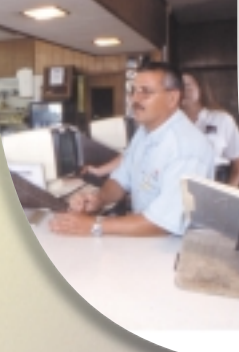
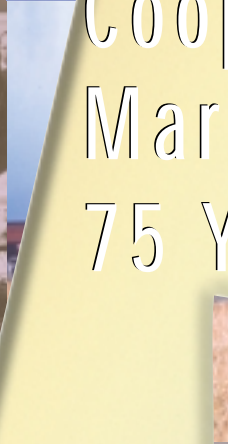
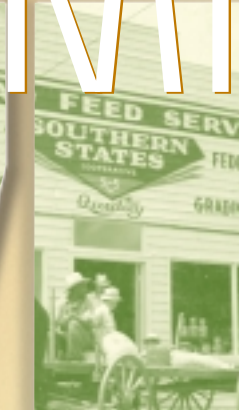


Rural

# COOPERATIVES

USDA / Rural Development

July/August 2001



Cooperative  
Marketing Act:  
75 Years Young

## USDA marks 75th anniversary of service to cooperatives

Randall E. Torgerson,  
*Deputy Administrator for  
Cooperative Services, RBS*

When Congress enacted the Cooperative Marketing Act of 1926, it spelled out a federal program of services to associations of agricultural producers that is as fresh and useful today as when it was written 75 years ago. That these services continue to be carried out attests to the value the public and agricultural community place on business conducted cooperatively.

The value of producer-owned cooperatives as a critical dimension of market structure is derived from the virtue of people working together for their common good. The public interest is thereby served. Help through self-help is the bottom line. Programs providing the tools and encouraging people to help themselves have proven to be among the finest forms of governmental assistance available.

When Congress passed the 1926 Act, cooperatives were in their heyday, with thousands being organized and thousands more already in existence. Significantly, it was recognized that a federal source of assistance was necessary to document best principles, practices and structure that could serve farm interests. This enabled the Department of Agriculture (USDA) to identify what worked in different parts of the country and to help existing cooperatives—as well as newly organizing groups of producers—to benefit from this knowledge. It also enabled USDA to assist rural America in maintaining a standard of what constitutes operating on a cooperative basis.

“Cooperative Development and the



*Former Agriculture Secretary Earl Butz stressed the vital role cooperatives play in the nation's rural economy during an event held at USDA headquarters in Washington, D.C., to mark the 75th anniversary of the Cooperative Marketing Act. Looking on are Secretary of Agriculture Ann Veneman and RBS Deputy Administrator Randall Torgerson.*

State,” a series of case studies of the cooperative sector in various nations, was published in 2000 by Professor Brett Fairbairn, University of Saskatchewan. It concluded that the United States, through USDA, stands out among other countries in its support of cooperative development.

In that report, Fairbairn says of USDA's Cooperative Services program: “Its effectiveness is related to several factors which include not only the size of its budgets and its networks of cooperative and third-party arrangements, but also – and perhaps most significantly – the fact that it has a dedicated agency whose mandate is to support cooperative development . . . This example appears to show that there can be a niche in a federal system for an active, cooperative-development role at the

national level, and that having an agency dedicated to this role likely makes a practical difference both to the focusing and delivery of government resources, and to the actual results in development of cooperatives and communities.”

The success of USDA's Cooperative Services program can be attributed to its service orientation of helping to facilitate cooperatives' adjustments and changes to fast-moving industry conditions. By contrast, governmental programs in other countries usually have a regulatory element, if not an exclusive focus on regulation.

Despite recognition of this institutional presence and achievement in a worldwide context, it can be noted that program performance has been best when agency status was granted to Cooperative Services programs within USDA. It can also be noted that the existence of farm commodity programs have tended to weaken the incentive for farmers to effectively organize to represent their economic interests. As a result, the role of cooperatives in U.S. agricultural policy has been less than its potential.

Active engagement with cooperatives by USDA's Cooperative Services staff over the years has evolved with the changing needs of farmers and other rural residents for different bundles of services. Group purchasing of carload lots of salt, binder twine, fertilizer and coal in earlier days has given way to sophisticated manufacturing and application of crop protectants, fertilizers, feeds and fuels. Related services, such as frozen food lockers, statewide insurance programs and county artificial breeding services have now been replaced by

*continued on page 31*



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On the cover: The Cooperative Marketing Act, which marked its 75th "birthday" in early July, forms the legal foundation for USDA's Cooperative Services program. A series of articles describing the work of the agency and how it impacts cooperatives begins on page 9 of this issue. USDA archive photos



# Finding a niche

*How Dakota Growers Pasta co-op found success in a highly competitive market*

By Michael Boland and David Barton

**Editor's note:** *Michael Boland is an associate professor of agricultural economics at Kansas State University in Manhattan, Kan. David Barton is professor of agricultural economics and Director of the Arthur Capper Cooperative Center at Kansas State University.*

**D**akota Growers Pasta (DGP) is a defined- (or closed) membership cooperative organized in 1991 as a vertically integrated operation that assembles its members' durum wheat, mills durum wheat into semolina, produces pasta from semolina and markets the pasta. DGP's success in adding value to its members durum has made it one of the nation's more noteworthy "new-generation" cooperatives and one which other grower-owned cooperatives are attempting to emulate.

It has succeeded in a highly competitive industry characterized by wide swings in the price and availability of the key input: durum wheat. The price paid to member-producers for durum wheat has been substantially higher than the market price once the processing net margin is distributed to members. The net earnings of DGP and net price received by members appear to influence the market price of stock.

DGP's earnings on a per bushel, or per share, basis increased from 1994-1998 and then declined in 1999-2000. Year-to-date results for the first two quarters of 2001 were negative, but it is projected that it will turn a profit again for the last two quarters of 2001. Dakota Growers Pasta continues to face significant competitive challenges. Following is a description of the competitive environment in which the co-op operates and its history, based on a soon-to-be published case study of Dakota Growers Pasta.

## Marketing agreements

Grower marketing agreements are commonly used by closed-membership, or new-generation, cooperatives as a mechanism to acquire member-producer commodities that the cooperative processes into finished products. These contractual agreements create a delivery right and an obligation for members. Members are required to purchase one share of stock for each commodity unit (such as bushels of a crop or number of animals) which they want to deliver and sell annually to the cooperative. The total number of shares sold usually matches the capacity of the processing plant.

The stock is an investment and asset that can be privately traded or exchanged between eligible members at a negotiated price. This means the stock price can appreciate or depreciate in value from the initial issue price or subsequent exchange price. However, the stock is always carried on the balance sheet of the cooperative at its nominal issue, or book,

price. And it is carried on the balance sheet of the member at the purchase, or exchange, price.

Over time, the stock market price increases and decreases in value due to privately negotiated agreements. Producers often have questions about what causes these changes in prices. This article is based on a cooperative agreement research study funded in 1998 by the

Rural Business-Cooperative Service of USDA Rural Development. The study sought to evaluate changes in stock prices of two closed-membership cooperatives, one of which was Dakota Growers Pasta.

Dakota Growers Pasta (DGP) used grower agreements with its members which obligate producers to deliver one bushel of high-quality durum wheat for every unit of stock. Stock was initially offered at \$3.85 per bushel and conveyed a



*In addition to this line of pasta products bearing its own brand, Dakota Growers Pasta cooperative also owns the Pasta Sanita and Zia Briosa labels. The majority of DGP's pasta sales are under private-label products. Photo courtesy Dakota Growers Pasta Cooperative*

right and an obligation to deliver durum wheat as specified in the growers' agreement. The growers' agreement obligated each member to deliver a set amount of durum wheat to the cooperative from their own production, based on the number of shares they had purchased. If the member could not supply the wheat with the desired quality, DGP would purchase the wheat on behalf of the member and charge them purchase or the current market price, plus a service fee.

### Competitive forces

In order to best understand why the value of stock changes over time, it is useful to conduct a competitive analysis of the industry and then examine the individual firm's actions within that competitive environment. In addition to DGP's vertically integrated durum milling and pasta manufacturing plant in Carrington, N.D., the cooperative also operates a second pasta plant in Minneapolis, Minn., which it acquired in 1997.

Porter's Five Forces economic model will be used below to analyze competition in the durum milling and pasta manufacturing industries. Rivalry between firms, barriers to entry, substitute products and the competitive power of buyers and sellers are five forces that affect an industry and, ultimately, influence a firm's profitability within that industry. Availability of substitute products is not a major influence on this industry, so it is not included in the following discussion.

### Pasta buyers

Buyers include retail supermarkets, food service providers and food manufacturers that use pasta as an ingredient in other processed foods. In the case of non-vertically integrated firms, buyers are pasta manufacturers that purchase semolina flour and process it into pasta product. Ultimately, consumers represent the final buyer based upon their demand for pasta.

Pasta consumption in the United States was relatively stable between 1967 and 1984, at approximately six-to-seven pounds of durum wheat-based food products (pasta) per capita. Since then, U.S. pasta consumption rose about one pound per year, reaching a maximum of 14 pounds per capita in 1994, and then decreasing slightly.

The U.S. Department of Agriculture (USDA) notes that there are four primary reasons for the per capita increase in demand for pasta: changing lifestyles, increased availability of pasta sauces, increased

attention to healthy eating and increased numbers of Italian restaurants. In addition, the number of American households with two working parents has increased, leading to changes in where and how meals are prepared and eaten.

Meals that are healthy, easy and relatively quick to prepare have become commonplace, and pasta fit this description. The abundance of prepared sauces has served as a "complementary catalyst" and has improved the quality and variety of the choices available for consumption.

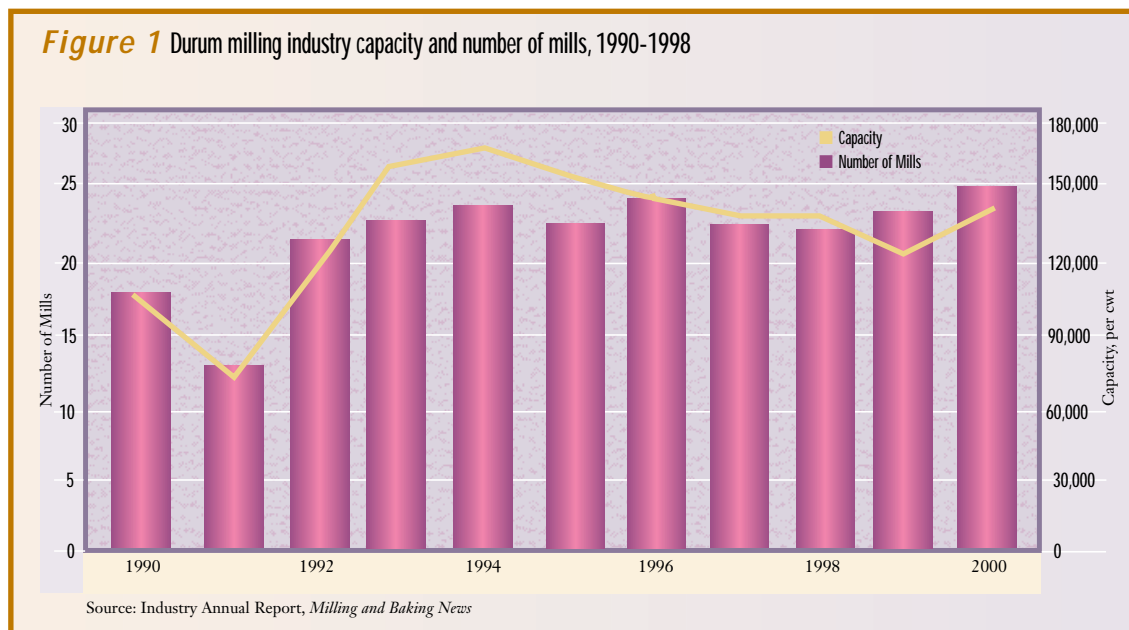
The increase in the number of Italian-style restaurants fueled the growth in the food service sector of the pasta industry. Italian food has become a mainstream food, evident by the growth in the number of Italian restaurants. Consumers are eating outside the home more often, they are eating healthier foods, and per capita incomes are increasing, causing the uptrend in restaurant numbers. Americans spent 46 percent of their food expenditures on away-from-home meals in 1998, up from 34 percent in 1970 and 39 percent in 1980.

Five billion pounds of pasta (4.5 billion in dry pasta and 0.5 billion in frozen and fresh pasta) were consumed in 2000, compared to about four billion pounds in 1992. The 2000 total value was \$2.6 billion. There are four principal dry pasta market segments: ingredient (which accounts for about 43 percent of the market), private and brand label retail (37 percent of the market), food service (10 percent) and government bids (10 percent).

Within each segment, there are both private-label and brand-label products. Private-label products are products manufactured by a firm that had another firm's label on it. For example, a company such as Mueller's which has brand assets, but no manufacturing assets, would contract its brand production with a company that had manufacturing assets, such as American Italian Pasta Company.

Within the retail market segment, private-label pasta had been growing at a faster rate than brand-label pasta as private labels increased from 19 percent to almost 24 percent of the market from 1994 to 2000. In the ingredient market

**Figure 1** Durum milling industry capacity and number of mills, 1990-1998



segment, 75 percent is manufactured by firms for their own internal needs, with the remainder being purchased on the quality specifications needed in their products. About half the food service market segment is private label and the government market segment is considered brand label.

### Bargaining power of suppliers

Durum wheat is the only wheat that can be used for pasta due to its high protein percentage, which is higher than any other type of wheat. Poor-quality durum results in pasta noodles that break easily, causing problems in packaging. North Dakota, eastern Montana, northwestern Minnesota, southern Alberta and southern Saskatchewan are the primary production regions due to cool nights and warm, but not hot, summers that are ideal for durum wheat. Although durum wheat is also grown in Arizona and California, the northern Great Plains states are expected to remain production leaders in the future.

One major problem in 1999 and 2000 was the poor quality of the durum wheat. The poor quality was caused by scab disease problems in early-planted durum and sprout damage from rain and

frost at harvest. The poor quality caused millers to remove more screenings (which became mill feed and was used as an ingredient in feed rations) from the durum wheat. Thus, more durum wheat was needed to manufacture a unit of pasta, which increased costs. Consequently, millers imported durum wheat from Canada and other regions rather than using North Dakota wheat.

### Rivalry between firms

This industry has undergone change as large pasta firms, which had produced both private label and brand label, have exited private-label production to focus strictly on their core brands. Some retailers prefer private label because of higher margins and greater control of merchandising. Although there is no direct evidence, retailers and pasta manufacturers believe that consumers prefer "Italian" brand names and regard imported Italian pasta as higher quality. Thus, some firms are beginning to develop domestic pasta with an Italian brand name. The perceived quality of a brand is related to its image as well as product characteristics such as shorter cooking time, ease of cleaning (e.g., less stickiness inside a pan), and innovative prod-

ucts that are easy to prepare and convenient to use by consumers.

Through lower-cost technology, new entrants in the pasta industry have focused on innovative products and manufactured them as private-label products for other firms that have brands. Thus, private-label brands are becoming more competitive because they have higher quality product attributes and are priced competitively. Price competition among retail brands lowered the average price of retail-brand pasta by the end of the 1990s. Thus, the price differential between private-label pasta and brand label-pasta declined, slowing private-label pasta growth.

### Barriers to entry or threat of new entrants

Thirteen major companies milled durum wheat in the United States in 1991 when DGP was organized, but there have been significant changes since then. Well-known firms have exited durum milling (such as Pillsbury and Cargill) and new firms have entered (such as American Italian Pasta Co. and Dakota Growers Pasta). By 2001, Italiani USA, Harvest States Cooperatives and Miller Milling Company comprised about 60 percent of total U.S. durum

**Table 1**—Selected income statement and balance sheet information for Dakota Growers Pasta (in \$1,000), inception to first quarter 2001.

	1993a	1994	1995	1996	1997	1998	1999	2000	2001b
Net revenue	0	19,706	40,441	50,694	70,702	119,621	124,869	139,203	64,915
Net income from patronage and non-patronage business available for members	(423)	(248)	1,394	2,579	6,890	9,359	7,845	7,624	(2,897)
Total assets	24,818	45,215	47,842	49,894	68,739	124,534	135,873	131,857	134,494
Long-term debt	11,557	28,477	29,097	19,752	30,218	66,056	59,116	51,626	48,914
Members' investment	12,183	12,107	13,497	24,866	29,956	36,875	58,982	60,533	53,170
Number of stock shares	4,674c	4,674c	4,674c	5,568c	7,356	7,356	8,603	11,166	11,253
Earnings per share	(0.09)	(0.05)	0.30	0.46	0.94	1.27	0.91	0.68	(0.10)

a Dakota Growers Pasta was formed Dec. 16, 1991, and was in development stage through July 31, 1993. Full operations began January 1, 1994.

b Reflects unaudited first quarter (through October 31, 2000) 2001 data only.

c Adjusted for the 3-for-2 stock split that was declared in 1997. Expressed in thousands.

Source: DGP 10-K reports.

**Table 2—Dakota Growers Pasta timeline of activities, 1991 to 2001**

Year	Transaction
1990	North Dakota durum wheat farmers contributed cash for a feasibility study of an integrated durum milling/pasta manufacturing plant.
1991	Results came back positive (15% return on investment over and above the ten year durum wheat average price per bushel of \$3.85). Tom Dodd was hired as general manager and Gary Mackintosh as national sales manager in December.
January-February 1992	1,200 durum wheat farmers from western Minnesota, North Dakota, and northeastern Montana pledged \$12.5 million in equity towards a \$40 million durum mill and pasta plant in Carrington, North Dakota, by purchasing stock at \$3.85 per share and per bushel of delivery rights.
July 1995	Completion of its first year of operation with 3.2 million bushels of durum milling capacity and 120 million pounds of pasta (almost perfectly aligned as 36 pounds of semolina in a bushel of durum wheat yields 115.2 bushels of semolina flour for pasta).
October 1995	Board of directors decided to double durum wheat capacity.
February 1996	1,085 producers contributed over \$9.7 million in equity towards the expansion by purchasing stock at \$3.80 per share.
Summer 1996	Durum mill expansion (6 million bushels of durum per year).
July 1997	Three-for-two stock split.
Summer 1997	Pasta plant expansion was completed (240 million pounds).
Fall 1998	Acquired Primo Piatto's two pasta plants in Minneapolis (200 million pounds of pasta), expanded Carrington facility to 12 million bushels of durum milling per year and added an additional 30 million pounds of pasta capacity.
Winter 2000-2001	Signed agreement with Semolina Specialties, closed one small plant in Minneapolis, and voted to allow Canadian members or associations to purchase stock. Current annual capacity is 450 million pounds of pasta.

Source: DGP 10-K reports.

milling capacity. Durum milling plants have traditionally been located near durum wheat production or in regions with favorable rail transportation access to North Dakota. Milling capacity increases kept pace with consumption in the early 1990s but outgrew consumption by 1995. Capacity then began to decline as older and higher cost

plants began to be shut down (Figure 1). By the late 1990s, capacity was concentrated in Minnesota and North Dakota, and in Midwestern states such as Missouri that are on a direct rail line to eastern North Dakota.

There are currently 141 pasta plants that manufacture dry pasta in the United States, but 67 of those plants

accounted for the majority of pasta sales in 2000. The industry changed with the entry of vertically integrated firms, such as American Italian Pasta Company (AIPC), which had little market share in 1991 but had the largest production capacity by 1998. The main U.S. pasta manufacturers, with about 55 percent market share, are: Hershey Foods, AIPC, Borden Food Holdings Co., DGP, Philadelphia Macaroni Co., A. Zerega Sons Inc., and Gooch Foods (owned by Archer Daniels Midland).

Another 25 percent of market share is owned by companies that produce pasta for their internal needs, such as Kraft Foods, General Foods Inc., American Home Foods Products, Con Agra Inc., Pillsbury, Campbell Soup Co. and Stouffers Corporation. In 2000, Barilla, an Italian pasta manufacturer, built a plant in Iowa.

Pasta imports increased in the 1990s but leveled off when a trade ruling found that several Italian pasta companies were importing U.S. durum wheat and selling pasta to the United States at prices below their marginal costs (i.e., dumping pasta). Imports in 2000 represented another 13 percent, while total domestic capacity was estimated at 3.8 billion pounds per year.

#### General conclusions about competition

The change in durum milling capacity and geographic location, coupled with imports had increased durum wheat and semolina flour price volatility in the late 1990s. The Minneapolis Grain Exchange established a durum futures contract in February 1998, but it is not widely used due to lack of liquidity. Durum wheat prices rose because of increased demand for pasta and lower production yields in North Dakota due to disease problems. In addition, the increase in milling capacity in the late 1990s has helped increase demand for durum wheat, which increased durum prices. As durum and semolina flour prices rose and pasta demand began to plateau, pasta manufacturers found it more difficult to pass along higher input costs and their

margins began to decline (i.e., pasta prices declined). By 1999, durum milling capacity was greater than pasta demand.

### History of Dakota Growers Pasta

The 1,084 members of DGP are durum wheat producers who operate in the states of North Dakota, Minnesota and Montana. Dakota Growers Pasta's state-of-the-art durum wheat mill and pasta production facility in Carrington, N. D., was completed in 1994. The cooperative has gone through many changes since its inception (Table 2). The company uses its semolina in its

own pasta production process. The vertically integrated facility consists of a grain elevator, a mill, four pasta production lines, two of which manufactured short goods (such as macaroni) and two of which produced long goods (such as spaghetti), and a warehouse to store the finished goods.

The cost savings from integration provide a competitive advantage relative to other firms. Dakota Growers Pasta has become successful in a very short period of time and it became the third largest pasta manufacturer in the United States (Table 1). Members have received patronage refunds in every

year since 1996. In addition, a three-for-two equity stock split was declared in July 1997. The company has remained profitable during its brief history by increasing the value that members received for their durum wheat relative to non-members in North Dakota who did not invest in DGP.

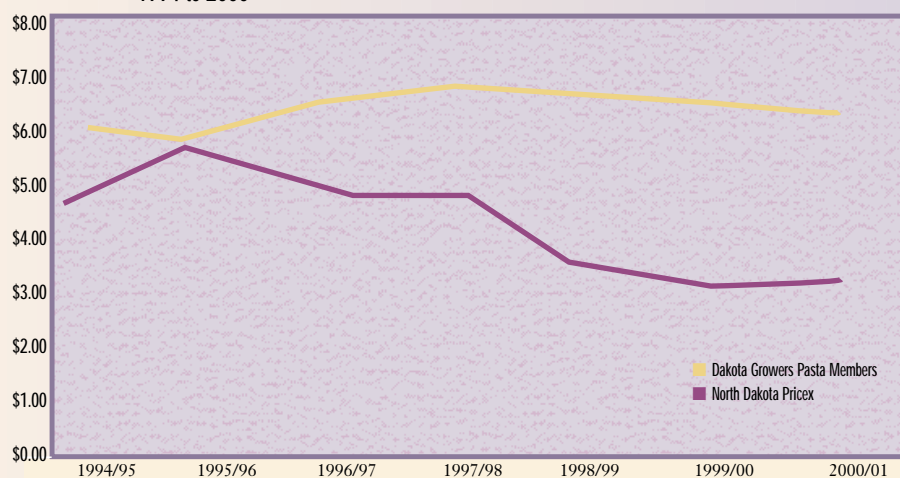
Because the plant had lower costs relative to others in the industry, it increased its market share and, hence, net income. Qualified cash patronage refunds and non-qualified retained patronage refunds per share since 1995 are shown in (Figure 3).

In the beginning, DGP focused mainly on the private-label business because that was the quickest way to enter this industry. During the plant's first two years, it produced, among other things, pasta for other companies that were short on inventory due to unexpected demand or because of a shortage of durum wheat (this was called co-packing). However, DGP's sales increased to where co-packing was less than 1 percent of sales. The retail private-label and ingredient market segments comprised the bulk of DGP's sales. Branded pasta products represent an important market segment for the company. Approximately 60 percent of its business is retail (primarily private label), followed by 20 percent in food service, and 20 percent in the ingredient market. The majority of DGP sales are under private label although it has its own label, Dakota Growers, as well as Pasta Sanita and Zia Briosia.

Dakota Growers Pasta had grown so fast that the Carrington plant was already running at maximum capacity by 1997. The firm would not be able to sustain any new growth without additional capacity. In 1997, DGP acquired Primo Piatto, which owned two pasta plants in Minneapolis, Minn. The plants produced 200 million pounds of pasta per year.

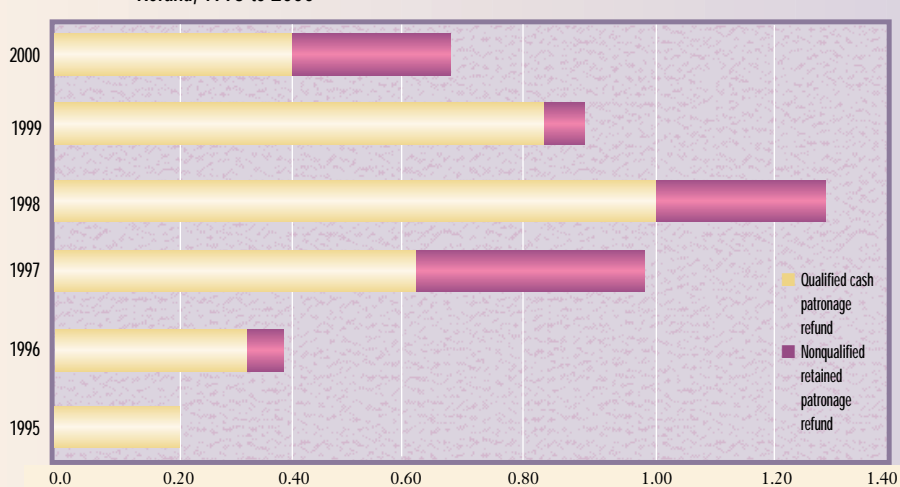
Dakota Growers Pasta continued to meet customer demand for additional pasta products. In 2000, DGP began a certified organic pasta product line. In addition, the cooperative entered into

**Figure 2** Durum wheat prices for Dakota Growers Pasta members vs. average North Dakota price, 1994 to 2000<sup>a</sup>



<sup>a</sup> The DGP price represents the purchase price, patronage refund, and stock appreciation on a per bushel basis  
Source: DGP annual reports

**Figure 3** Dakota Growers Pasta qualified cash patronage refund and nonqualified retained patronage Refund, 1995 to 2000<sup>a</sup>



<sup>a</sup> The sum of patronage refund and retained patronage refund is earnings per share.  
Source: FGP annual reports

*continued on page 30*



# Turmoil of early 20th century led to USDA role in assisting co-ops



From the Northwest comes Tillamook cheese (in this 1940s-era photo), long-cherished by cheese lovers. USDA's Cooperative Services program has produced numerous reports and studies over the years to help maintain a strong co-op presence in the dairy industry. All photos for 75th Anniversary section are USDA archive photos, except where noted.

Patrick Duffey  
*USDA Rural Development*

**T**he federal government has had a long relationship with agricultural cooperatives, viewing cooperatives as part of a national farm policy aimed at fortifying the income of agricultural producers. But it took until the 1920s for a formal policy to jell. The 69<sup>th</sup> Congress approved, and President Calvin Coolidge signed, the Cooperative Marketing Act on July 2, 1926, two days ahead of the nation's annual observance

of Independence Day. By its passage, "helping farmers to help themselves" became national policy.

This summer marks the 75<sup>th</sup> anniversary of that historic legislation as still another new administration finds cooperatives a useful part of its national farm policy. During a special anniversary observance at the U.S. Department of Agriculture in Washington, D.C., on June 28, Secretary of Agriculture Ann Veneman spoke of the importance of cooperatives to the rural economy.

"Our mission provides some valuable tools in the food and agriculture

industry's toolbox to help them better compete in today's changing food system," Veneman said. "Seventy-five years after its creation, Cooperative Services recognizes these changes, and our employees are playing a major role in helping promote the opportunities that lie ahead in what promises to be a world of opportunity."

In the face of several years of declining commodity prices for farmers, some farmer-owned cooperatives have taken a severe economic hit. Mergers and consolidations have been the order of the day among cooperatives that are faced with the declining number of

producers and rising energy-based and other costs.

This special section of the magazine reflects on why and how USDA supports cooperatives as an effective farm policy tool that bolsters the income of the nation's food producers and why that support for cooperatives has continued for 75 years.

### What the law says

The 1926 law directed the secretary of agriculture to form a Division of Cooperative Marketing in USDA's Bureau of Agricultural Economics. Seventy-five years later, an expanded and more refined program supporting agricultural cooperatives is contained within the Rural Business-Cooperative Service (RBS) of USDA Rural Development.

While the department's cooperative assistance program was formalized in 1926, it was preceded by two studies. Both are chronicled by Wayne Rasmussen, USDA's official historian, in his 1991 book, "Farmers, Cooperatives and USDA: A History of the Agricultural Cooperative Service," which also traces the historical development of cooperative activity in the United States.

In 1901, the department's first comprehensive study of cooperatives was led

## USDA's Role in Promoting Cooperatives

In the 75 years since it was signed into law, the Cooperative Marketing Act has provided the legislative mandate for USDA's role in helping to expand knowledge of the cooperative method of conducting business. The program helps rural residents form new cooperatives and improve the operations of existing co-ops. The Act specifically directs USDA to:

- Promote knowledge of cooperative principles and practices;
- Gather, analyze, and disseminate economic, statistical and historical information about cooperatives;
- Study the economic, legal, financial, and social aspects of cooperatives and publish the results;
- Provide technical assistance and disseminate information useful in the development of cooperatives;
- Promote the use of U.S.-style cooperatives internationally.

"When the idea of a cooperative comes in contact with felt needs and the readiness of people to act, it takes root, grows and flourishes. The association of people and enterprise forms a symbiotic relationship of mutual support...and the business prospers." ■

— *International Joint Project on Cooperative Democracy*

by George Holmes, a statistician in the Division of Statistics. He tied cooperative failures to the lack of sufficient capital, cooperatives' need for more experienced business managers and a poor credit policy. Although Holmes' 432-page manuscript was never published, it

"provided our best picture of agricultural cooperatives as they existed at the turn of the century," said Rasmussen.

The Commission on Country Life, appointed by President Theodore Roosevelt, issued a report in 1908 that said the greatest need of country life was "effective cooperation among farmers, to put them on a level with the organized interests with which they do business." The commission further proposed formation of a cooperative farm credit system. It took until the Federal Farm Loan Act of 1916 for Congress to create such a system.

Eventually, most of the commission's recommendations were adopted. Agriculture Secretary James Wilson's administration initiated the first specific cooperative research project, which focused on cotton handling and marketing.

Unlike other sectors of the national economy, agriculture was suffering from over-production after World War I. The post-war period of American life, from 1920 to 1932, was one of considerable change, such as the switch from horse power to motor power. The rapid



Group purchase of farm supplies – such as salt, binder twine, fertilizer and coal – by early farm supply co-ops has now shifted to manufacture and application of crop protectants, fertilizers, feeds and fuels by major supply co-ops. Above, Southern States Cooperative has been supplying members' farm supply needs since 1923, when it was organized as the Virginia Seed Co.



*CHS's Savage Terminal Elevator in Minnesota transports members' grain to barges for shipment down the Mississippi River. USDA Cooperative Services grain specialists constantly monitor and report on actions and trends that impact grain cooperatives.*

business consolidation also applied to farmers. It brought on what one historian once called a “cooperative explosion.”

### Knapp's observations

A historian and author of numerous books on agricultural cooperatives, the late Joseph Knapp was administrator of USDA's Farmer Cooperative Service (a forerunner of today's RBS Cooperative Services program) from 1953 to 1966. In his book, “The Advance of American Agricultural Enterprise,” Knapp said the most important factor during this period was “the severe post-World War I depression which led to chronic agricultural distress in the face of general business recovery.”

He listed several events which led to a farm price collapse in 1920: government decontrol of railroads, which led to higher freight rates on agricultural traffic; the Federal Reserve Board raised discount rates to curb inflation; the War Finance Corporation, which had financed agricultural

exports during World War I, was discontinued; and the government halted its support of wheat prices.

Record farm prices at the start of 1920 spurred increased production which caused prices to plunge. Farm index prices which stood at 219 in January collapsed to 140 in December, Knapp said. Farm commodity cooperatives strong enough to control prices were advocated as an approach to solving farm problems such as this. The legal status of cooperatives was clarified when Congress passed the Capper-Volstead Act of 1922. It gave farmers the right to form cooperatives without fear of antitrust action.

“The law protected cooperatives as they organized but never gave cooperatives the right to establish

monopolies with complete immunity from antitrust laws,” Rasmussen noted. E. G. Nourse, a leading agricultural economist of 1920, felt cooperatives would offer a competitive yardstick in the business world – a measure against which to judge traditional investor-owned businesses. That yardstick philosophy is still being used today to advocate cooperatives.

### Cooperative activity grows

Significant cooperative developments occurred during this period. In 1916, the National Milk Producers' Federation began playing a key role in advocating the need

for legislation to assist cooperatives. The National Council of Farmer Cooperatives Marketing Association (predecessor of today's National Council of Farmer Cooperatives, or NCFC) was formed in 1922, the American Institute of Cooperation (now part of NCFC) was organized in 1925 to promote cooperative education, agricultural colleges were devoting more attention to cooperatives in their research work and courses of study, and USDA's Extension Service and the American Farm Bureau were actively promoting formation of cooperatives. Other leading farm organizations, such as the National Farmers Union and the Grange, played active roles during this early period of cooperative activity.

By 1925, “the monopoly-control philosophy of cooperative marketing had lost adherents; cooperative leadership was shifting to marketing efficiency as the primary objective of cooperative marketing,” Knapp wrote.

### Is the Act still effective?

So why is this law still significant to cooperatives 75 years later? The act widely interpreted the term “agricultural products” to cover agricultural, horticultural, viticultural, dairy, livestock and related products, those from poultry and bee raising, edible products of forestry, “and any and all products raised on farms and processed or manufactured products



*American Fruit Growers Inc. – seen here circa 1930 – was an early apple co-op in Wenatchee, Wash.*

thereof, transported or intended to be transported in interstate commerce and/or foreign commerce.”

The law's Section 3 covered services to associations, federations or subsidiaries of agricultural producers “engaged in cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, cooperative purchasing of farm supplies, credit, finance, insurance and other cooperative activities.”

The new division's duties – as outlined in seven subsections – reflected activities still conducted by today's RBS (see box, page 10).

### Wider coverage

RBS is part of USDA's Rural Development mission area, which was created in 1994 when USDA consolidated rural economic programs that has previously been scattered among various agencies. RBS encompasses the former Agricultural Cooperative Service and some of the economic and business development programs of the former Rural Development Administration and the Rural Electrification Administration.

While agricultural marketing and farm supply cooperatives remain the primary focus of USDA's Cooperative Services program, its educational



*In 1934, horse-power was still needed to help a cabbage growers' co-op get its crop to a railhead of the Norfolk and Western railway.*

materials are widely used by all types of cooperatives.

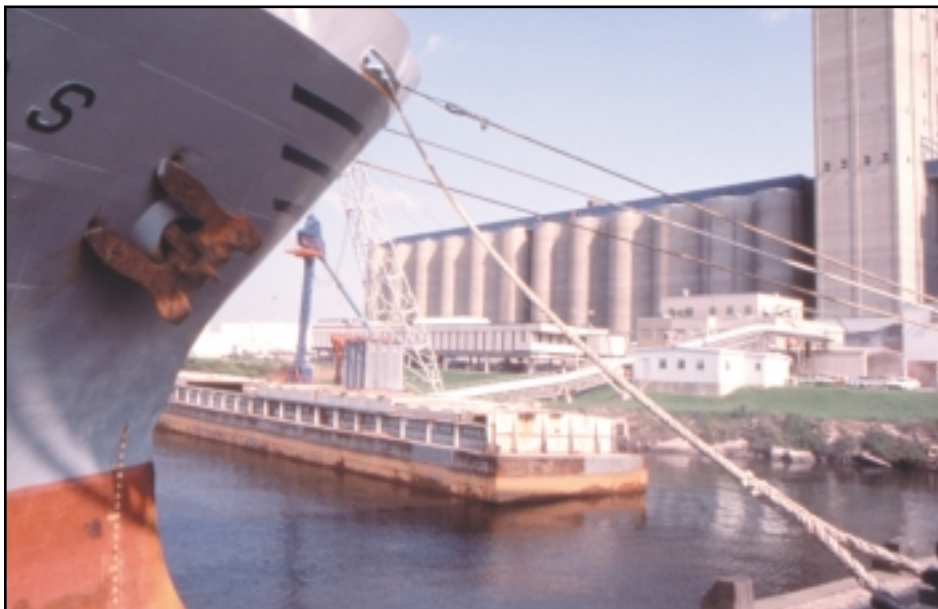
Cooperatives are often a mainstay and a major employer in rural communities. By one estimate, nearly one-third of the population belongs to some type of cooperative. Application of the cooperative business structure is virtually limitless. By working together for their mutual benefit in cooperatives,

rural residents are often able to reduce costs, obtain services that might otherwise be unavailable, and achieve greater returns for their products.

Although the concept of farmer-owned cooperatives has been around for generations, there has been a renaissance in the past decade as farmers try to stay afloat by getting a bigger piece of the food production chain, according to Mark Drabenscott of the Center for the Study of Rural America at the Federal Reserve Bank's Kansas City branch.

From 1997 to 2000, the combination of adverse weather and declining sales led to retrenchment by many cooperatives. Some have been selling selected assets, purchasing private businesses to strengthen core facets of the cooperative business, or consolidating or merging with other cooperatives.

More producers are forming closed agricultural cooperatives to produce products such as beef, bread, turkey, sugar or pasta to glean more from the consumer food market, or ethanol fuel extenders to stretch fuel supplies, protect the environment and provide a livestock feedstock. ■



*Cooperatives operate major shipping terminals to export grain to foreign markets.*

# USDA's expanding cooperative development assistance role



By John Wells, Director  
USDA/RBS Cooperative  
Development Division

**E**ven before the Cooperative Marketing Act of 1926, the U.S. Department of Agriculture was in tune with the development of cooperatives in the United States and was responding to the growing needs for information regarding cooperatives. USDA's first cooperative-specific project, the "Farmers Cooperative Cotton Handling and Marketing Project," was authorized by USDA's Bureau of Plant Industry in 1912.

This project included: devising a simple form of cooperative organization; compiling state laws relating to cotton ginning and warehousing; surveying freight rates and surveying cotton handling mechanisms. This was the genesis of the research and service



*From co-op boardrooms to the fields and packing plants, USDA Cooperative Services staff travel wherever needed when providing technical assistance, as seen here circa 1930. USDA staff can help with all stages of starting a co-op, from feasibility study to drafting bylaws and developing a marketing strategy. (Lower) The number of black farmers in the United States has dropped sharply, but some—such as Ben Burkett of the Indian Springs (Mississippi) Farmers Cooperative (right)—are using cooperatives to increase their ability to compete. USDA photo by Bob Nichol*



assistance to cooperatives now administered by the Cooperative Services program of USDA's Rural Business-Cooperative Service.

Possibilities of cooperation in agriculture appeared unlimited to many people during the 1920s. As interest and public support for cooperatives grew, so did the problems facing these relatively inexperienced organizations. This led to greater demands on USDA for advisory assistance on economic and business problems.

## Scope of work changes

Over time, the scope and direction of assistance to cooperatives by the

Department of Agriculture changed with the needs of farmers and their associations. The Cooperative Marketing Act created a focal point for carrying out government efforts for improving cooperatives as a way to benefit farmers. Essentially, this legislation directed the secretary of agriculture to establish a unit that would carry out a comprehensive program of service, research and education for agricultural cooperatives on a permanent basis.

It should be noted, however, that after passage of the Cooperative Marketing Act, the department's newly formed Cooperative Marketing Division did only limited work in direct consulting, or advising, with producer

groups seeking to form cooperatives. Rather, the emphasis was in providing the general background information that would be useful to those who were actively engaged in assisting producers' organizing efforts. During this time, many field marketing specialists and county extension agents were active in the formation of local cooperatives.

As the need for cooperative support shifted, so did the emphasis of the

Providing direct technical assistance to producer groups interested in organizing cooperatives has been an ongoing effort since the days of FCS, through its successor organizations, to the Cooperative Services program of today's Rural Business-Cooperative Service. The initial cooperative development program was comprised of international, rural services and training functions which responded to needs

The role of these cooperative specialists is to work with producer groups and assist in the organization of new cooperatives using a disciplined approach to business development and educational activities. This "hands on" approach to co-op development assistance is just as important today as it was 75 years ago.

Within the past five years, additional financial resources have been made available through the Department to encourage the development and use of cooperatives as an economic tool for farmers, ranchers and other rural residents to improve their financial well-being. A Rural Cooperative Development Grant (RCDG) program has been funded, with increasing amounts, over the past five years (growing from \$1.5 million in 1997 to \$4.5 million in 2001) to encourage establishment of regional cooperative development centers throughout the country.

The purpose of the centers is to supplement, not replace, USDA's ongoing assistance to cooperative development initiatives. In fiscal year 2000, 21 different centers were funded to expand cooperative efforts in the United States. Other programs, including loan and grant programs of the Rural Business-Cooperative Service, have established "set-asides" and funding opportunities for producers or groups of producers wanting to form new cooperative ventures. Programs such as the "Cooperative Stock Purchase Program" provide loans to producers seeking to join new cooperatives that produce value-added goods.

Today, the U.S. Department of Agriculture continues to provide not only direct technical assistance to "groups of producers desirous of forming cooperative associations," but also financial assistance to cooperative business efforts and encouragement of others to engage in cooperative development assistance work. The Cooperative Marketing Act of 1926 established the foundation for this kind of assistance to producers and 75 years later the need for this type of service still exists. ■



*Whether in a church basement, a modern boardroom or an annual meeting at a high school gym, cooperative meetings are a crucial part of the fabric of rural life across America. Here, USDA co-op development specialist Wade Binion and a co-op board discuss strategy for opening a small crab-meat packing plant on Smith Island, Md.. USDA photo by Bob Nichol*

Cooperative Marketing Division. During these early years, the cooperative program was transferred several times: from the Federal Farm Board to the Farm Credit Administration, then being elevated to agency status in 1953 as the Farmer Cooperative Service (FCS). It was with FCS that cooperative development technical assistance began to take on added emphasis. The agency became more directly involved in helping unorganized producers form cooperatives.

This direct involvement had become necessary because cooperative organizational efforts were not being assisted by others. This type of technical assistance was made available in addition to the ongoing research and preparation of various publications on cooperative interests and organization.

beyond those of established cooperatives. The program emphasis was on rural and cooperative development activities that encouraged the organization of new cooperatives and provided training to those seeking to form them. A small number of field offices were established to bring this direct assistance closer to those areas where the need was greatest for organizing and developing new cooperatives.

#### **Larger field staff aids development**

Today, as a result of USDA's most recent reorganization efforts, direct cooperative development assistance to rural and agricultural producers is accessible through 47 state Rural Development offices and a national office staff based in Washington, D.C.

# Significance of the Cooperative Marketing Act's other key provisions



Randall E. Torgerson,  
Deputy Administrator  
*USDA Rural Business-Cooperative  
Service*

**I**t is natural that the anniversary marking 75 years since passage of the Cooperative Marketing Act of 1926 should focus on services that USDA provides to associations of agricultural producers authorized in the act. However, two other provisions included in the Act hold great importance for how cooperative systems are structured to represent the economic interests of farmers and for how the agriculture secretary can receive advice regarding cooperative business activity.

Section 5 (7 U.S.C. § 455) of the Act says farmers, through their associations, “may acquire, exchange, interpret, and disseminate past, present, and prospective crop, market, statistical, economic and other similar information by direct exchange between such persons, and/or such associations or federations thereof, and/or by and through a common agent created or selected by them.”

This provides for more than farmers exchanging price information at a local cooperative meeting. It means farmers and their local, regional and national cooperatives can legally exchange a host of information within their marketing systems. This is a critically important strategic authorization that enables federated cooperative systems and marketing agencies-in-common to effectively function as coordinated entities.

It was recognized in the 1920s that



*President Dwight D. Eisenhower signs the Farm Credit Act of 1953, the legislation that created the Farm Credit Administration as an independent agency and the Farmer Cooperative Service (now RBS Cooperative Services) as an agency within USDA.*

to empower farmers to effectively represent farm interests, their local and regional cooperatives had to broaden their scope of activities through affiliation with other cooperatives. This helped farmers to develop critical mass and market presence in both purchasing and marketing activities. Only by this means could economies of size be realized to meet market demand and develop a degree of marketing power for farmers and ranchers.

This provision extends and expands cooperatives' authority to act on behalf of members beyond the provisions of the Capper-Volstead Act of 1922. Capper-Volstead clearly permits use of federations and marketing agencies-in-common in its provisions which provide farmers a limited antitrust exemption when organized for joint-marketing purposes. To the extent that

the 1926 act addressed the needs of farmers for exchanging information in coordinated marketing systems, it is viewed as their legal authorization for further exemption from the antitrust statutes. In short, it builds upon the landmark Capper-Volstead Act.

Section 4 (7 U.S.C. § 454) of the Act authorizes the secretary of agriculture to call advisors to counsel him or her on specific problems of cooperative marketing of farm products or any other cooperative activity. To carry out this advisory function, the Secretary may pay actual transportation expenses and a per diem to cover subsistence and other expenses associated with such travel. This provision enables the Secretary to draw on the full range of available expertise to solve producer problems through cooperative marketing activity. ■

# Research and technical assistance work are heart of Cooperative Services mission



By John Dunn, Director  
*Cooperative Resources Management Division*  
*USDA/RBS Cooperative Services*

**R**esearch on cooperatives is the root and cornerstone of the intellectual services provided to farmers, cooperatives and rural residents by the RBS Cooperative Services program of USDA Rural Development. A range of research activities relating to the economic, legal and social aspects of agricultural cooperatives provides farmers and their cooperatives with a more thorough understanding of the challenges they face in building and maintaining strong cooperative businesses. Research covers such diverse areas as finance, planning, commodity and product marketing, membership roles and relations, organization and governance, compensation, sales and management practices.

The outcomes and products of Cooperative Services research activities are targeted to several audiences, as well as internal uses in Cooperative Services' technical assistance, statistical, cooperative development, and educational activities assigned under the 1926 Cooperative Marketing Act. The first and primary audience is composed of farmers and cooperatives who benefit from using Cooperative Services research results and products within their own organizations. Other important audiences include public policy makers, academic researchers, nonprofit and trade associations and students.

Cooperative Services research projects are conducted by staff members on an individual and study-team basis. Most



*In 1959, farmers delivered grain for grinding at their co-op feed mill in Beloit, Kan. Co-ops often create jobs in small towns where every job is important to the local economy. Then and now, research conducted by USDA Cooperative Services economists has helped co-ops, large and small.*

Cooperative Services staff are involved in various research projects as well as providing technical assistance to cooperatives. Research is frequently conducted in conjunction with landgrant universities through cooperative research agreements and other collaborative efforts. On occasion, research is also conducted in partnership or collaboration with other government agencies or trade associations. Cooperative Services staff are specialists in a diverse range of cooperative and product market areas, and are able to provide research on a wide variety of needs of the farm and cooperative community.

Cooperative Services research findings are disseminated in a variety of ways and methods. In addition to hard copy reports published by USDA, reports are posted on the Internet and staff members submit papers to various academic journals and make presentations before various professional associations. Research findings and products produced under cooperative research agreements with landgrant universities are disseminated through the routes mentioned above, as well as a vast array of university, extension service, and state publications and information systems.

## Technical assistance

With its expertise in a broad range of subject



*Customers get expert advice and the farm supplies they need at a Southern States Cooperative store in North Carolina. USDA Cooperative Services has staff economists who specialize in farm supply operations and who regularly issue reports and articles designed to help improve the competitiveness of supply co-ops. USDA Photo by Ken Hammond*



matters, Cooperative Services staff can assemble highly effective teams to analyze and assist individual cooperatives in dealing with the unique circumstances they face. Cooperative Services provides a range of types of technical assistance to cooperatives. This technical assistance generally takes the form of business consulting services provided to cooperatives on a client basis.

Technical assistance includes special studies and well as various forms of training and facilitation of planning activities. Findings of studies become proprietary to the recipient organization. Use of the findings and recommendations provided through technical assistance is a private and wholly independent decision of the recipient as well.

Common types of technical assistance studies include merger analysis, operational reviews, comparative cost studies, member attitude studies, equity or capitalization plan reviews, product market development and assessment planning, and industry prospect assessments. Projects are initiated at the formal request of a cooperative or group of cooperatives and

are carried out by Cooperative Services staff at no cost to the recipient group. While Cooperative Services technical assistance is used by a wide-range of sizes and types of cooperatives, a typical recipient of this service is a local cooperative that is not large nor sophisticated enough to employ staff or contract for complex business or financial analysis.

Because Cooperative Services research and technical assistance activities are tightly interwoven, information and expertise gained by staff members through research activities are directly applied in carrying out technical assistance. In turn, technical assistance helps identify emerging and crucial issues for research and can, with the permission of recipient groups, provide information and data for use in research projects.

These synergies don't end with technical assistance and research activities. Studies' findings and staff expertise are critical to the production of educational materials and programs produced by Cooperative Services and are an interactive part of the statistical analysis mandate of the Cooperative Marketing Act. ■

## Then and Now

*The USDA Cooperative Services staff in 1926 and in 2001 — the faces and styles have changed, but their goal remains the same: working to ensure a strong cooperative sector. Randall Torgerson, Deputy Administrator for RBS Cooperative Services, is at far left in bottom photo. While all of the women pictured in the 1926 photo were clerical staff, many of the women pictured in the current staff photo are economists, statisticians and education specialists. Top: USDA archival photo; Bottom: USDA photo by Dan Campbell*



# Statistics show cooperative status, progress and trends



By Charles A. Kraenzle,  
Director, Statistics Staff  
*USDA Rural Business-Cooperative  
Service*

**U**nderstanding farmer cooperatives requires a detailed analysis of statistics. The Statistics group in the Rural Business-Cooperative Service (RBS) of USDA Rural Development has the responsibility of collecting, editing, tabulating and presenting these important statistics related to cooperatives' status, progress and growth. Statistics provide information for education, research and other work that improves the cooperative way of doing business. Through RBS, USDA is the only source of detailed information on U.S. farmer cooperatives and their service to American agriculture.

The Cooperative Marketing Act of 1926 (CMA) authorized gathering statistics and other information about farmer cooperatives. Specifically, this Act gave USDA authority "to acquire, analyze and disseminate economic, statistical and historical information regarding the progress, organization and business methods of cooperative associations in the United States and foreign countries." Although the Act authorizes the collection of statistics and other information in foreign countries, RBS focuses this effort on U.S. cooperatives.

Statistics on farmer cooperatives were important long before Congress passed the CMA. The earliest statistics on cooperatives were compiled about 1863, profiling the operations of 35 cooperative cheese factories (see

Cooperative Information Report 1, Section 26, "Cooperative Historical Statistics"). The first nationwide survey of farmer cooperatives was conducted from 1913 through 1915 by USDA's Office of Markets and Rural Organization.

The Bureau of Census in the United States Department of Commerce conducted the second nationwide survey of



*What was the value of fruit and vegetables marketed by cooperatives in 1940—or in 2000? The statistics staff of USDA's Cooperative Services can tell you.*

farmer cooperatives in 1919. In early 1922, USDA's Bureau of Agricultural Economics, within the Division of Agricultural Cooperation, began another nationwide survey of cooperative buying and selling activities. This annual collection of data on farmer cooperatives continued through 1926.

During the 1925-26 marketing year, when Congress passed the CMA, USDA listed 10,803 farmer cooperatives. That number reached a high of 12,000 in 1930. The number had declined to 3,466 farmer cooperatives by 1999 due to dissolutions, mergers, consolidations and

acquisitions. Many of these mergers and acquisitions, however, have resulted in the merged or acquired organization becoming a branch operated by the headquarters operation. For example, in 1999, 2,209 grain and farm supply cooperatives operated an estimated 5,330 branches serving member and non-member patrons.

At the same time, the gross business volume of farmer cooperatives has been increasing, especially in the early 1970s. When adjusted for price changes, however, the real increase has not been that significant. One could look at the effect of price changes in another way. A cooperative in 1926 with \$5 million in marketing sales would be similar to one with \$21 million in sales in 1999.

While cooperative numbers have declined, the survivors became larger. Analyses of historical data show some interesting trends. Data on cooperatives grouped by size of business were not published until the mid-1950s. In 1955-56, the business volume of 9,493, or 96.6 percent of U.S. cooperatives, was less than \$5 million. This had dropped to 4,545 (70.5 percent of all cooperatives) in 1979 and 1,719 cooperatives (49.6 percent of all cooperatives) by 1999. This reflected the growth in cooperative business volume over the years.

By 1989 and 1999, 38.9 percent and 50.4 percent of all cooperatives had business volume of \$5 million or more, respectively. Those cooperatives with \$25 million or more in sales increased from 295 (4.6 percent of all cooperatives) in 1979 to 503 (14.5 percent of all cooperatives) in 1999. ■

# USDA's commitment to cooperative education



Jim Wadsworth  
Program Leader, Education and  
Member Relations  
USDA/RBS Cooperative Services

**C**ooperatives are different from other forms of business because they are organized according to fundamental, immutable tenets known as cooperative principles. As mandated by the Cooperative Marketing Act of 1926, the USDA/RBS Cooperative Services program takes seriously its responsibility to promote knowledge of cooperative principles, as well as other cooperative practices. Cooperative education has been a mainstay of USDA's co-op program for 75 years.

This long timespan alone might make one logically surmise that knowledge of cooperative principles and practices should, by the year 2001, be well ingrained in the American business and farm culture. However, reality is far different. Even third- and fourth-generation cooperative members often have only a superficial understanding of cooperative principles. Thus, education on cooperative principles and practices is as important today as it ever was.

With changing demographics and scope and structure of agri-business, a highly competitive business environment, complex decisions for producers and new concepts such as new-generation (value-added) cooperatives, there is still a critical need for cooperative education.

## Co-op education improves odds of success

Cooperative education continues to

be necessary for a number of reasons. When a co-op education program is well developed and wide-reaching, it should: 1) provide a higher probability for a successful cooperative; 2) provide producers with sufficient understanding of cooperatives as a form of business enterprise to make an informed assessment of a whether to pursue the cooperative business option; and 3) provide improved understanding for individuals, the public and policymakers leading to continued support for cooperatives.

Cooperatives are more likely to be successful when their members fully understand their responsibilities to cooperative principles and the practices they involve. Odds of success for a co-op also improve when the public knows how cooperatives work and can see their benefits to members and to communities, and when young people learn what cooperatives are and how they operate so that their interest in cooperatives takes hold.

When groups of producers and/or rural residents looking to develop a business idea fully understand the unique workings and benefits of cooperatives, they are better able to adequately assess the cooperative model as a potential option for prospective business endeavors.

When responsible individuals working in the public arena or making policy have a solid understanding of cooperatives, they are able to clearly see the value cooperatives bring to individuals and their industry. They are then in a better position to debate and formulate cooperative-related support, policy and law.

## Education activity

Cooperative Services provides cooperative education in a number of ways. Education is proffered through a wide variety of booklets and research reports and Cooperative Services' own bi-monthly magazine, *Rural Cooperatives*. These publications are available both in hard copy and on the Internet. Educational materials and programs developed for high school and other ag-education programs have also been widely distributed. Videos for use by cooperative educators are available, as well. Cooperative Services acts as a library for much of the cooperative community by housing and providing a vast array of materials about many aspects of the cooperative way of doing business.

Cooperative Services research on numerous relevant cooperative topics add to the literature on cooperatives which contribute to overall education and knowledge about cooperatives. Advanced study of cooperative principles, practices, statistics, marketing, management and theory offer greater understanding of cooperatives to those involved in the cooperative arena. Cooperative research agreements with institutions of higher learning provide another vehicle for cooperative material development.

Technical assistance offered through workshops, short-term consulting and feasibility studies provide a pointed method of education to specific cooperative audiences. Educational forums and workshops are held for various cooperatives and cooperative audiences. Cooperative Services works with other cooperative professionals and educators via institutes, seminars, conferences,



*Conducting business-like, informative meetings that encourage member participation is essential for a strong cooperative. For 75 years, member education services and information products from USDA's Cooperative Services program have been helping co-ops conduct better meetings and member-relations programs.*

committees, joint projects, etc.

USDA's cooperative education services and products are made available to cooperative members, boards of directors, managers and employees, as well as farmer groups, young farmers, young cooperators, youth and the general public.

### **Delivery mix combines new and old methods**

Given advanced technology, cooperative information and education materials are taking new forms. PowerPoint presentations have become popular in educational settings. CD-ROM and Web site interactive programs are being developed to teach cooperative principles and practices through electronic means. Web sites of government agencies, cooperatives, cooperative development centers, cooperative associations, etc., are proliferating and a major goal of these platforms is to inform people about cooperatives. These electronic delivery systems will see further development and refinement in the years

ahead. Cooperative Services is also working toward greater involvement in this important area.

At the same time, it is important to realize that cooperative education is still developed and delivered the old-fashioned way—these efforts are often individually tailored to specific audiences. This is done largely on a piecemeal basis, where educators develop “packaged” materials dependent on the specified cooperative-topic needs of given groups. Hard copies of quality educational pamphlets and reports remain in demand and are still used extensively.

It is apparent that cooperative education will be delivered as a mix of systems in the future. Cooperative Services and other educators will rely on blending quality components of both the old ways and the new to spread the word of cooperative principles and practices.

### **An enduring commitment**

Cooperative Services is a leader in providing public assistance to cooperatives, much of it in an educational vein.

As RBS Deputy Administrator Randall Torgerson says: “Public sector assistance to the cooperative sector is distinguished in this country as being facilitating—not regulatory—in nature. An underlying rationale for use of taxpayers’ dollars supporting this activity is that cooperatives assist those in the marketplace who are structurally disadvantaged by their relative size and access to markets, and the fact that cooperatives actually are viewed as a competition-enhancing force in the marketplace from which all of society benefits.”

It is with this philosophy—in conjunction with the mandate of the Cooperative Marketing Act of 1926—that Cooperative Services extends cooperative education services and products to cooperatives, rural residents, and the general public. The ongoing need for education on cooperative principles and practices will not diminish and Cooperative Services has an enduring commitment to being a principal provider. ■

# African village banks project shows renewed emphasis on international co-op development



By James Haskell,  
*Assistant Deputy Administrator  
USDA/RBS Cooperative Services*

**A**lthough still in a rudimentary state, a string of more than 50 village bank cooperatives have been established to bring a measure of individual and community stability via financial services to the former “Homelands” of South Africa. Dozens more are in the development stage. All are operating with a small profit and have no delinquencies.

For the first time, thousands of these rural African residents have access to financial services. Project funding came principally from USAID, with development work administered by staff of USDA/RBS Cooperative Services and private firms under contract for specialized financial services. Cooperative Services developed models of a business plan, a marketing strategy and an operations manual for use by the cooperative banks. A two-week study tour in the United States was conducted for two South African government officials to acquaint them with our systems for delivering financial services to rural areas.

This type of international development work is an adaptation of authority contained in the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. The 1926 law directed the Secretary of Agriculture “to work with institutions and international organizations throughout the world on subjects related to the development and operation of agricultural cooperatives.” That activity today is

conducted by Cooperative Services .

One drawback to Cooperative Service’s international development work is that Congress has not provided a specific budget mark for the program’s international work. So most of our assistance over the years has either been through information exchanges and meetings, or through in-country technical assistance activities funded by international donor groups outside the appropriations process. This effort has tended to center around U.S. foreign policy directions at any given time (Central and South America in the 1960s and 1970s, the



*South Africans on their way to pick up pension checks scan the goods in a street market. Cooperative Services is helping establish a network of cooperative “village banks” to provide financial services to rural areas in South Africa. Photo courtesy Jon Greeneisen*

Pacific Rim in the 1980s, and Africa in the 1990s). Numerous requests for technical assistance came in from Eastern European countries following the fall of the Iron Curtain.

Each year, Cooperative Services hosts hundreds of foreign visitors who are interested in U.S. cooperatives and want additional information or advice on how our cooperative practices and

operations might be adapted to their countries. These groups often involve farmers (or representatives of farmer associations), parliamentarians or other policy makers, and state or national government officials. Some of the initial contacts are received directly by Cooperative Services while others stem from a variety of donor agencies, such as the World Bank and USAID. In some cases, they come through foreign or U.S.-based economic development entities.

Cooperative Services publications that explain how U.S. cooperatives are structured and function are in high demand from these groups and through direct communications with other foreign and domestic entities. Many of these basic cooperative publications have been reprinted in several foreign languages and are widely distributed by governments, non-government organizations and through the Internet. The “U.S. style” of structure and operations, where farmers are the users, owners and beneficiaries of successful cooperatives, has obvious global appeal.

This is certainly true in South Africa. During the apartheid years in South Africa, the black population was shuttled into these remote rural “Homelands” areas with no services. They carved out a subsistence living. They had no access to financial services and had no place, for instance, to deposit their small monthly government pensions.

Although still small in terms of the size of the country, these locally owned cooperatives are located principally in agricultural areas and some are starting to make loans. The banks are self-regulated

*continued on page 30*



# Moving e-efficiently into e-commerce

*A guide for businesses ready to go online, big time*

By R. Jon Lee, CEO, Jel Productions

**Editor's note:** *This is the first of two columns dealing with major communications projects undertaken recently by Blue Diamond Growers, a California-based almond cooperative. In this issue, the focus is on development of the co-op's new Web site. The author is the CEO of Jel Productions, a web development firm. In an upcoming issue, the focus will switch to how the co-op produced a new book tracing the history of Blue Diamond.*

**T**he Internet is an excellent medium for a cooperative or other business seeking to save money, reduce the amount of time required to market its product or service and strengthen its position in an industry. However, in today's economy, gone are the days when an Internet project can go online simply by a CEO boldly proclaiming, "Make it happen!" without first asking, "Can it be done in less time and with less money?" Blue Diamond Growers, an almond grower-owned cooperative, recently built an exceptional Web site in record time. But it didn't happen by accident.

## 12 ways to save

Any project, online or off, can be broken into four phases: Discovery, Design, Development and Deployment (the four Ds). Removing any one of the four phases is not a viable

means to reduce costs. Indeed, adhering closely to the goals of each phase avoids cost over-runs and scope creep (the process by which costly add-ons are tacked on to a project mid-stream).

In the **Discovery** phase, the project team (determined by scope and budget) meets to answer the basic questions of Who, What, Where, When, Why and How. A vital step in producing the "road map" for the project, this phase is time and resource intensive as it requires representation from the major divisions of your co-op.

**(1)** Blue Diamond assigned an internal project manager, Joe Potts, manager of information and technical services, to the project. This gave Jel a central point of contact for all project decisions, avoiding unnecessary delays when management and other co-op decisionmakers were unavailable. Having an internal project manager also creates a sense of

ownership and accountability for client-specific deliverables.

It's surprising the number of times we've been told that the target audience is "everybody." Instead, a business must get to **(2)** know its audience and identify their spending habits, income brackets, behaviors and motivations. It is essential to be honest about your product or service and its ability to meet the audience's needs.

Ryan Thompson and Craig Rolfe of Jel worked with Potts to determine the Blue Diamond strengths to be emphasized in the Web site and the obstacles to overcome. "We broke their audiences into four categories and assigned a priority to each. Then we asked what services or products could be made available online to serve each audience," Thompson says.

Most importantly, **(3)** do the research before hiring a development firm. Spend time on the Internet visiting the sites of competitors or other businesses in the same industry. Visit nationally branded sites to become familiar with what is standard in a site and what functionality might need to be included. Read up on new technologies for online ventures.

"We researched our industry, reviewed client feedback and performed a department-by-department needs analysis prior to the redevelopment of our corporate Web site," says Potts. As a result, Blue Diamond asked Jel to perform a complete redesign and development of its corporate



Joe Potts, on the right, led the team that developed Blue Diamond's new Web site. Photo courtesy Blue Diamond Growers

Web site, including the addition of e-commerce capabilities. Because Blue Diamond had performed preliminary research, the discovery process was more productive and the solutions and services provided to it resulted in a higher return on investment.

Building from the Discovery phase, the **Design** phase tackles the structure of the site (primary, secondary and tertiary navigation) as well as the more complex functions and application design. In others words, chosen technologies need to meet objectives.

To get a headstart, **(4)** draw a diagram or flowchart of the desired site and pinpoint what information will be needed for each section of the site. A lot of time can be chewed up deciding what to label the primary navigation tools. Instead, decide these elements before signing with a development firm.

Tell your development firm what you want, **(5)** and be specific. Blue Diamond outlined the business logic behind the desired application. To support its new online store, Blue Diamond's customer service needed an administrative application that would change orders, perform refunds, take phone orders and update inventory. Jel programmed and deployed an easy-to-use administrative application for order tracking in less than one month.

The design phase is comprehensive in scope, tackling everything from content and design to functionality and user interface. Rather than launching and waiting to hear how the target audiences react, spend some time on **(6)** *usability testing* prior to launch. This is an invaluable tool that can save time and money, not to mention face. Blue Diamond tested the new site with users of all skill levels. The feedback assisted in refining the entire site.

**(7)** Begin the content gathering, writing and editing process as early as the discovery phase. Content is the No. 1 cause of project delays.

"It can be difficult to ask busy managers and directors to participate when they are focused on other priorities. You must provide these professionals plenty of lead time," Potts said.

## About Blue Diamond Growers

Blue Diamond Growers is the world's largest tree nut processor and marketer. Headquartered in Sacramento, Calif., 4,000 California almond growers deliver more than one-third of the state's almonds annually to their cooperative. The crop is marketed to all 50 states and more than 90 foreign countries. Almonds are California's No. 1 food export, and the sixth largest U.S. food export, based on value. The California crop is valued annually at about \$1 billion. Blue Diamond's sales average about \$500 million annually. ■

The **Development** phase is when the Web firm rolls up its sleeves and produces the site. From static HTML coding to dynamic, online applications, the site is produced, integrated and put through a series of quality assurance tests. Improvements are catalogued and scheduled. At the end of this phase, a series of "beta" tests are conducted in a secure environment, allowing the client to preview the product prior to launch.

We advise that the team be held accountable for delays. Throughout the timeline, Blue Diamond was asked to review, sign and turn over deliverables to the development firm and to review designs, pages or applications.

**(8)** Stick to the schedule. Delays on the client side can impact production schedules and create project conflicts for the development firm. Rush fees, cost creep and delays can be avoided by sticking to the schedule. The Blue Diamond site was a challenging project under tight deadlines, but all concerned were pleased that the final result met all project criteria within eight weeks. Last-minute changes, adding new functions or changes in client personnel can hinder the project.

**(9)** Avoid surprises by taking extra time in the discovery and design phases. This can eliminate "Oh, I've got a great idea!" change orders that can affect project costs and launch date. The development phase is notoriously non-client related. At this point in the project, the development firm should have all the answers and deliverables it needs. It may check in with project status and last-minute corrections, but for the most part this phase requires less client interaction.

This is an advantageous time to **(10)** prepare for launch. Work on the marketing plan for announcing your new site, upgrade internal processes to handle online product sales or train customer service staff on how to handle Internet customers. Blue Diamond trained each department on the procedures for updating the new site, as well as the e-mail communication assignments, prior to launch.

**Deployment** is the exciting phase, when the switch is turned on and the site is live. Training and documentation are provided if needed and a maintenance plan generated for the upkeep of the site. **(11)** Review the documentation produced in the discovery phase. Has anything been left out? Were decisions made along the way that affected the end product negatively? Are project goals and objectives fulfilled by the finished site? These are questions that should be asked throughout the project, but most importantly prior to launch.

And remember that no matter how beautifully designed or easy to use, your site will never succeed if your audiences don't know it exists. **(12)** Promote it, update it, change it often to keep it fresh. Blue Diamond launched a banner campaign to announce the launch of its new online store. Blue Diamond also initiated a press campaign announcing the launch of the new corporate site, [www.bluediamond.com](http://www.bluediamond.com). And, to continue the growth of online product sales, Blue Diamond frequently provides online product discounts.

Following these simple steps, corners can be cut without jeopardizing the project. ■



## Farmland sells grain division to joint venture with ADM

A new joint venture between Farmland Industries and Archer Daniels Midland (ADM), being managed by ADM, completed takeover of Farmland's grain division on June 1. ADM absorbed 280 of Farmland's employees, but 175 were left unemployed or seeking relocation elsewhere in the cooperative's system.

The joint venture gives ADM control over the bulk of Farmland's grain operation of 24 elevators with a total capacity of 174 billion bushels. Included in the action was the cooperative's brokerage arm, Atwood Commodities, and grain-testing laboratory at Bonner Springs, Kan. Both services are duplicated elsewhere by ADM's operations. Profits from the new joint venture will be shared by ADM and Farmland.

The pact was the latest in restructuring steps Farmland has been taking to improve its financial standing. The co-op suffered a \$29.25 million loss for fiscal 2000, its first loss since 1993. The rising price of natural gas, a major component in fertilizer manufacturing, has been a prime factor in its losses. The cooperative also plans to close its canned ham plant at Carroll, Iowa.

On the brighter side, Farmland's operations for the first six months of fiscal 2001 are showing after-tax earnings of \$5.4 million, up from a \$48.6 million loss a year earlier. Total sales reached \$6 billion, up from the \$5.8 billion reported for the corresponding period in 2000.

Meanwhile, the cooperative has shut down its fertilizer plants at

Lawrence, Kan., and Pollock, La., due to a weak fertilizer market and high gas costs. The plants produced urea ammonium nitrate and anhydrous ammonia. Operations at the fertilizer plant at Enid, Okla., have been reduced. Cooperatives can purchase and sell fertilizers brought in from the Gulf of Mexico cheaper than it costs to produce them at Lawrence. About 60 of its 158 employees were laid off.

Looking ahead, Farmland hopes to wean itself away from the high-cost of natural gas by buying energy from SynFuel Technologies, a growing young company in the alternate fuel industry.

Farmland and SynFuel will participate in an \$800-million coal gasification plant adjacent to Farmland's fertilizer manufacturing plant at Enid. Under a long-term supply agreement, Farmland will purchase steam and nitrogen from SynFuel for use at Enid.

This will be the first plant for the two-year-old firm, based at Glen Carbon, Ill. The plant should be ready in June of 2004 if necessary permits are obtained. Plant engineering has begun and construction could start in August of 2002.

The company also expects to sell gas to a power utility to generate electricity. The process also creates nitrogen that can be used to make fertilizers.

Farmland believes coal gasification could generate a savings of 40 percent below the current natural gas price. A similar technology is being used at Farmland's new fertilizer plant at Coffeyville, Kan.



## Agri-Mark has \$1.9 million profit

Improved butter markets and record sales of Cabot products were credited for \$1.9 million in profits for Agri-Mark's fiscal 2000 business year. The New England dairy cooperative's branded products continued to grow, said President Paul Johnston. The new whey protein plant and other manufacturing facilities are operating well, he said. During the year, improvements were made in butter operations, cheese packaging and cultured products to keep pace with the growing demand. "The growth and success of our Cabot brand shows what dairy farmers can do if they belong to a cooperative like Agri-Mark and work together to market their milk," said Chairman Carl Peterson, a dairy farmer from Delanson, N.Y. The board has allocated six cents per hundredweight to all members based on their milk production during fiscal 2000. Meanwhile, Cabot has introduced a Greek feta-cheddar cheese to the market. The new cheese is made exclusively by Cabot.



### **Wosje: 'Stay alert, flexible & profit from opportunities**

"We need to stay alert to changing conditions and pay attention to business every day," Walt Wosje, general manager of Michigan Milk Producers Association told the cooperative's members in his annual meeting report. "We have experienced some good fortune of market price increases when we have had large product inventories in our warehouses. But that is not going to happen every year," he cautioned. "We need to be flexible, fleet footed and be able to change course in mid-stream when positive opportunities present themselves."

In looking at the wave of dairy cooperative mergers and consolidations during the past 10 years, he observed, "Today, they (co-ops) market a larger percent of the milk supply than ever before," even though the number of dairy cooperatives continues to decline. "Three cooperatives now market almost 50 percent of all the milk produced in the United States. Our organization handles and markets as much milk today as we ever have, even though we look smaller than other cooperatives."

"That shouldn't give us any sense of inferiority as long as we concentrate on the basics of our business and operate the company in a very controlled manner. We can successfully fulfill our mission objective," he said. "Our relative size causes us to be more intense in running the business. We concentrate more intently on servicing our customers who purchase our milk and dairy products. Our performance in terms of customer service and product quality has never been higher."

### **Livestock certification to help reassure public that beef is OK**

A Wisconsin livestock marketing cooperative has instituted a producer-signed certification program aimed at assuring consumers of the safety of beef supplies. Greg Beck, president and chief executive officer of Equity Livestock Cooperative Sales Association, Baraboo, instituted the program April 1.

"We know that our patrons produce the safest, most wholesome beef in the world and we are proud to certify that to the consuming public," Beck said. The move was in part prompted by letters the cooperative received from every major packer indicating they wouldn't purchase livestock without the certification. "This certification is a direct result of the outbreak of Bovine Spongiform Encephalopathy (BSE, or "mad cow" disease) in Europe and the subsequent worldwide media attention on food safety," said Beck.

Specifically, he said, "All slaughter cattle marketed through or to Equity must be accompanied by a signed producer certificate, which indicates that to the best of the producer's knowledge, the cattle have not been fed any feed containing protein derived from mammalian tissues – meat or bone meal – and that none of the cattle have an illegal level of drug residue."

Beck pointed out that even though the feeding requirement has been on the books since 1997, the U.S. cattle industry – producers, marketers, packers and retailers – "is taking the proactive step to assure meat consumers (and world export markets) that the U.S. food supply is the safest in the world." Certificates must be signed prior to marketing and will be held on file by the cooperative. Beck said that while the certification may inconvenience the cooperative's 60,000 patrons, it "is small compared with the benefits of reassuring the beef-consuming public."

### **Marketer for Idaho potatoes favors statewide planning**

The marketing director for an Idaho seed potato cooperative believes growers must cut back acreage this year to reduce the surplus that is depressing prices. Dan Margraves, who represents Teton Seed Marketing Association, is quoted in press reports as saying the state needs better planning in the amount of acres grown in Idaho.

Margraves would like to see a reduction of about 80,000 acres of fall potatoes this year, which would be about a

10- to 15-percent reduction from last year. He said the state's biggest problem was the failure to develop a statewide potato marketing plan.

Teton Seed, which markets Idaho seed potatoes in the Northwest, had 16 growers who supplied the cooperative when it formed four years ago. Today, only eight remain, but during that time the cooperative has expanded its market by about 15 percent. The cooperative shipped 3,000 semi-truck loads of seed potatoes this season, which represents its entire crop.

A federal program pays growers \$1.50 per hundredweight to divert quality potatoes from the market, even though the producer's cost is about \$7.50. Margraves said only 2 of the past 12 seasons have been successful for producers and he is worried about how many growers will survive a 13th losing season.

Many growers are heavily mortgaged and have reduced equity in their farms, which makes them less attractive to lenders. He fears that unless growers develop a statewide marketing plan that emphasizes the fame of Idaho potatoes, industry fortunes won't change. And worse yet, some growers may increase their plantings this year and hope to cash in while many others are cutting their acreage. On the other hand, a sharp cutback could boost industry morale, Margraves said.

### **Sunkist taps Gargiulo as new president**

California-based Sunkist Inc., the nation's oldest and largest citrus marketing cooperative, has named Jeffrey D.



*Jeffrey D. Gargiulo*

Gargiulo, at one time one of the state's largest producers of fresh fruit and vegetables, as its new president and chief executive officer. James Mast, Sunkist's former chairman, had been

## Roche takes helm as Minn-Dak CEO

It didn't take David Roche, the new CEO at Minn-Dak Farmers Cooperative, a Wahpeton, N.D.-based sugarbeet cooperative, long to learn the difference between being president of a large publicly held company and CEO of a cooperative. As an officer of a billion-dollar, investor-owned company, it was highly unlikely that Roche would ever bump into one of the company's directors or large stockholders while he was pumping gas or shopping for groceries. However, as the new CEO of Minn-Dak Farmers Cooperative, Roche has those chance encounters with stockholders and directors on a regular basis.

Outgoing by nature, Roche welcomes these conversations, noting that there is something very positive that happens in informal, unplanned meetings with members and staff. "I enjoy the spirit of community I've found in the Red River Valley," he says. "There are many opportunities for me to interact with the people in informal settings. I find that refreshing."

After four months on the job, Roche is fitting comfortably into his new post as Minn-Dak's CEO.

From the beginning, he made it a priority to get out to meet as many of the cooperative's stockholder/growers as possible, and within weeks he had done just that. In addition to three grower/stockholder meetings held across the region, he has also visited with growers on their farms and as they picked up seed for the new crop.

"I want to have an open-door policy with growers and employees," Roche says. "I give them my office number and encourage them to call whenever they have a concern."

Roche says that Minn-Dak directors have a strong direct interest in the success of the overall operation because they are all active growers of sugarbeets and have a better understanding of operation, production and even local politics.

Roche's own experience and knowledge of the sugar industry also runs deep. In fact, it dates back to his childhood when his father worked at Michigan Sugar. Although Roche didn't set out to make his career in the sugar industry, it didn't take long for him to join the ranks. After earning his MBA with an

accounting emphasis, he worked for five years in one of the largest public accounting firms in the nation.

After that he accepted the position of controller at Michigan Sugar, which was bought by Savannah Foods and Industries in 1985. He rose steadily through the company's ranks until he was named president of Michigan Sugar in 1994. Eventually, Roche went on to serve as president of a subsidiary, Savannah Foods Industrial, and then was named managing director and senior vice president at Impe-

rial Sugar Co. after it bought out Savannah Foods and Industries.

The domestic sugar industry was going through major changes associated with difficult economic times in the industry and, in October 2000, Roche resigned from Imperial Sugar Co. and considered leaving the industry. But when the CEO position at Minn-Dak Farmers Cooperative became available, he applied.

"Minn-Dak is known as a cooperative owned by productive, efficient farmers and the employee team is recognized as top notch," Roche explains. That

reputation made the job opening attractive to Roche.

"The cooperative is well focused and in equilibrium in an industry that had lost its equilibrium, experiencing bankruptcies, closures, sales and reduced financial returns. This co-op is coping well in tumultuous times, and I wanted to be a part of that."

As for the future, Roche believes Minn-Dak will need to contribute in every way possible to help the sugar industry reach some stability. Otherwise, he feels outside factors could eventually put Minn-Dak's continued success at risk.

"The problems hitting the sugar industry are complex," Roche says. "But I believe that being a strong cooperative gives Minn-Dak an edge. From day one, I could see that Minn-Dak keeps its focus on the right things, providing a good return to our grower/owners and a good working environment for our employees. This is a cooperative that operates under the assumption that everyone involved will put forth the best effort possible. And they really do just that, year after year. I am thoroughly honored to be a part of that kind of team effort." ■



*Minn-Dak CEO David Roche, left, has lunch with member picking up seed for the 2001 crop. Photo courtesy Minn-Dak*

acting president during the interim.

Gargiulo is currently chairman and president of Gargiulo Landco, a diversified company that deals in agricultural land and real estate development, owns a wine grape vineyard in Napa and is a wholesaler and distributor of fine wines in Florida. Sunkist chairman Al Williams said Gargiulo is recognized throughout the industry and knows the growing, packing and export markets.

### **Organic cooperative shapes national product rules**

George Simeon, a Wisconsin organic farmer and chief executive officer of the nation's largest organic cooperative, has been appointed to a five-year term on the National Organic Standards Board, which advises the U.S. Department of Agriculture on standards for organic products. Simeon is a former dairy farmer. He and his wife now raise chickens and horses at their farm near LaFarge, Wis. He has a national reputation as an advocate of organic foods.

In 1988, he and a group of neighbors formed Coulee Region Organic Produce Pool, more commonly known as CROPP. The cooperative sells a variety of products, ranging from milk to juice and meat to cheese. It has 450 members in 14 states, stretching from California to Florida to Maine. Annual sales this year exceeded \$100 million. The cooperative has a list of 50 dairy producers waiting to join.

### **SSC to close 47 stores, cut staff in restructuring**

Caught up in a slumping farm economy, Southern States Cooperative (SSC), based at Richmond, Va., plans to close 47 of its 233 retail stores in nine states. It will also close five other facilities involved in the manufacturing, marketing and distribution of farm supplies and services. The restructuring will cut 300 employees, or about 6 percent of the co-op's workforce. The distribution center in Richmond is being closed in favor of larger centers near Roanoke, Va., and in Pennsylvania.

These actions represent the latest

wave in SSC's efforts to counter an economic crunch confronting much of the nation's farm sector. SSC earlier cut 55 corporate employees in its restructuring. In March, SSC transferred its livestock marketing division to United Producers Inc., a Midwest livestock marketing and credit cooperative based at Columbus, Ohio. About 20 facilities and 190 jobs were involved.

Wayne Boutwell, SSC president and chief executive officer, said the decisions were "painful," but necessary. "We must seize opportunities to consolidate for improved efficiency and to eliminate operations that generate more cost," Boutwell said. "The reality of today's farm economy and ongoing consolidations of farming operations is that the market won't support as many local farm supply and other agribusiness facilities as in the past. Most industries, including every aspect of agriculture, are undergoing consolidation. Our actions are driven by our goal as a producer-owned cooperative to provide goods and services to our member-customers as efficiently as possible," he said.

The cutbacks won't affect other SSC facilities associated with its annual 350-million-gallon petroleum business or its 34.5-million-bushel grain marketing operation. Contributing to the restructuring are depressed corn and soybean prices, severe floods and drought in some parts of the Mid-Atlantic trade territory, expansion through acquisitions in recent years and declining farm numbers.

Poor demand and costs associated with the closings are expected to produce losses for SSC this year. For fiscal 2000, net earnings were \$4.96 million on revenues of \$1.55 billion. SSC has about 5,000 employees in 25 states and serves 300,000 farmer-members. Meanwhile, SSC will continue to manage 85 local cooperative facilities and work with a distribution network that includes 1,000 independent cooperatives and dealers.

### **Bison farmers market directly via supermarket freezers**

Bison ranchers in North Dakota

have taken steps to directly market their meat products to customers. About 50 members of the North Dakota Buffalo Association are buying and stocking supermarket freezers themselves to increase demand for their bison meat. Their Adopt-A-Freezer program brought more than 40 freezers to supermarkets throughout North Dakota, said Paul Thomas, executive director of the association. Three others are in Montana, four are in Minnesota and one is in South Dakota. Growing pains in the industry two years ago prompted the association to develop the program, Thomas said. Lagging demand was driving down prices, so members decided to take control and boost demand for their product themselves.

Each \$2,000 freezer is owned by individual members. They are responsible for keeping the store stocked, advertising the product and conducting in-store promotions. Grocers clear about a 25 percent profit on sales in exchange for providing floor space, powering the freezers and keeping them full each day. Featured under the North American Bison Cooperative's Buffalo Nickel brand are steaks, roasts, ground meat, patties and prepared chili. The cooperative has about 350 members across the Great Plains and operates a processing plant in New Rockford.

Some Canadian ranchers want to join the program and one association member is interested in placing 30 freezers in Minnesota supermarkets. Meanwhile, the North Dakota Agricultural Products Utilization Commission has awarded an \$18,500 grant to the group to promote and market the freezer program.

### **Jantzen to lead NCBA education unit**

Jean Jantzen, former vice president of CHS Cooperatives at St. Paul and currently board chair for HealthPartners Inc., a Minnesota-based health plan, will head the new education committee for National Cooperative Business Association (NCBA) in Washington, D.C. The committee was formed in January to direct

NCBA's new strategic initiative on cooperative education. Jantzen has more than 36 years of experience in the cooperative sector. She is also vice chair of the Cooperative Foundation board of trustees.



Jean Jantzen

Meanwhile, Byron Henderson has been named a vice president and will head development of .coop, the new Internet domain approved for exclusive marketing use by cooperative organizations worldwide.

#### Leonard new ACDI/VOCA VP

Carl Leonard has joined ACDI/VOCA as senior vice president of the Latin America and Global Programs division. He brings more than 30 years of USAID project management and leadership experience. As acting administrator of USAID, he directed programs in the Western Hemisphere, including 16 field missions and three regional programs.

#### Accelerated Genetics is 60

Accelerated Genetics, an innovative livestock breeding cooperative based at Baraboo, Wis., is marking its 60th year in the livestock breeding industry. Among its innovations: the first young sire program, one of the first to provide a mating program, working with World Wide Sires. Now, 30 years later, it is one of the new owners of a global marketing network, the first to use computerized freezing and a pioneer in genetic market research. President Roger Ripley said the cooperative's future lies in vision and long-range planning and evaluating technologies and their potential applications on behalf of customers.

#### NCBA honors Sen. Kohl

U.S. Sen. Herb Kohl (Wis.) has been named an honored cooperator by

National Cooperative Business Association (NCBA) for his continuing commitment to cooperative businesses. "Sen. Kohl has always been a champion of cooperatives as an ownership solution to some of the toughest challenges this country faces," said Rod Nilsestuen, president of the Wisconsin Federation of Cooperatives, one of the award sponsors. Kohl was cited for supporting USDA's rural cooperative development grants program. The program helped Wisconsin-based Cooperative Development Services (CDS) develop new forestry cooperatives that provide farmers with an additional long-term source of income. CDS has received nearly \$1 million in grant assistance from the fund. The award was sponsored by 16 cooperatives, including five Midwest dairy cooperatives.

At its spring annual meeting, NCBA re-elected all its officers including Chairman Pete Creer, chief operating officer for Credit Union National Association and affiliates. During Creer's first term, NCBA introduced the new Internet cooperative domain – .coop – exclusively for cooperatives. Other elected officers are: Charles Snyder, National Cooperative Bank, first vice chair; Ann Hoyt, University of Wisconsin, second vice chair, and Steven Cunningham, IMARK Group Inc., secretary-treasurer.

Meanwhile, NCBA has launched DotCooperation LLC, a wholly owned subsidiary that will provide domain name registration for .coop and other technology services starting this summer. NCBA President Paul Hazen said DotCooperation would help position cooperatives in online markets.

#### Co-op, army cut energy costs

Faced with a \$7 million electric bill last year, the U.S. Army's Fort Knox in Kentucky is joining forces with Nolin Rural Electric Co-op in nearby Elizabethtown to slash its energy costs. The energy conservation effort responds to an executive order to cut energy use in a half million federal facilities by 35 percent by 2010. The cooperative is one of

three utilities serving Ft. Knox. The contract is open ended. Installing energy-efficient lighting was the cooperative's first project. Once these energy-efficient plans are approved, the cooperative will finance the project through the National Rural Utilities Finance Corp. Fort Knox will repay the loan over 10 years as part of its electric bill.

#### Agrilink recognizes farm partners

Diversification for New York State farm partners has proved the key to their successful operation that led to Agrilink Foods (owned by Pro-Fac Cooperative) citing them with its annual Hugh Cummins Cooperator of the Year Award. The award recognizes individuals who have made significant contributions to the agricultural industry through cooperative and civic pursuits. Craig Yunker and P.J. Riner of CY Farms in Elba, N.Y., operate 5,700 acres of cropland in west-central New York, where they grow 2,000 acres of snap beans and peas for the cooperative and operate a custom bean harvest unit for the cooperative, a dairy heifer enterprise in partnership with Agway and the Batavia Turf business, which provides instant lawns to customers across the state. "The award means a lot to us," said Riner, "because Agrilink has been an integral part of our business. Without it, I don't think we could have grown so quickly." Yunker credited CY Farms success to the partnership with its 40 employees.

#### Eggstravaganza in Minnesota

The tanker truckloads of liquid eggs being shipped from Golden Oval Eggs to the fast food market, the baking industry and companies that make processed eggs for grocery stores might be termed an "eggstravaganza." But it's routine business for the new-generation egg cooperative formed at Renville, Minn., in 1991. The cooperative is planning to open its ninth barn of a planned 2.7-million-bird egg plant later this year. The stock offering in Iowa last year expanded the cooperation to about 250 members.

## TFC, GROWMARK will not consolidate

There will be no consolidation of Tennessee Farmers Cooperative (TFC) of LaVergne and GROWMARK, Inc., of Bloomington, Ill., after the TFC Board of Directors voted July 9 to end a feasibility study launched on March 26. The board voted to halt the study process after determining that consolidation of the two regional cooperatives "would not be in the best interest" of TFC, its 70 member co-ops across the state and some 73,000 farmers who own the farm supply cooperative system, said Vernon L. Glover, TFC president

and chief executive officer.

"From the very start of the study, TFC's directors have stressed that the well-being of members and how they would benefit would be foremost in anything that is decided," said board chairman David Rieben of Franklin County, Tenn. "One of the concerns we had was low projected cost savings to our member co-ops as a direct result of consolidation." Glover stressed that the vote was "by no means a vote against GROWMARK."

"The feasibility process was a positive and beneficial exercise for everyone involved," he said. "TFC direc-

tors and employees as well as managers of some of our member co-ops have visited with counterparts at GROWMARK." Additionally, Glover said, each cooperative studied closely the internal operations of the other, noting similarities and differences and working to determine how consolidated efforts could be beneficial.

"While our board recognized that TFC and its members could potentially derive some benefit from the consolidation, it felt that this was not the proper time to present the issue to the membership for a vote," Glover said. ■

## 2001 USDA co-op survey on the way

Every year, the Rural Business-Cooperative Service (RBS) of USDA Rural Development collects key data about the cooperative sector through a mail survey. A questionnaire is sent to each cooperative two to three months after the end of their business year. Questionnaires focus on the type of cooperative and dollar sales of farm products marketed and farm supplies sold, basic financial items, number of members, full-and part-time employees and wages and benefits. Questionnaires for the 2001 survey will soon be mailed.

Each cooperative is also asked to provide a copy of its annual, or audit, report. Information from the annual report is used to complete the questionnaire, verify the information reported and gather additional data. Every other year, questions are added to the questionnaires to gather information on cooperative sales and memberships by state.

RBS expands the data collected to represent all farmer and fishery cooperatives and publishes preliminary findings. In the fall, USDA publishes an annual report summarizing progress, changes and trends. This year's report, *Farmer Cooperative Statistics, 2000* will be placed on the Internet, as were the 1999 results (Service Report 59). See: [www.rurdev.usda.gov/rbs/pub/layout-s.pdf](http://www.rurdev.usda.gov/rbs/pub/layout-s.pdf).

Other data uses include the development of cooperatives' market share estimates at the first-handler level. In 1999, cooperatives' share of U.S. farm marketings was 27 percent, down from 30 percent in 1998. The co-op share of major U.S. farm production expenditures was 27 percent, down from 29 percent in 1998. Market share estimates are published in USDA's *Rural Cooperatives* magazine.

Farmer cooperative statistics are also published in the magazine, *Agricultural Statistics, Statistical Abstract of the United States and American Cooperation*. Selected summary data are provided to the Bureau of Economic Analysis in the Department of Commerce and to USDA's Economic Research Service for use in their Economic Indicators of the Farm Sector.

Data are also used to update a *Directory of Farmer Cooperatives*, which can be found on the Internet at [www.rurdev.usda.gov/rbs/pub/sr22.htm](http://www.rurdev.usda.gov/rbs/pub/sr22.htm) and *Cooperative Historical Statistics* at [www.rurdev.usda.gov/rbs/pub/cir/s26.pdf](http://www.rurdev.usda.gov/rbs/pub/cir/s26.pdf).

Cooperative leaders, educators, researchers and policy makers, among others, also use farmer cooperative statistics. Cooperative Services staff frequently use the data for important studies and presentations. Educational materials, from pamphlets to college textbooks, rely heavily on collected cooperative statistics. Foreign visitors also contact RBS for information about the structure and operation of U.S. farmer cooperatives.

Specific information about individual farmer cooperatives collected by RBS is kept strictly confidential. Information published is combined to avoid disclosure of individual cooperatives. RBS is willing to work with persons seeking aggregated data where no individual cooperative can be identified.

For questions regarding farmer cooperative statistics, please call, e-mail or write Charles A. Kraenzle at (202) 720-3189, or [charles.kraenzle@usda.gov](mailto:charles.kraenzle@usda.gov), or USDA/RBS/Statistics, STOP 3256, 1400 Independence Ave., SW, Washington, D.C. 20250-3256. ■

with no government interference. Their financial services include taking deposits, making loans, providing insurance and transferring funds. However, to fit into the country's legal system, they were required to have a relationship with a commercial bank.

The local pattern was taken from three pilot village banks operating in the North West Province of South Africa. In time, the equivalent of our Farm Credit Administration will be developed to become a regulator of these village banks. RBS' role in assisting with this growth was multifaceted. Initially, a short-term research project conducted by RBS and South Africa's National Department of Agriculture (NDA) determined the "Village Bank" model was applicable for

providing rural financial services.

The Cooperative Services staff helped gain an exemption to South Africa's Banks Act for these financial services cooperatives (FSCs) by the Central Bank and the minister of finance. It allowed them to legally receive deposits, but exempted them from conforming to stringent requirements of the Central Bank for being recognized as a bank. Nearly as important was the registration of these village banks as FSCs, which was accomplished by working closely with the NDA's Registrar of Cooperatives who is responsible for all cooperatives in South Africa. The licensing established the cooperatives as legal entities so they could purchase deposit insurance. It also raised their stature in the vil-

lages and made it easier to attract new members. Cooperative Services also provided extensive training for FSC directors and employees, as well as officials in the NDA.

A final component of the project by Cooperative Services was assistance in establishing a regulatory framework for use in providing supervisory oversight of the FSCs. This framework was considered essential, not only to preserve the character of the individual cooperatives, but more importantly to protect the fragile "system" of FSCs. Although the project is "officially" concluded, USDA continues to monitor the progress of FSC development because it holds so much promise for the economic growth of rural areas throughout South Africa. ■

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## Finding a niche *continued from page 8*

an agreement with the second largest Italian pasta manufacturer, Gruppo Euricom, to serve as its exclusive distributor of private-label and brand-label retail products and food service products in North America. Finally, DGP's main brand, Dakota Growers, underwent an image change as the brand began to penetrate more markets outside North Dakota and Minnesota.

The members of Dakota Growers Pasta also voted to change its bylaws to enable Canadian producers or associations to become members and to purchase stock in DGP. The rationale is that as members retire, some may want to transfer their shares to other members. However, under current import restrictions, Canadian members are not allowed to deliver Canadian-produced durum wheat to DGP's U.S. facilities. In addition, the poor quality of North Dakota-grown durum wheat in 1999 and 2000 increased DGP's procurement costs, because many of the co-op's members' wheat crops were of poor quality, forcing DGP to purchase high-quality durum wheat from other sources.

In 2001, DGP signed an agreement

with Semolina Specialties, a producer-owned cooperative in Crosby, N. D. Semolina Specialties produces hard-to-make pasta specialty products and flavored pasta products. Under that agreement, DGP sold the pasta equipment from one of its two plants in Minneapolis to Semolina Specialties in exchange for \$50,000 worth of preferred stock and \$1 million in cash. The equipment from the Minneapolis plant (which was then closed) was installed in the Crosby plant. Dakota Growers Pasta also was to supply 35 million pounds of semolina flour and assume marketing of the Semolina Specialties pasta products.

In 2001, first and second quarter earnings were lower than in previous years due to the higher costs of procuring high-quality durum wheat, as well as to increased energy and other input costs. The inability to pass along price increases due to excess capacity within the pasta industry has also hurt earnings. The cooperative anticipates a return to profitability later in the year.

### Summary

The value of marketing rights or

growers agreements changes in response to a cooperative's own profitability and the industry conditions in which that cooperative operates. In the case of DGP, the value of its stock reflects the cooperative's profitability due to its competitive advantage from vertical integration and use of producer equity. Increases in industry capacity, entry and exit of durum millers and pasta manufacturers, slower growth in pasta consumption, increased use of private-label brands, and poor-quality durum wheat changed industry conditions and caused greater rivalry among competitors. This increased rivalry caused changes in DGP's stock price, as can be seen in Figure 2.

**Authors' note:** This article is based on an extensive case study that will be published in the *Case Research Journal* later this year. We would also like to thank Tim Dodd, chief executive officer of Dakota Growers Pasta, and his staff for cooperating with us in this case study. We would also like to thank Tom Stafford and USDA Rural Business Cooperative Service for assisting us with this cooperative

activities such as integrated pest management programs, use of satellite technology in field applications, genetic record keeping and propagation of crops and livestock, expanded farm credit services and regional electric and telecommunications programs.

Marketing, an early focus of cooperative efforts to enhance farmers' marketing power, has evolved vertically into regional and nationally known branded products and private-label product distribution. Coordinated cooperative marketing efforts of locally owned cooperatives and regionals have extended the reach of farmers' outputs to national and international markets. Many cooperative brands have developed a strong consumers franchise for their products and are looked upon with envy by competing national marketers.

Horizontal marketing efforts have

also achieved new heights through negotiated pricing over contract terms by cooperative bargaining associations, and through joint use of marketing agencies-in-common for pricing and moving manufactured products into trade channels, as well as through the use of e-commerce technology as a means of lowering transaction costs.

What is remarkable is the resiliency and capacity for change demonstrated by many cooperatives. While some have failed due to faulty practices and weak financial management, survivors have demonstrated awareness of the need to stay involved in a global, high-tech and consumer-driven environment. They have an acute sense of anticipating and knowing members' needs, adapting to new technology and gearing their products to changing consumer desires. While adapting

operations to emerging needs, huge opportunities challenge cooperative businesses and their leaders in terms of growth in the share of marketing activity, and of expanding horizons to fulfill unmet needs in rural America.

The goal of USDA's Cooperative Services program is to expand knowledge—a form of intellectual capital—of the cooperative method of doing business. Consistent with the missions identified in the 1926 Act, Cooperative Services does this by collecting statistics, providing technical assistance, facilitating new cooperative starts, conducting cooperative-related research, and producing a wide variety of educational/informational products to promote public understanding of cooperatives. Our nation has benefitted from this work for 75 years, and will continue to reap the rewards for decades to come in the form of a stronger rural economy. ■

## It's easy to read and/or download USDA publications about cooperatives from the Internet

The Rural Business Cooperative Service has more than 150 cooperative reports (as well as past issues of this magazine) available on the Internet for viewing or downloading. These titles cover a vast array of topics, ranging from the general, such as "How to Start a Cooperative" or "Cooperatives 101," to technical subjects, such as "Tax Treatment for Cooperatives" or "Managing Cooperative Antitrust Risk."

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