Rural COOPERATIVES

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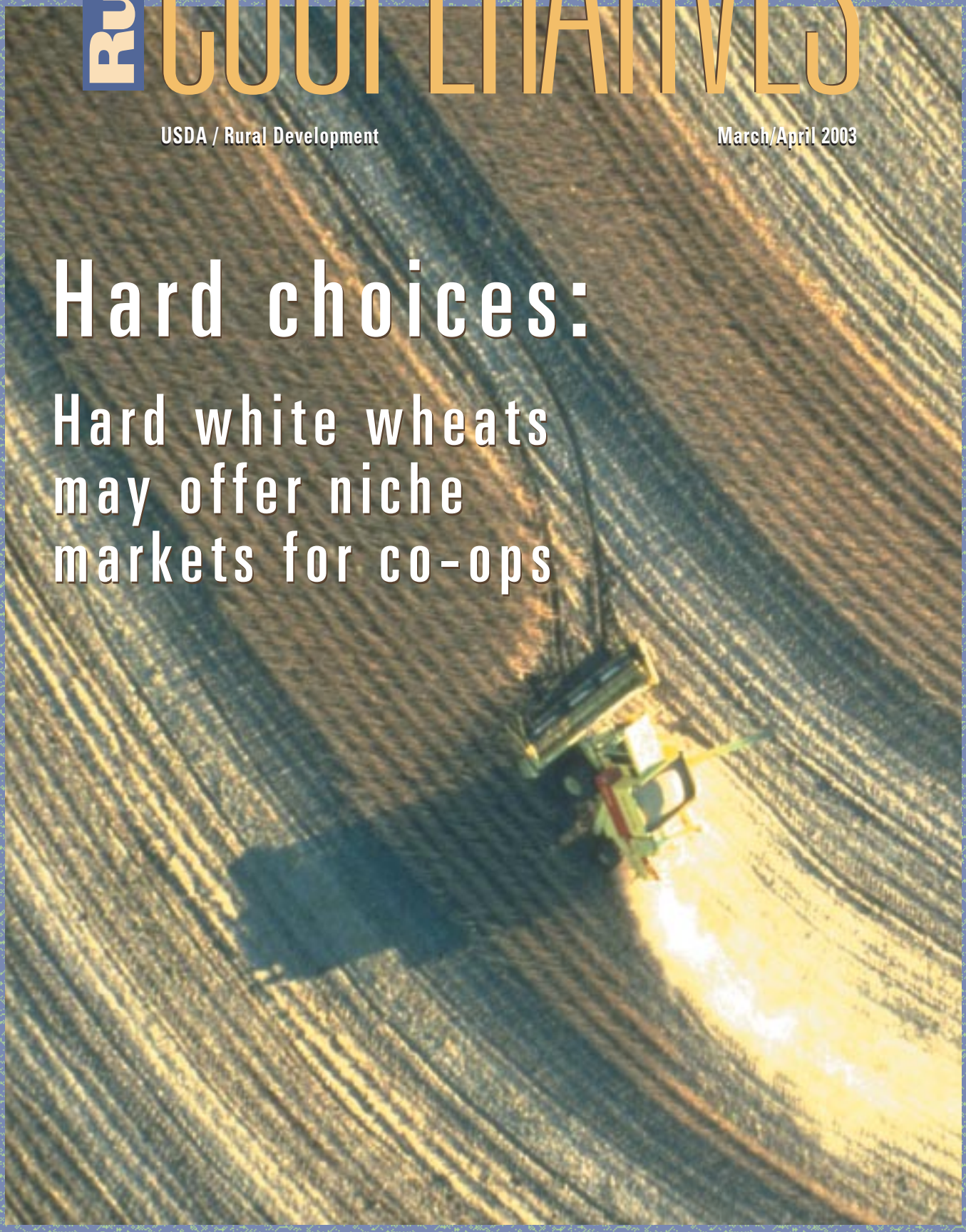

Hard choices:

Hard white wheats may offer niche markets for co-ops

The keeper of the co-op faith

Too many people drift through life, doing jobs they stumble into that pay the bills and keep a roof over their heads. Those who believe in their product or service to the extent that they execute their duties with absolute sense of mission are the exception to the rule. Randall Torgerson was one of those exceptions. He woke up every day anxious to get to work, roll up his sleeves and fight for American farmers and their cooperatives.

You could say that Torgerson—who retired in January after nearly three decades at USDA, most of it spent leading the Cooperative Services program—was born for the job. Randy's baptism into cooperatives came as a youth, during the mid-1940s when dairy farmers in the Upper Midwest were struggling. He accompanied his father, Wisconsin county extension agent Truman Torgerson, on trips to producer organization meetings that culminated in the formation of the Lake to Lake dairy cooperative. Truman led that co-op for 35 years, until it merged with Land 'O Lakes. The insight Randy gained into the thinking and needs of farmers during his formative years left an indelible imprint on him and would serve him well in his chosen career. It never allowed him to forget who he was working for and what was at stake in the fight to maintain a farmer-ownership role in U.S. agriculture

In his remarks saluting Randy at a retirement function at USDA headquarters, Rural Development Under Secretary Thomas Dorr referred to Torgerson as "the dean of cooperative culture" and "a cooperative purist." Few who knew Randy would argue either point. He not only lived by the co-op book, he helped write it. Much of the modern cooperative system in the United States has been influenced by his ideas. He has truly been the keeper of the co-op faith.

Also during that retirement ceremony, Farm Credit Administration Board Chairman and CEO Mike Reyna presented Torgerson with a resolution that saluted him for having "never wavered from the notion that farmers should determine their own destiny," and for "working diligently and tirelessly to promote cooperative research and education programs to help farmers maintain control of their cooperative organizations."

Randy believes that cooperatives must follow the core principles upon which they were founded: that they be owned and controlled by members and operated for the benefit of their members. Too much deviation from co-op principles, he maintains, could spell the doom of cooperatives more assuredly than any amount of competition.

When Agriculture Secretary Earl Butz tapped Randy in 1974 to head what was then called the Farmer Cooperative Service, there were 7,645 farmer-owned co-ops in the United States with combined sales of $41 billion. The trend toward ever fewer, larger farms has seen major changes in the nation's agricultural landscape. Today, there are 3,200 farmer co-ops, but their annual sales have soared to more than $100 billion. As co-ops have become larger and more complex, so too have the challenges facing them. Never was there a time when the need was greater for the services provided by USDA's congressionally mandated program of cooperative assistance.

The last several years have been among the most trying in history for farmer cooperatives. With farm commodity prices still depressed and the general economy struggling in low gear, the immediate future will hold no lack of challenges for farmers or their co-ops. Torgerson says it is his greatest hope that as co-ops battle to hold and expand their markets in the years ahead, they will not neglect the following five critically important areas:

- The need for effective, on-going cooperative education programs to ensure that members understand their cooperatives and why they are needed. They must also support leadership training and recruitment efforts to attract the type of skilled, knowledgeable leaders necessary to compete and win in an ever-more competitive business environment.
- Co-ops must continue to operate on a true cooperative basis and be wary of moves that see them slowly evolve into non-cooperative business structures.
- The need to maintain a strong member equity ownership base to ensure members are committed to the co-op and truly own it.
- Practice cooperation among cooperatives and with other farmer organizations and commodity groups. United, their impact will be much greater.
- Maintain close contact with European and other foreign cooperatives—we still have much to learn from each other through the exchange of ideas.

If co-ops take these issues to heart, it will be the ultimate legacy of Torgerson's three decades at USDA.

Dan Campbell, Editor

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FEATURES

DEPARTMENTS

On the Cover:

Production of hard white wheat is increasing rapidly in many states, which may open up new niche marketing opportunities for grain cooperatives. Story on page 4.
Photo courtesy Kansas State University

Hard choices

Hard white wheat varieties offer co-ops opportunities and challenges

By Michael Boland and David Barton

Editor's note: *Boland is an associate professor of agricultural economics and associate director of the Arthur Capper Cooperative Center at Kansas State University. Barton is professor of agricultural economics and director of the Arthur Capper Cooperative Center. A longer version of this report with references is available by contacting Mike Boland (785) 532-4449; mboland@agecon.ksu.edu)*

Coordination of supply channels is an important component of a successful competitive strategy by food and agribusiness firms. One current policy issue is the role of U.S. land-grant university Agricultural Experiment Stations in wheat supply channels. The term "agricultural experiment stations" is used throughout this article for historical reasons, but it is important to recognize that the Cooperative Extension Service has also made important contributions in research and education. In reality, land-grant universities typically use foundations to license intellectual property rights.

Scientists and economists at public institutions have long made important contributions to agricultural supply channels. For example, measurement of quality attributes in crops and animals, coupled with value-based marketing programs, have been the focus of much research and education. Likewise, plant and animal breeding programs at public institutions have been instrumental in improving productivity and quality traits in agricultural commodities. University specialists in states such as Minnesota and Wisconsin were also very instrumental in the formation of cooperatives at the beginning of the 20th century.

Public breeding programs historically have developed the majority of wheat varieties. Hard white wheat (HWW) varieties are new to much of the United States. Thus, alternative release procedures and the potential effect on wheat-supply channels have been considered by experiment stations. Recently, the University of Idaho and Montana State University provided restricted release of varieties to a producer-owned cooperative and several private firms. Kansas followed a similar process over a decade ago by licensing two varieties to the American White Wheat Producers Association (AWWPA), which received Value-Added Development Grants (VADG) from USDA in 2001 and

One of the challenges of dealing with hard white wheat is the need to keep it segregated from red wheat. If mixed, the price may be severely discounted. Photos courtesy Kansas State University

"Because (variety) 377s is unique, with a potentially higher demand than commodity wheat, the university (Idaho) decided against releasing it as a public variety. Rather, they wanted to license it to an identity-preserved program....the best way to accomplish this was through a farmer cooperative."

Successful Farming

Pro Mar Select of Idaho, a producer-owned cooperative, saw its hard white wheat acreage expand from 8,000 acres in 1997 to 60,000 acres in 2000.

2002 (visit www.awwpa.com for more on this co-op). The objective of this report is to provide an overview of release procedures for HWW varieties in various states.

Publicly funded breeding programs account for the majority of wheat varieties grown in the United States. Because hybrid corn varieties cannot self-pollinate, these varieties have been primarily developed by private firms. Thus, seed companies have economic incentives to conduct research on new hybrid varieties because producers must purchase hybrid seed each year. However, there is little hybrid wheat planted at the present time. Rather, producers plant public varieties and have the option of holding back seed (called farmer-saved seed), which is then conditioned and planted the following season. Or they can buy certified seed each year.

Recent white wheat variety releases

The introduction of HWW presents several challenges for wheat supply channels. First, HWW must be kept separate from red wheat to avoid being severely discounted. Second, because HWW varieties are developed for specific end uses, such as noodles or crackers, the wheat must be marketed through an identity-preserved supply channel that allows end-users to purchase wheat from suppliers. Finally, due to a small supply, increased marketing investments in identity-preserved supply channels are needed to serve end-users.

These reasons have led experiment stations to consider alternatives to a public release of HWW varieties. A traditional release process involves experiment stations turning wheat seed over to crop improvement or seed associations which, in turn, increase seed production so that all producers may have an opportunity to purchase the variety.

The motivations for considering alternative release procedures include: 1) protecting research investment of taxpayers, wheat producers and crop improvement associations; 2) maximizing the supply of certified seed while assuring varietal integrity; 3) developing markets with maximum value for HWW to match production growth; 4) providing an orderly transition from predominately red to predominately HWW; and 5) maximizing the number of grower participants.

HWW production in Colorado and Kansas

HWW acres in Colorado have increased from 7,000 acres in 1996 to more than 25,000 acres in 2002. AgriPro, a seed-breeding company, contracted for its HWW varieties (Solomon and Platte) to be grown by Colorado producers for a leading miller (Con Agra). The premiums paid to producers averaged 15 cents to 35 cents per bushel during this period. The majority of the premium is paid for end-use properties, such as protein and other characteristics. During the late 1990s, Goertzen Seed Research (owned by Cargill) contracted with growers to produce a HWW variety, Snow White,

Agricultural experiment stations and Cooperative Extension Service crop trials have helped produce promising varieties of hard white wheat, some of which can earn growers premiums of 15 cents per bushel.

> "Producers formed a closed cooperative (AGvantage IP) to market Kansas State University hard white wheats."
>
> *Kansas Farmer*

for use in Cargill's mills. They were to be paid a 5- to 10-cent per bushel premium.

Kansas Agricultural Experiment Station (KAES), in conjunction with AgriPro, licensed HWW varieties to American White Wheat Producers Association (AWWPA), a producer-owned cooperative, in 1988. The varieties included AgriPro's Rio-Blanco and KAES' KS84HW196 and Arlin. The decision to release these varieties to a producer-owned cooperative was due to concerns that a general release could disrupt wheat supply channels by mixing white with red wheat (there was no HWW class until 1990). Price premiums were as high as 15 cents per bushel in the mid-1990s, with 20,000 acres in production.

In 1998, KAES announced plans to release two HWW varieties (Betty and Heyne) and another eight to 10 varieties over the next three to five years. Alternative release procedures, which potentially could involve a restricted release, were analyzed. AWWPA, Farmland Industries, Cargill and a new producer cooperative composed of Kansas Crop Improvement Association members (called AGvantage IP) submitted proposals for the HWW varieties. After a great deal of discussion, KAES decided to release the HWWs following the general release procedures. Despite this decision, producer-members of AGvantage IP who grew Betty or Heyne ended up contracting with Farmland Industries for a 10-cent per bushel premium. Now General Mills and Cargill have HWW programs in Kansas with 100,000 harvested acres in 2002, or approximately 3.3 million bushels. Estimated plantings in Kansas for 2003 are 325,000 acres, which would yield about 11 million bushels.

HWW production in Idaho and Montana

Idaho Agricultural Experiment Station (IAES) and the USDA Agricultural Research Service used a restricted release to license a HWW variety—Idaho 377s—to Pro-Mar Select of Idaho Inc. in 1996. The license fee is 2 cents per bushel of seed for the first 2.5 million bushels produced, 1.5 cents per bushel for the next 2.5 million bushels and 1 cent per bushel for anything over 5 million bushels. Idaho 377s was developed for export noodle markets, but it is now used in domestic and export markets.

Pro-Mar Select of Idaho (also the recipient of a USDA Value Added Development Grant) is a producer-owned cooperative with 130 wheat-grower members. The cooperative has had mixed success, but has increased production from 8,000 acres in 1997 to 60,000 acres in 2000. Pro-Mar Select sub-licensed Idaho 377s to General Mills in Montana. More than 100,000 acres were contracted in Montana during 1999, with premiums averaging 5 cents to 10 cents per bushel. However, the cooperative has had trouble selling wheat overseas the past several years. It recently sold much of its excess wheat (about 30,000 metric tons) to a merchandiser who sold it to several firms, including General Mills. IAES recently released several other varieties, including Gary and Ivory.

The Montana Agricultural Experiment Station (MAES) has also used a restricted release for HWW varieties. General Mills has exclusive rights to Nuwest, which was developed for noodles and breads. About 40,000 acres per year are planted to Nuwest. Another HWW developed by MAES is NuSky. Wheat Montana, a private milling and baking firm, also contracted a HWW variety called Golden 86. It is currently estimated that 100,000 acres were harvested in Montana in 2002.

Success factors

Clearly, experiment stations are guided by well-meaning intentions in analyzing alternative release procedures for HWW. It is too early to tell whether these intentions will be successful.

Several factors are needed to ensure the success of a

HWW variety that is released to an identity-preserved supply channel:

■ First, producers cannot be allowed to keep any of the wheat for seed. Otherwise the exclusive licensing will not work.

■ Second, a clear end-user must be identified. Due in part to lack of marketing expertise, AWWPA and Pro-Mar Select have had difficulty linking large volumes of wheat with end-users.

■ Third, the capability must exist to segregate the wheat from other varieties during storage, handling and transportation to the final end-user.

■ Fourth, economic incentives are needed for all participants across the supply channel (producers, merchandisers and end-users). The positive reaction and competition for exclusive rights to the varieties from millers and other end-users suggest that these economic incentives exist for HWW. It is important to note that many of these economic incentives are related to various milling and baking attributes, not just bran color.

■ Finally, any restricted release must have clear and positive net returns to taxpayer and producer investments in the breeding program. These returns may be royalties through licensing arrangements that are used to reinvest in research and development of new varieties or through maximum participation of producers in the system (i.e., opportunities to invest in a cooperative or unlimited access to the seed varieties). One criticism of HWW restricted release procedures is the fear that seed producers will charge premium prices for certified seed. USDA's Economic Research Service reported that certified wheat seed was priced at an average of $3.51 per bushel greater than farmer-saved seed. In Kansas, certified HWW seed has been priced even higher.

> "When it comes to hard white wheats (produced at Montana State University), exclusive licensing is necessary to give companies an incentive for handling the new class of wheat."
>
> *AGWEEK*

In the short run there appear to be economic incentives for producer-owned organizations to grow and market HWW. These economic incentives are likely to come from increased milling extraction rates, (i.e., higher flour yields if U.S. millers grind close to the bran), protein content and other quality factors. This has been the case for local grain-marketing cooperatives that have partnered with millers to produce and market HWW. Clearly, the role of the local cooperative has been found to be important in the adoption of HWW. In the long run, there may be emerging export or niche domestic markets to pursue, especially if segregation costs are reduced as producers and grain-merchandising firms learn to manage two classes of wheat. Furthermore, given significant investment by firms and experiment stations, there will be a greater HWW supply. However, HWW acreage has not expanded as quickly as some thought. The 2002 Farm Bill contains provisions for a HWW incentive payment to encourage its production, which is one reason 2003 estimated acreage on HWW is about 700,000 acres, compared to 325,000 acres in 2002.

The role of the Experiment Station is to provide research and education. Disruption of hard red wheat supply channels by haphazardly releasing HWW varieties would not result in the greatest return to taxpayer and producer wheat checkoff fund investments. Do public universities have a role in modifying agricultural supply channels? Clearly, for the introduction of HWW, experiment stations require input from producers, agribusiness firms and others in the wheat supply channel. The role of the Experiment Station is to provide research and education. Disruption of hard red wheat supply channels by haphazardly releasing HWW varieties would not result in the greatest return to taxpayer and producer wheat checkoff fund investments.

If handled correctly, a restricted release is one option that may provide increased returns to taxpayer and producer checkoff funds until enough supply is available. Given differences in the structure of wheat supply channels in these states, it is not surprising that alternative release procedures are considered for use by experiment stations. ■

Author's Note: *This research was supported by a cooperative agreement with USDA Rural Business-Cooperative Service. We gratefully acknowledge the help and assistance of Marc Warman. Interviews with breeders, merchandisers, Agricultural Experiment Station staff, seed producers, wheat producers and trade association staff were used in preparing this report.*

Co-op sugar center to open in Louisiana

Long in the planning stage, construction of a $5.2 million sugar storage and distribution center is underway at the Port of Greater Baton Rouge, La. The facility is owned by Louisiana Sugar Cane Products Inc., a cooperative at Baldwin, La., that serves 11 mills. The new center will be financed with $5.2 million in state funds, $3.2 million from the cooperative and $500,000 from the port. ■

Turning problems into profits

Alpaca co-op survives early dissension to build domestic fiber & products market

By Bruce J. Reynolds,
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Raising alpacas is a relatively new industry in North America, the animals having been first imported into the United States in 1984 from South America. But the new industry is catching on, with the help of a national cooperative that is developing a domestic market for the luxurious fiber of these close relatives of the llama.

The co-op is starting to prosper, but it had to survive a near-fatal dispute in its second year which split the board and the membership. This internal debate centered on whether to concentrate on marketing members' alpaca fiber as a raw product or manufacturing it into value-added apparel. Ultimately, the breach was healed and the industry is moving forward.

There are about 37,000 alpacas—a close relative of the llama—in the United States today. Opposite: garments made from alpaca fiber. Photos courtesy Alpaca Fiber Cooperative of North America.

Planting the seeds for growth

The reproduction of alpacas, in contrast to exotic livestock such as emus, is not rapid. An alpaca typically has a gestation period of 335 days for one offspring. Yet, by the mid-1990s, the U.S. alpaca herd had grown to about 8,000. Today there are about 37,000 alpacas in the United States, compared to about 3 million in Peru.

Ohio is home to the largest number of alpacas in the nation, followed by Washington and Oregon. There are more than 2,700 registered owners, a twofold increase since the mid-1990s. We know profit is the driver of any industry, but how are profits made in this case?

The alpaca industry involves two core businesses. The first is animal breeding, which is the primary driver for a new domestic industry of this kind. The second is a textile fibers business, whose potential growth is dependent upon market development activities. Establishing a successful textile products business, based on a type of fiber that has not been widely used in the North American apparel market, involves substantial long-term planning and coordinated efforts.

The North American alpaca industry has enormous growth potential, to the extent that interdependencies between its two core businesses are fully recognized and used. Alpaca breeding and marketing generates a source of revenue for reinvestment in the fiber segment of the industry. In turn, growth and development of the alpaca textile products' market in North America is having a positive impact on the market for breeding stock. Furthermore, improved marketing methods for alpaca consumer apparel and a steadily increasing domestic supply of alpaca fiber are beginning to open the way for profits from the textile component of the industry.

A cooperative, the Alpaca Fiber Cooperative of North America (AFCNA), is leading this development. Before it began operating in 1998, the alpaca fiber market was predominantly limited to relatively small and dispersed purchasing by artisan weavers.

Launching the co-op

Early-on, most alpaca owners did not feel any urgency to develop the alpaca fiber and products market. During this early phase, earnings were predominantly derived from selling breeding stock. It didn't seem to make good economic sense to build a U.S. fiber market because of the difficulty of competing with South American alpaca products. But some alpaca owners questioned this assumption. They believed there were fiber-product opportunities for their industry, and that the only way they would be realized is with a major collective effort.

USDA/RBS Cooperative Services conducted a survey of potential members to gauge interest in a co-op and worked on the initial stages of organization. Survey results showed a wide

range of perceptions regarding what a cooperative might do and what would be involved. It was evident that this fledgling industry would need leaders with exceptional communication skills and creative thinking to make the venture succeed. And that is what happened. Many talented individuals stepped up to the task and volunteered much time and effort.

Another important factor in getting AFCNA started was the creation of an organization for handling alpaca breeding and investor issues: the Alpaca Owners and Breeders Association (AOBA). It, too, had been established relatively quickly; about five years after the first imports of breeding stock in 1984. AOBA provided a forum for its geographically dispersed membership to discuss a cooperative.

Internet communication has, of course, contributed to the capability of coordinating the activities of large membership-based organizations and businesses. AOBA also provided some funding for promoting alpaca fiber. But in the cooperative planning stage, it was evident that a large majority of AOBA members would not join a co-op, and there was uncertainty about how effectively the supporters would be able to organize for business.

If one person is to be singled out for moving the cooperative agenda forward, it is Julie Safley, who operates a family-owned alpaca ranch and retail store in Hillsboro, Oregon. She edited a newsletter for alpaca breeders and owners that was used, along with seminars at AOBA meetings, to get across critically important concepts about the potential economic value of the fiber, how alpaca textile products contribute to demand for the breed and—last but not least—the basics of organizing and operating a cooperative.

Safley was part of a core group that in 1997, a year before organizing the cooperative, pooled 4,850 pounds of alpaca fiber for custom processing of yarn for craft knitting. Significant experience was gained in fiber care, sorting and packaging that contributed to the future success of the cooperative.

Initial fiber shipments

Given that AFCNA's objectives included industry and market development, it was organized as a traditional, open-membership cooperative. Membership required payment of a $150 fee and signing an agreement to deliver a specific share of the highest quality fiber from the alpaca clip.

The co-op started with a membership of 325, representing slightly more than a quarter of the AOBA membership in 1998. Members shipped fiber from numerous locations throughout the United States and Canada to a Texas animal fiber warehouse for baling and storage. The plan was to collect a large lot of alpaca fiber for eventual shipment to a mill in Peru.

The co-op received about 27,000 pounds of fiber, an unqualified success but still a relatively small lot in terms of shipping to a foreign textile mill. The board decided to hold it in storage and added the 1999 receipts for a total volume of 52,000 pounds, readied for shipment to the mill.

The marketing plan was to offer alpaca apparel products through three channels: (1) the on-ranch retail stores that many members operated; (2) e-commerce sales from the cooperative Web site and (3) booking advertising space in a mail-order catalogue.

The initial operations were entirely member-financed. Members did not receive advances on fiber and product orders were paid by the members. With this support and an enormous amount of volunteered time, the cooperative was launched.

Split decision causes fallout

The market for fine animal fiber in 1999 experienced a substantial run-up in price. International buyers came to Texas looking to purchase kid mohair and cashmere. The warehouse was holding an auction for its mohair inventory when a few buyers noticed—to their surprise—the lot of alpaca fiber.

Although it wasn't for sale, the warehouseman contacted the AFCNA board about receiving some bid prices from these buyers. There seemed no harm in that, and after all, who wouldn't be curious to know the value of what they produce?

The entire lot was valued at an average price of $2.68 per pound, which was very attractive in view of the fact that the cash-starved cooperative could receive payment, as well as avoid major outlays for the project in shipping to Peru, processing costs and returning products to members or to the cooperative. The board was split, five wanting to stay with the value-added project and four wanting immediate sale of the raw fiber.

The fallout over this disagreement was huge. The four in favor of a sale resigned from the board, including the president of AFCNA. The entire Canadian membership and several U.S.-based members also quit the cooperative.

The fallout continued into early 2000, when a group of about 80 members started a petition to recall the board of directors. The value-added direction was not helped by the fact that turn-around time exceeded one year between the time members' fiber was delivered and products were returned.

But once members began receiving value-added alpaca products, things began to look up. The board persevered with a direction that does more for market development of both alpaca breeding and apparel products demand than would a raw fiber selling operation.

Discovering opportunities

The dealings with Peruvian textile mill managers, while

slow, did lead to some useful ideas. These managers had a ready supply of stylish consumer apparel products they wanted to sell to AFCNA. Though not products made from the members' fiber supply, this was the beginning of a rewarding business relationship. More consumer apparel products, made from both Peruvian and U.S. alpaca fiber, could be moved through the pipeline to the members' stores and the cooperative outlets. Lack of demand has not been a problem.

Having a full-time manager is a critical element for most cooperatives seeking to be well-positioned to discover market opportunities. Securing a permanent manager had been a priority of the board from the outset, but it was not effectively realized until the 2001 operating year.

The Alpaca Fiber Cooperative of North America has a Web site and ships garments direct to consumers worldwide.

Board President Sharon Winsauer points out that you can only go for a limited time with volunteers. While committed individuals step in to do their part, it's hard for volunteers to deal with a deluge of second guessing and criticism from those on the sidelines when making difficult decisions. A manager can devote more undivided attention to the co-op. This is critically important for tasks such as maintaining a product warehouse and keeping track of inventory.

The management search process proved fruitful because one of the board members, Karen Dewhirst, had managerial skills and a desire to develop this business. Karen resigned from the board to become the general manager. She also operates a farm store along with raising alpacas in Decatur, Tenn. Her experience in the farm store side of the alpaca business has proven useful, not only for understanding product marketing, but also in having insight for developing some new programs for members.

Turning problems into profits

AFCNA developed into a cooperative that combines a purchasing function with marketing. The membership is divided between those who operate retail stores and those who do not. A traditional farmer cooperative does not usually engage in marketing member products while also purchasing the same kind of products from foreign sources to support the marketing businesses of a particular group of its members. But what would appear to be a potential problem for a cooperative is viewed by this board and manager as a business opportunity.

For alpaca owners and breeders who might feel that a retail store would offer them some additional earnings potential, AFCNA has developed an innovative service, the alpaca products station (informally called the "store in-a-box"). The cooperative offers this service to help interested members establish farm stores. In addition, Dewhirst explains that, "Selling alpaca products from an alpaca farm/ranch is an excellent tool for marketing alpacas because it answers the question, "what do you do with alpacas?"

AFCNA is pursuing many product processing and marketing initiatives. It's effectively moving member herds' different fiber qualities into their best value uses and markets. Arrangements have been made with domestic mills for certain blended fiber products, such as production of socks. A program for marketing coarser fibers to rug and carpet makers is also being developed. AFCNA's purchasing service enables its marketing channels and member stores to offer a range of attractive apparel products. These products can be viewed and bought through its toll-free phone number listed in their brochures or at the cooperative's Web site: www.AmericasAlpaca.com. This Web site provides information about AFCNA, breeding alpacas and textile products as well as information to consumers interested in buying either alpaca clothing or knitting yarns.

5-year start-up not unusual

The start-up of many cooperatives is often challenging, and AFCNA's history is no exception. Founding members are advised to not develop high expectations at the start. However, if some signs of tangible results do not materialize after about five years, the effort is likely to begin to unravel.

By 2001, AFCNA began to break even and in 2002 had positive net income while eliminating carryover losses from 2000. Its membership has more than doubled from its start to its fifth year, having about 750 members in 2002.

Getting to this point was not easy. Two years earlier it looked like AFCNA was in decline. Part of this turnaround can be attributed to the early growing pains that many cooperatives experience, but there were also a few key decisions by the board that made a big difference. Staying with a business concept that maximizes the mutual benefits between the two businesses of alpaca breeding and products marketing is a major one. Out of this direction came new business concepts, such as developing the retail sales capabilities of members and helping them establish on-ranch stores.

But good business concepts don't get very far when there's no one person empowered and responsible for getting things done. AFCNA did not start out with a manager, but realized soon enough that the business would never grow without one. By a combination of firmness in direction and flexibility in finding business opportunities, AFCNA is moving ahead. ■

USDA's Value-Added Producer Grants invest millions in innovative ag businesses

By Gail Thuner,
Agricultural Economist,
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Editor's Note: *This article is the first in an ongoing series of articles highlighting cooperatives that have had success marketing value-added agricultural products as the result of receiving a USDA Value-Added Producer Grant, and/or are working with the new Agricultural Marketing Resource Center. This article will introduce the grant program. The second article, to appear in the May-June issue, will introduce the Agricultural Marketing Resource Center. Following articles will profile cooperative success stories.*

Q. What is the Value-Added Producer Grant Program?

A. The Value-Added Producer Grant Program, also known as the Value-Added Development Grant (VADG) Program, first started as a pilot program authorized by the Agricultural Risk Protection Act of 2000 (ARPA). The program was then expanded by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). Currently, the program is intended to assist independent agricultural producers and producer groups with marketing value-added agricultural products. The grants are meant to be used for planning activities such as feasibility studies and development of business plans as well as for working capital by start-up businesses.

What does "value-added agricultural product" mean?

"Value-added agricultural product" is defined by the 2002 Farm Bill as any commodity or product that: (1) has undergone a change in physical state, (2) was produced in a manner that enhances the value of the agricultural commodity or product, (3) is physically segregated in a manner that results in the enhancement of the value of the agricultural commodity or product, and (4) is farm or ranch-based renewable energy. Examples of value-added products are organic carrots, identity-preserved corn, ethanol and processed lamb.

Who administers the VAPG Program?

The program is administered through the Cooperative Services Program of the Rural Business-Cooperative Service (RBS), an agency of USDA Rural Development.

What are the relevant pieces of legislation and regulations that govern the VAPG Program?

The Agricultural Risk Protection Act of 2000 as amended by the Farm Security and Rural Investment Act of 2002 is the authorizing legislation. Currently, RBS is in the process of drafting a proposed regulation for the VAPG Program. The regulation is in the clearance process and is expected to be released mid-spring 2003. After a comment period of 45-60 days, the agency will publish the final regulation and issue a Request for Proposals (RFP). The RFP is expected to be issued in the summer of 2003. In addition to the final regulation and the RFP, the VAPG Program is governed by 7 CFR 3015 and 7 CFR 3019.

Who is eligible for the grant?

Grants may be awarded only to independent agricultural producers, agricultural producer groups, farmer or rancher cooperatives, and majority-controlled producer based business ventures. Independent agricultural producers include individuals, associations of producers, and producer-owned corporations which do not produce the agricultural product under contract or joint ownership with any other organization. An independent producer can also be a steering committee composed of independent agricultural producers in the process of organizing an association to operate a value-added venture that is owned and controlled by independent producers supplying agricultural product to the market.

Agricultural producer groups are trade associations and farm organizations representing independent producers. An agricultural producer group must identify a specific group of independent producers when it applies for a VAPG. Majority-controlled producer based business ventures are ventures where more than 50 percent of the ownership and control is held by independent producers and/or partnerships, LLCs, LLPs, corporations or cooperatives that are themselves 100 percent owned and controlled by independent producers.

What types of projects are eligible for the grant?

Eligible applicants may use grant funds for planning activities such as conducting feasibility studies and developing business and marketing plans for the marketing of a value-added agricultural product or for working capital for a beginning operation. Agricultural

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Bargaining is big for small business

Resurgence seen in bargaining cooperatives

Bruce J. Reynolds, Economist
USDA Rural Development

Organized bargaining is traditionally a strategy of labor unions and agricultural bargaining associations. But many new applications of formal bargaining have emerged during the past 20 years. The relatively recent applications range from bargaining over healthcare costs to a myriad of purchasing needs by independent business retailers and distributors. The latter are a broad-based category, generally called purchasing cooperatives. Some non-agricultural purchasing cooperatives date back to the early 20th century, but bargaining is a more recent approach for several organized groups of retailers or distributors.

At least 250 purchasing cooperatives currently operate in the United States, according to a survey by the National Cooperative Bank (NCB). The fall issue of NCB's magazine, *Bank Notes*, reports that purchasing cooperatives have doubled in the past 10 years. The National Cooperative Business Association (NCBA) estimates that about 50,000 small businesses are members of purchasing cooperatives, with membership having doubled in the past decade.

Beginning in the late 19th century, many farmer associations were called "purchasing cooperatives," but did not involve formal bargaining. They achieved discounts by buying large volumes of farm supplies, and then passed these savings on to members. By the middle of the 20th century, many of these cooperatives joined large federations with sufficient size to manufacture, rather than purchase, many agricultural inputs. The term "farm supply" had displaced "purchasing" for designating these cooperatives. But, in recent years, the purchasing activities of local farmer cooperatives have had a resurgence.

Agricultural bargaining is traditionally used in markets for farm products. Most farm product cooperatives have followed a strategy of vertical integration, or what is currently termed "value-added processing and marketing." But bargaining associations have an important role in the marketing of crops for many farmers. There are at least 67 agricultural bargaining cooperatives operating in the United States, as indicated by respondents to the USDA Cooperative Services' annual survey for 2001. The number of farmers belonging to the 67 bargaining associations is not consistently reported, but the median association had 124 farmer members.

Bargaining by agricultural associations and by purchasing cooperatives of retailers/distributors have the same challenge in representing the "many" in negotiations with the "few." A major difference is in positioning on the supply chains in their respective industries. Positioning in this context means proximity to consumers (see figure 1). Although agricultural and non-agricultural cooperatives are usually not examined together, those having a common strategy of collective bargaining provide a basis for comparison and for learning about consumer markets.

Bargaining as a cooperative strategy

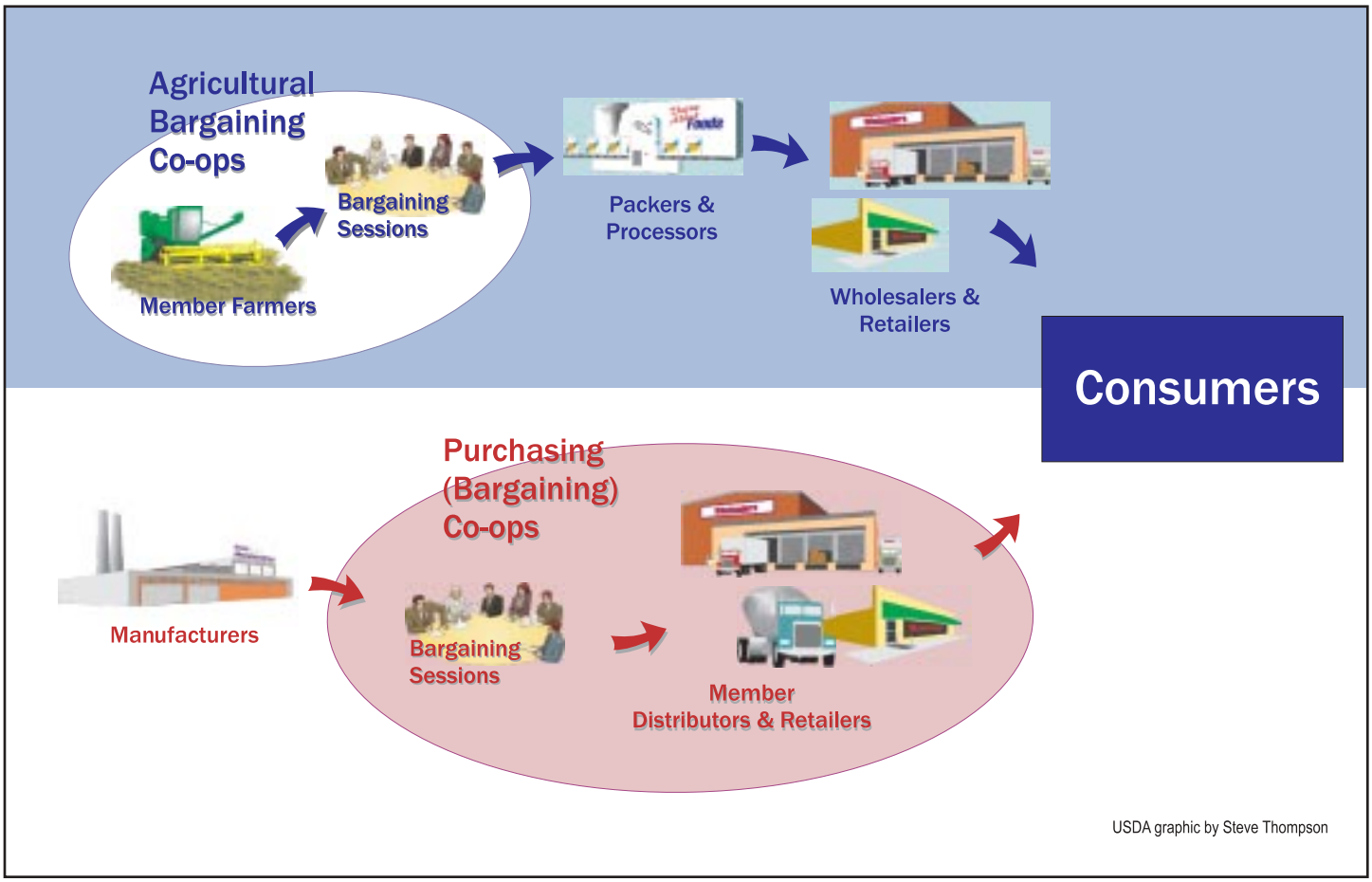
The traditional practice of purchasing cooperatives is to capture discounts by buying in large volumes and providing cost savings with wholesale distribution for their members' retail businesses. This *modus operandi* is frequently used by cooperatives whose members are in the grocery and hardware business. Many recently formed purchasing cooperatives operate instead by negotiating a standard contract for members who then make their own individual transactions according to the negotiated terms. Members have flexibility to address contingencies not covered by, or in conflict with, the contract negotiated by their purchasing cooperatives.

Agricultural bargaining associations exhibit a fundamental distinction that parallels the non-agricultural purchasing cooperatives. Some associations negotiate a standard contract for farm products which members adhere to when making their own sales transactions with processors. Their procedure is basically the same as that of the recently established purchasing cooperatives, which operate as bargaining agents. Other agricultural bargaining associations negotiate a standard contract but also function as an exclusive sales agent for members. However, their sales agency operations do not alter the fact that their primary economic role is bargaining.

Where they are similar

There are many superficial differences between bargaining by non-

Figure 1—Industry Supply Chains



agricultural purchasing cooperatives and agricultural associations, but fundamentally such organizations represent the combining of otherwise isolated individuals to countervail the bargaining power of large corporate entities. Farmers operate as independent producers in the sense of working for themselves and running their own business.

For farmers who operate with production contracts, bargaining associations may offer potential to improve their contract terms. Operating independence also applies to the small business owners of non-agricultural purchasing cooperatives. Many of them are independent in all—or at least some—critical phases of decision making, including those who operate as franchisees.

A distinctive element of strategy for any kind of bargaining cooperative is building consensus, loyalty and trust among members before engaging in negotiations. These considerations are not encountered to any great extent by their counterparts in the bargaining process. The aim of both agricultural and non-agricultural bargaining cooperatives is to gain a fair share of income along a supply chain where total value is determined in the final sales of goods and services (figure1).

Pricing objectives differ

Bargaining by purchasing cooperatives involves negotiations over product prices with manufacturers on behalf of members. Their members are either retailers of similar consumer products or distributors of specialty products to various kinds of construction industries. Their objective is to reduce purchasing costs, in contrast to the aims of agricultural bargaining to achieve higher prices for commodities. Purchasing cooperatives can make a similar argument to the familiar refrain of agricultural processing firms—that higher prices will either shrink the market or allow competitors to take customers away.

No safety in numbers

Purchasing cooperatives and agricultural bargaining associations both represent "the many" in relation to "the few." But purchasing cooperatives have not sought special legislation to protect their retailer/distributor members from boycotts by manufacturers. Farmers who participate in collective bargaining are sometimes vulnerable to being selectively boycotted by agricultural processors or packers, a problem which is partly addressed by the Agricultural Fair Practices Act of 1967. A weaker, and more general, protection is contained in the Packers and Stockyards Act of 1921.

For several reasons, members of purchasing cooperatives are unlikely targets of manufacturer boycotts for having participated in collective bargaining. First, they often have a customer base, and manufacturers would

be reluctant to take actions that disrupt consumer access to their branded products. Furthermore, these members usually have fewer competitors in distribution and retailing in their relevant markets, in comparison to the number of farmers who compete with one another in making sales to a processor or packer. Agricultural processors often have several alternative sources for products, so—in this sense—there is no safety in numbers for farmers.

Finally, many product manufacturers and members of purchasing cooperatives both face, though in different ways, market pressures from the big-box retail chain stores. To these manufacturers, the members of purchasing cooperatives are in certain respects informal allies.

Future applications of bargaining in agriculture

Production and marketing systems in agriculture have undergone enormous change in recent decades, transitioning from a system of local market access for farmers to one of contractually closed and streamlined supply chains. In this new economy, the need for the traditional type of agricultural bargaining association persists, possibly even having an increased importance for farmers. Many farmers are vulnerable to accepting lower prices when they individually negotiate without a bargaining association. But the future of agricultural commodity bargaining may depend in part on improved laws for sanctioning and protecting farmers from being victimized by restraints of trade.

Bargaining is potentially applicable to improving the terms of production contracts. Initiatives to establish bargaining by contract poultry growers have proven difficult to implement, but efforts are continuing. If production in other livestock industries becomes predominantly a contracting system for labor services, the benefits of bargaining will become more relevant in these sectors as well.

Recent developments in biotechnology are having new impacts on the distribution of incomes in the food and fiber supply chain. Farmers are increasingly using patented GMO inputs in livestock and row-crop farming that are contractually linked to application of other inputs. The marketing of biotech inputs is in an early phase of development, when savings in per-unit costs of production are being gained by farmers who adopt these technologies. To the extent that new technologies require farmers to specialize and to operate under contractually specified methods of farming, opportunities to negotiate better contractual terms may arise through organization of bargaining cooperatives.

The expertise of owner-operated businesses can flourish when their negotiating power for essential supplies is on a more equal footing with the much larger competitors.

Many farmers are developing direct access to consumers or restaurant owners, either through e-commerce, farmers markets in urban locations, or special promotional efforts. By their involvement in direct marketing of specialty products, they are operating in the same position on the supply chain as the retailer/distributor members of purchasing cooperatives (figure 1). Organized bargaining may become an applicable tool for these farmers when negotiating for services like shipping or storage or for shelf space, whether in urban farmer markets or within retail establishments. Agricultural bargaining can work on the input and service side, just as it traditionally has for negotiating farm product prices.

Specialized knowledge and motivation

The source of competitive advantage for small businesses and farmers is their specialized knowledge of products and their motivation as business owners to serve customers better than large firms that separate owner from operator. But success in business is not solely determined by meeting needs of certain customers. Large firms that have been able to coordinate and reduce costs throughout the supply chain often become the industry leaders. Small businesses and farmers can also reduce supply-chain costs and offset the disadvantages of decentralized operations with a bargaining cooperative. The expertise of owner-operated businesses can flourish when their negotiating power for essential supplies is on a more equal footing with the much larger competitors.

Farm product direct marketing is not a workable, or available, method of operation for most farmers. But the attributes of the successful small business in delivering product knowledge to consumers and the pride of ownership in building a business are achievable with cooperatives, whether they provide value-added integration or bargaining.

The success of small business in the application of bargaining through purchasing cooperatives serves as an example of the benefit of a system that supports operating independence. That benefit applies to farming as well. As markets and economic conditions change, farmers can pursue new strategies to increase their profitability and maintain their operating independence. ■

The "closure" dilemma

Conducting business in a way that helps keep both members and their co-op in business can be a challenge

Thomas W. Gray, Phd.
USDA Rural Sociologist

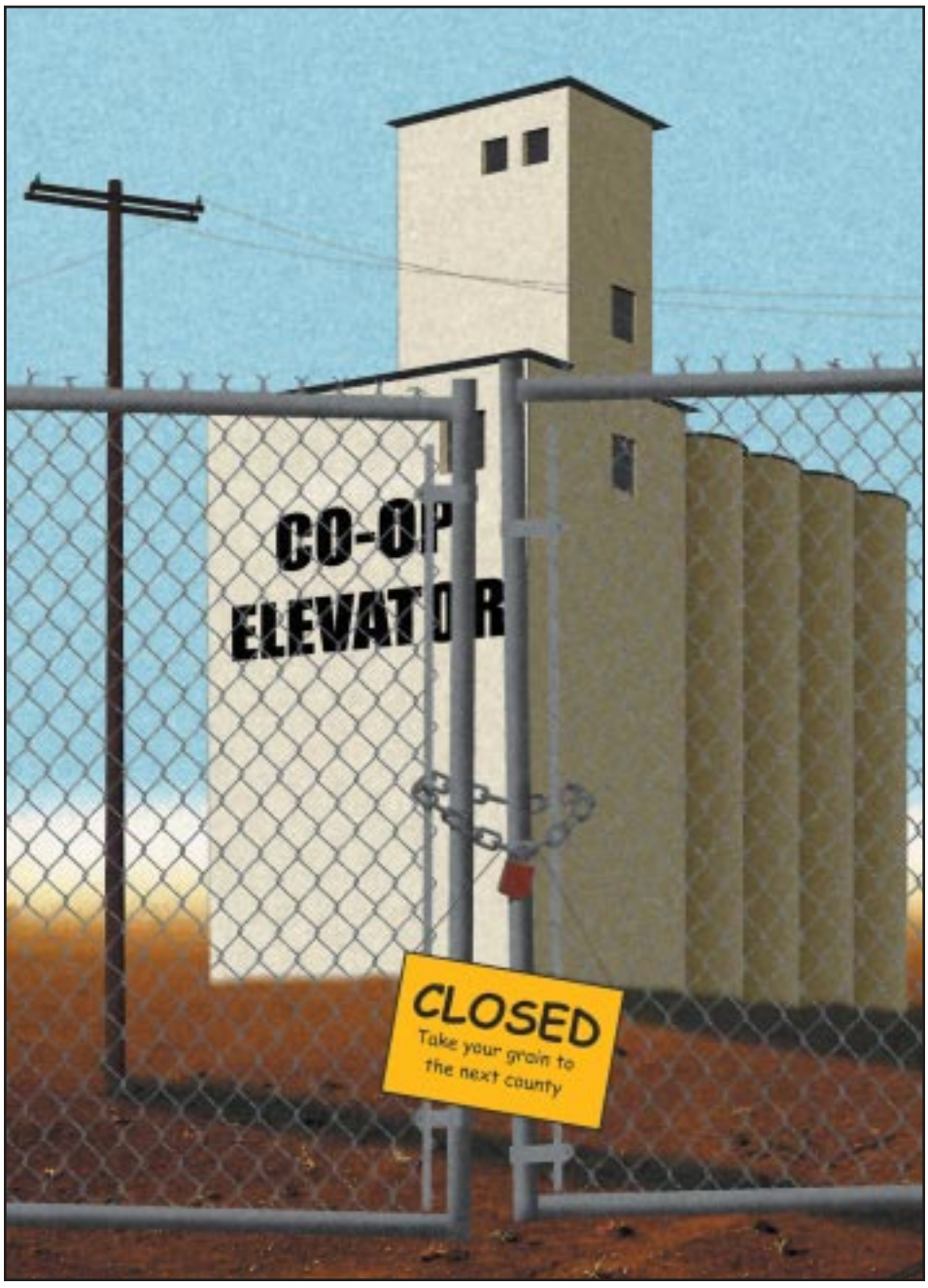
Press coverage of member reaction to recent closings of several local grain elevators by South Dakota Wheat Growers (SDWG) underscores one of many dilemmas faced by cooperatives in maintaining business for member-users. Changes in farm production toward fewer, larger farms can pressure boards and management to consolidate operations —particularly grain and farm supply co-ops in the Midwest and Plains states. Closures may improve survivability of the larger cooperative business, but may also compromise the survivability of local farmers.

Negative reactions to these closures may be quite intense, and loss of farmer loyalty and survival may further strain the co-op. How to conduct a business for members in a way that helps keep both members and the cooperative in business is becoming a growing challenge in many parts of the nation.

Closures stir resentment

SDWG is a multi-faceted agricultural cooperative headquartered in Aberdeen, S.D. The cooperative's largest gross-volume activity is grain marketing, though it also operates a state-of-the-art fertilizer facility, one of the largest inland fertilizer storage and distribution centers in the Upper Midwest. SDWG cites this facility as an example of "taking yet another step in providing faster, more efficient services for its customers." The cooperative also offers a full line of agronomy and petroleum products and services, and—through joint ventures with other cooperatives—produces and distributes feed stuffs and provides bulk heating and diesel fuels.

The cooperative recently closed several smaller elevators, including those



in Stratford and Hecla, S.D., and in Ellendale, N.D. SDWG officials attributed these closings to faltering business at these locations and lack of rail service. However, some local users of the grain services there resent the closures and question whether the shutdowns were really necessary.

"I wouldn't haul a kernel of grain to them...that's the feeling of a lot of people," one farmer commented, as quoted in *The Chamberlain Register*.

Members in these areas report their transportation costs have risen as a result of the closures. They acknowledge that prices were lower at the smaller elevators, but hauling costs and time were also less. With the closings, what was once a three-mile trip to an elevator has, in some instances, become a 23-mile trip. Some users of the closed facilities insist these changes have been driven predominantly for profit reasons, without regard for the welfare of local members.

"If you buy the competition out, you can set the price, which means more profit for South Dakota Wheat Growers. They don't care about farmers," one member was quoted in the *Chamberlain Register*. This backlash of member resentment can, in turn, compromise the larger business—especially for multi-branch local cooperatives which might not be able to afford a large number of defections due to an unpopular action.

Survey gauges problem areas

A recent USDA Rural Development study of cooperatives in the Northern Plains asked grain cooperative officials to identify their most troublesome problems of the past few years, and what major problems they expect to face in the near future. Five problem areas were identified most often: low commodity prices, the state of the general agricultural economy, operational difficulties, increasing production costs and competition. These problems have direct effects on the survival of both farmers and their cooperatives.

Low grain prices and increasing costs—particularly the costs of fertilizer and fuels—have pushed cooperatives and members alike into a cost/price squeeze on margins and profitability. Many farmers, caught between low prices for grain and high prices for fertilizers and fuels, have not been able to continue to operate and had to sell their farms. Others have increased the scale of operation by purchasing neighboring farms, spreading costs over larger volume. Larger scale operations, in turn, have allowed some farmers to bypass local elevators and cut better deals by going directly to terminals.

In the USDA study, cooperative officials in the Northern Plains region identified major problems, such as:

- farmers doing direct business and bypassing the local co-op;
- competition from local terminals;
- maintaining a viable customer base;
- fewer farmers;
- the need to find ways to compete with Internet-based businesses.

These changes in the agricultural economy tend to drain away grain volume from local elevators and intensify competition for what has become a smaller number of producers with larger volume and more options.

Some cooperatives close under such pressures. Others have made various operational adjustments, improving financing and efficiencies, better managing debt and diversifying. SDWG advertises their fertilizer plant as a continued step in improving efficiencies. As mentioned, they have also diversified into other agronomy products, services and fuels. It is not uncommon, as well, for cooperatives to consolidate, close smaller branches, but also to merge with other cooperatives and expand locations.

Fundamental dilemma

In an economy with a shrinking farmer base, increased competition, pervasively low commodity prices and rising costs, a fundamental dilemma arises: how does a co-op maintain business services to farmers while acting to keep farmers in business via organized cooperation? In other words, how do they "keep farmers coming through the door?"

The closure of local facilities may be understood as a necessary measure to improve overall efficiencies of the cooperative business. However, closure of local facilities can, in turn, force yet more producers out of business or push their business to competitors.

Closing local facilities always tends to be controversial and can be critical to the fate of producers, and cooperative business. Cornell Professors Bruce Anderson and Brian Hennehan maintain that not closing financially troubled local feed mills (due to member demands) contributed to a recent Chapter 11 Bankruptcy filing by Agway Inc. These are part of the inherent tensions cooperatives face. How to conduct a business for members that helps keep both members and the cooperative in business is not always clear.

Brett Fairbairn of the University of Saskatchewan, suggests that agriculture cooperatives have chosen the same survival strategies over the past 50 years: "expanding, merging, rationalizing." This process tends to over-emphasize short-term, economic survival and a "crisis management" mentality. Following these strategies has resulted in many cooperatives emerging as large, complex organizations. This has occurred in an era of increasing mistrust of large, bureaucratic businesses. When farmers lose services, they may come to believe that their economic fate is independent of, or means little to, the cooperative organization. Loyalty, commitment and support can decline, and they may view their cooperatives as "not caring about farmers."

Fairbairn argues that there has been a loss of creativity and dynamism in what has become "either/or" decision making, with boards feeling they have to sacrifice either the interest of their co-op or their members when deciding whether to reduce services, pursue mergers or close facilities. He suggests agricultural cooperatives may need to seek new paths that are beneficial for both cooperative business and farmers as a collective group.

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Facility closures always a tough decision for co-ops

Editor's Note: the following article was provided by South Dakota Wheat Growers to explain why—like many other cooperatives—it has closed some elevators.

A modern combine can harvest 20,000 bushels of corn a day. About 25 years ago, a typical combine could harvest just 3,000 bushels a day. Most of today's farmers now own their own semi trucks and have the ability to haul large volumes of grain to whatever market provides them the best return, both for price and service. Consequently, for the majority of the members of South Dakota Wheat Growers (SDWG), the most important aspect of service is the ability to get trucks dumped quickly and efficiently, then back to the field to maximize their productivity.

South Dakota Wheat Growers is shifting more of its grain to modern shuttle-train loading facilities, such as this one, which has resulted in some older elevators being closed. Photo by Cheryl Crase, courtesy South Dakota Wheat Growers

Most farmers' production is shipped to markets outside their production area, so access to rail service is imperative for efficient grain-marketing. In response to producers' demand for service, SDWG has invested heavily in substantial improvements in facilities that are strategically located on rail lines. These shuttle-train loading facilities provide producers and grain shippers with better, more flexible pricing options in grain marketing.

SDWG's service model to its membership is indicative of the changing landscape of U.S. agriculture. As times change, tough business decisions must be made to provide the earnings needed for expansion of facilities. These facilities must provide the service that creates the most value for the membership, both in terms of market price and service. Providing faster, more efficient service comes with trade-offs, which often means closing inefficient, out-dated facilities, many of which were built more than 75 years ago. After all, virtually, no full-time farmer today is using a 75-year old tractor.

SDWG has made business decisions and sold six facilities in the past four years. All six have the same characteristics: they were small and out-dated, and all but one were not on rail lines. The out-dated facilities were not keeping up with the service demands of the membership. In all cases, prior to a facility closing, SDWG improved service at another of its elevators within 25 miles of the closed facilities. Construction or upgrading has occurred at these facilities, which are located on rail lines and can handle larger trucks more efficiently and faster than the closed facilities. For example, just one SDWG shuttle-loading facility handles as much grain in a day as some of the out-dated elevators handled in an entire season.

When decisions are made to close a facility, usually the majority of producers in the area are unaffected by the decision and have little or no comment on the issues. Their service needs are already being met with improved service at another location. The next most common response is from producers who do business with the cooperative and understand the reason for the decision, but regret the loss of a facility in their community. The third group is very passionate and fights to keep one of the last remaining businesses in their community.

For this third group, convenience and social interaction are very important. They may have already seen the community's implement dealer, bank, hardware store, school and lumber yard leave town. The emotional equity they have invested in their community and cooperative means that a closure causes them anguish. Having been a part of a community for many years, it is also a tough decision for the cooperative to move its service to another location. But sometimes tough decisions are necessary.

SDWG uses its monthly member newsletter to discuss changes within the industry and its response to those changes. Many months before facilities were closed, directors of the cooperative, who are farmers and members, discussed in several newsletters the need to close facilities as service capabilities are enhanced at other locations. In the case of closings that occurred during the summer of 2002, letters were mailed to each producer who had done business at the affected facility in advance of the closure announcement. This was done to give them enough lead time to plan for the next harvest season.

SDWG will continue to focus on service to its membership to meet the demands of today's changing agricultural industry. This will undoubtedly mean additional tough decisions. However, those businesses that can adjust will survive. The business and cooperative world has seen the unfortunate consequences of not adjusting, which has led to bankruptcy of many businesses. ■

Network difficulties

Tales of two Iowa pork-producer networks show that bottom-up approach works best

By Randy Ziegenhorn,

Editor's Note: *Ziegenhorn is a guest lecturer in anthropology at Cornell College and a fulltime farmer in west Illinois. This article is based on a prize-winning book he wrote, "Networking the Farm," published by Ashgate Publishing Co., Vt., in 1999.*

In the mid 1990s, Iowa hog farmers, confronting the lowest prices in decades, sought to improve their profitability through the formation of cooperative-like networks for producing and marketing pigs. Most felt that economies of scale could be realized by a production system that allowed each member to specialize in some phase of the growing process, from breeding to finishing. The problem that emerged was how to organize such a network. Should the organizer be a farmer or someone else? How should members be recruited, and why did so few networks get beyond the talking stage?

This study details several kinds of networks and argues that success in forming a network has less to do with willingness to innovate and other factors that center on individual choice than on several social-structural factors, including the organizer's level of acquaintance with the characteristics of prospective members' farms and specific ways in which the network addressed those characteristics.

Imagine that your neighborhood is threatened by an unwanted nearby real estate development. You could hire an urban planner and summon your neighbors to a meeting in order to enlist them in a plan of action to oppose it. Or you could call up just your friends (people who think like you) and try to persuade them to follow a similar plan. Or you could spend time defining who would be most affected by the development, finding what characteristics they had in common and earning their trust before proceeding. Which course would be most likely to succeed?

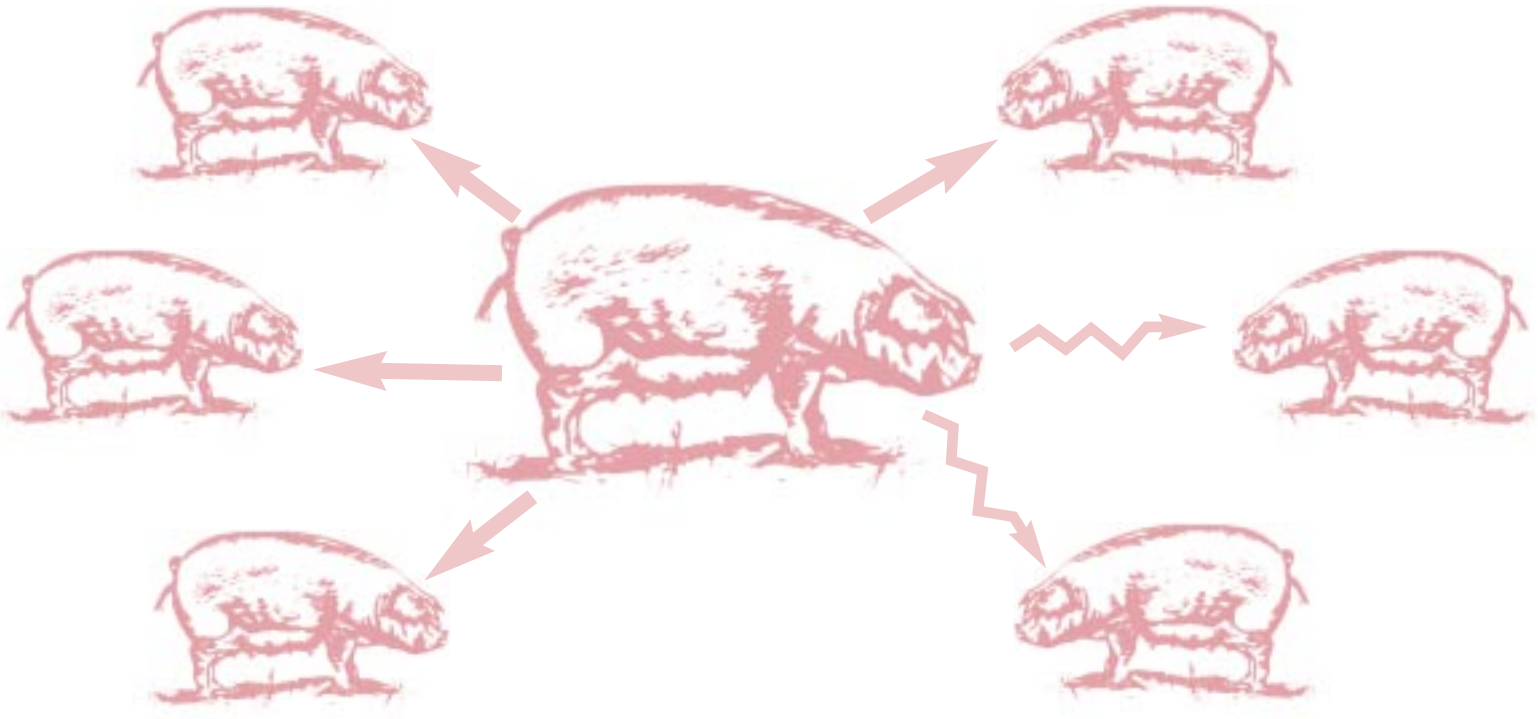
This is largely the situation that Iowa's family hog farmers found themselves in during the 1990s. In 1995-1996, I carried out an ethnographic study of many of these farmers whose livelihood were threatened by declining prices and the emergence of large-scale corporate hog farms. Many farmers sought ways to band together to survive. The idea that cooperative-like networks of farmers could provide more efficient and profitable production emerged from land-grant colleges, swine industry conferences and early networks themselves.

Many foresaw the likely replacement of inefficient, on-farm production with large-scale centralized facilities run by professional management and owned by farmer investors. Like the homeowners described above, the key issue was, as one economist said, "the people problem." How do you best organize cooperation among farmers? That is, how do you get them to go along with the plan? Many, particularly land-grant academics, saw the matter as one of distributing a carefully fashioned plan to farmers who would adapt their existing operations to the needs of the networked plan.

Iowa State University Extension Service's Team Pork sponsored meetings around the state to convince farmers to, essentially, buy in as investors in these projects. These meetings, like those of the urban planner mentioned above, did little to tailor particular networks for particular farmers. The unspoken assumption of the Extension plan seemed to be that rational individuals could perceive optimal outcomes. Therefore, the process of organizing networks is largely a matter of following the plan. In fact, as the experience of one failed network showed, this rationality was often clouded by individual, social and economic factors.

One network was formed among those farmers described as "progressive enough to accept the networking concept," by a person we shall refer to as Farmer A. This network was comprised of large farmers with modern facilities and management strategies who were looking for ways to not only survive, but also expand. Farmer A himself held an advanced degree and added his own expertise to the plans provided by Team Pork. Their plan called for a $3 million growing and finishing facility with each of the six members supplying early-weaned pigs. Shares and debt were to be held proportionate to the number of pigs each member contributed. They held numerous meetings discussing everything from interest rates to water.

Despite the businesslike nature of the meetings, I found much underlying dissatisfaction when I interviewed members privately. Some were put off by the amount of debt they were expected to assume, others claimed benefits were going to be realized disproportionately by some, and others still expressed skepticism about Farmer A having the necessary management skills. As one member put it (in a typical farmer's assessment) "have you ever been by his place?" These reservations were



serious enough that eventually all but Farmer A and one other member withdrew from the project.

In the end, it appears that two problems plagued this network: first, management attempted to impose a top-down, one-size-fits-all production model which didn't fit the needs of the members; second, the manager's own position in the rural social structure and his own reputation prevented him from understanding the complexities of each member's farm.

In short, Farmer A assumed that these progressive farmers would rationally embrace the plan. That they did not was due largely to a dense set of social and cultural constraints that kept management from knowing the intimate details of each member's farm—the kind of details that determine whether a particular network is right for them. After interviewing these and many other farmers, I realized that despite dense social ties, knowledge of a neighbor's farm operation was largely limited to what is seen when going by his or her place.

Veterinarian B occupied a different niche in his community's social life than did Farmer A. Vet B knew a number of his customers quite well. He knew not just the health status of their herds, but also the details of their management styles and financial condition. He was both a vet and a trusted advisor. Like Farmer A, Vet B was looking for ways to put together networks to help his customers survive. His strategy hinged on the relationship of trust and on his knowledge of individual farms.

Vet B was able to develop a bottom-up plan and to fit the plan to a group of farmers with similar production and financial needs. Rather than a group with "progressive attitudes," Vet B created a group with common needs. Rather than start with a multimillion-dollar project, hit network pursued micro projects aimed at building trust and reducing risk. His position within the rural social structure and the cultural values that permit farmers to share information with a veterinarian, rather than another farmer, gave him a better position. Unlike Farmer A, Vet B depended not on what he knew or who he knew, but on what he knew about whom he knew, and—crucially—what they didn't know about each other.

Conclusion

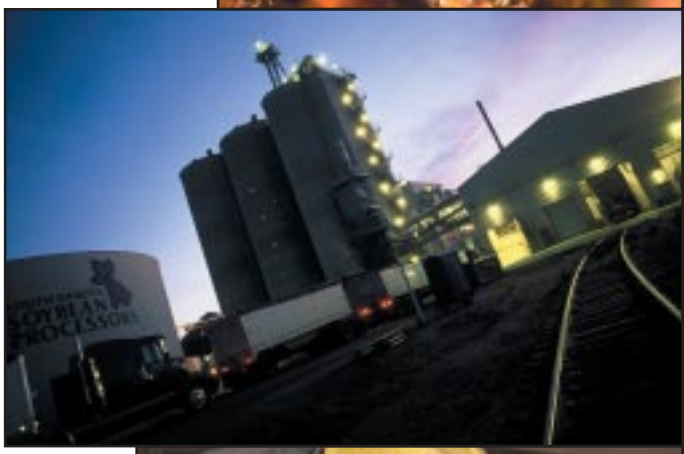
What worked and didn't work in these two cases was repeated in numerous other farm communities. Farmers were rarely successful in organizing networks while vets, feed dealers and even accountants were able to exploit a structural advantage successfully.

In recent years, Farmer A formed a small joint venture with one of the original members in which each specializes in a production process. However, the vision of multi-million dollar industrial production facilities was replaced by his embrace of a low-tech European production method known as a hoop house. In a hoop house, pigs are raised in greenhouse-like structures with rigid wooden side walls. Baled cornstalks serve as bedding and as a base for composting animal wastes. This method still allows for such high-tech techniques as early weaning and reduces odors and waste disposal problems. Many such structures have been built in Iowa, testifying to their economy and practicality. In addition to his farm work, he has been active in state and national swine producer organizations.

Vet B is part of a growing multi-partner, multi-county vet practice. The original networks he created have continued to evolve, according to the needs of their members. Now as then, he scoffs at the top-down models offered by the Extension Service and favors the track record of his own bottom-up approach. Although such networks may not pose a threat to the industrial hog farms, they have helped strengthen their members through cooperation. ■

Striking oil

South Dakota Soybean Processors finds new ways to add value to crop



By Michael Boland and David Barton

Editor's Note: *Boland is an associate professor of agricultural economics and associate director of the Arthur Capper Cooperative Center at Kansas State University. Barton is a professor of agricultural economics and director of the Arthur Capper Cooperative Center at Kansas State University. This project was funded under a cooperative agreement with the Rural Business-Cooperative Service of USDA Rural Development. A longer case study was presented at the Farmer Cooperatives 2002 conference in St. Louis and can be obtained by contacting Michael Boland (785) 532-4449; mboland@agecon.ksu.edu).*

South Dakota Soybean Processors is a successful, producer-owned soybean business that was organized in 1993 and began operations in 1996 to add value to its members' crop. "Our goal," says CEO Rodney Christianson "is to be financially strong and make a maximum value-added payment to our members while maintaining growth and capital stock. South Dakota Soybean Processors (SDSP) will maintain a competitive position in the marketplace by providing quality products to our customers with highly efficient and cost-effective processes."

SDSP's state-of-the-art soybean crushing plant east of Volga, S.D., began operations in late 1996. The plant was built to crush 16 million bushels annually and has since expanded to 28 million bushels. In 1997, SDSP crushed 13.4 million bushels, increasing to 21.1 million bushels in 1998, 24.1 million in 1999, 26.2 million in 2000 and 26.8 million in 2001.

The expansion in 1998 cost $1.8 million and was funded primarily through earnings generated in 1997. Local soybeans are annually processed into about 600,000 tons of soybean meal, 157,000 tons of crude soybean oil and 49,000 tons of soybean hulls.

SDSP's plant is on 47 acres, and the co-op has an option to purchase an additional 60 acres. The plant can currently process about 80,000 bushels per day and has historically run at 88 to 95 percent of capacity. The plant generally runs at full capacity from December through May and then undergoes two weeks of maintenance.

Most of the soybeans are trucked to the plant. Trucks are weighed and then sent to one of two receiving lines that can process 15,000 bushels per hour. The soybeans are sampled and graded for moisture, foreign material and other quality factors, which impact the price. The plant has capacity to store 1.5 million bushels of soybeans, or about four weeks of operations. It can also store about 5,000 tons of soybean meal (about three days of operations) and 30 million pounds of soybean oil.

Passing the profit test

South Dakota Soybean Processors has been profitable since it began operations in 1996.

"Anything that we do, first of all we have to pass the test—do we remain financially strong or do we get better financially because of what we're going to do?" Christianson says. "If we make this investment, will it then allow us to pay a larger value-added payment?"

It has paid back to producers approximately 70 percent of all income each year, retaining about 15 percent to be paid back in future years. It keeps 15 percent as retained earnings for future growth. The first shares of stock purchased in 1993 and 1994 for $2 each have appreciated in value. Stock share price traded locally at $2.49 in 1998, $2.86 in 1999, $3.03 in 2000 and $2.67 in 2001. Later stock sales were priced at

$2.25 and $2.50 and have also increased in value. In addition, the local basis for soybeans has narrowed by about 25 cents per bushel since the plant opened.

Since 1996, three board retreats have been held and the core strategy has been revised three times. "The soybean industry is very competitive, and we need to keep track of what's going on in our industry," Christianson says.

South Dakota Soybean Processors crushed nearly 27 million pounds of its members' crop in 2001 and has acquired the exclusive rights to supply soybean oil for the manufacture of SoyOyl, which is used in producing polyurethane foam for furniture and carpet backing. Top photo courtesy Kansas State University. Others courtesy South Dakota Soybean Processors

At its last board retreat in 2000, SDSP developed a five-year strategic plan. The goals of this plan were to: 1) maintain its competitive advantage in processing soybeans at the lowest possible cost; 2) move its products up the value-added food chain; and 3) develop strategic alliances to help meet its goals and objectives.

SDSP plans to add an additional 20,000 bushels of daily capacity to further its ability to process soybeans at the lowest cost. The co-op is committed to generating 50 percent of its revenues from high-margin, value-added products. This means further refining soybean oil. Four options (discussed below) were considered for accomplishing these three strategies.

Turning soybean oil into polyurethane foam

SDSP has acquired exclusive rights to supply soybean oil to Urethane Soy Systems Company Inc. (USSC) of Princeton, Ill., for use in manufacturing SoyOyl, a polyol made from soybean oil which is a key chemical used in making polyurethane foam. USSC holds a patent on SoyOyl, which reacts with other chemicals to form foam in either flexible or rigid form.

Flexible foam is typically used in furniture, carpet padding, automotive interiors and footwear. Rigid foam is found in insulation, simulated wood, flotation and packaging material. Substitutes for the product include traditional petroleum-based polyols. The global market for the foam is about 12 billion pounds per year (4.6 billion pounds of which is consumed in the United States). The market has been growing at 5 to 8 percent annually.

The price SDSP receives is tied to the Chicago Board of Trade futures price. In addition, SDSP receives a fee for every pound of soybean oil used in manufacturing SoyOyl. SDSP acquired controlling interest in USSC majority voting shares in December 2002. In addition, SDSP had an option to purchase the rights to a process for refining crude soybean oil for use in industrial products, such as manufacturing SoyOyl.

Alliance formed with crushing co-op

Another group of Minnesota soybean producers formed a cooperative in 2000, Minnesota Soybean Processors (MSP), to build an 80,000 bushels-per-day soybean-crushing plant in Brewster, Minn. SDSP provided the co-op with a business plan and construction-management team in exchange for a fee equal to 10 percent of the equity raised by MSP. At least 80 percent of that fee is reinvested as equity in the plant, at a rate of $2 per share. SDSP also entered into an agreement to provide marketing and management services, including day-to-day control of the plant.

"We looked at the [opportunity] and decided it was something that fit our business and industry," Christianson says.

The SDSP board of directors also made available $1 million in interest-free loans to SDSP members who wanted to invest in MSP. For every $4 invested in MSP, SDSP provided a $1 loan. Collateral for the loan is the retained patronage returns not yet redeemed back to the members from 1998 to 2000. For example, if a member wanted to purchase 2,500 shares of MSP stock (i.e., deliver 2,500 bushels to MSP) at a $2-per-share charge, it would require $5,000. However, a producer would only be required to pay $3,750 in cash. The additional $1,250 would be covered by the loan and would be paid off by the future redemption of retained patronage refunds.

Marketing crude soy oil

SDSP was also looking for new customers for its crude soybean oil. Firms such as Hunt Wesson, Procter & Gamble, Louis Dreyfus, ADM, Cargill and AC Humko purchase crude soybean oil and refine it for their own uses. However, these customers already had refiners supplying them with oil. SDSP eventually signed a long-term supply agreement to have all of its crude soybean oil processed by AC Humko, the nation's largest independent refiner of soybean oil. SDSP was to supply three of Humko's plants in Illinois and Oklahoma with refined and bleached soybean oil. In addition, it purchased the equipment for an oil refinery from AC Humko and built a refinery next to its Volga crushing plant.

Christianson says USDA funding helped the co-op with its expansion efforts. "We were fortunate to be awarded a USDA Rural Development [Value-Added Ag] grant of $500,000 to investigate the possibility of vertically integrating into manufacturing soy diesel, refining vegetable oil or soy protein concentrates such as lecithin," he says.

Organizational options

In 2001, SDSP began considering

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MANAGEMENT TIP

How does your local farm supply cooperative rate?

Beverly L. Rotan
Economist, USDA/RBS—Cooperative Services

With the economic downturn, tragic events and accounting scandals of the past year, how has your local farm supply cooperative fared? Was your cooperative able to sustain rising and falling petroleum prices, severe drought (in many areas) or even flooding? Financially, has your cooperative fared better, about the same or lost ground compared to cooperatives with similar functions and factors—sales, product mix, etc?

Comparisons with other cooperatives may help to determine whether your cooperative is doing well or poorly. Trend and industry norm comparisons can provide a useful performance yardstick. ■

Table 1—Compare your farm supply cooperative[1] with averages for cooperatives with similar functions

		Size (2000)[2,3]				Size (2001)[2,3]				Your
Measure/Item	Unit	Small	Medium	Large	Super	Small	Medium	Large	Super	co-op
Sell farm supplies only	Number	73	44	26	9	73	44	26	9	———
Total assets	Mil. dol.	1.6	4.1	7.4	14.5	1.6	4.0	7.6	14.2	———
Long-term debt	Thou. dol.	60.6	295.4	552.0	2,137.1	77.6	272.6	627.9	2,150.4	———
Total liabilities	Thou. dol.	417.8	1,425.1	2,811.9	6,655.4	450.0	1,458.0	2,852.0	6,001.0	———
Total sales	Mil. dol.	2.6	6.3	12.9	27.4	2.6	6.7	13.7	28.0	———
Total service revenue	Thou. dol.	91.3	189.8	345.4	714.4	80.4	214.5	224.6	631.7	———
Total revenue	Mil. dol.	2.7	6.6	13.4	28.5	2.7	7.0	14.2	29.3	———
Net income (losses)	Thou. dol.	50.7	157.8	280.5	352.3	40.4	169.6	373.9	607.1	———
Labor of total expenses	Percent	54	54	55	54	55	53	53	53	———
Patronage refunds received	Thou. dol.	66.3	158.4	293.8	596.5	26.3	77.7	113.2	267.5	———
Liquidity ratios										
Current	Ratio	2.24	1.60	1.42	1.30	2.11	1.56	1.52	1.46	———
Quick	Ratio	1.14	0.93	0.79	0.65	1.11	0.91	0.84	0.68	———
Leverage ratios										
Debt	Ratio	0.26	0.35	0.38	0.46	0.28	0.36	0.38	0.42	———
Debt-to-equity	Ratio	0.34	0.54	0.62	0.85	0.38	0.57	0.60	0.73	———
Times interest earned	Ratio	4.68	4.17	3.79	2.10	3.15	4.64	5.48	2.84	———
Activity ratios										
Fixed asset turnover	Ratio	8.15	5.97	5.94	5.91	8.32	6.71	6.43	6.42	———
Total asset turnover	Ratio	1.57	1.54	1.75	1.88	1.60	1.66	1.81	1.97	———
Profitability ratio										
Gross profit margins	Percent	16.57	16.78	18.47	15.75	16.33	15.82	19.13	16.23	———
Return on total assets before interest and taxes	Percent	4.19	5.51	5.73	4.90	3.80	5.83	6.61	6.99	———
Return on total equity	Percent	5.43	8.04	8.39	5.70	4.49	8.83	10.86	9.49	———

[1/] 100 percent of sales were generated from farm supply sales. [2/] Small = Sales are $5 million or less; medium = over $5 million to $10 million; large = over $10 million to $20 million; and super = over $20 million. [3/] There were 294 cooperatives surveyed in both years.

Table 2—Compare your mixed farm supply cooperative[1] with averages for cooperatives with similar functions

Measure/Item	Unit	Size (2000)[2,3] Small	Medium	Large	Super	Size (2001)[2,3] Small	Medium	Large	Super	Your co-op
Market farm products and sell farm supplies	Number	11	10	23	23	11	10	23	23	———
Total assets	Mil. dol.	1.4	4.1	8.5	19.0	1.4	4.2	7.9	19.9	———
Long-term debt	Thou. dol.	47.9	436.8	1,242.4	2,691.2	70.6	455.2	934.3	2,856.7	———
Total liabilities	Thou. dol.	382.9	1,690.3	3,861.4	8,984.2	418.7	1,661.9	3,254.8	9,776.0	———
Total sales	Mil. dol.	2.9	7.5	14.9	33.7	2.8	7.1	13.5	38.0	———
Total service revenue	Thou. dol.	114.1	297.7	596.9	1,525.9	123.0	298.9	555.6	1,455.1	———
Total revenue	Mil. dol.	3.0	7.9	14.0	35.8	3.0	7.7	14.4	40.2	———
Net income (losses)	Thou. dol.	30.7	70.1	184.4	492.5	26.8	141.8	293.4	628.6	———
Labor of total expenses	Percent	51	50	52	49	52	52	51	50	———
Patronage refunds received	Thou. dol.	12.8	51.7	157.1	196.7	25.7	54.2	161.3	309.7	———
Liquidity ratios										
Current	Ratio	2.14	1.33	1.30	1.37	1.94	1.35	1.34	1.33	———
Quick	Ratio	1.30	0.70	0.72	0.68	1.02	0.64	0.74	0.66	———
Leverage ratios										
Debt	Ratio	0.26	0.41	0.45	0.47	0.33	0.40	0.41	0.49	———
Debt to equity	Ratio	0.36	0.71	0.82	0.90	0.50	0.66	0.71	0.96	———
Times interest earned	Ratio	3.51	1.94	2.14	2.29	2.68	3.07	2.99	2.47	———
Activity ratios										
Fixed asset turnover	Ratio	7.59	5.58	5.46	5.78	10.68	5.77	5.77	6.51	———
Total asset turnover	Ratio	1.99	1.83	1.63	1.78	2.02	1.71	1.71	1.90	———
Profitability ratio										
Gross profit margins	Percent	12.77	14.40	15.96	15.83	13.14	14.15	15.76	15.50	———
Return on total assets before interest and taxes	Percent	3.04	3.80	4.60	5.55	3.49	5.46	6.04	6.02	———
Return on total equity	Percent	4.64	4.13	5.10	6.68	3.92	7.82	8.65	8.56	———

[1/] 50 to 99 percent of sales were generated from farm supply sales. [2/] Small = Sales are $5 million or less; medium = over $5 million to $10 million; large = over $10 million to $20 million; and super = over $20 million. [3/] There were 294 cooperatives surveyed in both years.

Bumper crop buoys Kansas cotton co-op

The Southern Kansas Cotton Growers Cooperative bas been bolstered by a bumper cotton crop, the best in the cooperative's seven-year history. Manager Gene Latham said he was both surprised and enthused by the results. Some members had yields nearly double the co-op's 500-pound per acre average. Timely rains helped the 2002 season, while the two previous seasons had been hurt by drought. The cooperative ginned a record supply of cotton, topping 16,000 bales. Vic McClung, a member of the cooperative board, said he was glad he and his brother stuck with cotton and encouraged others to explore it in coming years. McClung said they had been experimenting with cotton in the1980s before the cooperative was born and then started planting regularly once the gin was created. Unfortunately, the southeast was the only sector in the state that had a normal crop year last fall. ■

A shared harvest

Machinery co-ops could help small, Upper Midwest dairy farms

By Catherine Ford and Robert Cropp
University of Wisconsin Center for Cooperatives

Editor's Note: *Cropp is professor emeritus in the Department of Agricultural and Applied Economics and recent director of the Center for Cooperatives, both at the University of Wisconsin-Madison. Ford is a research assistant in the Department of Agricultural and Applied Economics.*

USDA Photo

As farm size significantly increased in the late 20th century, so did the size of farm machinery required to operate those farms. With limited acreage and significantly higher associated operating cost per acre, many small- and medium-sized farms could not justify buying a full set of machinery. Consequently, many farmers have turned to working with custom operators to plant and harvest their crops.

But working with custom operators has been a problem for many farmers due to timeliness issues when planting and harvesting. For example, there is about a ten-day window in which the best quality forage can be harvested. This challenges custom operators trying to harvest several farms during this same window of time. Many farmers are looking for a solution to their equipment needs for planting and harvesting.

The article, "Shared Machinery Old Idea, Still Good One," discusses the joint purchase of machinery by farmers as a way to reduce individual cost, noting that sharing machinery in the Midwest "is an old practice that still makes good sense today" (Fykson, p11). Organizing a machinery cooperative is one alternative to consider for sharing expensive machinery costs.

A major advantage of a machinery cooperative is that it addresses and controls the timeliness issue. "This could occur by coming to a consensus among the members to limit the number of acres that the machinery can be used on within a year. This is different from working with a custom operator since, in that arrangement, the custom operator decides how many acres that he or she commits to during the year" (Drye and Cropp, p.2).

Another advantage is the reduction in capital individual farmers must invest in machinery. A group of farmers can spread the cost of machinery over several farms and acres. Further advantages include economies of scale applied to equipment purchased or leased, savings in operating costs (such as fuel and insurance) and addressing labor shortages during planting and harvesting.

Cost sharing in a machinery cooperative highlights the greater capacity equipment, labor time reduction, better access to new technology, lower risk burden and increased social opportunities. But risks associated with a machinery-sharing cooperative should also be considered prior to co-op formation. Timeliness issues are not completely dissolved with a machinery cooperative. More than one farmer-member may still want to use a piece of equipment during the same time. A solution might be a policy in which a harvesting schedule prioritizes which farmers need to use equipment when.

Another challenge involves the establishment and maintenance of good working relationships among members. If members have major differences in how the cooperative ought to operate, then the benefits of working together may diminish and the

Table 1—Cost-benefit analysis of shared machinery in Canada

Piece-by-Piece

• Greater degree of independence involved in production when individual machines are shared, as opposed to entire sets;

• Greater freedom in production decisions for members who have dissimilar production practices and/or do not want to change production practices;

Pooled Production

• Avoids scheduling conflicts and ensures that operating costs and revenues are divided in a fair and equitable manner;

• New members gradually build equity in the operation; a member can join the cooperative with a land base and can build equity by having income deducted until the land base and equity contributions are in equal proportions;

• Encourages members to test new options (crops, farm techniques, and equipment) since there is a reduced risk to individual members.

• Loss of independence: members make their production decisions together and must unanimously decide how, what, and where to produce;

Shared Labor

• Labor sharing has alleviated the problem of getting reliable replacement help

• "Time savings is another important benefit. Since joining the co-op, for example, one member's land was seeded in four and a half days and harvested in three. When farming independently, the same member required twenty-one days of labor to seed and fifteen days to harvest."

cooperative may not be successful. While there are opportunities and limitations for machinery cooperatives for small Wisconsin dairy farmers, it is important to remember that irrespective of what decision farmers make (custom operation, individual ownership or organizing a machinery cooperative), the decision should be compared with other alternatives.

Canadian machinery co-ops

Farm machinery cooperatives in France developed after World War II "to encourage the collective purchase and use of scarce farm equipment" (Harris and Fulton (CUMA...) p 14). In Canada, several types of machinery cooperatives have recently developed, based, in part, on the French system as well as to move away from machinery syndicate pools, which had no legal status and thus could not take action when members broke an agreement.

While virtually all machinery cooperatives provide equipment rental and use, there are a number of variants, including piece sharing, whole-set sharing, production pooling and labor sharing. Following are examples of machinery-sharing co-ops in Canada.

■ **Piece-by-piece machinery sharing** can be illustrated with the CUMA system in Quebec. CUMA owns all of the machinery and equipment and members are legally bound by contracts, "thereby eliminating the difficulty of having members break the informal syndicate agreements. Second, the liability of members of a CUMA is limited to their initial share investment; personal guarantees are not required" (Harris and Fulton (CUMA...) p 14). CUMA's structure allows sharing individual machines among sub-sets of members through an activity branch, which corresponds to a different farm operation or machine. These activity branches are developed following the identification of machinery and equipment needs; each branch member then provides a time and/or unit commitment for that piece of machinery for the duration of the contract.

■ **Sharing of complete farm machinery sets** occurs in cooperatives in Saskatchewan. Within these shared machinery-set cooperatives, production may or may not be pooled. However, both types pool labor. "Sharing labor enables members to take advantage of, or develop, expertise in particular areas. For example, one member may be in charge of machine repairs and maintenance, while another maintains the financial records for the co-op. Sharing labor can also allow some members to work either more or less, depending on their needs. For example, one member may wish to exploit off-farm employment opportunities, while another may be interested in farming fulltime but does not have enough land to do so (Harris and Fulton (Farm...) p 7)."

■ **Pooled Production** is a system where the cooperative's members assign their land to the cooperatives' production decisions, which decides how, what and when to produce what crop(s) on each member's land(s). Lakeside Farm Machinery Cooperative pools production. The members retain ownership of the land. However, seed or grain produced becomes part of the cooperatives' overall pool.

■ **Non-pooled production** is illustrated by the Kipling Agricultural Machinery Co-op. Members make production decisions independently. However a group strategy is formed "to complete key farm operations, such as seeding and harvesting (Harris and Fulton (Farm...) p 10)."This strategy helps to coordinate the production and harvesting among the individual members.

■ **Sharing labor** occurs in the shared machinery set cooperatives in Saskatchewan as well as some of the CUMA in Quebec. Farm labor activity branches within the CUMA takes charge of "paying the laborers and undertaking associated administrative duties, including providing technical support and training" (Harris and Fulton (CUMA) p. 20). In the Leclercville CUMA cooperative, replacement employees are hired when a member needs to leave his/her operation. This greater supply of skilled labor enables Leclercville member producers to leave the farm for longer periods of time.

Strengths and weaknesses of Canadian machinery co-ops

Strengths of machinery cooperatives in Canada include:

■ Cost savings and access to newer, more efficient equipment;

■ "Access to a greater pool of knowledge and resources...such as labor, experience, and ideas" (Harris and Fulton, (An Idea... p. 2);

■ Price discounts on inputs due to the greater volume of business; this can improve farmers' buying power from input suppliers. (Harris and Fulton, (Farm...p. 3);

■ Shared financial risk and minimized individual investments ensure the most efficient use of invested capital and reduce operational costs, which allows for the purchase of more efficient and powerful machinery;

■ More rapid equipment turnover to obtain a higher resale value;

■ A positive social experience from working together and sharing experience and skills; "re-instill basic rural values with their neighbors, such as co-operation and helping one another"(Harris and Fulton (CUMA...p. 19)";

■ Training—sharing experiences and skills especially with respect to new technologies;

■ Economies of scale in machinery purchased or leased (larger equipment size);

■ Share labor and enable a younger generation of people to get involved in farming without a large debt burden.

Table 2—Reasons custom operators leased or purchased different types of machinery

	Reasons to Purchase	Reasons to Lease
In general	• Equity accumulation	• Leases can work for new pieces but usually converted to purchase
Haybine	• Don't need to replace machine as frequently	
Hay Rake	• Lease provided no benefits; it is preferred that you purchase the item	
Forage chopper	• At the time, a purchase was more efficient.	• 3-year lease and then purchase it; it helps with cash flow since it's too expensive to start with
Grain combine		• Too costly for my operation to have sitting seasonal; leasing makes more sense
Forage wagon	• Based on need ownership is much cleaner than leasing this equipment; damage occurs and wear; • No fear of broken leases	
Trucks for forage	• Not very expensive;	

Co-op weaknesses include:

■ Conflicting time requirements. "The fear that two or more members might have to use a particular machine at the same time is one of the biggest reasons why many Saskatchewan farmers are reluctant to share farm machinery, especially seasonal equipment such as seeders and combines";

■ "Potential loss in income from not being able to use a machine at the most optimal time";

■ Carelessness: "The risk of sharing equipment with a member who is inexperienced or careless, and the associated increased maintenance and repair costs, can quickly turn people off the idea of sharing farm machinery."

Survey of Wisconsin custom operators

Custom operators surveyed in Wisconsin indicated what kind of custom work they provide for dairy farmers and the different types of machinery they use. They were also asked about the financing methods they select for each type of equipment.

The survey sought to discover the different types of machinery required for custom operations and the different means of financing, turnover rates and problems encountered. Twenty custom operators were contacted by mail and asked to complete a confidential survey. Only five responded. Nevertheless, the responses provide some insight about the equipment and operations of custom operators. This information has application to organizing a machinery cooperative. Table 2 shows the different acreage sizes for different types of custom work. These are the averages for individual farmers served by custom operators

Purchasing equipment appears to be more prevalent than leasing, irrespective

Table 3—Recommendations for equipment purchase or lease by a typical machinery cooperative of small dairy farmers.

Machinery Type	Size and style	—Cost to buyer/ lessee— Purchase Price	Leasing Rate	Purchase or Lease? Why?	———Turnover Rate——— Purchased	Leased
Haybine	18' self-propelled	$70K	$15K-20K	Buy the machine because of the high lease price	3-4 years	Contract for 2-3 years, normally
Hay Rake	High capacity wheel rake	$8,500		Normally, don't lease this because of the high wear	3-4 years	Lease for 3 years
Forage Chopper	Self propelled, 12' hay head, 6 row corn head	$225K	$60K-70K	Lease rates are very high, recommend that people buy new	4-5 years, depending on how heavy it's used	
Grain Combine	Class 5 machine with 6 row corn head and 18-20 ' platform, may be able to handle beans, other small crops	$160K	$20K	For this size of operation, 1,000 acres, would recommend leasing or custom operation, but if the acreage went up to 2,000, then it might be worth it to buy	3-4 years	
Grain Cart	500-600 bushel grain cart	$11K	$2,000-$2,500	Leasing is common since it is only used for a few weeks each year. In order to deal with high demand, lease contracts are for 3 years, lease-to-purchase	Lasts 6-10 years without problems	Leasing agreement is for 3 years, with option to buy
Forage Wagon	4-5 combination boxes for front and rear unload	$15K per unit ($60K-$75K)	Not much leasing	Not much leasin since it has high depreciation rate, high level ow wear	5 years or until it dies	
Forage Truck	Tandem or tri-axle with 20' boxes	New boxes ($35K-40 K) with used truck, don't buy new trucks often, with new truck, $75K		Common to hire truck owners.	Lasts about 10 years	3-4 years
Windrow Merger	Double windrow merger	$38K-39K	$10K	Very high wear, so it's preferable to purchase; lease is very high rate, close to 30%	3-4 years	3-4 years
Packing Tractor	125-150 horsepower mechanical, front-wheel drive with loader or tractor style or blade; Recommend only front wheel, rather than 4-wheel-drive due to the small size	$70K-85K	$12K-15K	Consider leasing, since it's only used for seasonal application.	8-10 years	

of equipment type. However, leasing was more prevalent with the more expensive equipment, such as a grain combine.

Machinery co-ops for small dairy farmers

A set of assumptions were made for a potential machinery cooperative organized by relatively small Wisconsin dairy farmers. It was assumed that 10 dairy farmers would organize the cooperative. Each farm would have 500 acres of cropland comprised of 250 acres of hay or haylage and 250 acres of corn, of which 150 acres would be harvested for corn silage and 100 acres for grain. In total, equipment would be required for 5,000 acres: 2,500 for haylage and 2,500 acres for corn (1,500 for corn silage and 1,000 for grain).
In order to obtain recommendations on the type and size of equipment required, a machinery dealer was contacted who provided recommendations as to whether it was more feasible to purchase or lease the equipment. The results of these recommendations are provided in table 3.

If all the equipment were purchased, between $740,000 and $760,000 of capital would be required. Depending on the lender's equity requirement, between $380,000 to as much as $600,000 would be required as equity capital for equipment purchased. On a per-farm basis (10 farms), this is very feasible, at $38,000 to $60,000 per farm as compared to the alternative of farmers purchasing their own equipment.

The leasing alternative releases the capital requirement for purchase, but farmer members in the cooperative would incur annual lease payments. But again, these lease payments would be lower per individual farmer member than if they leased the equipment independently.

For purchased equipment, it is recommended that new, rather than used, equipment be purchased. Individual farmers often purchase used equipment to reduce costs. But, for an organized machinery cooperative, new equipment enhances the reliability of the equipment. There are less chances of down time for repairs and, therefore, a greater probability of staying on the harvesting schedule.

Guidelines to organizing a machinery cooperative

Numerous issues must be addressed by dairy farmers seeking to organize a machinery cooperative. Some of the more important issues include: articles and bylaws, organizational structure, initial equity investment, how to handle operating capital and more specific operating polices. In considering each item, perspective members should:

1. Discuss all factors regarding the cooperative structure and operating procedure thoroughly.

2. Prepare a detailed written membership agreement.

3. Choose cooperative members with similar attitudes and values regarding farming practices.

Organizational structure

Wisconsin state statutes require that a co-op have at least five members. A minimum of three board members must be elected, assuming there are fewer than 50 members. Depending on the size, the cooperative could be managed by consensus of the members or with a general manager who is not a member. In addition, support staff (such as mechanics, bookkeepers and machinery operators) may be hired.

Articles, bylaws and policies

Articles provide the overall purpose and broad organizational structure of the cooperative. Bylaws provide more specific operating guidelines, including the number of board members, membership qualifications, distribution of any net revenue, redemption of equity when a member leaves the co-op, how the cooperative would be dissolved, etc. Both articles and bylaws require approval by a two-thirds of members voting. The board establishes more specific operating policies, including specific information regarding the daily operations of the cooperative, such as:

1. Equipment Rates or User Fees—This is based on an analysis of operational costs, and may be completed with consolation with a third party, such as university extension.

2. Equipment Depreciation—There are various options for determining depreciation rates. They all have different impacts on taxes and financial reporting of the cooperative.

3. Equipment Storage—Should the equipment be stored on the property of the members or should an alternative location be secured? If stored by members, how should they be reimbursed.

4. Equipment Insurance—How much and what type of insurance should be carried on the equipment?

5. Equipment Maintenance and Repairs—How should maintenance and repairs be charged to members? This may be a part of the equipment rates or user fees.

6. Equipment Retirement—When should the equipment be replaced?

7. Fuel Purchasing and Storage—How should the cooperative purchase and store fuel for the equipment?

8. Source of Labor—Should the members supply labor or should the cooperative hire employees?

9. Schedule of Usage—Who has priority of usage?

10. Rules of Conduct Regarding Usage—What condition should the machinery be in when the user member returns it?

11. Operational Downtime—How should this be handled?

Initial equity investment

The establishment of the cooperative requires an upfront equity investment by those who wish to join the cooperative. The numerous options may include a flat fee and/or a fee based on participating acreage. The logic behind the participating acreage fee is to create ownership of the cooperative based on percentage of usage of the equipment. Members may have concerns about this requirement if they have proportional ownership without proportional voting power. But most state cooperative laws allow for only one vote per member regardless of investment or patronage of the cooperative.

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Compiled by Patrick Duffey

Nilsestuen, Ziewacz head Wisconsin ag office

Rod Nilsestuen, president and CEO of the Wisconsin Federation of Cooperatives (WFAC) for the past 24 years, has been named by Wisconsin Gov. James Doyle as his new secretary of agriculture, trade and consumer protection. For the past four years, Nilsestuen also headed the Minnesota Association of Cooperatives. Nilsestuen subsequently chose Judy Ziewacz as his deputy. She has been executive director of the Cooperative Development Foundation and vice president of domestic operations for the National Cooperative Business Association (NCBA) in Washington, D.C. Ziewacz earlier had been communications director for the National Milk Producers Federation and WFAC director of government affairs.

Rod Nilsestuen

Bill Oemichin, current WFAC CEO, said the state could make "great use of Nilsestuen's knowledge of agricultural and rural issues." He spearheaded the overhaul of the Wisconsin Agricultural Marketing Act, played a pivotal role in creating the state's milk promotion board and corn and soybean marketing boards, and later sparked development of Wisconsin Dairy 2000, the state program that assemble dairy industry leaders to improve their economic and political environment.

Judy Ziewacz

Nilsestuen formed Cooperative Development Services, a first-of-its-kind model to provide technical services and development assistance for rural and urban cooperatives in Wisconsin, Minnesota and Iowa. He chaired the National Rural Cooperative Development Task Force, which led to the formation of 17 cooperative development centers across the nation. For two of his seven years as a director, Nilsestuen chaired the NCBA board.

Va. Tech NICE site; NCFC Sets PAL date

A revamped National Institute on Cooperative Education (NICE), now focusing on youth only, will be conducted July 27-31 on the campus of Virginia Polytechnic Institute and State University at Blacksburg, Va. Dixie Watts Reeves, agricultural economist at the university, is directing the program. She had been active in previous youth education programs at NICE when it was sponsored by the National Council of Farmer Cooperatives (NFC). NICE will include a tour of Roanoke area cooperatives. About 100 students are expected. For more information, contact Reeves at (540) 231-6153 or dixie@VT.edu . Meanwhile, NCFC will replace the young cooperators segment of the old NICE program with the new, Political Awareness and Leadership (PAL) development program, to be held in conjunction with its 6th Annual Washington (D.C.) Conference, June 6-10. For more information, call (202) 626-8700.

TFC regains profitability after $1.8 million in cuts

A four-point working capital improvement strategy implemented in 2002, coupled with a $1.87 million cut in operating costs, brought Tennessee Farmers Cooperative (TFC) back into profitability after a $7 million loss in 2001. The improvement came despite a sales decline of $30 million, to $400.2 million. TFC's recovery was triggered in part by an 8.7 percent upsurge in fuel volume, opening its first tire warehouse, selling record fertilizer tonnage, and extensively renovating its feed mills.

TFC's new tire warehouse.

TFC's goal for 2003 is to achieve $8 million in net income and to increase purchases from its 69 member cooperatives from 82 percent to 84 percent of their total purchases, says Bart Krisle, chief operating officer.

A key component of the four-point program is a long-term, variable rate bond program offered to current and retired employees and their families. A goal of $4.5 million has been set for July 31, 2003. Minimum investment is $1,000 for five years. "It's a way to build more permanent financial strength

while giving employees an attractive investment option, " Krisle said.

Kansas co-op leader Joe Lieber dies

Joe Lieber, president of the Kansas Cooperative Council since 1986 and a prominent state and national cooperative leader, died Jan. 10. Lieber was a strong proponent of cooperative education who improved the director development program in Kansas and established the council's cooperative hall of fame. He was instrumental in placing a co-op basics education program for employees on the council's Web site.

Joe Lieber

Lieber served on the advisory committee for the Arthur Capper Cooperative Center at Kansas State University and was on the executive committee of both the National Cooperative Business Association and National Council of Farmer Cooperatives. He had been a high school teacher and sports coach. He had been active in recent years in efforts to reshape the future of cooperative education, particularly the youth component. Memorials may be sent to the Capper Center.

His council position will remain open during the current legislative season. Diane Gruver, executive assistant, will take on expanded council duties while legislation monitoring will be handled by member co-op representatives.

AgriBank top co-op bank

The merger of Omaha-based AgAmerica with AgriBank of St. Paul creates the largest cooperative bank in the nation, with assets topping $31 billion. AgAmerica, the Omaha regional Farm Credit System bank, served customers in Iowa, Nebraska, South Dakota and Wyoming. The Omaha bank will carry the new name of FCS America and continue to serve customers in that region. AgriBank already serves bank customers in 11 other states. William Collins, AgriBank president, will continue to serve as president of the enlarged bank. The St. Paul bank employs about 275 people and already was the largest farm lender, with $22.2 billion in farm operating and mortgage loans outstanding with 50,000 owner-borrowers. Adding volume from AgAmerica pushes the total to $28.9 billion as of Jan. 1. Customers of Farm Credit Services in AgriBank saved an estimated $285 million in lower interest costs last year.

Value-Added Corner *continued from page 11*

producer group, cooperative, and majority-controlled producer-based business venture projects must involve an emerging market. An emerging market is defined as a market that is new to the applicant. Thus, if a cooperative has not marketed processed lamb in the past, it would be considered an emerging market for that cooperative.

How does USDA decide who gets grants?

RBS reviews all applications received by the closing date of the RFP for eligibility and completeness. Those applicants or projects that are ineligible are removed from the selection process as are applications that are incomplete. The remaining applications are reviewed by three individual reviewers—two are academics with degrees and experience in agribusiness and one is a federal employee with agribusiness experience. The three reviewers evaluate the application and give it a score. The three scores are normalized (to compensate for any tendencies on the part of the reviewers to typically score applications high or low) and then averaged. Any applications where the difference between the normalized scores for the three reviewers is significantly different receive two additional reviews. The high and low scores are then thrown out, with the remaining three scores averaged.

Then, the applications are ranked by the average, normalized scores and presented to the RBS administrator, who determines if the ranking needs to be revised to make sure the agency funds innovative projects, projects in underserved areas, or to make sure that grants will be awarded throughout the United States Then, the agency funds as many projects as it can based on the final ranking and the money available, as long as the projects score above average.

How much money is available for the grants and how many grants will be awarded?

The 2002 Farm Bill allocated mandatory funds of $40 million to be shared by the VAPG Program, the Agricultural Innovation Centers, the Agricultural Marketing Resource Center and university research on value-added activities. The VAPG Program's share of the money is approximately $30 million. RBS will award grants of up to $500,000 each to as many eligible applicants with acceptable proposals as it can, based on the funding it receives each year. In 2002, 231 grants were awarded out of 714 applications.

How long will the program continue?

The 2002 Farm Bill authorizes the program through 2007. At that time, Congress can decide to extend the program or allow it to expire.

How can I apply for a grant?

You must submit an application to RBS during the open period of the RFP. It is important that you carefully read the instructions in the RFP and submit a complete application package. For more information about the program, you can access RBS' Website at http://www.rurdev.usda.gov/rbs/coops/vadg.htm or you can contact your State Rural Development office. ■

Alto Dairy GM Retires

Larry Lemmenes, president and general manager of Alto Dairy Cooperative at Waupun, Wis., for the past 9 years, retired Jan. 27 after 18 years with the co-op. Alto has 800 members and operates two cheese plants and several milk-replacer plants. The board has hired a consultant to find managerial candidates while the executive board handles interim operations. Alto's sales for fiscal 2002 reached $432.6 million, up $28 million. Cheese production set a record at 206 million pounds. Pre-tax income reached $2.1 million.

Agway selling Telmark; CEO Cardarelli to step down

Agway Inc. has sold Telmark, its leasing company, to Wells-Fargo Financial Leasing of Des Moines. This was the last of four divisions sold since last fall as part of Agways's post-bankruptcy reorganization. The deal was approved by the U. S. Bankruptcy Court of the Northern District of New York.

CEO Donald Cardarelli has also told the Agway board he plans to retire April 1 after 19 years with the cooperative. Cardarelli will be replaced by Michael Hopsicker, newly named chief operating officer. He most recently served as executive vice president of agriculture and energy and president of Agway Energy Products, a post he will retain under the realignment.

The sale includes about $650 million in lease receivables. Most of the 225 employees, including management, will be retained. Telmark offered lease financing for equipment, buildings and vehicles within the continental United States. It served 20,000 farmers, related agribusinesses and selected commercial businesses. Telmark's profits rose an estimated 17 percent last year, to $14.3 million, based on sales of $90.2 million.

CF eyes plant shutdown

Natural gas prices that have tripled since late February have forced CF Industries to reduce production of nitrogen fertilizer by 80 percent at its plant in Donaldson, La. However, it plans to keep all of its 290 employees engaged in training and upkeep. CF said it had ample fertilizer supplies for the spring season to serve its cooperative members in the United States and Canada. Natural gas accounts for almost 80 percent of a plant's production costs.

Cal/West Seed, Senesco in pact

Cal/West seeds has signed a development and licensing agreement with Senesco Technologies Inc., which will enable the firms to incorporate Senesco technology into the enhanced, proprietary alfalfa varieties and other forage crops being developed by Cal/West. Paul Frey, Cal/West president, said "Added value through innovation in research is the cornerstone of our business. Successful development of commercialization of this technology is of primary importance to our company." The cooperative of nearly 550 member-growers is based at Woodland, Calif., and markets proprietary alfalfa varieties to customers across the globe. It is the nation's largest member-owned seed production cooperative.

Dilland succeeds Wosje as Michigan Milk CEO

Michigan Milk Producers Association (MMPA) Chairman Elwood Kirkpatrick has announced the selection of John Dilland, the co-op's director of finance, to be the new general manager. He succeeds Walt Wosje, who

Walt Wosje

Closures *continued from page 16*

Role of rural culture & values

One approach that may help strengthen linkages between co-ops and local communities may be for cooperatives to begin understanding and marketing "themselves to members, partners and stakeholders as bearers of rural culture and values" (Fairbairn). Given the recent Chapter 11 filings by Farmland and Agway, the sale of assets by both Minnesota Corn Processors and Agrilink Foods and the conversion of Dakota Growers Pasta, broader, more encompassing dialogues may be needed to help sustain a three-way partnership between cooperatives, members and local communities.

"A cooperative is a user-owned business from which benefits are derived and distributed on the basis of use"(Dunn). Organized for member use, cooperatives have a degree of community quite distinct from other forms of business and, in particular, from investor-owned forms of business. Investor-owned businesses seek to increase sums of capital held, invested and re-invested. Fluidity is prized and rewarded. The fundamental purpose of a cooperative, however, is to provide a flow of service (broadly defined) over time to a community of users to meet their needs.

A cooperative is unlike an individual proprietorship in that the community of users owns the organization and governs it based on principles of democratic process. These characteristics embed the organization in its owner-user community. Agricultural cooperative users are, in the main, located in rural areas. As such, this "incorporates" them within rural communities. They are developed and emerge with a set of cooperative values and principles that reflect, to varying degrees, their community's values and principles.

Those committed to rural living may wish to de-emphasize "either/or" decision making (that is, cooperative vs. individual farm survival) and begin a dialogue by asking themselves how they wish to live, where and how those values and goals are obtainable within the broader rural community. ■

John Dilland

was to retire after the March 18 annual meeting. Wosje spent 37 years in the dairy business and was the cooperative's first general manager from outside the organization. He was credited with reviving the "super pool" on a number of occasions, each time regaining over-order premiums for members.

In refining its business, he sold MMPA's milk bottling operation to concentrate on marketing Class I bulk milk to major bottlers and consolidated manufacturing plants. In partnership with Leprino Foods Inc., MMPA invested more than $26 million in a new plant at Allendale and remodeled its Remus location. Wosje led these successful moves, which stand as the base of the cooperative's current financial standing and success.

Dilland joined the cooperative in 1975 as its controller. He holds a bachelor's degree in animal science from North Dakota State University and a master's degree in business administration from Ohio State University.

Dakota Pride, Canterra form Merridian Seeds venture

Dakota Pride Cooperative of Bismark, N.D., has formed a joint venture with Canada's Canterra Seeds. The new business, Merridian Seeds LLC, will serve 105 Dakota Pride and 160 Canterra seed growers. Merridian will be owned by the farmers who grow the seed. The firm is scouting for another 70 growers in the state to invest in the venture. Merridian plans to acquire top seed varieties of peas, wheat, flax, canola, barley, dry beans and soybeans through Canterra to become one of Canada's larger seed companies.

LOL nets $98 million; consolidating feed mills

Thanks to proceeds won in a vitamin price-fixing lawsuit, Land O' Lakes (LOL) net earnings reached $98.9 million for 2002, up from $71.5 million in 2001. Long-term debt was cut by $55 million, but sales were essentially flat, at $5.8 billion. Its dairy foods business lost $32.1 million after posting $50.7 million in earnings in 2001. Its Agriliance agronomy joint venture lost $1.8 million, but seed earnings more than doubled, to $8.3 million. LOL was hurt by commodity price declines, competitive pressures and milk supply/processing demand issues in the Upper Midwest, and start-up costs at its West Coast Cheese and Protein International venture.

As an aftermath of LOL's 1991 purchase of Purina Mills Inc., the Land O'Lakes/Farmland Feeds joint venture at St. Paul will have closed nearly 40 mills by the time consolidation is completed by the end of 2003. Bob DeGregorio, president and CEO of the feed venture, said the move was part of the operation's transition toward offering both CENEX/LOL and Purina branded feeds. In a related move, LOL also plans to relocate its basic feed research from Fort Dodge and Kansas City to St. Louis.

DeGregorio said three major issues face the feed industry in coming years: closing plants to curb over-capacity; adopting food safety programs for all of the centralized mills by the end of 2003; and paying closer regulatory attention to small, unlicenced mills to counter attention toward larger mills licensed to produce medicated feeds by the Food and Drug Administration. Meanwhile, LOL is shutting plants at Perham and Fairbault, Minn., and Volga, S.D., to consolidate and shift production elsewhere in its system.

CHS opens Brazil office; '02 sales at $7.5 billion

A Brazilian-based grain marketing office has been opened by Harvest States, the grains and food division of

Striking Oil *continued from page 21*

various organizational options that would enable its member owners to still own the cooperative, but not be obligated to supply all of the soybeans needed to operate the plant. This would give SDSP more flexibility to purchase raw soybean oil and refine it instead of adding crushing capacity to obtain the oil. The board considered different options, including: 1) continuing to operate as a cooperative and paying the corporate tax on the non-patronage sourced income; 2) not expanding into these new investments; and 3) forming a limited liability company (LLC).

It was decided that an LLC would accomplish the goals of ownership by soybean growers and enable SDSP to have the flexibility to acquire soybean oil. This organizational structure would enable SDSP to pass along income directly to its members without paying taxes at the company level. In contrast, a cooperative corporation would have to pay a corporate income tax on non-patronage income. The LLC's "partnership," or single taxation structure, would distribute income to owners as dividends, which would then be taxed at the member- owner level.

The LLC structure also allows flexibility to transfer equity shares between members and would enable it to increase its potential investor pool if it ever needed additional capital.

"We think this organizational structure is going to carry us into the 21st century and give us maximum flexibility," Christianson says. "We're still a producer-owned business and that's the important feature. Planning has helped us take advantage of opportunities over the past few years as they presented themselves and enabled us to remain producer-owned. Now we need to focus on markets for soy-based products such as food, fuel and foam. " ■

CHS Cooperatives, St. Paul, Minn. Known as Harvest States de Brasil Ltda., the office will temporarily open at Sao Paulo with a staff of 20 headed by Stephano Rettore. It will originate and export soybeans in Brazil. Harvest States doesn't plan to own or acquire any elevators or terminals in Brazil. The office was opened so the cooperative could keep pace with customers, who have become increasingly global. Brazil's soybean harvest season counterbalances the U.S. harvest, and will better enable CHS to become a full-service grain originator for customers.

Meanwhile, CHS raised $86.2 million in a recent sale of 3.45 million shares of 8-percent cumulative, redeemable preferred stock. The $25 shares will pay an annual $2 dividend on a quarterly basis. In a 2001 offering to a narrower distribution network, CHS raised $9.3 million. "This is a new step for us," says Lani Jordan, CHS director of communications. "We're taking the opportunity to explore financing beyond our traditional base of our farmer and ranch owners."

Despite the weak agricultural economy, CHS paid $56 million in cash patronage and equity redemptions for 2002. The co-op had sales of $7.5 billion, little changed from 2001, but net income slipped 29 percent, or $52 million, to $126.1 million. The 1.2 billion bushels of grain CHS handled contributed about $5.3 billion to combined revenues. Harvest States will open two new businesses in 2003, a soybean processing facility at Fairmont, Minn., and a tortilla processing center at Newton, N.C.

Golden Growers rejects change

Following the lead of Chairman Carl Larson Sr., members of Golden Growers Cooperative of Fargo, N.D., rejected a move by some members to cut the size of the board from 15 to 7 and voting districts from five to three. Larson said he felt a larger, geographically based board meant better representation for the members. The 1,800-member cooperative has a 49-percent ownership interest in ProGold's corn processing plant at Whapeton that has been leased to Cargill since 1997.

Dakota Layers Co-op operating in Flandreau

The first shipment of 240,000 pullets marked the start of operations of a $9 million egg factory operated by Dakota Layers Cooperative near Flandreau, S.D. By this summer, more than 750,000 laying hens will call the plant home. In full operation, more than 180 million eggs will be produced every year and shipped to the South and Southwest, according to a marketing

Machinery co-ops *continued from page 28*

The initial capital investment required from each member would be based on the desired equity level, for example, 50 percent equity and 50 percent debt. Further, equipment may be leased rather than purchased, thus reducing the amount of initial equity capital required.

Operating capital

Operating capital for fuel, repairs, maintenance and lease payments would be generated from fees charged to individual members for use of the equipment. An appropriate fee structure for the use of each type of equipment would most likely be established by the board of directors or by the general manager with guiding polices established by the board.

Summary

Many benefits can be derived from a machinery cooperative, but two are significant: 1. Reduction of individual farmers' machinery costs; 2. Mediating the timeliness issue related to custom operators. Smaller farmers do not have the acreage to justify the cost of a full line of modern farm equipment. Sharing machinery costs via cooperatives addresses this issue. Relying on a custom operator for forage and grain harvesting is also a viable alternative.

But small farmers are not necessarily given priority by custom operators for work. Small operations, therefore, may be at a disadvantage in completing harvest during the ideal time window for haylage or corn silage. A machinery cooperative offers these smaller farmers the opportunity to better control the scheduling of harvesting.

There are many factors to consider prior to forming a successful machinery cooperative. The guidelines presented here outline a few of the issues to be addressed. Ultimately, communication is the key. It is crucial to the success of a machinery co-op that needs and goals be communicated between members and their elected board of directors.

Machinery cooperatives provide a very viable option for smaller dairy farms to address the challenges of access to modern equipment, limited available farm labor and harvesting risk associated with bad weather. In addition, they provide social opportunities to share both farm and non-farm business-related information. ■

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agreement with Hickman Eggs of Glendale, Ariz. Scott Ramsdell, chairman of the board of the 120-member cooperative, said the project had been planned for three years.

Co-op Communicators mark 50th anniversary

Returning to where it was formed 50 years ago, the Cooperative Communicators Association (CCA) will mark the start of its golden anniversary year with its annual communications institute, June 21-24 in Madison, Wis. The international association consists of 350 professionals who communicate for cooperatives in the United States and Canada. CCA works toward helping members excel in communication skills such as writing, photography, editing, video, layout and design. For further institute information, call 806-795-2783.

Farmland eyes revamp, sale of meat business

Although first quarter earnings for fiscal 2003 (ending Nov. 30) helped keep the Kansas cooperative's head above water, the sale or revamping of Farmland Industries' meat business may provide the final avenue out of bankruptcy for a much smaller business. Bankruptcy Judge Jerry Venters has allowed Farmland to hire an investment banker to explore, market and possibly sell some or all of its beef and pork assets. Farmland is the fifth largest meat company in the country. Meanwhile, Smithfield Foods wants to buy these Farmland meat assets and is using acquired Farmland debt to press its point. Essentially, all the cooperative's assets are up for sale, but some are tied to specific deadlines connected with post-bankruptcy credit it received. Farmland wants to reclassify almost $17 million in deferred compensation and retirement adjustments owed to 138 current and former employees, cancel life insurance policies for 2,200 retirees and renege on about $2 million in separation fees due to four executives who agreed to leave the firm.

Meanwhile, Farmland's operating earnings before reorganization expenses in the first quarter of fiscal 2003 increased from $3.2 million in 2002 to $16.5 million. Sales were down slightly to $1.7 billion, from $1.8 billion the prior year. Farmland said its cash flow topped requirements for its lending facility. Margins were up on fresh pork and volume rose on processed pork. Fall fertilizer sales showed signs of rebounding. Borrowings since reorganization are down $70 million. But the cooperative's bottom line still shows a $417 million loss after recording reorganization charges.

The sale of Farmland's fertilizer plants and terminals in seven states, plus a co-owned ammonia plant in the Republic of Trinidad and Tobago, moved a step closer with the $270 million bid by Koch Nitrogen Co. of Wichita. The offer will be the base for an auction set by the bankruptcy court. Farmland anticipates closing the deal by spring. Koch also has a one-year option to buy Farmland fertilizer operations in Kansas and Louisiana. The cooperative is still trying to sell its petroleum refinery and grain elevators. Stan Riemann, executive vice president, said the sale was pivotal to Farmland's reorganization. Many Farmland locals have already written off their share of investment in the regional co-op.

DVM to purchase all Agri-Mark Lactoferrin

DVM International of the Netherlands has agreed to purchase the entire supply of lactoferrin from Agri-Mark Inc.'s plant in Middlebury, Vt. DVM has an option to buy ImmuCell Corporation's half interest in a joint venture with Agri-Mark. First introduced in infant formulas, activated lactoferrin now is used on meat to increase its safety. DVM has an existing joint venture with Farmland National Beef to supply the product sprayed on meats. The market for lactoferrin also is gaining for use in health supplements.

Md.-Va. Milk Producers buy North Carolina dairy co-op

The 1,600-member Maryland and Virginia Milk Producers Cooperative has expanded by purchasing Maola Milk and Ice Cream Co., at New Bern, N.C. The firm employs more than 400 at New Bern and operates 13 distribution centers in North and South Carolina and Virginia. Maryland-Virginia Milk Producers also employs another 400 at its processing plants, operating as Marva Maid, at Newport News, Va., and Red Oak at Baxley, Ga., plus manufacturing plants at Laurel, Md., and Strasburg, Va., and an equipment warehouse at Frederick, Md.

Southern States motto: 180 degrees, 160 days

Business realignments and year-end financing have pulled Southern States Cooperative (SSC) from the brink of bankruptcy and given it a stronger financial base. The whole organization is poised for a spring turnaround, SSC leaders say. The Mid-Atlantic cooperative, based at Richmond, Va., is using the short-term motto: "180 degrees in 160 days," to motivate its employees in 23 states. "We can't afford a major miss," said Chief Financial Officer Leslie Newton. SSC is concentrating its energy on its core farm supply business, Newton indicated. It reached a $375 million financing agreement with its lenders and gained a clean audit in the process. Now, it wants to complete a turnaround by June 30, the end of its current fiscal year.

Smith to chair AMCOT

The board of directors of AMCOT at Bakersfield, Calif., has chosen Tom Smith, retired president of Calcot, Ltd., as its new chairman following the retirement of C.L. Boggs. Boggs earlier was president of Plains Cotton Cooperative Association (PCCA) of Lubbock, Texas. Smith joined Calcot in 1957 and two decades later headed the cotton marketing cooperative.

Stuff You Need to Know

If you're a director or manager of a cooperative, or just a co-op member interested in keeping abreast of important issues that affect your interests, these publications offer you important information.

NEW RBS Research Report 197

Analysis of Financial Statements: Local Farm Supply, Marketing Co-ops, 2001

This report compares balance sheets and income statements of local farm supply and marketing cooperatives from 2001, 2000 and 10 years ago. Data from 496 local co-ops were used to show trends for net income, net sales and key financial ratios. 30 pages. ($5.00)

NEW Cooperative Information Report 61

The Circle of Responsibilities for Co-op Boards

This is a reprint of three popular Management Tip articles by James Baarda. The articles lay out fundamental guidelines for cooperative directors to adhere to in an era of increasing scrutiny of director behavior and greater pressure to perform well and justify their decisions. Many co-ops have been asking for a compilation of the series for easier handouts at board meetings. 14 pages. (Free for educational purposes)

RBS Research Report 192

Problems and Issues Facing Agricultural Cooperatives

Low commodity prices, the sluggish agricultural economy, operational issues, and increasing costs are the major problems facing cooperatives today, according to a survey of 1,147 cooperatives. Find out more in this report. ($5.00)

RBS Research Report 190

The Changing Federated Relationship Between Local and Regional Cooperatives

Local and regional cooperatives don't always work hand-in-glove; sometimes relationships are strained when local co-ops seek better deals elsewhere. But there are potential solutions, as discussed in this report. ($5.00)

NEW Cooperative Information Report 60

Agricultural Cooperatives in the 21st Century

This report identifies challenges and opportunities facing farmer cooperatives in the years ahead and offers strategies to increase their chances for success. The external forces besetting cooperatives are examined, as are their internal strengths and weaknesses. The report summarizes the thoughts of more than 60 co-op leaders who participated in six focus sessions. 41 pages (Free for educational purposes)

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