managed accordingly. Time spent on these activities should be financially accounted for either through grants or other outside investment in such activities, or by direct financial subsidization by the other business lines. ■



# Farmers using co-ops to handle 'big data'

By Alan Borst, Ag Economist

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Precision agriculture, also called "smart farming," is a farming management concept based on observing, measuring and responding to inter- and intra-field variability in crops. The goal of precision agriculture research is to define a decision-support system for whole-farm management; the ultimate goal is to optimize returns from inputs used for production while preserving resources.

Precision agriculture seeks to use new information and communication technologies to increase crop yields and profitability while lowering the levels of traditional inputs (land, water, fertilizer, herbicides and insecticides) needed to grow crops. In other words, farmers using precision agriculture are using less to grow more. Farmers are increasingly using sensing technology to make farms more "intelligent" and more connected.

From the farmer's point of view, smart farming should provide producers with added value in the form of better decisionmaking for more efficient operations and management.

## Big data and precision ag

One developing area of precision agriculture involves "big data" applications: monitoring and analyzing data related to the weather, soil, pest or hydration conditions of a specific farm, field or even plant to make exact and predictive farming decisions. Collecting and transmitting this data in meaningful ways has been a barrier, but innovators are working to change that. New technologies — such as the "internet of things" (a network of internet-connected objects that can collect and exchange data using embedded sensors) and "cloud computing" — are expected to leverage this development and introduce more robots and artificial intelligence in farming.

Big data is a term for data sets that are so large or complex

that traditional data processing applications are inadequate. Big data represents the information assets characterized by such a high volume, velocity and variety as to require specific technology and analytical methods for its transformation into value.

Big data, as a tool for revealing hidden patterns, requires large mobilizations of technologies, infrastructure and expertise, which are much too elaborate for an individual farmer to process. There are three classes of people in the realm of big data: farmers who generate the data, agribusinesses that have the means to collect it, and firms that have developed the expertise to analyze it.

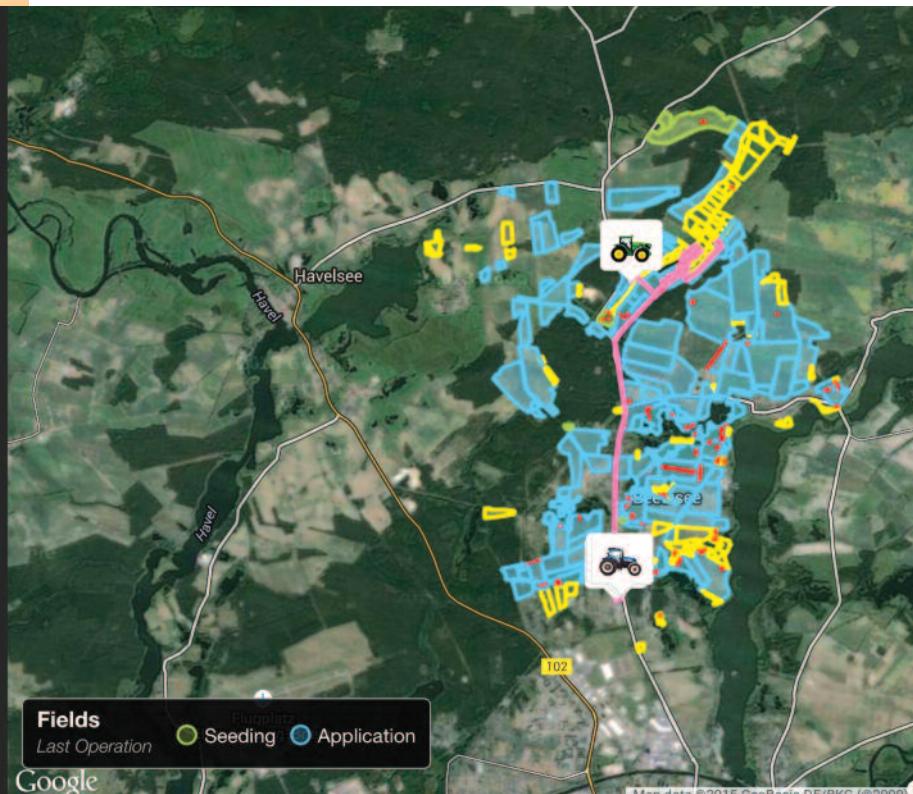
There is quite an imbalance in market power between the relatively numerous farmers creating the data and the few huge agribusinesses that collect, store and transform the data into useful information. Mary Kay Thatcher, senior director of congressional relations for the American Farm Bureau, sums it up in a *Southeast Farm Press* article (<http://www.southeastfarmpress.com/data/data-currency-driving-everything-security-issue>): "Ongoing mergers in the agricultural industry could result in just three or four seed/chemical companies controlling approximately 90 percent of the farm data in the United States."

Historically, there have been several major power shifts from farmers to agribusinesses due to the advent of railroads, farm machinery, chemical inputs, patented seeds and now big data. One way in which farmers have historically responded to these market power imbalances has been through the organization of cooperatives. In the case of big data, farmers have responded both by organizing new cooperatives and integrating existing ones to provide smart farming services

## Producers want data control

The American Farm Bureau polled farmers and ranchers across the nation in 2014 regarding big data and found that producers want to control the information their equipment collects during field operations. Survey respondents also liked

*Satellite technology can produce digital maps of farms, helping producers make precise applications of fertilizers and other soil amendments, thus avoiding over-application and runoff problems. Photos courtesy John Deere*



the idea of organizing a data cooperative that could serve as a central repository for their data to enhance security and maximize its value.

Subsequently, the Ag Data Coalition (ADC) was organized with 14 founding members, including agricultural groups

## *Farmers using precision agriculture are using less to grow more.*

such as Farm Bureau, universities and companies. One of the founding companies was Agri-AFC LLC. Agri-AFC was formed in 2003 as a joint venture between Alabama Farmers Cooperative and WinField Solutions, a wholly owned entity of Land O'Lakes.

“Understanding and managing the multitude of technology offerings and the flood of data that is now generated on-farm are the biggest challenges we encounter with our producers,” says Amy Winstead, Agri-AFC’s director of ag technologies, as reported in *Southeast Farm Press* (<http://www.southeastfarmpress.com/peanuts/agri-afc-joins-ag-data-coalition-founding-member>). “Partnering with

the ADC will enable us to continue working with our growers to manage and catalog their data while aligning with our goal to provide a seamless and transparent approach to big data for our customers.”

During the same time period, thousands of farmers across America were joining the Grower Information Services Cooperative (GiSC). GiSC’s mission has been to free data from proprietary “silos” to bring the opportunity to benefit from the data to member-farmers across the United States.

GiSC was formed to assist its members — U.S. agriculture producers — with the collection, retention and delivery of information. The guiding principle of GiSC is that growers produce the information related to their operations, and that growers should have ownership of that information and should have control over who may access the information and how the information may be used.

GiSC is similar to many agriculture cooperatives established to assist the growers in marketing products. GiSC will also assist in marketing a product: the grower’s information and data.

### **Data a byproduct of farming**

Agriculture production consists of many byproducts. One byproduct of agriculture production is the data necessary to operate the farm and ranch. Data include many points of information: acreage reporting, crop loss from natural disasters, production reporting, etc. There is a growing consensus that this data is quite valuable.

On March 3, 2017, ADC and GiSC agreed to combine their technology platforms and create a neutral, secure and private data storage repository controlled by growers. The combined platforms will be known as AgXchange and available through the newly named Growers Ag Data Cooperative.

Growers have also had more control over their data through their existing cooperatives. The nation’s largest farm co-op, CHS, partnered with TerrAvion in 2016 to provide precision ag services for members. Along with Agri-AFC and Land O’Lakes, as well as many other farmer cooperatives across the nation, these enterprises are keeping smart farming services under member-grower control. ■

# Priority voting system may offer advantages for changing co-op sector

By Thomas W. Gray, Ph.D.

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*Author's note: An earlier version of this paper was published by the author in 1986, during a period of intense merger, consolidation and acquisition activity by cooperatives and other businesses. Similar organizational changes are occurring today and thus warrant revisiting the discussion of how voting methods help preserve democracy in co-ops. This article also includes ideas from literature on European cooperatives — in particular, the development of priority voting systems in Denmark.*



Voting practices represent an important way to maintain member representation and control of cooperatives, especially during periods of rapid increase in the size and complexity of co-ops. The number of U.S. ag co-ops is declining by 2 to 3 percent annually, according to USDA's annual survey of cooperatives, with mergers being a major factor. Paralleling that trend is steady growth in average sales by ag co-ops, resulting from consolidation in the sector (see page 4).

Mergers and consolidations have been a predominant pattern among agricultural cooperatives in the United States and Canada for several years. More recently, co-op mergers have occurred in Ohio, Indiana and Texas (see *Rural Cooperatives* May/June 2016, p. 35-37). Tanner Ehmke, an economist with CoBank, suggests we may just be

approaching the cusp of a new wave of mergers, acquisitions and joint ventures as cooperatives deal with excess supplies of grains and oilseeds, storage shortages amid record inventories, resulting in more pressure to achieve savings from economies of scale (Ehmke, 2016).

Expansion of cooperative service areas across broader geographic territories, combined with co-ops becoming involved in a wider range of activities, can create member-relations challenges. Once primarily local businesses — serving one or two counties and farmer-members who produced one or two primary crops — the membership of an "average" farmer co-op may now extend across several states.

Further, farmers may now come from a wider range of backgrounds regarding scale of operations, crops produced and locations. This diversity can fragment farmers' expectations and place multiple, often competing, demands on the organization. Minority group members (as determined by commodity, volume produced, region or size of farm) may feel vulnerable and fear subordination to the needs of larger sub-groups within the cooperative. Under such pressures and conflicting demands, member participation may decline.

## Minority member representation

Some European cooperatives (particularly Danish agricultural co-ops) have instituted priority-voting methods in elections to prevent larger groups of members from gaining dominance over cooperative resources, and to help guarantee minority group

representation in cooperative decision making.

The purpose of priority voting is to encourage the democratic character of cooperatives by creating an election procedure that ensures minority group representation. An example of a balloting diagram used under such a system is presented in Figure 1. The steps detailed in a priority-voting election are:

■ In completing the ballot, each member must write the name of the preferred candidate in the No. 1 spot. The names of the rest of the candidates are then prioritized on the ballot. Members may write as many names on the ballot as they wish, but each candidate must be ranked separately.

■ In tabulating election results, ballot counters sort out candidates given first priority on members' ballots. The total number of votes cast for top-priority candidates, divided by the number of positions up for election, yields the minimum number of votes needed to win a position. This number is termed the "winning proportionate vote."

■ Second-choice votes are counted when first-priority candidates do not receive enough votes to fill available positions. Votes candidates receive under this choice are added to votes received under the first priority. Winning candidates must have vote totals (total of both first and second priority) equal to or exceeding the winning proportionate number of votes, as calculated in the second step.

■ If vacant positions still remain, votes cast for third-priority candidates are counted. Votes each candidate receives for first, second and third

choices are added. This process continues until all positions are filled, or until all votes for all priorities are counted and added.

■ If no candidate receives a winning proportionate number of votes after a count of all priorities, the candidate with the most votes wins.

■ In cases of ties, the candidate with the most first-priority votes wins. If the tie continues, the second-priority votes are counted. If there is still no winner, lots must be drawn. In cases where one person is being elected, the winning proportionate number of votes is half of all valid votes plus one, or a simple majority.

■ Candidates with the most votes above the winning proportionate number within

moves to second-priority votes.

Candidate Wadsworth places second with 39 total votes, which includes 20 first-place votes and 19 second-place votes. None of the other candidates obtain the minimum total.

Moving to third-place votes, candidates Hiwot, Campbell and Cesserich receive sufficient votes to win a position. Hiwot receives 10 first-place votes, 22 second-place votes and 32 third-place votes, for a total of 64.

Campbell receives 9 first-place votes, 24 second-place votes, and 31 third-place votes for a total of 64 votes. Cesserich receives 9 first-place votes, 24 second-place votes



**Figure1—Cooperative Priority Voting Method (100 total members)**

Candidates	Monroe	Wadsworth	Hiwot	Campbell	Cesserich	Parker	Members
1st Place Votes	35	20	10	9	9	17	100
2nd Place Votes	0	19	22	24	24	0	89
	35	39	32	33	33	17	
3rd Place Votes	0	8	32	31	2	0	73
	35	47	64	64	35	17	
4th Place Votes	0	0	0	0	0	0	0

each priority win contested positions until all positions are filled, or until vote counters move on to the next priority.

## Calculating the votes

In the example in Figure 1, 100 valid votes are cast. Three positions are open. Therefore, the proportionate winning votes number is 34.

When the first-priority votes are counted, candidate Monroe is the winner with 35 votes. None of the other candidates receive sufficient votes in the first-place balloting to fill the remaining positions. So the count

and two third-place votes for a total of 35.

Only one position is left open. Parker is eliminated. Both Hiwot and Campbell are tied with 64 votes while Cesserich has only 35. But Hiwot has more first-priority votes and therefore wins.

The three contested positions are filled. Monroe won first place, having gained sufficient first-place votes to win outright. Wadsworth was second, earning enough first-and second-place votes. Hiwot fills the last position, having enough first-, second- and third-place votes, plus breaking the tie with

Campbell by virtue of having more first-place votes.

## No guarantee

This priority voting method doesn't guarantee minority groups a position. It tends, however, to minimize the total votes needed to place a person in office.

Typically, under a "most-votes-wins" method, all votes are cast at once for each position. Each member has one vote for each open position. The majority could dominate balloting by selecting a favorite with each vote.

Under a simple-majority voting method, the three positions would have been filled by three separate ballots. The winning proportionate vote each time would have been a simple majority (half plus one). Again, the majority could dominate the balloting and eliminate minorities from a position.

Under the priority voting example, only 34 percent of the vote was needed to place an individual in office. Had four positions been up for election, only 25 percent of the vote would have been needed, making positions more accessible to minority sub-groups.

As cooperatives expand across geographic lines into new markets and

activities, heterogeneity of membership will also often increase. Priority voting may be a method for cooperatives to consider for helping all members recognize opportunities to articulate their needs in their organization by electing members to voice their concerns. ■

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*"Your biggest selling point is that you [co-ops] are the good guys. Tell your stories," urges panelist Jessica Ross (far right), managing partner of the Finn Partners public relations firm. Other panelists, (from left) are: Gina Schaefer, founder/CEO of a chain of Washington, D.C.-area Ace hardware stores; Howard Brodsky, co-CEO of CCA Global Partners; and Wendy Scherer, social media manager for Cabot Creamery Cooperative. Photos by Sarah Crozier, courtesy NCBA CLUSA*

# How do we foster a new generation



# of cooperators?

**By Meegan Moriarty**

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Co-ops are the answer, panelists agreed during a cooperative issues forum, held in May prior to the Cooperative Hall of Fame induction ceremony. But the question remains: how can co-op advocates raise

cooperative awareness, particularly among the next generation?

Panelists — including the 2017 Hall of Fame inductees — told their personal stories of how cooperatives address income inequality, market inefficiencies, community economic development, capital access, wealth creation and ownership.

"Your biggest selling point is that you are the good guys," declared panelist Jessica Ross, a cooperative public relations expert with Finn

Partners, a marketing and communications firm with offices worldwide. "Tell your stories," she implored.

With 30,000 cooperatives, 120 million members and 2.1 million cooperative employees in the United States, many Americans are already benefiting from the services of cooperatives, said keynote speaker Howard Brodsky, CEO of CCA Global Partners, a cooperative that provides group purchasing and other services to

its members. However, only 11 percent of those surveyed really know what a cooperative is, according to another of Brodsky's organizations, Cooperatives for a Better World.

"We don't have a problem with mission," asserted Brodsky. "We have a problem with messaging." And millennials are a particularly hard, but important, group to reach, according to forum participants, who deliberated on how to pass cooperative knowledge on to the younger generation.

The forum panel, held at the National Press Club in Washington, D.C., was introduced by Cooperative Development Foundation Chair Gap Kovach. It was sponsored by the

farmers with meager resources bonded together to market their agricultural products and compete against major grain and oil companies. These farmers own a company that now stands with agribusiness giants such as Archer Daniels Midland and Cargill, he said. "We are very proud," added Johnson, who oversaw CHS' growth from an \$8-billion to a \$40-billion, Fortune 100 company.

Richard Larochelle, retired senior vice president of the National Rural Utilities Cooperative Finance Corporation (CFC), started his co-op career at USDA's Rural Electrification Administration (REA), now the Rural Utilities Service. REA "took rural

from each family involved in a baked goods cooperative. She collected money each week, sometimes as little as \$2. Eventually, the cooperative raised \$25,000 and received a matching loan from the Small Business Administration. Her mentors were the adults who sacrificed and raised that money for the cooperative business.

"It was in the blood, in the spirit, in the soul. Every other decision I made was based on my being an organizer in the cooperative community . . . It even decided who I would marry," she said.

Her husband, John Zippert, became involved in the cooperative movement to help farmers market their sweet potatoes. He wrote to USDA's

*"We don't have a problem with mission. We have a problem with messaging."*

Cooperative Development Foundation, the National Cooperative Business Association, the Ralph K. Morris Foundation and Cooperatives for a Better World.

### Power of stories

The Hall of Fame inductees told compelling stories of how cooperatives meet community needs. As a volunteer, Rita Haynes, CEO Emeritus of Faith Community United Credit Union, set up a credit union so people who lacked access to credit could get a loan, learn financial literacy skills and begin to build wealth. Under her leadership, the credit union became certified as a Community Development Financial Institution and an approved Small Business Administration lender.

Haynes was also chair of a 28-member credit union association that obtained a \$200,000 revolving loan fund to provide small businesses loans to minority contractors.

John D. Johnson, retired president and CEO of CHS Inc., described how

America from darkness to light," Larochelle said. His mentors there were people who had started working with REA in the days before electricity was available in rural places.

These people, who had been hired during the Great Depression, had a powerful sense of cooperative mission, according to Larochelle. He later worked for the National Rural Electric Cooperative Association (NRECA) where he was instrumental in getting legislation passed that allowed cooperatives to buy REA loans at a discount. He also lobbied successfully for legislation ensuring that rural Americans had cheaper access to satellite television.

Carol and John Zippert, cooperative and civil rights advocates, came to cooperative development for pragmatic reasons. "We did it for survival," Carol said, adding that cooperatives allowed people with meager means to start a business.

She described working as a young woman for three years to raise \$300

Cooperative Service to order cooperative educational materials and began working with Father A. J. McKnight, mentor to both Zipperts (and himself a Cooperative Hall of Fame member). The Zipperts were married by McKnight after winning a lawsuit to become the first interracial married couple in Louisiana.

Shortly thereafter, the Federation of Southern Cooperatives/Land Assistance Fund was started to promote cooperative development in the South. Both Zipperts have been involved with the Federation, with John serving as director of programs for the Federation's Rural Training and Research Center in Epes, Ala. Both have been involved in cooperative education as well as in developing credit unions and cooperative housing, as well as fostering land ownership for rural people.

### Wake-up call for co-op education

"Hello! Cooperatives should be

taught in [business schools in] the United States," declared Larochelle, who noted that other business sectors have embedded their model in business school curricula. "It is outrageous that you can graduate with a degree in business and never once hear the word 'cooperative,'" he added.

"I studied economics at [City University of New York], and I never

Cooperative in Vermont, discussed a number of strategies for connecting with millennials and others. She suggested partnering with other cooperatives and conducting promotions as a group. She also advocated for connecting with cooperatives in other sectors.

Cabot and other cooperatives share each other's marketing and educational

an effective tool to engage them with the co-op. It can be hard for a credit union to match the pay offered by for-profit banks, so she said it is important that workers are educated regarding the credit union's mission.

Carol Zippert, who started a credit union in Alabama, has a Ph.D in educational leadership, supervision and curriculum development. She works as

## *"Hello! Cooperatives should be taught in [business schools in] the United States."*

heard of co-ops," agreed John Zippert. Larochelle is trying to remedy the situation. Since retiring from CFC, he is teaching a college class on cooperatives at Mary Washington University in Frederick, Va. and has started a food cooperative.

Local colleges can be an avenue for spreading the word about cooperatives, Brodsky agreed, adding that he recently judged a college business competition involving cooperatives. Larochelle's hope is to have cooperative business classes taught in every state, and he pledged to share the curriculum he is creating for his class at Mary Washington.

Panelists had a number of additional suggestions about how to spread the word on cooperatives. Ross suggested that cooperative advocates collect and share data supporting cooperative success stories. She noted that other business organizations engage in public relations activities and advertising to show how they benefit the community. In contrast, cooperatives' mission and function is to benefit the community.

Cooperatives need to "brag a little," said Gina Schaefer, owner of 11 ACE hardware stores in the Washington, D.C. area. ACE is a buying co-op for owners of independent hardware stores.

Wendy Scherer, social media manager with Cabot Creamery

content and make extensive use of infographics and videos. Scherer noted that videos can provide a helpful medium for telling stories about cooperatives.

Schaefer educates her employees about cooperative values, but acknowledges that co-op concepts can be difficult to explain, especially since ACE is not a worker or consumer cooperative. However, Schaefer draws parallels between the company profit-sharing plan and the patronage payments co-ops make to members, as well as sharing the co-op philosophy of commitment to community.

If employees understand that ACE — as a group purchasing cooperative of small business owners — can compete with corporate-owned "big box" stores, Brodsky said they can help educate ACE customers about cooperatives.

### **Remembering co-op roots**

Johnson tried to educate everyone who worked at, or even visited, CHS about the co-op's history. He researched CHS and filled the company lobby with historical displays and memorabilia. These displays explained how the farmers who formed the cooperatives that ultimately became CHS overcame the challenges they faced.

Haynes agreed that educating people about the history of cooperatives can be

an adjunct research professor for Tuskegee University's community-based youth partnerships and is a board member with the 21st Century Youth Leadership movement.

She talked about cooperative education that she had conducted with young people. Her students have raised money to create a credit union and own bank accounts. She has also taught young people to do organic farming. While many of her students will not become farmers, by learning about cooperative farming they have been exposed to cooperative principles.

### **Importance of mentorship and volunteerism**

Many of the panelists became engaged with cooperatives because they had co-op mentors. Haynes was mentored by Carrie Caine, who became a Cleveland, Ohio, city councilwoman. In turn, Haynes mentored young people. Like Zippert, she created a "junior credit union" where she taught financial skills.

"It's about 'we,' not 'me,'" said Larochelle. "The work of cooperatives never gets done. . . It's about empowering others to get things done."

He discussed his mentors — the people who had brought electricity to rural America — and mentorship at NRECA, where junior staff members

*The Class of 2017: Cooperative Hall of Fame inductees are (from left): John D. Johnson, retired president/CEO of CHS Inc.; Rita L. Haynes, CEO emeritus of Faith Community United Credit Union; Carol and John Zippert of the Federation of Southern Cooperatives; Richard Laroche, former senior vice president of the National Rural Utilities Cooperative Finance Corporation.*



were given key roles to foster their growth.

Haynes volunteered her services to create the Faith Community United Credit Union. All of the Cooperative Hall of Fame inductees gave generously of their time to promote cooperatives.

Haynes and Carol Zippert both said it is a major challenge to instill a commitment to cooperative principles in younger people. "We were young, passionate, struggling to survive," Zippert said, adding that a similar passion is too often lacking today.

Scherer has a pragmatic approach to engaging volunteers. Cabot Creamery has created a volunteer tracking system to help volunteers track their hours. Cabot rewards volunteers with cash, vacations, gift cards, gift baskets and even chocolate.

## Cooperatives cooperating

Cooperatives need to share resources across sectors and show allegiance to

each other, Scherer stressed. Carol Zippert suggested that larger credit unions deposit money in smaller credit unions, while Johnson advocated reaching out to competitors to accomplish goals.

Brodsky's website, CooperativesForA BetterWorld.coop, provides cooperative training materials, describes cooperative sectors and contains a list of cooperatives, as well as a cooperative locator. It also provides a cooperative exchange area where cooperatives can post offers.

## What's next?

Brodsky opened the forum with a startling statistic: eight people have the same amount of wealth as 3.6 billion people in the world.

Judy Ziewacz, president and CEO of NCBA CLUSA, asked the Hall of Fame inductees about the "next big thing for cooperatives." The struggle will always be with us, answered Carol

Zippert, so it is important to find a way to celebrate community and cooperation.

"With my background, it's all about food," Johnson said. He advocated using cooperatives to collect food and address childhood malnutrition.

John Zippert lamented that he had not reached his goal of ending poverty in the South through cooperatives. The next task for cooperatives, he added, is tackling poverty, income inequality and economic and social justice.

Cooperatives can provide patient capital so groups with limited wealth can own their job, store and credit union, he said. "There's a lot more work to do," he added. Fifty years after the Federation was created, 20 to 30 percent of people in his community live in poverty and the core leaders of the Federation have retired. "We hope young people will carry things forward." ■

# Understanding

## the role of values in traditional and hybrid cooperatives

**By Julie A. Hogeland, Ag Economist**  
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Many studies on cooperatives are rooted in economic concepts and assumptions. One such assumption is that cooperatives are either traditional (user-owned, user-controlled and user-benefiting) or hybrid (more corporate in outlook and practices) businesses. This article is intended to further understanding of how values emerge and change within all cooperatives, particularly hybrids, by proposing three hypotheses influenced by disciplines other than economics: anthropology, organizational behavior and political economy. Values enter the cooperative sphere through their potential to spark internal friction or tensions in the organization.

We begin with a brief overview of a cooperative crisis which brought hybridity to prominence. A pressing need to ensure profitability in light of this crisis likely contributed to the belief that hybrids were — and should be — driven by profit, irrespective of other co-op values.

The International Co-operative

Alliance (ICA) identifies cooperative values as: self-help, self-responsibility, democracy, equality, equity and solidarity. American co-op history adds the role of co-ops as a vehicle for greater producer control. This can encompass producers' control over their own destiny ("being their own boss") or more control over markets by developing grades and standards for new products, such as organics (Hogeland, 2006). ICA does not distinguish values according to whether a co-op is a traditional or hybrid business.

Jeremie Forney and Isabel Haberli (2017) note that hybrid co-ops contradict the definition of cooperatives used by the ICA: "As businesses driven by values, not just profit, cooperatives share internationally agreed principles and act together to build a better world through cooperation." Little is known about how hybrid co-ops manage to exclusively focus on profit and investment while (reputedly) keeping other co-op values at bay.

Hybrid cooperatives rely on both markets and "hierarchy." Market prices provide so-called "high level" price incentives to members while top-down management replicates corporate managerial hierarchy. Therefore, whether producer-

members truly "own and control" the cooperative is not necessarily clear and, indeed, may not be an issue for members. Most attention to hybrid co-ops seems to be prompted by interest in how their unique structural design (or "organizational architecture") remedies perceived weaknesses in the traditional cooperative model.

"The traditional [cooperative] structure consists of open membership, non-appreciable, non-transferable and (partly) redeemable shares, and capital accumulation via retained earnings" (Plunkett, et al 2010: 263). Hybrids are generally associated with a closed membership, a market allowing share transfer and appreciation and capital management plans, such as a base capital plan (which keeps patrons' equity investment proportional to their use of the co-op) [see Cook and Chaddad, 2004:1250].

Hybridity can be a springboard to other forms of organization. For example, U.S. Premium Beef (Kansas City, Mo.) started out as a marketing cooperative but reorganized as a limited liability company (LLC) to facilitate outside investment. Cooperatives are owned and controlled by producer-members. External investors dilute that control,

## *We may be seeing the emergence of a new and viable business form: the publicly listed cooperative hybrid.*

necessitating a greater role for top-down management.

### **Financial crisis**

The concept of hybridity first came to prominence around 2004 in the aftermath of the bankruptcies of three of the nation's largest ag cooperatives: Farmland Industries, Agway and Tri Valley Growers. At that time, USDA's Cooperative Programs office received numerous press inquiries asking if these failures heralded the end of the nation's ag cooperative sector.

To economists Michael Cook and Fabio Chaddad (2004), these events signaled a structural weakness in the way equity investments were managed by multi-commodity, traditional cooperatives. A particular vulnerability was the tendency to use cross-subsidization — applying the investment from one group of commodity producers to benefit another group.

Left unsaid was the incentive for cross-subsidization: the co-op value of solidarity based on the belief that "we're in this together, all for one and one for all." Solidarity among producers expressed in this manner allowed co-ops to shift resources to producers whose survival was at risk because of down markets (or poor production choices). To some degree, cross-subsidization conceivably offered late 20th century co-ops benefits comparable to being a conglomerate: gains in marketing one commodity offset losses in another.

Ultimately, however, cross-subsidization signals that the co-op is

experiencing a capital shortage. In fact, capital shortages spread across the co-op sector as the pace of market consolidation and centralization began accelerating late in the 20th century (Cook, 1997). To compete effectively, co-ops needed to "up their game" through an infusion of capital.

By the turn of the millennium, capital shortages had become the biggest problem for cooperatives. Accordingly, Cook and Chaddad (2004) began examining how cooperatives could foster equity accumulation and use capital more efficiently. They considered cross-subsidization inefficient because it diverted investment from its original purpose. Efficiency could be restored if equity contributions were properly aligned so that those who made the investment would also benefit from it. These insights arguably allowed profit (a concept which encompasses the least-cost concept of efficiency) to override other co-op values.

### **Values and hybridity**

How might the movement toward profitability and increased investment subsume other co-op values?

Proportional voting (in which a member's vote is amplified based on volume of delivery or purchases made) is an example of hybridity, since it overrides the democratic 'one member, one vote' principle of traditional cooperatives. According to Patrick Mooney (2004), proportional voting implies that competing [class] interests within the membership — ordinarily expressed and reconciled

through the democratic process — are funneled into an expression of the [class] interests of members with larger sized farms.

Some see an advantage to such focus and streamlining. In comparison with multi-focused traditional co-ops, the hybrid's singular emphasis on financial gain appears less complicated, more focused, purer. (In economic terms, the variance of member interests decreases, which in turn increases efficiency).

In the same vein, Cook (1997) argues that multiple values foster inefficiency because it's not clear how they should — or even could — be prioritized. A blurry commitment to multiple values makes it harder to identify a clear rationale for existence and, therefore, a realistic mission statement.

However, recent research by Sophie Wynne-Jones (2017) found that it is better to present potential benefits as linked or interwoven (all of a piece), rather than as stand-alone goals, e.g., economic or environmental or social goals). From her observations about farmer cooperation in Wales, she found a more comprehensive approach supported and buffered farmer-members when some desired outcomes were not realized.

Forney and Haberli (2017) challenge the notion of cooperative duality by proposing that all enterprises — traditional and hybrid co-ops, as well as investor-owned firms — draw on the same pool of values. This leads to:

## HYPOTHESIS 1

### Hybrids draw on more values than the dichotomy “traditional cooperative-hybrid” implies

Forney and Haberli point to the diversity of logics — the wide variation in rationales or approaches — that enterprises actually deploy. Drawing on research by J.K. Gibson-Graham, they note that diversity occurs in “transaction types (market, alternative market and nonmarket), labor (wage, alternative paid, unpaid) and enterprise (capitalist, alternative capitalist, non-capitalist). This implies, they say, that “the concept of hybridity unduly polarizes cooperatives and corporates in a way that does not acknowledge the implicit plurality of motivations and behaviors in all forms of business structure”

In short, enterprises do not operate according to a pre-determined template; they choose the attributes or qualities that reflect the kind of cooperative they want to be. And, the pool they choose from is very large.

Indeed, the binary opposition, “traditional cooperative-hybrid,” is itself misleading and limited, according to Forney, an anthropologist. Unlike economics, anthropology has a rich history of using pairs of binary oppositions — such as hot-cold, male-female, culture-nature, cooked-raw — to capture how the mind is believed to perceive differences. This approach has largely fallen into disfavor, however. Rather than opposing two ends of a cooperative spectrum, Forney and Haberli suggest that these two sets of literature [on traditional and hybrid co-ops] in fact illustrate diverse enactments of values among cooperative structures.

The bottom line: some co-ops embrace many values; others choose less.

#### Self-interest

Economists usually justify profit-seeking as an entirely rational goal, based on pure self-interest. What happens to rationality and self-interest in the Forney-Haberli framework?

From an organizational behavior perspective, Richard Scott (1987:509) suggests that “institutional arguments need not be formulated in opposition to rational efficiency, [rather] such arguments are better seen as complementing and contextualizing them.”

“Context” often implies putting events in their historical setting. During the late 20th century, starting from about the 1970s, business scholars touted the advantages of conglomerates. This may have influenced cooperatives’ readiness to implement cross-subsidization.

More generally, since individual co-ops will have a largely unique history, it may be useful to think about the influences of the external environment on hybrids, i.e., what economists call “exogenous change.” The second hypothesis draws on Richard Scott’s proposition based on the field of organizational behavior.

## HYPOTHESIS 2

### Organizational values mirror their environment (Scott, 1987)

“Context” can also mean fully developing an argument to account for the meanings and implications of variables. In this respect also, Scott’s argument is consistent with the Forney-Haberli framework:

“Self-interest does not oppose other motivations, like feeling of belonging, solidarity and collective economic empowerment. None of these motivations are purely economic or non-economic...they are “more-than-economic” or “economic and more.”

“As an example, profit seeking is usually related to other goals that people strive for. In farming, these goals might be farm succession, an idea of what a good farmer is (or is not), a socially constructed desire for pride in production, an attempt to establish more autonomy on the farm, etc.” (Forney, communication with author, April, 2017).

#### How values change

As described, co-op hybridity is a fairly recent development. It can be considered a new movement or, alternatively, a refinement of the cooperative model that contributes to co-op evolution. Mooney (2004) notes that new social movements involve the “emergence of new or formerly weak dimensions of identity . . . They are associated with a set of beliefs, symbols, values and meanings related to sentiments of belonging to a differentiated social group” [e.g., large producers] (2004: 94).

In particular, Mooney anticipates that internal tension (which he calls “a site of contradiction”) will emerge between “old,” or traditional, forms of cooperation and newer forms of cooperation, e.g., a hybrid co-op or conversion to another business model.

The third hypothesis is influenced by political economy, specifically, the notion of change adopted by Marx and Hegel, as interpreted by Mooney. This intriguing hypothesis suggests that, as hybrids evolve, profit *could be* subordinated to other co-op values.

## HYPOTHESIS 3

### Contradictory tensions representing competing cooperative values are resolved in a back-and-forth, dialectical process (Mooney, 2004)

A dialectical, back-and-forth process from one extreme to another is illustrated by the relative importance of profit within co-ops. Historically, cooperatives have been ambivalent about earning profits because members have been inclined to view profits as “coming off the backs of farmers” (Hogeland, 2004: 23). Co-ops instead emphasized altruism. To co-op managers, the surface meaning of altruism was, “don’t exploit the business for profit.” The tacit meaning was, “don’t take advantage of farmers.”

What happens to this strong sentiment when co-ops begin to embrace profit? Is it realistic to think that it could disappear?

Similarly, how does the nature of solidarity change as co-ops evolve from traditional to hybrid? Cook and Chaddad (2004:1252) suggest that [traditional] co-op members are bonded by a common commodity or user interest. Over time, as the co-op model evolves to include outside investors as members, these authors anticipate that a shared interest in maximizing return on investment will become the basis of solidarity.

This proposition is nonetheless rooted in an “either-or” binary. Where is the middle ground, the transitional case?

Perhaps O.F. van Bekkum and J. Bijman (2007) were prompted by the Cook-Chaddad proposition to ask whether hybridity foreshadows the end of the cooperative business form. However, their research suggested that some hybrids deliberately avoided converting into limited company structures so that they could retain their cooperative identity. (The functional changes associated with hybridity — such as establishing a market for shares or a capital management plan — are not necessarily at odds with maintaining a co-op identity, a point not anticipated by scholars when hybrids were first introduced.)

“The majority of all major marketing cooperatives in the Netherlands have ‘lowered’ their commercial activities into limited company structures, but have retained 100 percent cooperative ownership” (van Bekkum and Bijman, 2014:6). A shift from a member-owned form into an investor-owned form, while remaining farmer-owned, can enhance flexibility of decision-making, attract external capital or impact tax issues. Indeed, van Bekkum and Bijman foresee that evolution of the co-op business model may signal the emergence of a new and viable business form: the publically listed cooperative hybrid.

## CONCLUSIONS

Organizational scholars Albert, Ashforth and Dutton (2000) interpret the dismantling of conventional organizations as a sign that an organization’s core being increasingly belongs in the heads and hearts of its members. Under these circumstances, it becomes more important to have a mental image (or cognitive structure) of what the organization [i.e., cooperative] stands for and where it intends to go — in short, a clear sense of the organization’s identity.

Maintaining co-op identity and identification despite hybridity may be a new way for farmers and ranchers to gain greater power in the marketplace.

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### **Jay Debertin new CEO at CHS**

CHS Inc. has elected Jay Debertin as president and chief executive officer, succeeding Carl Casale.



Debertin previously served as executive vice president and chief operating officer for the company's diverse energy operations and food

ingredients business.

"As we take our cooperative into its next chapter, we are confident that Jay is the right leader," says Dan Schurr, CHS board chairman. "Jay's experience in achieving operational excellence and driving results fits squarely with our unwavering goal to deliver returns to our member-owners now and for the long term."

Debertin joined CHS in 1984 and has since held a variety of leadership positions in energy, trading, risk management, transportation and agricultural processing. He is also chairman of the co-op's Ventura Foods division.

"CHS is strong today because we drive the business with a central purpose in mind: to help our cooperatives and farmers grow," Debertin says. "I look forward to working with our talented group of employees as we concentrate on world-class execution across our system. I see growth and strength ahead for our business."

Casale leaves after seven years leading the nation's largest cooperative, during which time CHS returned \$3 billion to its owners, invested \$9 billion

in new capital expenditures and nearly doubled the size of its balance sheet, from \$8.7 billion in 2010 to \$17.3 billion at the end of fiscal 2016.

Debertin assumes the helm of the co-op following a rough year in 2016, which the co-op has called its most challenging year of the past decade. CHS' net income declined by 46 percent last year during a period marked by large worldwide grain supplies. CHS was also among the largest creditors of a Brazilian commodities trader, Seara Ind e Com de Produtos Agropecuários Ltda, which recently declared bankruptcy. CHS holds credits of about \$200 million in the Brazilian firm, Reuters reported.

Originally from East Grand Forks, Minn., Debertin holds a bachelor's degree in economics from the University of North Dakota and an MBA from the University of Wisconsin.

### **Breeding co-ops to merge**

Accelerated Genetics, Baraboo, Wis., and Select Sires Inc., Plain City, Ohio, are joining forces as a unified cooperative, effective July 1, 2017. At a special delegate meeting June 22, Accelerated Genetics officials voted to unite with Select Sires, finalizing the agreement recommended by the boards of both co-ops.

"Accelerated Genetics has been searching for a partner that could enhance the business and move it forward," says Scott Dahlk, board chair of Accelerated Genetics. "Joining forces with Select Sires is a positive move for both member-owners and producers worldwide."

The agreement specifies that Select

Sires "will acquire all Accelerated Genetics assets, integrating the employees and independent sales representatives in each of their geographic member organizations." The decision to merge furthers an existing, collaborative business relationship between the two cooperatives that began in 2001. Each co-op shares ownership of World Wide Sires Ltd., the international marketing arm for both companies in Europe, Africa, Asia, the Middle East and Oceania.

"By working together, we will be stronger," says David Thorbahn, Select Sires president and CEO. "The value and expertise gained by joining the people from both organizations allows us to offer our customers a broader genetics program in addition to an outstanding animal health product line." The merged co-op will be better able to expand genetic research, technical support, service and programs "with people who are passionate about the dairy and beef industries," he adds.

The two co-ops are built upon the same cooperative business principles and share similar operating structures. "Each organization stems from a root of innovative breeders who had a common vision to move the dairy and beef industries forward. Both cultures value the input of their member-owners and recognize the importance of their guidance in driving the need to produce superior genetics and outstanding reproductive programs."

### **Calif. co-op buys Oregon Cherry Growers**

Pacific Coast Producers (PCP), Lodi, Calif., is buying the processing

# DFA unveils new headquarters

Dairy Farmers of America (DFA), a national farmer-owned dairy cooperative, recently celebrated the opening of its new headquarters in Kansas City, Kan. The three-story, 110,000-square-foot building, designed by HOK, honors the cooperative's dairy farmer members.

"This building is a testament to our family farmers and the sustainable practices they employ on their dairies each and every day," says Rick Smith, DFA president/CEO. "We intentionally designed it to use more natural materials, like reclaimed woods, concretes and metals — so there's a welcoming feel, while still being very modern and fully equipped for how the world works today. It's not a typical corporate office space, but it absolutely functions like one."

Other unique design touches and furnishings pay homage to life on the farm and the production of milk, including the use of plaid and cow hide upholsteries for various seating areas. Wall art showcases aspects of DFA's business, from a barn board and milk bottle caps to steel pipes representing the cooperative's numerous milk processing plants.

As visitors enter the building's lobby, they are greeted by a 25-foot sculpture of pouring milk, there to represent and remind employees and visitors about what's at the core of



*A sculpture of milk pouring down from above greets visitors at the new headquarters of Dairy Farmers of America (DFA) in Kansas City, Kan. Photos courtesy DFA*

sustainable design practices, including panels of glass framing the building's exterior which not only bring in an abundance of natural light, but also help reduce energy use. Another sustainable building feature is the use of under-floor air, which allows A/C vents to deliver cool air from the floor up, which is far more efficient than blowing cool air down.

Other sustainable elements include:

- 100-percent LED lighting, with automatic energy-saving mode;
- Composting trash and recycling throughout the building;
- Two electric car charging stations;
- Several reserved fuel-efficiency parking spots. ■

operations of Oregon Cherry Growers of Salem, Ore. The deal was expected to close by the end of June 2017.

PCP, a co-op owned by 160 farm families in Northern California, says it will continue to operate Oregon Cherry Growers production in Salem and The Dalles and that no layoffs are planned,

according to a report in the *Statesman Journal* newspaper. The Oregon company's fresh cherry business is not included in the sale; it will carry on as Cascade Fruit Growers.

"We believe this acquisition will be positive for the future of Oregon Cherry Growers, for our employees and

our growers," Oregon Cherry President Tim Ramsey said in announcing the sale. Oregon Cherry Growers consists of about 60 farmers along the Columbia River Gorge and in the Willamette Valley.

"Our company values and strengths align well with those of Oregon Cherry

Growers, and will further allow us to serve the needs of our customers," PCP President and CEO Dan Vincent said in the sale announcement. "We fully expect this new venture to be a platform for the continued growth of our cooperative."

## Dairy groups working with Trump Administration on NAFTA modernization

Two leading dairy groups are working with the Trump Administration to modernize the North American Free Trade Agreement (NAFTA) to ensure it safeguards open trade with Mexico and confronts what they call "increasingly protectionist dairy policies by Canada."

Joint comments sent to the U.S. Trade Representative, the U.S. Dairy Export Council (USDEC) and the National Milk Producers Federation (NMPF) describe the existing North American dairy landscape as one in which U.S. dairy products flow relatively unhindered to Mexico, but which are curtailed by Canada's increasing use of policy tools, which it says go against international trade obligations.

"NAFTA has accomplished a great deal over the past two-plus decades, but it has also been overtaken by new, unanticipated forms of trade and trade problems," says Tom Vilsack, USDEC president/CEO and former U.S. secretary of agriculture. Since NAFTA's implementation, the United States has shifted from being a consistent net importer of dairy products to being a significant net exporter. Over the past five years, cumulative U.S. dairy exports are more than double the import total, he notes.

"The relationship between the dairy sectors of the U.S., Mexico and Canada is of such great importance to all of our nations that we need to devote the time and effort to make it better," adds Jim Mulhern, president/CEO of NMPF. "A modernized NAFTA agreement must preserve the open and dependable trade relationship with Mexico, and remove

remaining barriers to trade that were not adequately addressed in the original agreement."

Last year, the U.S. dairy industry exported \$1.2 billion worth of dairy products to Mexico, a dramatic increase from \$124 million in 1995. Mexico is the largest U.S. dairy export market by far, roughly double the size of the industry's second-largest market, Canada.

A modernized NAFTA would increase U.S. dairy exports, create jobs and build business partnerships between the three countries, according to the submitted comments. On the other hand, withdrawing from NAFTA could devastate the U.S. dairy industry.

The document's top request of the Trump Administration is for a "decisive confrontation and resolution" of nontariff concerns, including the removal of Canadian milk pricing classes 6 and 7, and the inclusion of Canadian dairy tariffs. Their main concern for Mexico is protecting the ability to sell cheeses with common names, like "parmesan," "gorgonzola," "asiago" and "provolone." The European Union is attempting to restrict their use to European producers.

## Rural Prosperity Task Force formed

Agriculture Secretary Sonny Perdue hosted an inaugural meeting in June of the Interagency Task Force on Agriculture and Rural Prosperity. Participants, including cabinet members and officials from more than 20 executive agencies, met at USDA headquarters. An executive order, signed by President Donald Trump, established the task force, chaired by Perdue, "to ensure the informed exercise of federal authority that impacts agriculture and rural communities."

Participants affirmed their commitment to working collaboratively in support of rural Americans. Energy Secretary Rick Perry and Mick Mulvaney, director of the Office of Management and Budget (OMB),

discussed how rural communities are different and the importance of addressing their energy needs.

Perry remarked that investor-owned Rural Electric Cooperatives can access low-interest loans from USDA's Rural Utilities Service and are an excellent example of how to make federal resources accessible to rural communities. "Promoting agriculture and rural prosperity is something that is very important to me, since I know first-hand how vital energy and electricity are to our rural areas," said Perry.

The task force is charged to examine, among other issues, current barriers to economic prosperity in rural America and how innovation, infrastructure and technology may play a role in long-term, sustainable rural prosperity, while also emphasizing regulatory flexibility for farms and small businesses. A report with recommendations for legislative or administrative actions is required within 180 days.

## Farmer Co-op Conf. slated in St. Paul

Farmer cooperative leaders and professionals who work with co-ops will gather Nov. 1-3 in Minnesota for the 20th annual Farmer Cooperative Conference. The event, organized by the University of Wisconsin Center for Cooperatives, will be held at the newly renovated Intercontinental St. Paul Riverfront hotel in St. Paul.

Co-op directors, managers and those doing business with ag cooperatives are among those who will gather to exchange ideas with policy, research and legal experts about issues affecting the agricultural cooperative community. Speakers will address today's most pressing competitive challenges and issues facing co-ops, presenting ideas on the latest strategic thinking. Co-op leaders will leave the conference with new strategies and techniques to improve their farmer-owned cooperative.

For more information, visit: <https://farmercoops.uwcc.wisc.edu/>.

# Anne Hazlett to lead USDA Rural Development

Agriculture Secretary Sonny Perdue has named Anne Hazlett to lead the Rural Development agencies at the U.S. Department of Agriculture (USDA). Hazlett most recently served as chief counsel to the majority on the U.S. Senate Committee on Agriculture, Nutrition, and Forestry.

Hazlett, whose title will be Assistant to the Secretary for Rural Development, will oversee the Rural Utilities Service, the Rural Business-Cooperative Service and the Rural Housing Service and report directly to Secretary Perdue. The announcement is in keeping with a realignment of USDA announced by Perdue in May. He says it represents an elevation of Rural Development, which had previously been in the portfolio of an undersecretary who, in turn, reported to the deputy secretary of agriculture.

“With this addition to USDA Rural Development, rural America will have a seat at the main table and have walk-in privileges with the secretary on day one,” Perdue says. “With her background of advising the Senate committee overseeing agricultural and rural development issues, Anne Hazlett comes with a depth of knowledge and experience perfectly suited to her role in helping to restore prosperity to rural America. We are excited to have her aboard.”

“Small towns and the people who call them home have been my life’s passion,” Hazlett says. “It is with great enthusiasm and a deep commitment to rural America that I am eager to get to work at USDA and be a partner in crafting solutions to the significant challenges these communities face from economic opportunity to infrastructure, quality housing, and addiction.”

An Indiana native, Hazlett has worked on agriculture and rural issues for more than 15 years. In her recent work with the Senate Agriculture Committee, Hazlett was an advisor on many issues impacting rural America, from Farm Bill programs to broadband and child nutrition. In addition to her public service in Washington, Hazlett has managed the Indiana State Department of Agriculture and was an advisor to Indiana

Governor Mitch Daniels on agriculture and rural issues.

She also served as chief of staff to Indiana Lt. Governor Becky Skillman, assisting in the creation of the state’s first Office of Community and Rural Affairs, an agency devoted to providing financial and technical



*Anne Hazlett is now leading USDA Rural Development, which includes the Rural Business-Cooperative Service, Rural Utilities Service and the Rural Housing Service.*

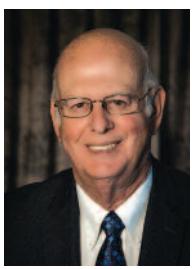
assistance to rural communities. She also supervised management of the state’s housing finance, energy and tourism agencies. Hazlett has also worked in private law practice, advising clients on agriculture and environmental regulatory matters.

Hazlett is a graduate of Kansas State University, graduating Magna Cum Laude with a bachelor’s degree in agricultural communications. In addition, she holds a law degree from Indiana University and a master’s degree in agricultural law from the University of Arkansas.

The increased emphasis on Rural Development at USDA is in recognition of the economic difficulties facing rural communities, which have lagged behind other parts of the country in prosperity. Fighting poverty wherever it exists is a challenge facing this country, as nearly 85 percent of America’s persistently impoverished counties are in rural areas. Rural childhood poverty rates are at their highest point since 1986, affecting one in four rural children, with deep poverty among children being more prevalent in rural areas (12.2 percent) than in urban areas (9.2 percent). ■

## CRI leader to retire

Doug Wilson, CEO of Cooperative Resources International (CRI), Shawano, Wis., will retire from the agricultural holding cooperative in August. Wilson spent 49 years in the artificial insemination (A.I.) industry, 39 of them with CRI.



Early in his career, Wilson worked in cattle genetics and came to GENEX, part of CRI, as the vice president of genetic programs. By 1993 he was chief operating officer of GENEX, and in 2002 was named CEO of CRI.

Under Wilson's leadership, CRI grew by revenue and employees. CRI reported \$189 million in revenue in 2016 and now employs more than 1,350 people across the globe.

"Throughout my career, the changes at CRI and within the agricultural industry have been many and exciting," says Wilson. "One of the greatest rewards has been to navigate those changes with an outstanding group of people — members, delegates, directors and employees included. Because of this dedicated team, I'm certain the best decade for this cooperative and its member owners is yet to come."

The CRI board has begun the search for a new CEO.

## CoBank sees growth in organic dairy, pork production

Despite current excess supplies, rising demand points to a bright future for the U.S. organic milk industry, which is leading a record number of dairies to transition to organic milk production, according to a new report from CoBank. Organic milk generates the highest sales of any certified organic commodity, and steady demand growth will lift organic fluid milk market share and further stimulate product innovation.

The substantial gap between organic and conventional on-farm milk

prices, combined with more price stability, is driving the transition," says Ben Laine, CoBank senior dairy economist. "We are seeing increasing herd sizes for many existing organic dairies looking to take advantage of size efficiencies and price premiums."

In another report, CoBank sees strong profitability and rising global demand creating a strong incentive for U.S. pork processors to expand capacity. The impending increase in demand for hog supplies will create favorable terms for producers, while intensified competition among processors could lead to a short-term compression in packer margins, CoBank's study found.

"U.S. pork packing capacity will increase 8 to 10 percent by mid-2019, when five processing facility construction projects are complete and fully operational," says Trevor Amen, a CoBank economist who specializes in animal protein. "Hog production is expected to increase 2 to 4 percent in both 2017 and 2018 to meet the demand for more supplies, with the bulk of increased production coming from small to mid-size pork producers in the Midwest."

## Dairy co-ops work with Walmart on sustainability

Dairy Farmers of America and Land O'Lakes Inc. are participating in Project Gigaton, an initiative to reduce greenhouse gas emissions from key Walmart vendor operations and supply chains by one gigaton by 2030. Both cooperatives will use the new FARM (Farmers Assuring Responsible Management) Environmental Stewardship module, developed by the National Milk Producers Federation, to help track and communicate reductions in greenhouse gas emissions on dairy farms.

Project Gigaton identifies energy, agriculture, waste, packaging, deforestation and product use and design as areas in which to focus emissions-reduction efforts. The commitment of DFA and Land O'Lakes

focuses on manure management as one of the key areas for continuous improvement on dairy farms. The effort also encompasses improving yield potential and farm efficiency, as well as reducing enteric emissions associated with ruminant digestion.

The FARM Environmental Stewardship tool estimates greenhouse gas emissions and energy intensity by using the results from a dairy life-cycle assessment conducted by the Applied Sustainability Center at the University of Arkansas.

## Heritage Ridge Creamery brand launched

The Michigan Milk Producers Association (MMPA) has launched the Heritage Ridge Creamery brand for cheese produced at its Middlebury, Ind., dairy plant. The new brand reflects both the heritage of the plant and the Amish community farmers who help supply it, as well as the robust, 100-year



Heritage Ridge Creamery brand cheeses are now being produced in Middlebury, Ind.

history of MMPA as a farmer-owned cooperative.

"With our acquisition of the Indiana cheese plant last fall, we were enthused by the opportunity to diversify our product portfolio and develop a brand owned by our dairy farmer members," says Joe Diglio, MMPA general manager. "Our new, Heritage Ridge Creamery brand demonstrates our commitment in expanding our presence within the dairy industry while embracing the legacy of the community."

In addition to the launch of the new cheese brand, acquisition of the Middlebury plant positions MMPA to explore further expansion opportunities there in the future. Internal improvements are being at the plant, which currently processes about 400,000 pounds of milk per day into longhorn and deli horn cheeses.

The plant is operated by MMPA's wholly owned subsidiary, Middlebury Cheese Company LLC. It produces Colby cheese and a softer, mild-flavored cheddar cheese, as well as Colby-Jack, Cheddar, Pepper-Jack and other cheese flavors.

## Landus Co-op plans consolidation and growth

Landus Cooperative is implementing Project 2020: Consolidate Then Grow, a multi-year initiative to enhance profitability and re-invest in more efficient assets on behalf of the co-op's 7,000 members. "We are reducing costs and consolidating to be more profitable and, in turn, re-investing profits to more efficiently handle smart volume through strategic assets," says Milan Kucerak, CEO of the Ames, Iowa-based farmer-owned cooperative.

Implementation of the consolidation phase includes:

- Full closure of four locations in Leland, Parkersburg, Bristow and Coon Rapids;
- Closing or "seasonalizing" several grain facilities;
- Shifting agronomy product lines to regional hubs, with central dispatch;
- A 5-percent reduction in part-time and full-time employees in the 26 counties in which the cooperative has locations.

"We know these changes deeply impact our work family, and the decisions have been difficult," Kucerak says. "While never easy, we need to make changes in order to move our business forward on behalf of our farmer-owners."

Implementation of the growth phase is underway as capital expenditure proposals are being finalized for board

approval with implementation anticipated in the next fiscal year. A variety of multi-million-dollar projects are expected to be implemented through fiscal year 2020 including: automating grain assets and agronomy hubs; building greenfield grain/agronomy hubs in currently underserved markets; standardizing processes and procedures.

## Co-op Impact Conference, Co-op Festival slated

The National Cooperative Business Association CLUSA International



(NCBA) is planning the inaugural Co-op Impact Conference, Oct. 4-6 in Alexandria, Va., just outside Washington, D.C. This event will bring together a broad spectrum of cooperative sectors to build on, and amplify, the economic impact co-ops have in the United States and internationally.

The keynote address will be made by Vern Dosch, president and CEO of the nearly 50-year-old technology business National Information Solutions Cooperative (NISC), an industry leader in providing advanced, integrated IT solutions for its member-owners, helping them compete in the changing utility and telecommunications industries.

Impact 2017 will replace the sector-specific conferences NCBA has traditionally hosted.

It will focus on the significant role that cooperatives play in the national and international economy, as well as how the cooperative business model values and benefits individuals, businesses and communities. Sessions

will delve deeply into emerging issues for purchasing co-ops, international cooperative development professionals, co-op economists and emerging cooperative leaders.

NCBA is also planning the inaugural Co-op Festival, Sept. 30-Oct. 1, on the National Mall in Washington, D.C., to spotlight the economic impact, diversity and sustainability of the co-op business model, which 70 percent of consumers say they already trust. Designed to kick off Co-op Month, this two-day public awareness event will feature live music, high-profile speakers, games, giveaways and interactive booths to engage a potential audience of 65,000+ people on the National Mall.

The event will also serve as a visual reminder of the success and diversity of the co-op business model to elected officials in the nation's capital. For more information about both events, visit: [www.ncba.coop](http://www.ncba.coop).

## Clinton Shick honored by Ag Council

Clinton Shick, past board chairman of Blue Diamond Growers, was honored with the California Cultivator award during the 98th annual meeting



of the Agriculture Council of California, recognizing his many contributions to agriculture and long leadership of the almond growers' cooperative.

Shick is a third-generation farmer from McFarland, Calif., and served on the co-op's board for more than 30 years, including 16 years as chairman, during which time he helped lead the cooperative through unprecedented growth.

He helped "lead the cooperative into an era where it handled more almonds than ever before," says Ag Council President Emily Rooney. "That growth was fueled by the development of several innovative marketing initiatives, including the development of a new

plant in Turlock and the expansion of the Almond Innovation Center in Sacramento.”

“I know many of the prior recipients of this award, and to become part of this group is a high honor,” Shick says. “Serving on the Blue Diamond board was a significant, challenging and rewarding experience all by itself. I always considered it a privilege and honor to serve.”

Dan Cummings, the co-op’s current board chairman, also paid homage to his predecessor. “Clinton had a thoughtful way of drawing out others’ input on the board while also sharing his sage insights.”

Shick grows several hundred acres of almonds and also operates a farm management business devoted to almonds, walnuts and cherries. He is past president of the Kern County Farm Bureau and a current member of the Central Valley Almond Association, a cooperative huller/sheller.

## Snyder wins consumer service award

Charles E. Snyder, president and CEO of National Cooperative Bank, was awarded the 2017 Esther Peterson Consumer Service Award during the Consumer Federation of America’s (CFA) 47th annual awards dinner in June. The award recognizes individuals who are strong advocates for consumer rights and make a positive impact in communities.

“Chuck has devoted himself to building a relevant, sophisticated and thriving financial institution that focuses on the cooperative principles and values,” said award presenter Martin Lowery, executive vice president for external affairs at the National Rural Electric Cooperative Association and NCB board chair. “Those values are demonstrated by Chuck and his staff every single day in their lending practices: self-help, self-responsibility, democracy, equity, equality and solidarity.”

Since joining NCB in 1983, Snyder has played a transformational role in navigating the bank through its early

years and throughout its evolution into the complex and successful financial institution it is today. He is credited for helping NCB maintain its commitment to socially responsible banking and has been instrumental in other leadership roles for the cooperative sector.

“I have been very fortunate to have found the consumer and cooperative movement, and that has given me a sense of purpose, of doing the right thing, and it has greatly enriched my life,” Snyder said.

Esther Peterson “was a tireless and effective champion of the rights of women, workers, and consumers, and her advocacy as the highest ranking woman official in the Kennedy and Johnson administrations changed the lives of every American,” according to CFA.

## Congress increases funds for international co-op development

The omnibus appropriations bill for fiscal 2017 increases funds for cooperative development by \$1 million, which Congress added to the international Cooperative Development Program (CDP) grants, bringing the total available in fiscal 2017 to \$12 million.

CDP supports public-private partnerships between U.S. cooperatives and cooperative development initiatives in the developing world. The program, which started in the early 1960s, has created thousands of jobs, leveraged hundreds of millions of dollars in private funding and positively affected the lives of hundreds of millions of cooperative and credit union members.

Through CDP, the U.S. Agency for International Development (USAID) supports international cooperative and credit union development programs and projects implemented by 10 U.S. cooperative development organizations.

“The members of the U.S. Overseas Cooperative Development Council (OCDC) are pleased that Congress understands the importance of cooperatives in international economic development and the impact this

public-private partnership between the U.S. government and the cooperative sector has on global stability,” says Paul Hazen, OCDC executive director. “Our members’ current cooperative development programs focus on food security, savings and loans, democratic organizations, health, telecommunications and electrification, which link U.S. cooperatives to those in the developing world.”

OCDC brings together organizations committed to building a more prosperous world through cooperatives.

## New president for CHS Foundation

The CHS Foundation, funded by charitable contributions from CHS Inc., has appointed Nanci Lilja as its new president. Lilja will lead the Foundation’s work to develop the next



generation of agricultural leaders, champion national ag safety and advance rural vitality in hometown communities.

An experienced leader at CHS, Lilja dedicated the past 37 years of her career to key roles within the co-op’s legal and compliance organization. She will continue in her current role as director of legal compliance operations.

Lilja will lead the Foundation’s continued implementation of two of the largest gifts in foundation history. Last year, the Foundation announced a \$3.4-million grant to transform ag education with the University of Minnesota. It also received a \$2.5-million grant to create the CHS chair in risk management trading at North Dakota State University.

Lilja currently serves as the board chair of the Heartland Credit Union and is the incoming chair of the Certifying Board of the National Association of Legal Assistants. She has a BA in business from St. Mary’s University of Minn. ■

## Job Generators

*continued from page 6*

(20,778) and dairy (22,214). Those three commodity sectors accounted for 78 percent of all marketing co-op FTEs.

For full-time employees by commodity sector, grain/oilseed co-ops had the most full-time workers in 2015 (23,607), followed by dairy co-ops (21,383) and fruit/vegetable (14,030). Fruit/vegetable co-ops by far had the most part-time employees (13,495), followed by grain/oilseed co-ops (8,716) and sugar (4,399).

Among the three basic co-op groupings, marketing co-ops led the way for full-time jobs (74,421), followed by supply co-ops (61,023). Service co-ops had 771 full-time workers. The numbers for part-time employees were: marketing co-ops (32,505), supply co-ops (17,683) and service co-ops (816).

However, when examining FTEs per co-op on a commodity basis, we find that the average sugar co-op employed the most FTEs (309), followed by rice (239); dairy (198); poultry (177); fruit/vegetable (166); and nut (127), grain/oilseed (62).

The average U.S. farmer co-op in 2015 had a workforce of 79 FTEs. For the three basic co-op groups, averages were: marketing (84 FTEs), supply (80) and service (13).

By commodity sector, sugar co-ops led the way for full-time jobs per co-op (231), followed by rice co-ops (225), dairy (191), poultry (164), nut (123), fruit/vegetable (112) and grain/oilseed (53).

The average farm supply co-op had one more full-time employee (70) than did the average marketing co-op (69).

For part-time workers, sugar co-ops had the most (157), followed by fruit/vegetable (108).

For part-time workers in the three basic co-op groupings, marketing co-ops ranked first (30 part-time employees) followed by farm supply co-ops (20) and service co-ops (9).

## Committed to members and communities

Agricultural cooperatives exist to deliver economic benefits to their producer-members. In doing so, they also benefit the towns, cities and rural areas in which their members and employees live and work. An important benefit — not always understood outside the co-op world — is the number of jobs ag cooperatives create: an aggregate average of 157,100 full-time equivalent jobs from 2006-2015, and an average 129,578 full-time employees. These are mostly quality jobs that pay good wages and benefits.

Ag co-ops paid \$9.2 billion of personnel costs in 2015, dollars which turn over many times in the economy — especially in rural areas — and help to support tens of thousands of other jobs that are tied to the ag economy. Many large ag cooperatives have their headquarters or other offices in cities, thus also benefiting urban economies.

The structure of ag co-ops continues to evolve. Mergers, acquisitions and some dissolutions are occurring, resulting in fewer ag cooperatives. Mergers sometimes result in short-term layoffs, but long-term these jobs and more are often recovered if the larger business continues to thrive. Statistics show that co-ops continue to be major employers in the nation's ag sector, paying wages and benefits to their employees and taxes to their communities that help fuel the nation's economy. ■

## Learning from Food Hub Closures

*continued from page 23*

was unable to reach viability.

Gross sales for Grasshoppers grew from \$40,000 in 2007 to almost \$1 million in 2013. But the venture never was able to generate a profit. Grasshoppers was finally compelled to discontinue business at the end of 2013.

## Decision to close

By providing an all-in-one enterprise serving both buyers and producers of regionally produced food, Grasshoppers was envisioned by the four initial farmer-owners as a key first step in building a vibrant regional food market in the Louisville metro area. Although the work of Grasshoppers

Distribution made a significant, positive impact on the regional food system in Kentucky and food hub development in the United States, the enterprise faced significant challenges that ultimately resulted in its closure.

Annual overhauls of its business model and the frequent change of top management were central challenges to developing expertise and efficiencies. At the start of operations, there were few ready examples of successful food hubs to emulate, and a general state of undercapitalization restricted up-front investments in adequate infrastructure and expert personnel. This was compounded by the absence of a plan based on sound knowledge of existing supply and demand; reasonable benchmarks for growth and evaluative metrics. The business was also hampered by a lack of capacity (technical knowledge and built infrastructure), both within the organization and the regional food system as a whole, as well as by an inclination to place the social mission ahead of the best interests of the enterprise itself. These interconnected factors served to exacerbate each other. ■

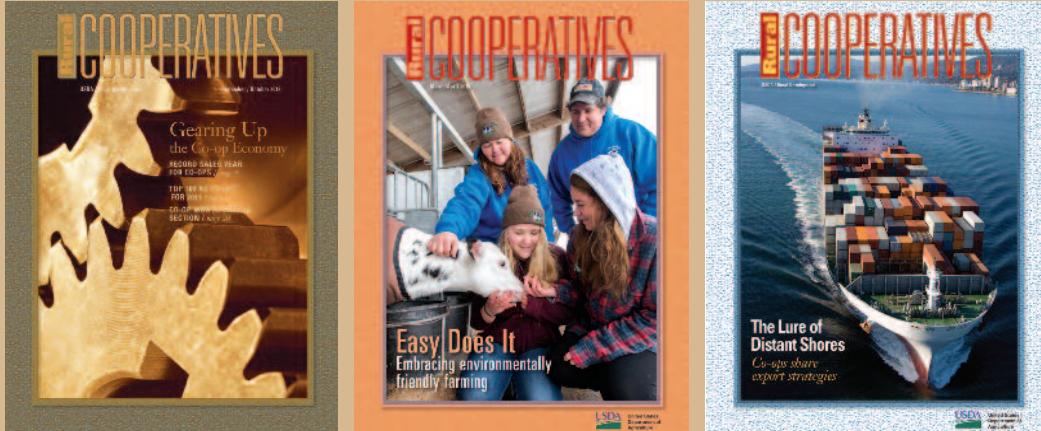
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