

Rural COOPERATIVES

January / February 2015

Stacks of Ideas at
FARMER
CO-OP
CONFERENCE

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Commentary

Spreading the word about co-ops

By Dan Campbell, editor

In its effort to help increase understanding and use of the cooperative business system, USDA Cooperative Programs distributes more than 100,000 co-op education publications annually. One day we might be shipping 100 copies of “Co-ops 101” and “How To Start a Co-op” for a university agribusiness class or for a co-op youth conference; the next order could be for half a dozen copies of our five-volume set of books on co-op tax law needed by a law office representing cooperatives, or it could be 20 copies of our guide on co-op bylaws and extra copies of *Rural Cooperatives* magazine for the directors of a newly formed co-op.

Orders come from around the world, as was the case a few weeks ago when two teachers in East Africa requested co-op publications for classes they were leading.

USDA has been producing and distributing co-op education and research materials for about 97 years in an effort to make more people aware of the many ways cooperatives can help them and to help improve the operations of existing co-ops. In addition to hard copies, all of our publications are now posted on the Web, which has vastly expanded our outreach across the nation and all around the globe.

It's not surprising then that a recent survey by the Cooperative Foundation found that USDA is the nation's major source for co-op education materials (see page 26). But, it also found that many co-op educators feel that many of our publications are in need of updating, especially when it comes to graphic presentation. Survey respondents also saw a need for simulations and other interactive materials and for greater use of diversity in examples.

Great minds think alike! We have just completed major overhauls on our three most widely circulated co-op publications and plan to do the same with others. This is especially important for publications used in schools and for youth groups, where visual appearance is so important to capturing and holding their attention.

“Co-ops 101” recently got a complete makeover, with expanded editorial content and color illustrations on nearly every page spread. We've just produced a companion volume, called “Co-op Essentials,” which revamps some older publications, again with attractive photos throughout. Within the next month or so, we will also be offering a revamped version of “How To Start a Cooperative,” with expanded editorial content and improved graphic presentation.

A recent report about food hubs is another example of a publication produced with an eye to visual presentation; there will be more publications dealing with food hubs in the year ahead.

Like many of your co-ops, we are working with reduced staffing levels and travel budgets, so the willingness of co-ops all across the nation to share their photos for these booklets, and for use in USDA's “Rural Cooperatives” magazine, is making this effort possible.

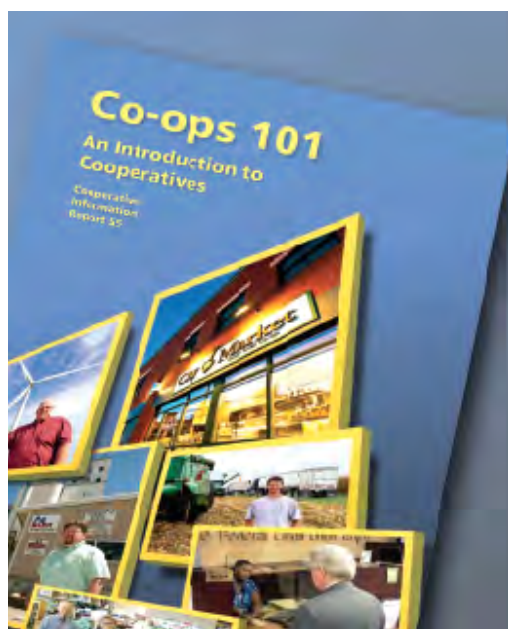
One interesting finding of the Co-op Foundation survey was that co-op educators see a major need for more “mid-level” education pieces — information that goes beyond co-op basics, but not written at a research

or academic level. The survey found that there is demand for more information on cooperative legal framework, financial and human resources issues.

Of course, co-op education takes many forms, not only for students and co-op novices, but also for the men and women who run established co-ops and who need to keep on top on industry trends, changes in the marketplace, new regulations, etc.

There is no better way to do that than by attending the annual Farmer Cooperatives Conference. This has become a “must see” event for agricultural co-op leaders since it was launched in 1998. You can read highlights of the most recent conference beginning on page 22 of this issue.

The conference was established in 1998 by the University of Wisconsin Center for Cooperatives. It annually provides a forum for cooperative directors, management and those doing business with agricultural cooperatives to learn and



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Features

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ON THE COVER: Cheese is aged at an Arla Foods facility. The Scandinavian-based dairy foods co-op shared insight into its equity structure, board governance and approach to sustainability during the most recent Farmer Cooperative Conference in Minneapolis. Conference coverage begins on page 22. Photo courtesy Arla Foods





FORGING A SELF-HELP NETWORK

Co-op principles help bring local meat to market

By Kathryn Quanbeck and Lauren Gwin

Editor's note: Quanbeck is program manager and Gwin is director with the Niche Meat Processor Assistance Network at Oregon State University in Corvallis, Ore.



Farmers, ranchers and others seeking to build markets for local meats often say that limited processing

infrastructure is a significant bottleneck that restricts the flow of local meat and poultry to market. This belief usually results in a call for more processing plants to be built.

At the same time, existing small meat processors say that they often lack the steady, consistent business required for profitability. All too often, new processing ventures struggle or fail due

to lack of enough livestock to process.

What is to be done to overcome these issues?

The Niche Meat Processor Assistance Network (NMPAN) has found that cooperation across the local meat supply chain is essential for its success. Farmers, ranchers, processors, distributors and supporting organizations that adhere to cooperative principles are the most likely to be successful.

NMPAN is a national network of people and organizations creating and supporting appropriate-scale meat processing infrastructure for niche-meat markets. Its mission is long-term stability and profitability for both processors and the producers who depend on them to market sustainably raised meats. NMPAN combines an information hub with a multi-faceted community of practice and peer-to-peer

learning (see sidebar for more about NMPAN).

What are niche meats? Locally raised, certified organic, grass-fed, no hormones or antibiotics, certified humane — we use “niche” very broadly to refer to many types of market differentiation.

While not always organized in formal cooperatives (although many are, such as Country Natural Beef, Organic Prairie and the Island Grown Farmers Cooperative, to name just a few), most of those involved in local meats say that operating on cooperative principles is very important in forging business relationships of commitment.

What do we mean when we refer to “relationships of commitment?” Our recent research report, *Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability* (published by USDA's

Economic Research Service), explains why a shift from relationships of convenience to relationships of commitment is essential for the long-term persistence of processors and the local meat sector.

For farmers, *relationships of convenience* can be thought of as: “I’ll call you when I have animals to process.” For meat processors, their perspective in such a relationship often is: “I’ll process for you if I have an opening.” In a *relationship of commitment*, on the other hand, each party promises to deliver for the other, and then consistently follows through on the promise.

With commitment the dialogue might look more like: Farmer: “I’ll bring five head every week.” Processor: “I’ll process them to your specs, on time, at high quality.”

Commitment requires communication about needs, roles and responsibilities — an “if you promise to do X, I will promise to do Y” approach. It also necessitates ways to measure whether promises are met. Our research strongly suggests that shifting toward commitment, away from convenience, is the key factor in maintaining and expanding processing for local meats.

We can see relationships of commitment in action in processing plants such as Lorentz Meats and with co-ops such as the Island Grown Farmers Co-op.

Lorentz Meats: anchor tenants allow processors to serve smaller producers

Lorentz Meats is a USDA-inspected processor in Cannon Falls, Minn., that offers slaughter, fabrication, packaging and value-added production (portion cutting, sausages and cured meats) on a fee-for-service basis for niche meat brands and independent farmers. It processes beef and bison, currently handling more than 8,000 head per year.

In 2000, believing that there was enough local business to justify doing

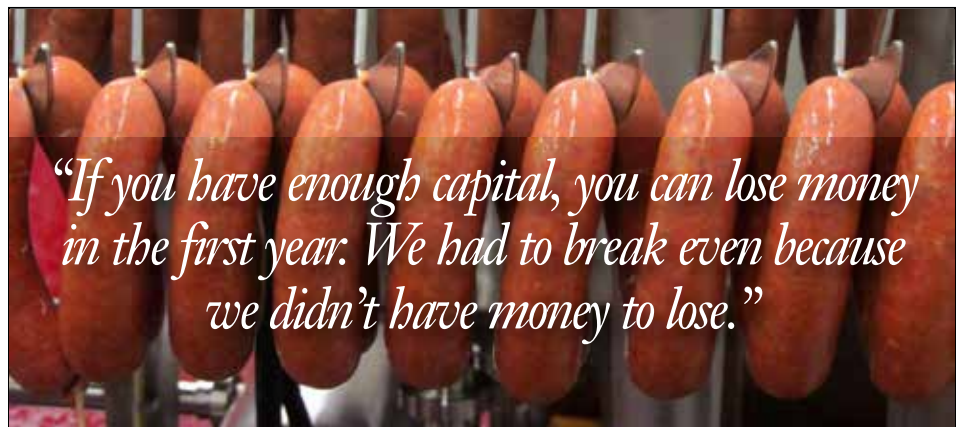
so, it built a new, USDA-inspected facility. Lorentz Meat’s first five years in the new plant are now referred to as “The Dark Days” by the plant owners. Starting with a \$2 million plant, \$500,000 in equipment and \$100,000 operating capital, the business lost more than \$1 million in three years. It was on the brink of bankruptcy in early 2005.

“We went into this with a ‘build it and they will come’ mentality, and that was a terrible idea,” explains Mike Lorentz. “You cannot base a facility of this size only on what small-scale, direct marketers bring you. You need key customers that will be there every week with real volume.”

contract,” because “market pressure is stronger than legal pressure.”

For its part, Lorentz Meats not only delivers high-quality products, but also goes through a number of third-party audits annually to meet the needs of key customers. Passing audits, maintaining certifications and meeting retailer specifications have required investments in specialized equipment — including a metal detector and packaging machines — as well as in new expertise.

The three key customers make up about 65 percent of Lorentz Meats’ business volume. About 200 local direct marketers make up about 20 percent of the business volume. The other 15



Processing sausage for a local market.

The Lorentzes found their first key customer in Organic Prairie, the meat brand of the Organic Valley/CROPP Cooperative. They began by processing a dozen cattle per week for Organic Prairie, gradually increasing to the current 35-40 per week. Yet, it took the addition of two other key customers — High Plains Bison and Thousand Hills Cattle Co. — and the gradual growth in business with all three of these key customers to create a positive cash flow for Lorentz Meats (achieved in late 2005).

Today, Lorentz Meats knows it will have livestock to process each week because its three largest meat company customers must deliver fresh product on a weekly basis to their retail and wholesale customers. This pressure, Mike Lorentz says, is “better than any

percent comes from a handful of smaller brands and co-pack sausage customers. Lorentz Meats is committed to working with small-scale local farmers, yet is very aware that it could not offer this level of service and sophistication without having “anchor customers” that sell comparatively large volumes, regionally and nationally.

A cooperative approach to scheduling — ensuring that throughput is consistent and steady — is also essential to success. Lorentz Meats and its three key customers are in constant communication about scheduling and have verbal agreements regarding how many head of livestock each customer will bring for processing each week. These customers do their best to give Lorentz as much lead time as possible if

there will be a change in plans, because they understand that if they give up their weekly slots, Lorentz can give them to someone else.

Thursdays are dedicated entirely to processing for local direct marketers. Lorentz Meats asks producers for a commitment, but allows them flexibility. Six months out, producers must choose the month they will bring their livestock. One month out, they must choose the specific week. Even with 200 local processing customers, “Local Thursdays” are not always full. Every February or March, at least one Local Thursday is skipped.

Island Grown Farmers Co-op: processing facilities need committed scheduling

While it is largely known for operating the first USDA-inspected mobile slaughter unit (MSU) in the nation, the Island Grown Farmers Cooperative (IGFC) has been successful for reasons beyond its MSU operation. The other factors include overall farmer commitment to the co-op’s success and its scheduling system, ensuring that: (a) the unit is fully utilized, and (b) farmers can get the slots they need. These aspects of their business are not at all limited to mobile units.

IGFC’s MSU serves five northwest Washington counties, as well as a small, fixed-location cut and wrap facility in Bow, Wash. IGFC is a service cooperative, providing processing on a fee-for-service basis for members.

The co-op handles beef, bison, lamb, goat and hogs. IGFC has 60 members, all located within a 50-mile radius of the plant (or a 1–2 hour drive), the largest area the MSU can serve efficiently. About half of the livestock are raised on the mainland, while the other half are raised on three of the San Juan Islands, off the northern coast of Washington.

Most members raise and sell fewer than 50 head of beef per year, while a few members market 100 to 200 head per year. Most sell through the standard

set of local retail and wholesale channels (farmers’ markets, restaurants, grocery stores and farm stands).

In 1996, livestock farmers in San Juan County, Wash., became interested in local meat marketing but lacked a cost-effective way to transport their animals to mainland processing facilities. They considered building a small slaughter and processing plant on

Once the MSU was built, the 30 original IGFC members each made an initial equity investment of \$600. Since then, the MSU has been financed solely by processing revenues, including a per-head “equity retain,” or surcharge, which can be used for capital improvements. Early on, members also made loans to IGFC to purchase equipment and for other needs when



The Island Grown Farmers’ Cooperative (IGFC) mobile slaughter unit makes a stop at a ranch in northwest Washington. IGFC is a service cooperative, providing processing on a fee-for-service basis for members. Photo courtesy IGFC

one of the islands, but at each site they considered, a neighborhood group immediately formed in opposition.

They learned about the MSU concept from Broken Arrow Ranch in Texas and partnered with the Lopez Community Land Trust (LCLT) to have an MSU built. The farmers formed the Island Grown Farmer’s Cooperative to lease the MSU from LCLT and operate it for IGFC members, who market independently.

The co-op received a USDA grant of inspection in 2002 and began operating the MSU, along with a leased cut-and-wrap facility.

Central to IGFC’s success is that its members have very few other options for inspected slaughter and processing. They all need the system to work and have been willing to provide financial support. The broader community also provided start-up financing and support.

banks — which judged the venture quite risky — only offered financing at very high interest rates.

This commitment extends to paying the true cost of services. The fee structure is set to break even or generate a small profit, which can be reinvested in the business. Annual revenues and operational costs are balanced at about \$500,000.

IGFC’s original prices, based on what other plants in the region were charging, were too low. After six months, the co-op was losing money and had to raise prices, as has been done several times since. For example, a 10-percent fee increase in 2008 covered rising fuel costs and health insurance and raises for employees.

As IGFC farmer Bruce Dunlop explains, “If you have enough capital, you can lose money in the first year. We had to break even because we didn’t have money to lose.”

Like most processors, IGFC needs steady throughput of livestock to make the best use of its facilities and skilled employees. As a local processor that handles a large number of grass-fed livestock, it also faces significant seasonal variation in demand for services.

IGFC has addressed these problems with a scheduling system that takes advantage of the fact that, as a cooperative, it must hold an annual meeting. At this meeting, the co-op sets the entire slaughter schedule for the coming year. Members who attend the meeting get to choose their dates first. Members who don't attend the meeting must choose from the remaining dates.

The system necessarily requires guesswork on the part of farmers. "Sometimes, particularly with hogs," Dunlop explains, "you're scheduling slaughter dates for animals that have not yet been born."

Beef farmers must estimate when their cattle will be fat enough for slaughter. If necessary, the schedule is adjusted about a month before a set date, working through the scheduler to swap dates with another member. Larger farmers are often able to accommodate shifts needed by smaller farmers. This is helpful, allowing producers some flexibility. "When [smaller farmers] don't have flexibility, [others] recognize that and... move [their] stuff to the front of the line," says Dunlop.

IGFC also uses financial incentives to spread the work over the year, offering a 10-percent discount for any slaughter in the slow period — February through April — and a flat-rate discount to process animals (typically herd culls) that will be processed into ground meat or that can be held past the busy fall period.

"We recognize that it costs something to do that, and it's a bit of a hassle. But the discounts work," Dunlop says. IGFC also penalizes farmers who aren't ready when the MSU shows up at their farms.

How NMPAN supports local infrastructure

Operating since 2007, the Niche Meat Processor Assistance Network (NMPAN) is a national network of processors, producers, universities, agencies and non-government organization (NGOs) working together to build the processing infrastructure essential to local and regional niche meat markets. NMPAN's advisory board is drawn from industry, academia, NGOs and government.

NMPAN, which is housed at Oregon State University within the Center for Small Farms and Community Food Systems, helps support:

- Peer learning and information sharing – for processors, producers and technical assistance providers – through a dynamic listserv, advisory board, and newsletter;
- Online resources and tools for processors, including business planning and management, dealing with federal and state regulations, food safety issues, and other essential operations (www.nichemeatprocessing.org and NMPAN webinars);
- Applied research to identify systemic challenges and solutions for this sector, most recently: *Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability* (published by USDA's Economic Research Service);
- Targeted technical assistance for small plants and their producer-clients engaged in local and regional markets for sustainable meat and poultry.

To receive the NMPAN monthly newsletter and other e-mails, subscribe via its listserv. Go to its website — www.nichemeatprocessing.org — and enter your e-mail address where it says "NMPAN on Google Groups" (on the right hand side of the web page). Then click "subscribe."

"If we have to turn around and leave, they get billed," he explains. "We don't like assessing penalties, but as soon as a producer knows that he's going to get charged for not having his animals ready, the problem tends to go away."

At this time, IGFC intends to stay at its current size, both in terms of the number of members and the number of livestock/pounds of meat processed annually. A processing capacity has been reached that fits the scale of the MSU, the cut-and-wrap operation, the staff and the members' needs.

Cooperation and commitment

The relationships in place at both Lorentz Meats and IGFC represent relationships of commitment: strong,

reliable and consistent business commitments between small processors and livestock producers. Steady throughput is what supports local processing plants and helps them to expand their services and their businesses.

The two case studies shared here are an excerpt from a longer report, *Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability*. The report includes 12 case studies, including 7 successful processors and 5 public-private collaborations that support local meats processing. The case studies and full report are all available on the NMPAN website: www.nichemeatprocessing.org/research. ■



Sunrise Cooperative builds digital resource center for members

Editor's note: This article was provided courtesy Sunrise Cooperative, a full-service, farmer-owned cooperative in northwest Ohio. Sunrise serves about 3,100 member-owners. The co-op operates multiple agronomy, grain, energy and feed locations in Ohio.



Farmer cooperative leaders know keeping pace with their members is vital to staying successful in a

competitive environment. Making investments in operations, facilities and people is crucial in the quest to remain competitive.

But what about the less tangible services of a cooperative? Does investing in information and data services yield the same results as investments in infrastructure? Sunrise Cooperative of Fremont, Ohio, invested in developing its information services two years ago, and today the co-op is seeing the return.

Filling a service gap

In 2012, Sunrise took a close look at the competitive landscape in its region, looking for a service gap the co-op could fill. Farmers' need for improved data management services soon became apparent. There was no lack of available information. Rather, the need was for a system of organizing and providing relevant information to farmers in an easy-to-use way.

Sunrise developed a new approach to gathering and disseminating

information to its key customers, which it calls the Sunrise Knowledge Network (SKN). SKN is an innovative digital platform that provides timely agronomic and marketing information through ipads, smartphones or desktop computers. The suite of information contains everything from real-time weather and market news, to weed and pest identification, farm management tips and advice, and a host of other topics relevant to producers in northwest Ohio.

“Traditionally, when we invested to keep up with our members, we invested in facilities or equipment, looking to deliver speed and efficiency to our growers,” says George Secor, CEO of

Sunrise Cooperative. “While these investments are necessary, we discovered there was a need for investment in education and resources as well.”

The Sunrise staff, along with its marketing agency — Farmer, Lumpe + McClelland (FLM+) — produced more than 140 educational videos which it has posted on the SKN website, all of which are relevant to farmers in its region. Members see and hear a local approach on specific topics, making the information relevant to their farms. This approach is especially helpful when developing weed- and disease-management strategies.

“When we identify a new or

emerging plant disease in our area, or we find that growers are struggling with particular pests, we can post information directly to the SKN to help our growers address the problem in real time,” says Bill Bever, Sunrise sales agronomy manager.

“Pinning” feature relays local data

A unique feature allows growers to use the SKN website to gather growing and harvesting information about specific fields. Using test plots and individual member data, Sunrise drops “pins” on a digital map that is populated with current field data. Members simply click on a pin in their region to see local activity.

“One of the greatest advantages of the SKN is getting our information in the hands of the people who need it — our members,” Bever adds. We have the information, like yield data, pest and weed identification. The challenge is getting it to our members in a timely way. The SKN creates a quick and efficient way to disseminate the information.”

SKN is used as an incentive program, offered to those members who do a substantial portion of their business with Sunrise. These key members are given an ipad and exclusive access to the SKN.

“Offering the SKN to only key customers is a bit of a different approach for us, but we felt the investment in the technology was too great to not give it a sense of value among the users,” Secor says. “Loyalty incentives are nothing new in our business; this is just a different approach — using information.”

It’s an approach that is paying off. In the first year offering SKN, the co-op had 40 members enrolled. By 2013, the number had doubled to 80.

“We believe customer loyalty is important and something to be



To help meet farmers’ need for improved data management services, Ohio’s Sunrise Cooperative developed the Sunrise Knowledge Network. Facing page: Grower Doug Keegan (left) scouts his corn field with co-op agronomy consultant Joe Steinberger. Above, grower Roger Perkins (left) and agronomy consultant Brian Rhodes discuss strategies for improving his crop. Photos courtesy Sunrise Cooperative

Sunrise Cooperative has produced more than 140 educational videos that are posted on its website to benefit members such as Rich Smith (left), seen here consulting with the Craig Houin, the co-op's lead data manager.



rewarded,” Secor says. “The SKN gives us a chance to say ‘thank-you’ to our most loyal customers, with an innovative tool they can use to stay current in their business.”

Sales and training

In addition to the member service side of the digital platform, a platform has also been built for co-op employees. The videos serve as training guides for the agronomy team, as well as offering ongoing information and dialogue for the sales and marketing team.

“Our employees need to be kept informed, just like our members,” Secor says. “Giving the employees access to the SKN and building an employee side allows them to stay in step with our members. The employees can also use the SKN on member farms that may, or

may not, currently be in the program.”

Sunrise employees also work with members to help them use the ipads, showing them how to navigate through the SKN and explaining the unique features of the program.

“We quickly learned that our first role in customer service was teaching growers to use the ipads,” Bever says. “We met with members at their farm offices or homes to show them how to use the ipads and how to get the most from the SKN.”

Co-op sales consultants use SKN as a resource when they are out in a customer’s farm fields. Sales staff can access relevant information about the customers’ fields and readily access variables needed to troubleshoot problems or offer solutions to maximize productivity. The SKN also hosts a

library of safety videos offering valuable information for farm employees.

“Having real-time information gives our agronomy team valuable information to make accurate recommendations to our members,” Bever says. “In addition to the information, if necessary, the agronomy team member can use a supporting video or neighboring plot information to build on the recommendation — all available in one spot through the SKN.”

Going forward, the Sunrise team plans to continue enhancing the SKN to meet changing customer needs. “We feel we have just begun to tap the potential of the SKN,” Secor says. “We continually look for ways to enhance the program and use it to help our members be successful and productive.”

Co-ops & Community

N. Dakota electric co-ops, USDA help meet need for daycare center



By Mary Stumpf, Rural Development Assistant

Rural Electric and Telecommunications Development Center

Photos by Neal Shipman

Editor's note: The "Co-ops & Community" page spotlights co-op efforts that fulfill the mission of commitment to community. If you know of a co-op, a co-op member or co-op employee whose efforts deserve to be recognized on this page, please contact: dan.campbell@wdc.usda.gov.



Question: What do you get when you combine a small town with an oil boom and an immediate need for childcare services? Answer: A mutually owned day care center in the community of Watford City, N.D.

Wolf Run Village Inc., a nonprofit corporation, is located in Watford City, N.D., where it is in the heart of oil country. Wolf Run Village was formed in July 2012 by a group of local city, county and school officials as a means for providing affordable housing and additional day care capacity.

The city's sudden increase in population due to oil activity has created a substantial shortage in childcare services. There were no private entrepreneurs stepping up to the plate. So, to fill this need, Wolf Run

Village established Wolf Pup Daycare center, a facility with enough capacity to care for nearly 200 children, ages 6 weeks to 12 years old.

As a nonprofit corporation, the goal for the daycare center (other than providing children with a safe learning environment) is to keep the care fees as low as possible while paying a living wage to workers. Due to the high cost of living in this area, the nonprofit will be actively fundraising in order to provide need-based scholarships in the future to children of lower income families.

The new construction of this state-of-the-art daycare facility would not have been possible without a USDA Rural Economic Development Loan secured by Reservation Telephone Cooperative of Parshall, N.D. daycare facilities in North Dakota have a difficult time "cash flowing" due to the high cost of labor. The zero-interest loan helped achieve a positive projected cash flow position.

We were saved by the bell on this one. The news was incredible," says Katie Walters, the daycare center's project manager. The facility includes a commercial kitchen and a multi-purpose indoor/outdoor play room. The entire upper floor will be dedicated to preschool classrooms to accommodate about 80 children.

"It's almost a job development issue,"

says Walters. "If you don't have daycare, you can't hire the people you want to hire."

Even though families of about 1,000 children are seeking child care, this new facility will have a substantial impact in the community.

The Rural Electric and Telecommunications Development Center's vision is to help foster an indispensable network of member cooperatives that enrich the lives of their consumers and the communities in which they live. The center is a North Dakota cooperative development center hosted by the rural electric and telecommunications cooperatives in the state. The center (commonly referred to as "statewide") was formed in 1958 and works with the state's network of electric cooperatives to provide a complete package of quality services in communications, government relations, safety training, professional development and economic development.

Membership in the association is voluntary. It is offered to any electric cooperative organized for the purpose of operating electrical generating plants or transmission and distribution systems in the state of North Dakota. The work focuses primarily on providing technical assistance to emerging and expanding rural cooperatives and mutually owned businesses. ■

In the Spotlight

Economist Charles Ling reflects on 40 years of changes in dairy co-op sector

Dr. K. Charles Ling, USDA Cooperative Programs' lead dairy economist, retired Jan. 2 after more than 40 years of government service, most of it spent working with dairy cooperatives. He began his career in 1974 as an agricultural economist with the then Federal Milk Market Order No. 2 (New York-New Jersey Milk Marketing Area). Ling joined USDA Cooperative Programs in 1978.

He received a Superior Service Award from Agriculture Secretary John R. Block in 1985 and was named by his peers as the "2009 USDA Economist of the Year" in January 2010. Prior to his retirement, *Rural Cooperatives* asked Ling to share some of his reminiscences and thoughts about four decades of working with dairy co-ops.

Question: *What are some of the most satisfying aspects of your career working with dairy cooperatives?*

Answer: It has been a pleasure working with dairy farmers, the staffs of their cooperative organizations, and colleagues, both inside and outside of USDA. I am also grateful for the longstanding support of Cooperative Programs Administrator Randall E. Torgerson (now retired).

There has never been a dull moment working with dairy cooperatives in a very dynamic industry. It gives me a sense of accomplishment when they



Charles Ling

take my work seriously and find the information I provide useful.

My work has taken me to numerous small towns and large cities across the country to visit cooperatives, farms and dairy plants. It has been a privilege and a wonderful opportunity that has helped me to appreciate the vastness of this land and the diversity of the people.

Being recognized for my work is also satisfying — such as being called upon to testify at a number of Federal Milk Market Order hearings over the years. Last year, I was surprised when the Organization for Economic Cooperation and Development (OECD) invited me to make a presentation on "Farmer Cooperatives

and Value Creation: The Example of Dairy Farmers in the United States."

The presentation was the culmination of my lifetime experience working with dairy cooperatives. (*Editor's note: a summary of the presentation, "Essential Economic Roles of Farmer Cooperatives" can be found in Cooperative Information Report 65, pages 4-8; a Web address is provided later in this article.*)

Q. *What are some of the significant changes in the dairy industry and dairy cooperatives that you have seen during your career?*

A. It is probably not an overstatement to say that the dairy

industry has changed beyond recognition over 40 years. The main driving force has been technology advancements in producing, handling, processing and manufacturing milk and milk products.

Briefly, these are the major industry changes I have observed:

- The complete transition from milk cans to bulk-milk deliveries, enabling long-distance hauling, wide-area coordination of milk movement, and fewer, but larger scale, milk-processing plants.

- A westward shift and expansion of U.S. milk production. Dairy farms in the West tend to have very large herds, and it is now the nation's major milk-production region.

- Revitalization of the dairy industry in the more traditional (Midwest and Northeast) dairy regions as a result of new investment in dairy infrastructure (including farms, plants, innovation, technology, and public policy supports, etc.) and new product development.

- Fewer, larger dairy farms that produce ever-larger amounts of milk.

- Farm-income support has evolved from government support prices being the "market-clearing" prices, to a situation where farmers largely relied on the market for support, and now to a system where margin insurance and protection programs have replaced the price-support and related programs.

- Market orientation provides incentives to the processors to diversify milk product mix and gives the industry its vibrancy.

- Shifts in consumer taste and preference that spur the incipient development and growth of the organic milk market and artisan dairy products.

- Growing commercial export sales that now account for about 15 percent of milk solids produced by farmers. This is a far cry from when export volumes were insignificant, mainly viewed as an outlet for disposal of surplus milk.

- Dairy cooperatives now handle more than 80 percent of the nation's

milk and have helped to lead industry changes. Cooperatives have undergone numerous mergers and consolidations to rationalize their organizational structures and to create highly efficient operations, as necessitated by changing market conditions.

- The nation's largest dairy cooperative has around 10,000 dairy-farmer members operating in all 48 contiguous states. It is the world's leading dairy firm, in terms of milk volume handled.

Q. In the past several years, you have produced a series of reports and articles focusing on the nature of the cooperative. What is the essence of this work? (Editor's note: Cooperative Information Report 65 and Research Reports 221 and 224 are posted at: http://www.rurdev.usda.gov/BCP_Coop_LibraryOfPubs.htm.)



USDA economist Charles Ling tours a cooperative milk bottling plant.

A. In the past few years, I set out to explore the possibility of clarifying some widely proclaimed cooperative principles and theories that had confounded me for quite some time.

This work benefited from the real-life perspective that I gained while working with dairy cooperatives.

I systematically reviewed economic literature and traced the evolution of cooperative theory backward, until I hit upon the first academic paper on cooperatives: "The Economic Philosophy of Co-operation," published in the *American Economic Review*, by Edwin G. Nourse in 1922. Emerging from this paper and his later work are these two key roles cooperatives play in the marketplace: (1) Cooperatives allow farmers to create business organizations of sufficient size to exercise countervailing power; and (2) Cooperatives are a means for farmers to promote and maintain competition — to serve as the competitive yardstick of efficient operations.

In his 1942 book, Ivan V. Emelianoff has this very clear definition of the economic structure of cooperative organizations: "Cooperative organizations represent the aggregates of economic units." What naturally flows from this definition are what are often called "cooperative principles," such as: members own, members control, members use and members benefit from the cooperative. It also follows that proportionality and service at cost are two basic working principles of cooperatives. Understanding this, other cooperative practices also become clear, a prime example being single taxation on cooperative patronage earnings (or net savings).

As an aggregate of economic units, the cooperative is a unique business organization, with its own form of corporate governance, equity financing and member-oriented operations. Variations of the cooperative business model constitute a continuum onto which each cooperative, and each type of cooperative, falls. Starting with its position in this continuum, a cooperative can be further analyzed.

Being an aggregate, the cooperative is neither vertically nor horizontally

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FARMER CO-OP CONFERENCE

Demand for sustainably produced foods among key issues confronting co-op leaders

By Lynn Pitman, Outreach Specialist
University of Wisconsin Center for Cooperatives

Editor's note: Speaker presentations from the 2014 Farmer Co-op Conference, as well as information about the 2015 conference, are available at: www.uwcc.wisc.edu.



Food and agricultural issues are connecting producers and consumers all across the supply chain in new, and sometimes challenging, ways. The 17th annual Farmer Cooperatives Conference, held in Minneapolis in November, gave cooperative leaders the chance to identify opportunities at the intersection of sometimes radically different perspectives on how food and fiber should be produced.

Increasing demand among many consumers for food that can be branded

“sustainable,” for example, was a primary topic addressed from a number of perspectives during the conference.

The two-day event attracted co-op leaders from across the nation. Presentations on other topics of vital interest to cooperatives — including transportation, equity- management practices and cooperative governance — rounded out the program.

Following are some highlights from presentations made during the event.

The “radical center”

How do you get diverse food and agriculture groups, with seemingly competing interests, to work together? The conference kicked off with a presentation by Deborah Atwood, the executive director of the AGree project at the Meridian Institute in Washington, D.C., which is working to answer that question.

AGree brings leaders of stakeholder groups together by first defining the economic, environmental, health and social goals of both farmers and consumers. To find the “radical center,” from which a consensus on these issues can emerge, it’s important to identify people who are willing to hear all sides of an issue and identify opportunities and challenges, Atwood said.

AGree is initially focusing on initiatives relating to immigration reform, production practices and the environment, food and nutrition, and international development.

Chuck Connor, president and CEO of the National Council of Farmer Cooperatives in Washington, D.C., took a look at how sustainability issues are affecting farmer cooperatives. For many farmers, “sustainability” translates as “governmental regulations,” he noted. Farmers often perceive environmental-related regulations as being impractical and handed down by people who don’t understand the economics of food production.

The three pillars of sustainability — environmental stewardship, long-term economic viability and good neighbor/community responsibility — are all areas in which farmers and their co-ops are already active, Conner said. Farmers are quick to adapt new technology that can support both production efficiency and sustainable natural resources management.

Conner noted that markets, not government agencies, are driving the demand for different food systems. Farmer co-ops must find a way to respond to this market demand on their own terms, and they have much to contribute to the conversation on sustainability.

Bill Buckner, president and CEO of the Samuel Roberts Noble Foundation in Ardmore, Okl., reminded the conference attendees of the strategic role that soil health plays in sustainability practices. The “Green Revolution” brought increased productivity through plant breeding and soil inputs, but, in the long run, this occurred at the expense of soil health, he said. The Soil Renaissance program, a joint project with the Farm Foundation, focuses on soil health as the cornerstone of land-use management decisions.

Questions about sustainable production practices are here to stay, and it is up to the producers to help define these standards, Buckner noted. As soil research continues and soil-testing standards change, cooperatives have an opportunity to provide trusted agronomy and related services to support farming practices that support healthy soils.

“You can’t sell what customers won’t buy”

Greg Wickham, senior vice president for business development at Dairy Farmers of America (DFA), described how an industry-wide Sustainability



Participating on a panel talk that addressed “Exploring Non-Qualified and Unallocated Equity” were (from left): Doug Ohlson of Frenchman Valley Cooperative, Art Duerksen of Farmway Co-op Inc. and Phil Kenkel of Oklahoma State University. Photo courtesy University of Wisconsin Center for Cooperatives

Council has responded to sustainability demands by developing a guiding vision for the dairy food system. These principles are based on supporting the health and well-being of consumers, farmers, communities and the environment in an economically viable way.

To put these principles into practice, an industry-wide set of science-based tools is available to “measure what matters.” These tools can help farmers make decisions about management practices and can be used to measure the resulting improvements in sustainable practices across the supply chain. Communicating the results to consumers and retailers can demonstrate the progress the dairy

industry is making in a transparent and credible way.

Wickham reiterated that these types of environmental issues are here to stay, and that the public is increasingly concerned about sustainability.

Sourcing “sustainably”

When a food company like General Mills commits to sourcing 100 percent of 10 priority ingredients grown with sustainable production practices by 2020, what does that mean? Is this goal achievable, and how does it affect producers?

Rod Snyder, president of Field to Market: Alliance for Sustainable Agriculture (FTM) in Washington, D.C., described how the alliance

brought together a wide-ranging group of collaborative stakeholders, including producers, agribusinesses, food and retail companies, conservation groups and universities. Increasing productivity to meet future food and fiber needs must not be at the expense of the environmental, health, and economic and social needs of agricultural communities — and vice versa, he noted.

FTM has been analyzing trends and collecting field-scale production data to develop the Fieldprint Calculator, an online educational tool for crop farmers. The calculator helps to evaluate farming decisions in areas such as water, energy and land use by making comparisons to past yield data or regional and national averages.

FTM now is widening its benchmarking and data collection efforts. The tools support a continuous-improvement approach for on-farm sustainable practices, rather than setting and following a static standard that may not be appropriate for local growing conditions. FTM is also helping its members along the supply chain substantiate their claims relating to sustainability.

Snyder suggested that sustainability may soon become a market-access issue for producers, as food companies look for partners to meet sustainability goals. Other agribusinesses are beginning to work with consumer product companies, posing a competitive risk to farmer cooperatives that do not meet their sustainability criteria.

Farmer co-ops are well positioned to develop long-term relationships with companies along the supply chain to meet the demand for sustainably produced product, depending on what practices producers adopt. Farmers can start with those sustainable production practices that save money, and then evaluate what practices make sense at the next stage.

Technology based on “big data” holds the potential for farming more sustainably, efficiently and profitably through the maximization of output per unit of input. David Muth, senior vice president of analytics at AgSolver Inc., pointed out that improvements in data, and in control systems and equipment, do not by themselves produce better decision-making. He described AgSolver’s services and products that use multi-sourced data to assess the return on investment of inputs on farmland through appropriate nutrient management.

Mike Vande Logt, executive vice president and chief operating officer of WinField, a Land O’Lakes business, emphasized the role “big data” tools play in the growing demand for food in the face of limited resources. While genetics will continue to improve yield potential, Vande Logt suggested that the potential in a bag of seed is ahead of the ability to manage it. Plant breeding has also increased the drought tolerance of many crops, supporting production practices that are based on rainfall.

Winfield offers tools that combine multi-sourced data and modeling to support grower decision-making, from planning through harvest. Winfield works with local co-ops to build grower-owned data silos and to offer a member-owned solution that is locally branded.

“If you aren’t at the table, you are on the menu”

The National Initiative for Sustainable Agriculture (NISA) is a farmer-led, university-based program formed in response to consumer and retailer demand for sustainably produced food. Paul Mitchell, professor at the University of Wisconsin-Madison, said farmers bear the social, economic and resource costs of unsustainable practices. Thus, they should be at the table when defining sustainability.

NISA provides farmers with science-based, self-assessment tools to develop sustainable practices at the farm level. Using whole-farm data, growers can create a grower scorecard that

benchmarks results against those of other participants. These tools have been developed for a number of crops, including soybeans and potatoes, and may soon be expanded for corn. Grower groups can use the aggregated results to communicate with retailers and consumers about their on-farm sustainability practices.

Terry Fleck, of the Center for Food Integrity in Gladstone, Mo., took a closer look at consumer trust — how people form opinions about where their food comes from and what drives their buying decisions. His group is interested in identifying opportunities for delivering information to consumers that will make them feel more comfortable making choices in a diverse food system.

Consumer perceptions are powerful drivers in today’s global markets, said consultant Andrea Bonime-Blanc. Risks to land, assets and sovereign political stability are often the basis for a risk-management strategy. However, a more global view — one that includes reputation and integrity — is now

How do they do it in Denmark?

A look at cooperative governance in other countries can provide a fresh perspective on perennial co-op issues here in the United States. As part of the Farmer Cooperative Conference program, Michael Boland, professor at the University of Minnesota, talked with Ake Hantoft, chair of Arla Foods in Denmark, about Arla’s approach to issues such as patron equity structures and board governance.

Arla was created by a merger in 2000 between the largest

businesses, or has joint partnerships, in Canada, the United States, Finland, China and Russia.

These mergers were part of a strategy to secure the highest value for its members’ milk while creating opportunities for members’ growth. Hantoft stressed that successful mergers must be based on fairness to all parties. So, all members receive the same milk price in the currency of their own nation. However, managing exchange rate fluctuations to achieve this has been a

Seven countries are now represented on Arla’s board.

Danish dairy cooperative and its Swedish counterpart. Over the past 50 years, the many small, cooperatively owned dairy production facilities in both Denmark and Sweden have consolidated. Arla has continued its cross-border merger activity and now has more than 13,500 co-op owners in Denmark, Sweden, Germany and the United Kingdom. It has acquired

big challenge. Arla currently uses an approach based on averages for the last eight quarters.

A 75 percent majority of Arla’s members must vote to approve international mergers. Growth is financed by the producers. Equity targets to reach goals are met through membership fees and retained patronage. After these targets have been reached,

necessary, she said.

Higher risks to a company's reputation result from the far-reaching nature of today's supply chains, the size and reach of global companies, and social media's ability to amplify and speed communications. A strong code

of conduct, beginning at the top, is thus imperative.

Infrastructure challenges

Conference speakers tackled another current issue affecting agricultural cooperatives: the ability to transport products and inputs on schedule, including how cooperatives are responding to this issue.

Patrick Hessini, CHS Inc. vice president of transportation and distribution, described how infrastructure is not keeping up with the shifts in supply-chain logistics. Several major factors are causing these changes: manufacturing's return to North America, under-

investment in infrastructure, labor shortages and a supply chain that is increasingly truck dependent. To manage the supply chain risk, CHS is developing a systems-wide approach, with an emphasis on planning and forecasting, as well as ongoing investment in both infrastructure and staff.

Todd Ludwig, CEO of WFS Cooperative, based in Truman, Minn., described how his local co-op has responded to the broader macro-transportation situation. WFS has locations served by both trucks and rail. This network supports the cooperative's automated fuel delivery (AFD) program and the movement of commodities. Peak demand for services has increased recently as the window for planning and harvesting has grown smaller while volume has grown.

WFS is adding to its truck fleet each year, instead of buying a company or committing to a one-time large increase in fleet size. It is also developing non-harvest/non-planting hauling business opportunities. Ludwig noted that in the



Workers keep an eye on the processing line at an Arla Foods dairy plant. The co-op has grown from its base in Denmark and Sweden to include facilities throughout Europe, North America and China. Photo courtesy Arla Foods

patronage is no longer retained. Retained patronage is returned within three years of retirement, with the co-op treating the commitment like a pension obligation.

All members of the cooperative receive one vote that is exercised at the local district council level. Councils elect a 165-member board of representatives (BOR) which makes income distribution decisions and appoints the 10-person board of directors. This board monitors the cooperative's activities and management. Seats on these boards are determined by capital shares.

With seven countries now represented on the board, Hantoft described the importance the cooperative places on facilitating good communication. English is now the language used at board meetings, but board members can also speak their own language. Translation services during meetings and of

documents continues to be an important component of board interactions.

Both employee and gender representation on the board are required in Denmark and Sweden. Employee representatives who are loyal to farmer-owned Arla, as well as to their unions, provide a bridge between the two organizations. To boost the number of women directors, Arla offers board-training programs to encourage women candidates to run for election.

Arlagarden, Arla's sustainability program, was initially resisted by producers, but sustainable farming methods have now been widely adopted on member farms. Hantoft mentioned that there is always room for improvement in this area, and that using an approach of continuous improvement can be an effective alternative to policy-driven requirements. ■

past, barge transportation has provided a “relief valve” for co-ops facing rail congestion. But the barge network is now at capacity, and costs are rising.

Dan Mack, vice president of transportation and terminal operations at CHS, provided insight into the current rail transportation bottlenecks. He described the increase in demand for rail service, which is driving new capital investment to address the capacity deficit in tracks, trains and crews. Expansion is disruptive while it occurs, and it will take some time for the overall situation to improve.

Service is improving as projects in the northern tier and farther west near completion, Mack said. But new investment in projects between Fargo and Chicago will affect Minnesota, Iowa and Wisconsin, in particular, and service volatility will remain a problem for some time. Federal and state activity in the legislative, industry and regulatory arenas, as well as with the Canadian government, can help to address a coordinated response to the situation.

“Not so much what you earn, but what you keep”

The conference also focused on current co-op governance and equity issues. Phil Kenkel, professor at Oklahoma State University, discussed how cooperatives might approach the choice between qualified and nonqualified allocated equity.

Unallocated equity as a percent of total cooperative equity has increased over the past five years. Historically, profit has been apportioned between unallocated equity and qualified allocations. Since the patron pays the tax on the entire qualified allocation, including the retained portion, there is pressure to redeem that retained equity.

If the allocation is nonqualified, the patron pays taxes only on the portion that is distributed. The co-op pays the

tax on that portion that is retained.

Using nonqualified allocated equity to meet longer term equity needs might be a useful alternative. This removes some of the pressure on the co-op to redeem that equity in the shorter terms, and can be used to reestablish a balance between unallocated reserves and retained equity allocated to patrons.

Kenkel described a research project that analyzed allocation type and the best interest of the member over time, using an internal rate of return based on historical and case study data. The difference between patron and co-op tax rates drives the results, even with the current Section 199 tax deduction. Whether these strategies can help to remove incentives to demutualize a cooperative with large ratios of unallocated equity is an open question.

Art Duerkson, CEO of Farmway Co-op in Beloit, Kan., described how the co-op’s equity management program was changed to include nonqualified allocations. The shift to nonqualified was driven by a board of directors’ decision in 2011. An analysis showed that the unallocated ratio was significantly increasing, and the bylaws did not adequately address equity distribution in the case of dissolution of the business.

To correct this imbalance, more earnings were designated as nonqualified allocations and retained without increasing patron tax liability. Member education efforts that included cash flow examples were effective, and the new program has been well received. The changes have also provided greater flexibility in balance sheet management.

Another equity strategy that included nonqualified allocations was described by Doug Ohlson, general manager of Frenchman Valley Cooperative, Imperial, Neb. The co-op’s recent efforts to build assets and infrastructure resulted in an equity structure that was

more than 50 percent unallocated. This raised questions about co-op ownership and what kind of buyout offers might lead to demutualization.

The tax liability with qualified allocations is a hard sell to younger producers, and often appears to be a disincentive to them. So, Frenchman Valley shifted to using nonqualified allocations for retained earnings and designating 10-20 percent of retained earnings as unallocated, to serve as a buffer against losses. Again, communication with members was essential to making this transition.

Agricultural outlook

Mary Bohman, administrator at USDA’s Economic Research Service (ERS), described how ERS interacts with its many stakeholders so that it produces the research and analysis that is relevant to them. She provided an overview of current trends in agriculture and noted that globally driven price volatility is expected to continue — along with the likely longer term need for risk management services.

The majority of U.S. agricultural production comes from a small percent of larger family farms, she said, and ERS expects to see continued farm consolidation and an increase in farm size. The food and farming sector will continue to change in response to consumer demands for convenience and healthy foods, the expansion of market opportunities in developing countries, and new technologies.

Next year’s Farmer Cooperatives Conference will again be held in Minneapolis, Nov. 5-6. The annual program is presented by the University of Wisconsin Center for Cooperatives. Inquiries about the program should be addressed to Anne Reynolds at: atreynol@wisc.edu. ■

Proposed changes in USDA's B&I program could aid in development of new co-ops

By Bruce J. Reynolds, Economist

Cooperative Programs

USDA Rural Development

On Oct. 15, 2014, USDA's Rural Business-Cooperative Service published a comprehensive proposal for revising and updating the Business & Industry Loan Program (B&I). The last such revision was done in 1996, so the current proposal is long overdue. Lending practices and the rural economy experience continuous change, and the rural business sector faces many challenges that are more salient today than in 1996.

Shortly after the proposed B&I revisions were published in the Federal Register, the National Cooperative Business Association (NCBA) suggested a webinar be held to discuss sections of the proposals that specifically apply to cooperatives. On Oct. 23, a webinar was held at USDA with presentations from the RBCS staff and Alan Knapp from NCBA. The webinar drew 30 participants.

The largest part of the proposed B&I revision involves improvements to servicing and securing this loan guarantee program, but a new section to the rules contains three applications for cooperatives. First, cooperatives can use the farmer stock purchase program to finance new projects with stock offerings members can purchase with loans backed by a B&I guarantee.

When the farmer stock program was first initiated in 1987, it was restricted to new, start-up cooperatives. Yet, in looking back at the history of farmer cooperatives, most were started with relatively modest operations and gradually developed large-scale capital projects. The initial farmer stock program was ambitious but difficult to collateralize among numerous farmers who had no experience working together in the same cooperative.

Many cooperatives have the challenge of financing new projects that may only serve a subset of their membership. In those cases, they will issue stock to those members who want to benefit from a new project. Some of those members, particularly younger farmers, may want to borrow from a bank with loan guarantees to help finance such stock purchases.

Second, a provision for cooperative equity security guarantees, which was authorized in the 2008 Farm Bill, is given proposed regulatory guidance. Such securities carry no governance or control rights. They might be purchased by

both members or by non-members in a community who are interested in financially supporting a cooperative and earning a modest return.

This type of stock is frequently referred to as "preferred." The 2008 Farm Bill provided that a cooperative can issue such stock that would be eligible for purchase with a loan backed by a B&I guarantee. It also provided for a fund that primarily invests in cooperatives, to be an eligible loan guarantee borrower for purchases of preferred stock.

A third special provision for cooperatives would support succession of ownership to the employees of a business when the owners are looking ahead to retirement. A business could be re-organized as a worker cooperative or it could establish an Employee Stock Ownership Plan (ESOP) that would have the requirement of fully transferring 100 percent of its ownership within a set period of years, yet to be determined in the final rule.

The potential for financing worker ownership in stages is the most significant change being proposed for the new B&I regulations, as indicated by the public response to publication

Of the many changes that have occurred in the U.S. economy since the B&I program was last revised, none are more salient in rural America than the plans of baby-boomer business owners to retire and the desire of employees to operate their workplaces as democracies.

of the program proposals. Out of 236 public responses on the Federal Register web page, Regulations.gov, 183 were directed to cooperative applications, and all enthusiastically supported this provision.

Of the many changes that have occurred in the U.S. economy since the B&I program was last revised, none are more salient in rural America than the plans of baby-boomer business owners to retire and the desire of employees to operate their workplaces as democracies. The opportunity to finance a gradual succession of ownership to employees will not only save businesses, and hence jobs, but will also create a new working environment where more individuals can share in ownership and business decision-making. ■

Legal Corner

Protecting cooperatives from antitrust liability

By John C. Monica, Jr.

Editor's note: Monica is a partner at Porter Wright Morris & Arthur LLP in Washington, D.C., where he is part of the firm's agricultural antitrust practice group. The firm has represented farmers and cooperatives in agricultural antitrust matters nationwide, including in the potato and eggs cases referenced in this article.



The Capper-Volstead Act is a powerful 1922 law that allows farmers and their cooperatives to act together for “collectively processing, preparing for market, handling, and marketing in interstate and foreign

commerce.” “Marketing” includes price-setting and other conduct that would otherwise violate antitrust laws, if not for Capper-Volstead.

Large lawsuits have been filed that challenge the Capper-Volstead Act (Act) status of cooperatives of mushroom, potato, egg and milk producers. These lawsuits claim that certain cooperatives do not qualify under the Act and/or that their activities are not protected. Understanding the basics of these lawsuits can help avoid potential liability.

'Producer' membership requirement

To take advantage of the Capper-Volstead Act, a cooperative's members must be “persons engaged in the production of agricultural products.” Cooperatives with non-producer members are ineligible for Capper-Volstead protection. This “producer” membership requirement has been targeted in lawsuits when a cooperative strives to make sure that all of its members are actual producers but fails to achieve perfection.

One U.S. Supreme Court case indicates that “it is not enough that a typical member qualify, or even that most of [the] members qualify.” Plaintiffs argue that this language means every cooperative member must be a “producer” at all pertinent times. Some plaintiffs scour cooperative records going back many years — sometimes more than a decade — to determine whether any non-producers have ever been listed as members, even for only a brief period. Should they find such an inadvertent error, they argue that the cooperative's Capper-Volstead Act protection is forfeited.

The mushroom case in Pennsylvania provides an example of this approach. The court found a cooperative lost its Capper-Volstead status because a farmer mistakenly allowed



Farmer cooperatives should be cognizant of recent lawsuits challenging the Capper-Volstead Act status of some potato (seen during harvest, above), mushroom, egg and milk co-ops.

the wrong corporate entity to sign its cooperative membership agreement and it was not an actual producer. The court also found that the cooperative acted with two members' affiliates that were not themselves producers. The court rejected the arguments that (1) the various entities were so interrelated that they should be considered one economic unit and not separate entities, and (2) the members' good faith belief and reliance on advice of counsel that the cooperative was properly structured preserved the cooperative's Capper-Volstead status.

Should it survive any potential appeal, the foreseeable impact of the mushroom case would be immense. In the court's view, even minor membership record-keeping errors could disqualify a cooperative from being a proper Capper-Volstead entity, thereby subjecting it and its members to liability that could bankrupt the co-op. Given this uncertainty, cooperatives should have a rigorous process in place to thoroughly vet their members' producer status.

Vertically integrated producers

A related membership-qualification issue is whether vertically integrated farmers — those conducting activities beyond simply owning and raising animals or crops — are considered true “producers” under the Act. This issue has been raised in numerous recent agricultural antitrust cases. The Idaho potato case provides a good example of the opposing views on this topic.

The potato plaintiffs claimed that any type of vertical integration destroys a producer's eligibility, because it is no longer a true “pure” farmer. The producers countered that even fully integrated farmers do not destroy eligibility, as long as they all legitimately own and raise crops.

The court rejected both arguments, and in a non-binding “advisory opinion,” it adopted an amorphous middle ground requiring a “factually-intense inquiry” into the economics and history of the industry, functions of the cooperatives in questions, and degree of farmer integration — all with an eye towards determining whether recognizing the exemption in each particular instance is “consistent with the legislative intent to create an environment in which farmers can compete on a level playing field.” Under this standard, there is no bright line as to how far a cooperative member may deviate from simply owning and raising animals or crops and still be considered a “producer” under the Act.

If ultimately adopted, this test would require extensive factual investigation, as well as testimony from multiple experts — a very expensive proposition. Additionally, such a “factually-intense inquiry” may not be subject to resolution short of a full-blown trial. Finally, it is likely that most of today’s farmers are vertically integrated to some extent. Should the trial court’s “advisory-opinion” become law, it may cause many farmers to reconsider joining certain cooperatives in the first place.

Benefit of ‘members’ requirement

Another fundamental Capper-Volstead requirement is that the cooperative must be “operated for the mutual benefit of the members thereof.” The Southeastern Milk Antitrust Litigation in Tennessee addressed this issue. Some of the plaintiffs in that case were farmers suing their cooperative for purportedly using its milk-bottling subsidiary to slash the prices the farmers received for their milk. The cooperative also allegedly attempted to force producers to sell to bottlers it controlled at reduced prices through mandatory membership in the cooperative or its subsidiaries.

Plaintiffs claimed that this benefited

the cooperative financially, but reduced the prices farmers received for their milk, creating a conflict of interest. The plaintiffs further argued that because the bottling operation required an ongoing supply of low-cost milk from members, the cooperative had allegedly put its own interests first and was no longer truly operating “for the mutual benefit of its members.”

Given the complex structure and nature of the activities in question, the issue would have been hotly contested at trial, had the case not been settled. A similar “benefit of members” issue will be decided in the National Milk Producers Federation herd-retirement litigation pending in California, where it will be litigated in full.

While most cooperatives operate for the general benefit of their members, they should closely examine their own business activities to determine whether they are vulnerable to the contention that they are not fully operating for the benefit of their members.

Pre-production supply management

Perhaps the biggest question raised in recent lawsuits is whether pre-production supply-management activities — such as jointly agreeing not to plant crops or to raise fewer animals — is a protected “marketing” activity under the Capper-Volstead Act. The resurgence of this issue is surprising, since prior courts have already found that protected “marketing” under the Act includes direct price setting and the actual destruction of products to remove them from the marketplace. If a farmer can legally destroy products, why cannot it simply decline to produce them in the first place?

However, in its “advisory opinion,” the Idaho potato court found that the Capper-Volstead Act does not protect such pre-production supply management activities. The court noted that no prior courts had explicitly approved pre-production supply-management activities, that the Act

itself does not expressly endorse them, and that a 1977 Federal Trade Commission statement indicated that these activities were not protected.

Additionally, the court noted that farmers had an incentive to increase production if prices rise due to a cooperative’s activities, but that this incentive is missing if pre-production supply-management activities are permitted and future production is in effect “shut off.” Accordingly, the court concluded that pre-production supply-management activities are not protected under the Act.

Whether the potato court will ultimately adhere to the distinction between post-production and pre-production supply-management activities remains to be seen. A similar argument is being made by plaintiffs in the Pennsylvania eggs cases, in which a cooperative’s employee allegedly made what plaintiffs argue were voluntary pre-production supply-management recommendations in the cooperative’s newsletter. Additionally, the issue is the centerpiece of California litigation involving the National Milk Producers Federation’s herd retirement program.

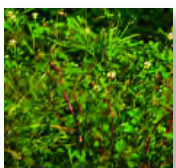
Clearly, the issue greatly interests plaintiffs’ attorneys. Cooperatives considering engaging in pre-production supply-management efforts should closely watch these cases and plan accordingly. Caution may be warranted until the matter is decided by federal appellate courts.

Conclusion

While the Capper-Volstead Act is the lifeblood of antitrust protection for agricultural cooperatives, recent legal developments present a difficult needle to thread. The parameters of a nearly 100-year-old law should be well settled, but that is rarely the case where large class action lawsuits are involved. Cooperatives and their members should keep apprised of ongoing trends in the area and take preventive steps to avoid potential liability. ■

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***Editor's note:** This article is based on the dairy portion of USDA's annual survey of agricultural cooperatives. More of the financial results can be found in USDA Research Report 233, "Financial Profile of Dairy Cooperatives, 2012," available at: www.rurdev.usda.gov/supportdocuments/R233.pdf. For a hard copy, call 202-690-1414, or e-mail: coopinfo@wdc.usda.gov. The marketing information and some broad financial figures were presented in the March/April 2014 issue of USDA's Rural Cooperatives magazine ("Dairy co-ops' milk volume up, but market share down slightly").*



USDA's annual survey of U.S. farmer co-ops reveals a wealth of data that can be used as a yardstick for

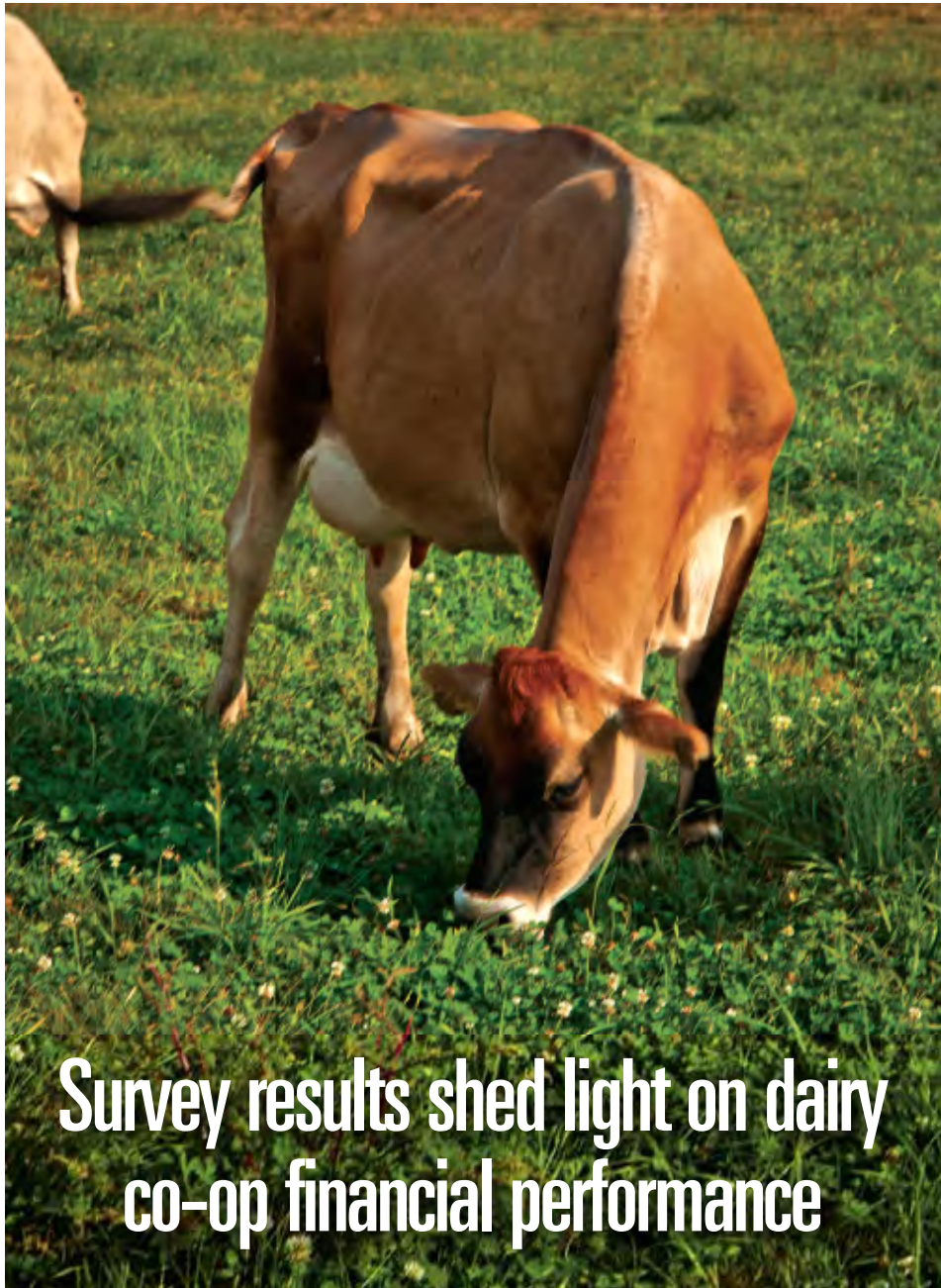
cooperatives to compare their financial ratios and overall performance to averages for their sector. The full 2013 statistics report (and those for earlier years) is posted on the USDA Rural Development website at: http://www.rurdev.usda.gov/BCP_Coop_Data_DairyFinancial.html.

The following article focuses on dairy co-op data derived from USDA's 2012 survey. It presents findings that dairy cooperatives can use to compare to their own financial records from 2012 to determine how their performance stacks up to the aggregate data.

Overview

Dairy cooperatives surveyed by USDA devoted, on average, \$10.90 in total assets per hundredweight (cwt) of member milk. These co-ops averaged \$8.12 per cwt in liabilities, while member equity was \$2.78 per cwt in 2012. Total revenue reported for 2012 was \$30.56 per cwt of total milk handled, with net margins of 19 cents per cwt.

Dairy cooperatives are surveyed by



Survey results shed light on dairy co-op financial performance

USDA Cooperative Programs every five years. This latest survey collected information for cooperatives' fiscal years ending in calendar 2012. The 89 cooperatives that provided detailed financial data represent more than two-thirds of the cooperatives that handled milk from cows in the United States. These 89 dairy cooperatives handled 80 percent of the total milk volume handled by U.S. cooperatives. Further, these cooperatives employed an estimated 93 percent of the total assets of all dairy cooperatives during 2012.

Assets

Current assets of \$6.74 per cwt of member milk made up 62 percent of total assets of these dairy co-ops in

2012 (table 1). A unique characteristic of a dairy cooperative's balance sheet is the components of its current assets and current liabilities. Dairy cooperatives typically pay members for their milk twice a month. A large proportion of the current assets and current liabilities are related to such periodic cash payments to members.

Dairy cooperatives employed \$4.16 per cwt in fixed assets (including investments in other cooperatives of 74 cents per cwt) in 2012. Fixed assets and investments represented 38.1 percent of total assets.

On the other side of the balance sheet, two-thirds (66 percent) of total liabilities were current liabilities, or \$5.38 per cwt. Long-term liabilities

were \$2.74 per cwt in 2012.

Equity

Member equity was 26 percent of total assets, or 67 percent of the value of fixed assets and investments. Member equity at 102 percent of long-term liabilities was enough to cover long-term debts.

Allocated equity comprised the bulk of member equity value — 84 percent of total equity — while retained earnings/unallocated equity represented just 8 percent in 2012.

Preferred stock amounted to 7 percent of total equity, while non-controlling minority interests and common stock represented a slight amount of the total value of members' equity in the cooperative. Common stock was issued by 39 percent of the profiled dairy cooperatives. Typically, it carries only a token value and is issued to signify membership. As a result, it comprised a negligible amount of co-op equity.

Operating statement

Milk and dairy product sales, which averaged \$23.69 per cwt of total milk handled by the 89 co-ops, were the largest single sales and other income item, accounting for 78 percent of total revenue in 2012 (table 2). Other sales and income averaged \$6.68 per cwt.

Expenses averaged \$30.38 per cwt, leaving net margins before taxes of 19 cents per cwt. The profiled dairy cooperatives' net margins before tax represented 0.6 percent of total revenue in 2012. These net margins represent a 2-percent return on assets and an 8-percent return on equity.

In addition to marketing their own members' milk, some cooperatives may also handle milk received from non-member producers, other cooperatives and/or other firms. This milk equaled about 20 percent of the total milk volume handled by the 89 dairy cooperatives in 2012.

The volume of milk going through a cooperative's operations has an impact

on efficiency and per-unit costs, so the operating statement items are expressed on a "per-cwt of total milk handled" basis. This is in contrast to the balance sheet, which is based only on member milk (excluding non-member milk handled).

Different approaches to marketing member milk

Dairy cooperatives face marketing situations unique to their location, membership and the co-op's philosophy or organizational culture. As such, structural and operational differences between dairy cooperatives arise as they position themselves to best market their members' milk.

The alternative methods cooperatives use to market milk require different levels of capital and yield differing returns.

Diversified dairy co-ops

Diversified cooperatives sell a portion of their members' milk as bulk raw milk but also own and operate plants to make a variety of commodity and/or differentiated products (such as butter, dried dairy products, cheese, packaged fluid milk, sour cream, dips, yogurt, cottage cheese and ice cream). These cooperatives represented 28 percent of the profiled cooperatives (by number), but they accounted for 97 percent of the assets and 91 percent of milk and dairy product sales.

Thus, the financial statements for all profiled cooperatives are heavily influenced by the performance of diversified cooperatives.

The diversified cooperatives employed the highest level of assets per cwt of member milk in 2012: \$12.15. Current assets accounted for 62 percent of total assets — a higher proportion than for the other types of cooperatives. Total liabilities were also higher for this group: \$9.08 per cwt in 2012. Long-term liabilities represented 34 percent of total liabilities, the highest level among the different operational types of dairy co-ops. Furthermore, long-

term liabilities were nearly equal to the equity members held in their diversified cooperatives. In contrast, the other types of profiled cooperatives had much more equity relative to their long-term liabilities.

Milk and dairy product sales for diversified dairy cooperatives were \$24.06 per cwt of milk handled in 2012. Farm supply and other sales made up 23 percent of total revenue for diversified cooperatives. That's well above the less-than 5 percent of revenue that farm supplies and other sales represented for the other types of dairy co-ops.

Net margins before taxes for diversified cooperatives averaged 20 cents per cwt and 1 percent of total sales in 2012. The net margins-to-total assets ratio was 2 percent in 2012, while net margins-to-members' equity was 8 percent.

Bargaining-only dairy co-ops

Bargaining-only cooperatives operate at the first-handler level, assisting members in the marketplace by negotiating prices, facilitating arrangements between milk buyer and seller, ensuring accurate milk weights and tests, etc. They differ markedly from diversified cooperatives in that they do not own or operate plants to further process member milk.

These cooperatives represented 67 percent of the profiled cooperatives, but accounted for 9 percent of their milk and dairy product sales and just 3 percent of total assets.

Bargaining-only cooperatives had fewer assets than the other types of cooperatives. Their assets equaled just \$2.31 per cwt of milk handled in 2012. A majority of their assets were current assets.

Likewise, bargaining-only cooperatives also had the lowest total liabilities and member equity — \$1.49 and 82 cents per cwt of member milk, respectively. Long-term liabilities of 43 cents per cwt equaled 29 percent of total liabilities.

At the same time, bargaining-only cooperatives generated the lowest milk and dairy product sales among the different operating types: \$20.42 per cwt of total milk handled. Net margins before taxes of 7 cents per cwt were well below those of the diversified cooperatives.

Net margins before taxes were less than 1 percent of total sales, lower than the diversified dairy cooperatives. However, their net margins-to-equity ratio of 9 percent was above the average for all profiled dairy cooperatives. Likewise, return to assets (3 percent) was higher than for the other types of cooperatives.

Niche-marketing dairy co-ops

Niche-marketing cooperatives use most, or all, of their members' milk to make specialty dairy products, such as artisan or branded cheese, and/or they market organic or specialty products on the basis of how the milk was produced. Only 33 percent of niche-marketing co-ops provided complete financial data for 2012. So, niche-marketing cooperatives were a small segment — just 5 percent — of the dairy cooperatives examined in this study. Their member milk, assets and dairy product sales were each less than 1 percent of all profiled dairy cooperatives.

The reporting niche-marketing cooperatives had assets of \$8.04 per cwt of member milk — about \$4 per cwt less than for diversified cooperatives. Fixed assets and investments made up a majority of their assets (51 percent). Niche-marketing cooperatives had total liabilities of \$6.29 per cwt and member equity of \$1.75 per cwt in 2012. Member equity amounted to 43 percent of fixed assets and investments — the lowest level among the different operating types.

Niche-marketing cooperatives generated the largest milk and dairy product sales on a per-cwt basis: \$32.29. That's \$8.23 more per cwt than the diversified cooperatives and \$11.87 more than bargaining-only

cooperatives. However, they had very little other sales income, which narrowed the gap to \$1.10 per cwt when comparing their total sales to those of diversified cooperatives.

Performance by size of cooperative

The financial performance of dairy cooperatives was also calculated according to the annual volume of milk handled:

- Small — less than 50 million pounds;
- Medium — 50 million to 1 billion pounds;
- Large — more than 1 billion pounds.

Total assets ranged from \$4.07 per cwt of member milk for the medium-size cooperatives to \$11.52 for large co-ops, with small cooperatives having \$8.20 per cwt in total assets in 2012. The small cooperatives' investments in other cooperatives represented a much greater percentage of total assets (23 percent) than for the larger size groups (9 percent for medium and 7 percent for large cooperatives). Conversely, fixed assets (other than investments in other cooperatives) were a larger proportion of total assets as group size increased (12 percent for small, 25 percent for medium and 32 percent for large cooperatives).

Total liabilities ranged from \$2.63 per cwt for medium-sized cooperatives to \$8.63 per cwt for the large cooperatives in 2012. Member equity was smallest for medium-sized cooperatives (\$1.44 per cwt), while the small cooperatives had the most member equity (\$4.06 per cwt).

Milk and dairy product sales per cwt only varied by \$3.13 among the size groups in 2012. Large cooperatives had the highest milk and dairy product sales per cwt, \$23.75. Small cooperatives ranked lowest, \$20.62.

The range for total sales was much wider, ranging from \$24.64 per cwt for the medium co-ops to \$37.93 per cwt for the small co-ops. Most of the

difference can be attributed to supply and other sales that made up 44 percent of total revenues for the small cooperatives, \$16.74 on a per cwt of milk basis.

Net margins for the small cooperatives were \$1.67 per cwt, far more than for the medium and large cooperatives (19 cents and 18 cents per cwt, respectively). Consequently net margins before taxes were less than 1 percent of total sales for the large- and medium-sized cooperatives, but were 4 percent for small cooperatives.

Finally, the small cooperatives showed the highest net margins-to-equity ratio, at 41 percent, and net margins-to-total assets, at 20 percent. Large cooperatives had the lowest return on equity, at 8 percent, and to total assets, at 2 percent.

Sales of supplies and other items made a difference

While a majority of the profiled cooperatives did not report any sales of farm supplies or other items, 8 percent of the cooperatives had more than half of their total sales and income from supplies. For these few cooperatives, the provision of farm supplies to members was a principal focus of cooperative operations and amounted to \$72.93 per cwt of milk handled. A majority of these cooperatives were small, bargaining-only cooperatives. ("Bargaining-only" here refers only to a co-op's milk-marketing operations, not their operations for the sale of farm supplies.)

Accordingly, substantial supply operations affect the structure of the cooperatives' financial statements. For these co-ops, milk and dairy product sales made up just 29 percent of their total revenue of \$103.44 per cwt. In contrast, for the rest of the profiled co-ops, supply and other sales came to just 41 cents per cwt of milk handled, 2 percent of total revenue.

Cooperatives with a majority of total revenue from supplies and other sales reported net margins before taxes of

continued on page 37

Table 1—Balance sheet items per cwt of member milk, profiled dairy cooperatives by type and by size, 2012

Item	Type of cooperative				Size of cooperative		
	All	Bargaining Only	Niche Marketing	Diversified	Small (less than 50 million pounds)	Medium (50 million to 1 billion pounds)	Large (over 1 billion pounds)
<i>Dollars per hundredweight of member milk</i>							
Current assets	\$6.74	1.24	3.94	7.55	5.29	2.70	7.11
Property, Plant & Equipment and other assets	3.42	.80	3.59	3.80	1.01	1.02	3.64
Investments in other cooperatives	0.74	.27	.51	.81	1.89	.35	.77
Total assets	10.90	2.31	8.04	12.15	8.20	4.07	11.52
Current liabilities	5.38	1.06	5.22	6.01	3.65	2.35	5.66
Long-term liabilities	2.74	.43	1.07	3.07	.49	.28	2.97
Total liabilities	8.12	1.49	6.29	9.08	4.14	2.63	8.63
Equity	2.78	.82	1.75	3.07	4.06	1.44	2.89
Total liabilities and equity	10.90	2.31	8.04	12.15	8.20	4.07	11.52
Member milk (million pounds)	127,942	16,232	261	111,449	531	10,481	116,929
Number of cooperatives	89	60	4	25	27	40	22
Note: Totals may not add due to rounding.							

Table 2—Operating statement items per hundred weight of milk handled, profiled dairy cooperatives, by type and by size, 2012

Item	Type of cooperative				Size of cooperative		
	All	Bargaining Only	Niche Marketing	Diversified	Small (less than 50 million pounds)	Medium (50 million to 1 billion pounds)	Large (over 1 billion pounds)
<i>Dollars per hundredweight of member milk</i>							
Milk and dairy product sales	23.69	20.42	32.29	24.06	20.62	23.11	23.75
Supply and other sales	6.68	1.08	.12	7.33	16.74	1.40	7.02
Service receipts and other income	.19	.06	.27	.20	.32	.08	.19
Patronage refunds received	.00	.04	.00	.00	.25	.05	.00
Total revenue	30.56	21.61	32.69	31.59	37.93	24.64	30.96
Costs of goods sold	28.48	20.92	30.54	29.34	33.81	23.34	28.83
Expenses	1.71	.61	2.08	1.84	2.46	1.18	1.75
Non-operating income	.19	.01	.07	.21	.00	(.07)	.21
Costs and expenses	30.38	21.54	32.69	31.39	36.26	24.45	30.78
Net margins before tax	.19	.07	.00	.20	1.67	.19	.18
Total milk volume handled (million pounds)	160,005	16,483	261	143,261	531	10,701	148,722
Note: Totals may not add due to rounding.							

Required Reading

Study sees need for updating co-op education publications, more mid-level materials

By Margaret M. Bau,
Co-op Development Specialist
USDA Rural Development



To support the continued formation and growth of cooperatives — and to promote greater co-op literacy — many existing co-op education publications need to be updated, and more “mid-level” co-op education materials should be developed, according to the results of a recent study sponsored by The Cooperative Foundation.

The study, which focused on co-op education materials available in the United States, involved compiling an inventory and analyzing existing materials, followed by interviews with 13 cooperative educators to “drill more deeply into themes that surfaced during the survey research.” Another 368 cooperative educators were polled on a number of questions, resulting in 102 responses.

“Enthusiasm for the cooperative form of business seems to have increased in recent years among non-traditional communities,” says Leslie Mead, president of The Cooperative Foundation. Growth in grassroots cooperative organizations has seen a corresponding rise in the number of requests for grants to create new educational materials, she adds.

USDA remains primary source

The survey found that “the co-op education training materials most widely used are those of the USDA,” which is “the one area in the U.S.

federal government that has dedicated resources to support cooperative education.” Many of the USDA co-op publications, however, need to be updated, according to survey results.

“The USDA materials are a huge resource and need to be selectively updated,” said one survey respondent. Another noted that while the content of many USDA co-op publications is still usable, they are “extremely dated in their appearance.” Another noted that some USDA publications had not been updated in more than a decade.

Some of USDA’s most popular publications have been updated recently (see sidebar, page 27). As they are revised, “USDA is committed to making its cooperative publications more ‘generic,’ so that they will have more value for non-agricultural audiences,” the report notes.

Some of the other most widely used co-op education materials included the Northcountry Cooperative Foundation’s “toolbox” and the Co-poly game, developed by Toolbox for Education and Social Action.

Survey respondents overall felt that existing documents and websites provide good basic level co-op information. On the other end of the education spectrum, respondents felt that academic-level information, typically written by researchers and published in peer-reviewed journals, is also widely available. But the latter materials are primarily targeted for professional and academic specialists.

“Practical, mid-level” material needed

Where there is a general void, a

number of survey respondents stressed, is in the availability of mid-level educational materials that provide practical information for those seeking to start or improve their cooperatives. Specific suggestions include developing more human resource materials focused on cooperatives, including leadership challenges and conflict management issues facing co-ops.

A need was also seen for more information on finance options for co-ops, including materials that focus on various financial structures, guides to help in financial decision-making (for members and boards), and information about internal capital accounts for worker co-ops.

Others saw a need for more information on co-op law, including state-specific guides and resources for incorporation options. Others perceived a need for detailed examinations of the advantages and disadvantages of the limited liability company (LLC) structure, low-profit LLCs (also referred to as “L3C” businesses), and nonprofit vs. profit status for co-ops.

Survey respondents also saw a need for operations and governance resources specific to co-ops. For example, they would like information on governance alternatives to Roberts Rules of Order, which is commonly used within agriculture co-ops, and to the Carver model of policy governance used among consumer food co-ops.

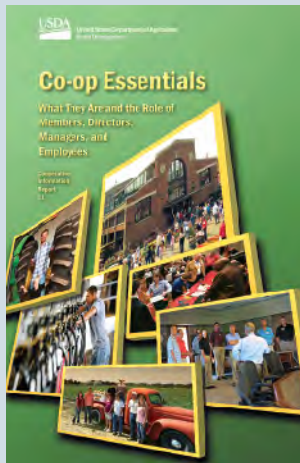
Others saw a need for:

- Current case studies on worker co-ops;
- A look at hybrid-business organizational options for co-ops;
- An up-to-date college textbook on cooperatives;

“Co-op Essentials” available from USDA

USDA is engaged in updating some of its most popular co-op education publications, with improved graphic presentation and expanded editorial content.

The latest publication to get a “complete overhaul” is *Co-op Essentials: What They Are and the Role of Members, Directors, Managers and Employees*. For ordering purposes, it is Cooperative Information Report (or CIR) 11, the same



number as the publication it replaces (which also carried a similar title, minus the “Cooperative Essentials” part).

“We scaled it down to handbook size, and the look and feel are patterned on our *Co-ops 101: An Introduction to Cooperatives* (CIR 55) booklet, with the idea that these two publications can be used in tandem,” says author James Wadsworth of USDA’s Cooperative Programs staff. “Like *Co-ops 101*, the new CIR 11 is heavily illustrated and we’ve made it somewhat less agriculture-specific to make it easier for other types of co-ops to use in their education efforts. After all, the same principles that make for a successful farmer co-op are just as applicable to most other types of co-ops.”

Both of these booklets are ideal for use in classrooms, at co-op organizational meetings and even for long-time co-op members and directors who could benefit from a “refresher course” as to why the co-op business model remains vital today for so many people.

One thing different about the new CIR 11 is that it no longer includes pages with instructional slides for classroom use. However, those slides are still available and they, too, have been updated. They can be downloaded from USDA’s website: http://www.rurdev.usda.gov/supportdocuments/BCP_CIR11slides.pptx.

Another of USDA’s most widely requested co-op publications, *How To Start a Cooperative* (CIR 7), has also been given an all new look, with updated editorial content. It will be available from USDA in January. Hard copies of these publications can be requested by e-mailing: coopinfo@wdc.usda.gov. All USDA co-op publications are also posted to the Web at: www.rurdev.usda.gov/BCP_Coop_LibraryOfPubs.htm. ■

- More materials about multi-stakeholder co-ops and housing co-ops;
- More materials specifically aimed at youth;
- More Spanish language materials;
- More videos and computer-based interactive materials;
- A compendium of state incorporation laws for cooperatives.

Presentation is important

The presentation of educational materials is considered to be important.

Materials should use simple vocabulary and less “text-heavy” layouts. Content should be boiled down into manageable units — but without oversimplifying the information. This would allow material to be more easily translated into other languages and modified for use among under-served groups.

Such content could also be more easily adapted for use on websites, could be used in educational games (such as Co-opoly) or incorporated into group exercises and interactive co-op

simulation activities. Those interviewed recommended using participatory and interactive methods of presentation.

Study participants suggested that those with experience in co-op development should be involved in creating new educational materials. Those authors must have demonstrated skills in curriculum development and popular education techniques.

Of vital concern is the availability of material. While all USDA cooperative publications — both in hard copy and on the Internet — are available free of charge, those interviewed encouraged the Foundation to fund organizations willing to share materials for free or at nominal cost (rather than seeing materials become proprietary information).

The report includes an annotated bibliography and a full listing of recommended resources. Study findings were discussed during a national webinar on Nov. 10. A summary and the entire study are available on The Cooperative Foundation website at: <http://thecooperativefoundation.org/>.

The report was written by Eklou Amendah and Christina Clamp of the Center for Cooperatives and Community Economic Development at Southern New Hampshire University. In addition to the Cooperative Foundation, funding was also provided by the CHS Foundation. The Cooperative Foundation will consider the study results when awarding future grants.

Since 1945, The Cooperative Foundation has supported cooperative development, research and education. Through the awarding of relatively small grants (ranging from \$100 to \$10,000) the Foundation invests in organizations at key moments to foster cooperative growth and innovation. The Federation of Southern Cooperatives, the North American Students of Cooperation and the U.S. Federation of Workers Cooperatives each received Foundation grants during their formative years. ■

Resolving Member Conflicts

Stakes are raised when an unhappy customer is a member-owner



By Thomas Gray, Ph.D.
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Editor's note: The author welcomes feedback on this article at: thomas.gray@usda.gov.



A phone call handled poorly on a hectic day at the co-op, or even an invoice mistake on a good day, may have the same kind of impact on an unhappy customer, potentially turning him or her into an irate customer. Resolving such conflicts amicably is crucial to a business, especially if the customer is also an owner of the business, as in the case of a cooperative.

Employees in cooperatives need skills to properly handle member complaints, as will inevitably be faced by all businesses. Member satisfaction and loyalty will often depend on how well complaints are handled. Hopefully,

they can be used not as indictments of the organization, but rather as feedback opportunities to improve cooperative performance.

To respond to member complaints, it is essential for co-op staff to become intimately familiar with all products, services and programs of the cooperative, as well as those of its competitors. “Knowing your product” and the marketplace is a good base on which co-op staff can build confidence. But it may not be enough.

Complaints can be divided into two basic aspects: facts and the associated frustrations. Frustrations can skew a message disproportionately, obscuring the original problem and leaving the employee with little but difficult feelings to respond to.

Consider this message: “Everything is backed up on my farm — I need this part right away. And it’s supposed to rain tomorrow.” Mounting frustrations can change this message to: “How come I have to wait around here all day whenever I come in. You spend too

much time goofing off, drinking coffee and not enough time serving members.” Dealing with too many complaints such as this can cause a conscientious, hard-working employee to lose heart and develop a genuine dislike for his or her job.

A much harassed employee, on a “bad” day, might respond in kind: “If you think all we do is sit around and drink coffee, you’re wrong.” Employees are at a loss to know what to do in these situations because the customer may not be communicating real needs. Such a situation is even more troublesome if the member is also a board member.

Possible loss of business

The threat of lost business is real, and patron complaints to the manager or a board member could even lead to employee removal. In such cases, both the employee and member suffer; the cooperative may be the biggest loser.

Members have various reasons for sending strong negative messages, including their desire for full and

undivided attention, to gain understanding of their situation, or just to express the frustration of the situation.

Co-op staff should keep these guidelines in mind when dealing with an unhappy member:

- Aversive feelings are transitory; they're like waves, and they tend to subside if complainants feel like they are at least being heard in a serious way.

- Complaints, when not heard, can frequently be exaggerated. Problems, when put in perspective, may turn out to be much less serious than they seem at first. Realizing this can help an employee respond to the situation better.

- Never minimize a patron-member's problem. It's important for him or her to "tell it like it is" and be given time to finish expressing concerns about the poor service or product he or she received.

- Respond quickly. Delay can fan the flames when service is needed.

- The first response should be to remain quiet and let the patron-member talk. Listening permits you to give the customer your full attention. Both the employee and customer get to unwind.

- Try to avoid distractions while dealing with the unhappy member. The customer wants your full attention. If possible, give it. Tapping fingers, fumbling with papers or trying to carry on another conversation at the same time will convey the opposite impression. Taking notes on the member's statements may help.

- Do not interrupt the customer. Let him or her talk and fully express the complaint.

- Resist the tendency to offer a rebuttal. Argumentative postures may only aggravate the situation.

- Look for a point of agreement. The employee may be able to apply technical expertise at this point and resolve the problem. But it is quite possible that the member's message is still vague and charged.

'Active listening'

If you try the above approaches, and are still receiving intense, aversive reactions from the member, try "active listening." This technique involves repeating the member-patron's complaint as accurately as possible.

Here is an example:

Patron: "How come I have to wait around all day every time I come in here? You spend too much time goofing off, drinking coffee, and not enough time serving your members."

Employee: "Sounds like you're pretty fed up with us and all the waiting you've had to do today."

Patron: "You bet I am. Everything is backed up on my farm. I need this part right away — and it's supposed to rain tomorrow!"

Employee: "Sorry there was a delay. OK, so this is an extreme rush. I'll take care of it now — what's the number of the part you need? When will you be home so we can make delivery?"

If an employee can't resolve the issue, facilitate in moving it "up the line" to a supervisor or the manager.

Diffusing a tense exchange

The type of exchange outlined above has many advantages for the co-op. You've acknowledged that there is a reason the patron is upset and have demonstrated attentiveness and understanding of the problem. Feedback you provided sends responsibility for the negative message back to the patron, who must then decide if the response is satisfactory or not.

The employee is not forced to take what could be a demoralizing position, as in: "Yes, you are right, I have been goofing off today." Or to strike an argumentative position: "That's not true, we've all been working non-stop today." There is subtle acknowledgement of the affect being felt by the patron. This often can be quite powerful and disarming.

More suggestions:

- If "active listening" isn't possible,

for whatever reason, sometimes the less said the better until the customer is really ready to hear the answer.

- If the cooperative has erred, admit it with an apology and promise better service in the future.

- Thank the member. It is his or her cooperative. Other members may have similar complaints. A resolved complaint helps to improve cooperative performance.

It is important to try to resolve problems when they occur. A member may carry and accumulate ill will for long periods of time and eventually drop out, pulling out other members. Knowing techniques for dealing with these problems develops a sense of control and competency to help members articulate more fundamental needs.

Once the "storm has passed," an employee can bring technical knowledge and experience to the problem and issues can be discussed logically and clearly.

Dealing with member complaints is not easy, particularly for those at the receiving end of a blistering attack. Early life-learning may predispose many to adopt defensive, if not aggressive, postures. For help in this area, consult various "Leadership Effectiveness Training" programs available on the Internet for a complete introduction to "active listening."

"Active listening" literature has often focused on employer-employee or student-teacher relationships. These differ, in some respects, from member and employee relationships. In a cooperative, a customer is a member and owner — and may even be a board member. However, this multi-functional position of the member makes handling these difficult exchanges even more critical.

If "people make the difference," as many cooperative member programs believe, then preparing employees for these difficult situations cannot be ignored. It may be a key element in a co-op's ultimate success. ■

Utility Co-op Connection

Utility co-ops helping members cut bills with new USDA energy efficiency loans

By Anne Mayberry, Rural Utilities Service
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Rural electric cooperatives nationwide have for many years used energy efficiency programs to better manage energy systems and contribute to economic development in their communities. Now, with approval of loans from the U.S. Department of Agriculture's Rural Utilities Service (RUS), part of USDA Rural Development, two rural electric cooperatives are taking their energy efficiency programs to the next level. Agriculture Secretary Tom Vilsack announced the awarding of energy efficiency loans to Roanoke Electric Cooperative in North Carolina (Roanoke), and North Arkansas Electric (North Arkansas). "This is a historic new bond in the partnership between USDA and our rural electric cooperatives," Vilsack said.

Nearly every rural electric cooperative utility nationwide has some form of energy efficiency program as part of its strategy to manage power costs, meet consumer demand and increase environmental regulatory compliance. Expanding those programs could reduce the need to purchase or generate energy, reduce emissions from generation of electricity and help strengthen rural economies through increased funding for energy efficiency and conservation projects. In addition, energy efficiency and conservation programs meet one of the core cooperative principles: "concern for community."



Awards were presented to the nation's first two rural utility co-ops to enroll in a new USDA energy conservation loan program during the National Rural Electric Cooperative Association's (NRECA) December board meeting. From left are: Jo Ann Emerson, CEO of NRECA; Mel Coleman, CEO of North Arkansas Electric Cooperative; Jasper Schneider, acting administrator of USDA's Rural Utilities Service; Curtis Wynn, CEO of Roanoke Electric Cooperative; and Curtis Nolan, president of NRECA.

Co-ops can help residential members

The RUS Energy Efficiency and Conservation Loan Program for the first time allows rural electric utilities to borrow funds to help their business and residential consumers finance projects to reduce energy use.

"USDA's Energy Efficiency and Conservation Loan Program is a new tool for rural electric utilities to use to manage electric demand, address a variety of challenges and provide benefits to consumers and their communities," noted former USDA Deputy Under Secretary for Rural Development Doug O'Brien. "Those rural electric cooperative utilities that implement or expand energy efficiency programs see benefits of funding home and business improvements for their consumers, while working to better

manage today's challenges."

USDA's Acting Administrator of RUS, Jasper Schneider, recognized the CEOs of the Roanoke and North Arkansas co-ops at the National Rural Electric Cooperative Association's December board meeting. "We want to thank you for all you do for rural America," Schneider said, noting that the partnership between RUS and co-ops is approaching the 80th anniversary.

Upgrade to Save

The Roanoke co-op is using its \$6 million loan to launch "Upgrade to Save," a voluntary program that will allow their customers to invest in energy efficiency improvements without incurring a new debt. "With this financing, we will be able to make investments that cut waste, reduce costs, support our local economy, and

improve the quality and comfort of the homes and businesses we serve,” explained Roanoke’s CEO, Curtis Wynn.

Under Roanoke’s program, participants agree to a tariff on their bills that shares the savings with the utility, ensuring savings for customers and full cost recovery for Roanoke. Improvements funded under the program include HVAC (heating, ventilation and cooling) systems, appliance replacements and building envelope improvements for an average of 200 residential energy efficiency upgrades per year over four years. Schneider noted that while energy efficiency and conservation is the focus of both North Arkansas’ and Roanoke’s programs, the design of each program differs, allowing rural electric utilities to implement features to best meet member needs and state regulations.

Roanoke’s program is modeled after one developed by the Energy Efficiency Institute of Vermont. Used by co-ops in several other states, the average investment per home is \$7,000, with an average annual energy savings of 25 percent.

Wynn noted that the program allows cost-effective energy improvements to be made, regardless of income, credit score, or whether recipients rent or own their property. “This is an important breakthrough for our members,” Wynn said, noting that many who wanted energy efficiency upgrades were not eligible for loans.

Schneider echoed Wynn’s point, and said a recent USDA study noted the continued decline of the rural population, coupled with lagging employment growth in most rural areas. “Rural electric cooperatives historically have been recognized as leaders in their communities,” Schneider said. Besides the benefits for rural utilities and their consumers, the energy efficiency program can also address some of the economic challenges rural communities face. Today’s new technologies can help rural consumers live comfortably while

still enjoying affordable electric power.

Arkansas co-op loans \$12 million

Like many co-ops, North Arkansas Electric has extensive experience in energy efficiency programs, having loaned nearly \$12 million for energy efficiency upgrades for members. North Arkansas will use its loan of \$4.6 million to expand its energy efficiency program and reduce energy costs for consumers by providing funding for geothermal and air source installations, energy efficiency lightning, and weatherization measures, including Energy Star® windows and doors, insulation, efficient water heaters, and roofing.

North Arkansas CEO Mel Coleman told his fellow board members that like most rural electric cooperatives, they work hard to keep their members’ electricity bills affordable, while still maintaining a good quality of life. “This is part of who we are and what we do. Offering energy efficiency funding is among the things that sets us apart from other utilities.”

Wynn agreed, adding, “The experience we have working with RUS means that we can do more on the other side of the meter to help our members.” One advantage of RUS’ energy efficiency and conservation loans is that they offer rural electric utilities a way to develop consumer programs and offer options to help implement strategies to ensure co-op consumers have access to cost-effective energy systems. As the market changes, utilities with the ability to fund energy efficiency systems are likely to maintain a market advantage.

Current studies show that many business and residential consumers do not purchase energy efficiency products or renewable energy systems because they lack access to capital or financing. RUS’ loan program helps reduce barriers to investment in energy efficiency. As many rural electric cooperative utility industry leaders have

noted, reducing electric use can defer construction of new electric generating facilities. The least expensive kilowatt is the one you don’t have to produce.

RUS’ new effort to encourage energy efficiency funding is among the more recent activities signifying a shift in energy financing. The electric industry’s move away from the traditional electric utility business model, based on increasing capacity to meet growing demand, to a goal of more effectively managing demand, is the result of a variety of factors.

Co-ops adjust to changing consumer needs

Because the historically increasing demand for electricity has leveled off, or even decreased, in many parts of the nation, utilities are looking for ways to more closely align with changing consumer requirements. USDA’s new loan program helps support the President’s Climate Action Plan and represents a significant addition to the way USDA funds energy projects.

Infusing millions of dollars into rural communities to help rural business and residential consumers reduce energy bills by financing building improvements and renewable energy systems will help rural economies while also building a cleaner, more sustainable domestic energy sector for future generations. State and federal regulators view energy efficiency as one more way to reduce emissions.

In addition, as a result of both market and regulatory changes, utilities want to diversify portfolios, which can help manage risk. Because the RUS energy efficiency program finances activities that offset the traditional business model of increasing electricity capacity, it can be used as a tool to better manage risk.

“Making loans to our borrowers so that they can fund energy efficiency and conservation is a significant shift in RUS electric system financing,” Schneider noted. “This funding is a way

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Newsline

Co-op developments, coast to coast

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

Large crop adds to urgency of Grain Bin Safety Week

Extremely high crop yields, combined with below normal temperatures and a wet harvest, means that farmers, grain elevators and other grain handlers have been dealing with high-moisture corn and soybeans. Experts project these conditions could create the deadliest year for grain engulfment accidents since 2010. In 2010, 59 entrapments were recorded, resulting in 26 deaths — the highest number on record.

“Every year, we see people needlessly injured and tragically killed in grain bin accidents that could have been avoided,” says Doug Becker, director of Nationwide Agribusiness Risk Management Services. “In light of this year’s sobering projection, it’s more important than ever for farm families, rural communities and industry leaders to come together to help prevent these tragic accidents from occurring.”

The central theme of Grain Bin Safety Week 2015 (being observed Feb. 22–28) is the critical need for first responders to acquire the specialized rescue training and equipment needed to rescue someone entrapped in grain. The chances of surviving a grain bin engulfment are greatly increased if a rescue tube is available to fire departments nearby. Unfortunately, many fire departments lack the equipment and specialized rescue training needed for a successful rescue.

In conjunction with Grain Bin Safety Week, Nationwide has partnered with the National Education Center for Agricultural Safety (NECAS), Grain Systems Inc. (GSI) and KC Supply Co. to award fire departments with grain



A record 26 U.S. workers were killed in grain entrapment accidents during 2010. To help reduce the deadly toll, rescue crews around the country need to be properly equipped and trained through safety drills, such as this. Employees also need to be trained to avoid getting into high-risk situations.

bin rescue tubes and specialized training to help save lives when farmers and other workers become entrapped in grain bins. Nominations may be submitted from Jan. 1 – May 31 2015. For more information, visit: www.grainbinsafetyweek.com.

There will be a different topic or component each of the seven days of Grain Bin Safety Week, with articles written by agribusiness risk-management professionals and other experts.

Along with its partners — Farm Safety for Just Kids and NECAS — Nationwide will host #AgChat on Twitter 7-9 p.m. Central Time on Feb. 24. This moderated, online conversation will look at grain bin safety from different angles. Anyone with a Twitter account can participate. Go to tweetchat.com and enter #agchat to start.

During the week, Nationwide will also host free, live webinars on grain bin safety that are open to everyone. Taught by subject-matter experts and industry professionals, these webinars will provide farmers and commercial grain handlers with valuable insight into grain management, personal protective equipment, bin entry, rescue equipment and more.

Half of dairy farms enroll in margin protection program

The U.S. Department of Agriculture has announced that more than half of U.S. dairy operations have enrolled in the new Margin Protection Program (MPP) for dairy in 2015. “This is an encouraging start to this crucial new safety net program for our industry,” says Jim Mulhern, president and CEO of the National Milk Producers Federation (NMPF).

More than 23,000 dairy operations signed up for the program during the three-month window that ran until Dec. 19, 2014. “The margin protection program is a welcome improvement to federal dairy policy and comes at an important time to help farmers deal with what will be a more challenging economic outlook in 2015,” Mulhern

adds. “The MPP is now the only widely available tool to help farmers protect against both lower milk prices and higher feed costs. It represents a new paradigm in shared responsibility between farmers and the government to cover the cost of that insurance.”

Anecdotal reports indicate that the sign-up extensions granted after Thanksgiving, coupled with a sharp downturn in milk price forecasts for 2015, encouraged additional participation prior to the Dec. 19 cutoff. The next MPP sign-up period will begin in six months, during an open season enrollment window for MPP coverage in calendar year 2016. That enrollment period will run from July 1 until Sept. 30.

NMPF’s www.futurefordairy.com website helps educate farmers about the program, and NMPF worked with USDA and a group of university agricultural economists during 2014 to explain the benefits of the Margin Protection Program.

In other NMPF news, the organization recently joined the American Humane Association (AHA), the country’s oldest humane animal treatment organization, a top chef and others involved in food production in a discussion about the commitment that farmers are making to proper animal care. The event was a Capitol Hill briefing themed “The Humane Table, Celebrating the American Heartland” organized by AHA.

According to AHA President and CEO Robin Ganzert, the briefing was meant to “celebrate and give thanks to those working to build a better world for people and animals” and to encourage support for humane farming practices.

‘Co-ops in Your Community’ teaching modules

The Council on Food, Agricultural and Resource Economics (C-FARE) has released “Cooperatives in Your Community,” a set of teaching modules for high school students that explain the economics of cooperatives. The teaching modules are hosted on the

Council for Economic Education’s (CEE) website: www.econedlink.org. C-FARE received technical support from CEE, a world leader in economic and financial education for K-12 students. CEE is a supporting partner and provided technical assistance via peer review. The CHS Foundation, a charitable organization that supports giving on behalf of CHS Inc., the nation’s leading cooperative, provided support essential for project success.

The teaching modules cover consumer and agricultural cooperatives. Teachers who tested the modules in their classrooms said that although students may study cooperatives as part of their study of types of business organization, the cooperatives module adds depth to their understanding.

Both teaching modules are designed to require no more than 180 minutes of class time. Each can be adapted to the needs of the instructor.

“Smart Agriculture” Ag Outlook Forum theme

U.S. Agriculture Secretary Tom Vilsack and European Commissioner of Agriculture and Rural Development Phil Hogan will engage in a far-ranging roundtable discussion on agriculture during USDA’s annual Agriculture Outlook Forum, Feb. 19-20 at the Crystal City Gateway Marriott in Arlington, Va. Other featured speakers include Richard N. Haass, president of the Council on Foreign Relations, who will address: “Food, Foreign Policy and International Order.” USDA Chief Economist Robert Johansson will deliver the 2015 outlook for agriculture and foreign trade.

The theme of the forum is “Smart Agriculture in the 21st Century.” The plenary panel will participate in a discussion on “Innovation, Biotechnology and Big Data.” Moderated by Secretary Vilsack, the panel includes: Cory J. Reed, senior vice president of Intelligent Solutions Group, John Deere Co; Robert T. Fraley, executive vice president and chief technology officer, Monsanto; Mary Kay Thatcher, senior director for

congressional relations, American Farm Bureau Federation; and Robert Sutor, vice president for mobile solutions and mathematical sciences at IBM Corp.

The Forum's dinner speaker will be Ambassador Darci Vetter, chief agricultural negotiator for the Office of the United States Trade Representative. Speaking at the 25 breakout sessions and five topical luncheons will be more than 100 distinguished experts.

Breakout session topics on the agenda include: Perspectives on Global and U.S. Trade; Big Data's Impact on U.S. Agriculture; Commodity Situation and Outlooks; Food Price and Farm Income Outlooks; Moving Feed, Food and Fuel to Market; Opportunities in the Bio-Economy; Antimicrobial Resistance; and Bee/Pollinator Issues Facing Agriculture, among many others. Registration is available at: www.usda.gov/oce/forum.

Georgia co-ops backing utility-scale solar system

Flint Energies, Cobb EMC and Sawnee EMC will purchase the entire power output of a 131-megawatt (MW) photovoltaic (PV) solar project to be constructed outside of Butler, Ga. The electric membership cooperatives inked the deal with Southern Company subsidiary Southern Power.

The solar facility will be located on a 911-acre site in Taylor County. It will consist of about 1.6 million thin-film PV modules mounted on single-axis tracking tables. This will be equal to 1.42 square miles of land area covered by PV cells, or the same as 826 football fields.

Southern Power selected First Solar to be the engineering, procurement and construction contractor for the facility. Construction of the plant is scheduled to begin this September and is expected to achieve commercial operation in the fourth quarter of 2016.

"The Taylor County solar project, which will be among the largest single-site projects east of the Mississippi River, will be an important contributor to meeting future power needs of the cooperative," says Flint Energies CEO

Bob Ray. "Better yet, the project is the fourth renewable generation facility located in the Flint service area that will directly contribute to meeting Flint member power demand."

The electricity generated by the facility will be sold under 25-year purchase power agreements to the participating electric cooperatives. It will be built in the Flint Energies service territory in Taylor County just off Highway 96. Because all of the state's electric utilities co-own the Integrated Transmission System (ITS),



This Flint Energies solar panel array will be dwarfed by a new, 131-megawatt solar power project being constructed outside Butler, Ga. It will cover an area the size of 826 football fields. The power will be shared by three co-ops: Cobb EMC, Sawnee EMC and Flint Energies EMC.

interconnections to the larger electric power grid are relatively simple.

Output of the power sale will be allocated as 101 megawatts to Cobb EMC, 15 megawatts to Sawnee EMC and 15 megawatts to Flint Energies.

Trupointe, Cargill form Indiana ag joint venture

Trupointe Cooperative Inc. and Cargill Inc. have signed a letter of intent to create a joint venture with their facilities in Milford, Bremen and La Paz, Indiana. Upon completing due diligence and signing a final agreement, the two companies will combine Trupointe's crop inputs assets in Milford with Cargill's grain elevators in Bremen and La Paz. The joint venture

— to be named TruHorizons — is also planned to include building a \$30 million grain elevator in Milford, to be completed for the 2016 harvest. Trupointe, an agricultural cooperative based in Piqua, Ohio, with 4,100 members, serves western Ohio and eastern Indiana. This summer the co-op opened its Milford Agronomy Hub, which offers crop nutrients, crop protection products, seed and traits, crop scouting, precision agriculture, application services and more. The addition of the grain facility onsite has

been part of design plans since Trupointe acquired the site.

MVC patronage benefits members, communities

Farmers, ranchers and member-owners across north-central Montana will share in an estimated \$3.3 million cash patronage distribution from Mountain View Co-op (MVC), an agronomy, grain, energy, feed and retail cooperative.

"The ability of our members, who are also our customers, to directly share in the financial success of MVC is a distinct advantage of being part of a cooperative business," says Art Schmidt, the co-op's general manager. "And this is cash that is returned to local

communities, enabling farmers, ranchers and members to invest in their own futures.”

The 2014 cash returned to members is based on MVC’s net income and regional patronage from CHS Inc. and Land O’ Lakes. “Patronage is based on business done with MVC by individual farmers, ranchers and members during fiscal 2014,” says Del Styren, board president of MVC and farmer from Brady, Mont. In addition to a cash payment, members will also receive an equity allocation, bringing the total patronage earned by the co-op’s 4,500 members to an estimated \$8.4 million.

CHS has second best year for revenue, income

CHS reported net income of \$1.1 billion and revenue of \$42.7 billion for fiscal 2014, each representing the second best performance in company history. The cooperative also returned a record \$637.2 million to its owners in cash and preferred stock. CHS will distribute an estimated \$518 million in cash in fiscal 2015, consisting of patronage, equity redemptions and preferred stock dividends.

“The unprecedented success this company has achieved in recent years has delivered tremendous value for you — in dependable input supplies, market opportunity, economic returns and investments in your future,” Carl Casale, CHS president and chief executive officer, told farmer-owners, cooperative leaders and others attending its 2014 annual meeting in December. “We must constantly recharge our momentum, finding new ways to increase our speed and adjusting our trajectory to stay ahead of competitive forces.”

Casale addressed nearly 2,500 member-owners and others attending the meeting in Minneapolis. CHS leaders outlined how the co-op will achieve its three main objectives: investing in the future, delivering direct economic value to owners and remaining financially strong for its owners.

Among those also attending the



Among highlights for CHS last year was a \$30-million plant expansion and equipment upgrades at the co-op’s Creston, Iowa, soybean-processing facility. Photo by David Lundquist, Courtesy CHS

meeting were 155 farmers and ranchers from across the U.S. who took part in the CHS New Leaders Forum, a program that builds next generation leaders for agriculture and rural America.

CHS business highlights for the year include:

- Plans were announced in September to construct a \$3 billion fertilizer manufacturing plant at Spiritwood, N.D.
- About \$406 million in projects were initiated at the Laurel, Mont., refinery to boost efficiency and increase diesel production.
- Some \$1.4 billion in preferred stock was issued on the NASDAQ exchange during the past 18 months;
- Terral River Service was acquired, securing storage and ensuring fertilizer supply in the Mississippi Delta region through eight Mississippi River terminals.
- An ethanol plant at Rochelle, Ill., with 133 million gallons of annual production, was purchased, adding value for corn producers and accessing strong markets for ethanol and its coproduct, dried distiller’s grain.
- A \$30 million production expansion, along with equipment and food-quality process upgrades, was completed at the co-op’s Creston, Iowa,

soybean processing facility.

- The co-op became an owner of a grain export terminal being built at Necochea, Argentina, providing access to growing Asia-Pacific markets.
- Four new propane terminals were opened, and other significant investments were made to ensure secure supply amid the loss of a major regional distribution pipeline.
- Investments were made in the future of agriculture, cooperatives and rural communities with \$10.5 million in contributions from CHS Corporate Citizenship and the CHS Foundation.

NCB backing elder care facility development

The National PACE Association (NPA) and National Cooperative Bank (NCB) have announced a lending program to help finance a nationwide expansion of Programs of All-Inclusive Care for the Elderly (PACE). Over the past 12 months, NPA has worked with NCB to develop a PACE lending program to address the lending gaps NPA members face as they work to implement new or expand existing PACE programs.

“PACE is a model of care that has always faced hurdles in accessing sufficient and affordable financing,” says NPA President and CEO Shawn

Bloom. “Because PACE is not easily understood, attracting adequate financing can be a challenge. For this reason, we were delighted to work with NCB to explore a PACE lending program.”

The NCB program will provide working capital and real estate lending to qualified PACE expansions and start-ups. PACE providers will work with a dedicated NCB team that understands the PACE model and the Medicare and Medicaid structures that support it.

“NCB has a history of supporting the development of affordable senior housing and aging services, including PACE,” according to Chuck Snyder, CEO of NCB. “We expect that this new avenue of financing will provide even more opportunities for PACE

development and expansion in the future.”

For questions regarding the NCB PACE program, contact Robert Jenkens, director of social impact initiatives at NCB, 202-552-9632 or: rjenkens@ncb.coop.

San Diego to host Small Farm Conference

The 2015 California Small Farm Conference will be held March 7-10 at the San Diego Marriott Mission Valley. The event is the state’s premier gathering for small farmers and ranchers. The goal is to promote the success and viability of small and family-owned farming operations and farmers markets through short courses, tours and workshops. The conference

attracts about 500 attendees.

The program will follow a number of different tracks, including: Production Track (classes cover topics such as design and management of drip irrigation systems, soil health, etc.); Farmers Market Managers’ Track (topics include enhancing market integrity, new legislation, etc.); Marketing Track (topic include Marketing 101 for Farmers, roundtable discussions, etc.); Farm Management Track (topics include small farm survival, organic farming, etc.); Emerging Issues Track (topics include food safety issues, urban ag, etc.).

For registration and other information, visit: www.californiafarmconference.com. ■

Commentary

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exchange ideas about policy, research and legal issues currently affecting the ag cooperatives. Conference presentations typically cover topics on cooperative governance, capitalization,

finance and equity management practices, business structure and strategic alliances, global and domestic agricultural trends, and enhancing member value.

Another “don’t miss” educational opportunity for ag leaders, and for anyone else with an interest in agriculture and rural affairs, is USDA’s

own “Agricultural Outlook Forum,” coming up Feb. 19–20. See the back cover of this issue for more information.

The better informed our co-op leaders are, and the more the public understands this highly adaptable business model, the more our nation will benefit. ■

Utility Co-op Connection

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RUS electric borrowers can address with changing market conditions, such as uncertain growth in the demand for electricity.”

Energy efficiency programs are also increasingly used as mechanisms to comply with shifting policies, such as those geared toward reducing emissions or distributed generation, which allow customers to offset energy use through the installation of onsite renewable systems. “New technologies, market conditions, customer preferences and the regulatory landscape are transforming electric utilities. Rural



Replacement of older HVAC equipment with modern, energy-efficient units can result in substantial long-term savings for consumers.

electric cooperatives thrived because of consumer demands that began over 80 years ago. The fact that the co-operative business model for delivering electricity to rural areas is still strong today is a testimony to co-ops’ ability to adapt to a changing environment,” Schneider said.

“Access to low-cost capital is a cornerstone of electric utilities’ ability to grow and compete,” Schneider says. “Because the RUS energy efficiency program conserves capital, facilitates flexibility and offers new ways to provide valuable services to their consumers, it can offer rural electric cooperative utilities a competitive edge in reducing costs while providing benefits for their rural consumers.” ■

In the spotlight: Dr. K. Charles LIng

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integrated with its members. It is a third mode of organizing coordination. Therefore, an economic analysis of a cooperative requires analytical models that go beyond neoclassical economic thinking.

Oliver E. Williamson's recent work on the theory of the firm as a governance structure that economizes on the transaction cost of contractual arrangement with market participants is very useful. It can help us analyze the nature of the cooperative and to assess the relationships of the cooperative with its members and with its various other stakeholders.

Q. What is your outlook on the future of the cooperative movement?

A. Cooperatives will continue to be a useful business model for the economic activities that are suitable to being organized and operated on a cooperative basis. For example, agricultural marketing cooperatives

(such as dairy cooperatives) have a very long and successful history. They will certainly continue to flourish, so will various other types of cooperatives, both existing ones and those formed in the future.

However, I do not think it is appropriate to equate such cooperative business development with a "cooperative movement," because the term tends to conjure the image that it is some kind of social-economic movement.

For one thing, a social-economic movement feeds on persistent polarizing social-economic conditions among large groups of people. I am not sure that such conditions will exist and persist, if we trust that the market economy of our mature democracy is capable of rectifying its intermittent deficiencies.

Secondly, a movement must have an ideology to underpin it. While ideology stokes rigidity, a successful cooperative business, like any other business, thrives

on pragmatism. Mixing ideology with business operation is bound to be problematic.

Thirdly, a movement waxes and wanes — it tends not to be long lasting. It may start, grow, have some successes or failures, and then subside, decline and fizzle. On the other hand, a cooperative, being a business firm, is a going concern that will last as long as members see a benefit to cooperating — and as long as the market allows it to.

Finally, successful development of a cooperative business must be carefully planned and executed. Its deliberative pace lacks the temperament that is necessary to sustain a movement.

Q. Plans for your retirement?

A. I will have more time to spend with my family and hug my grandchildren. Weekend hiking and jogging on park trails will now become my daily routine. There is a long list of books to read and places to visit. I may also try to write my life story for the posterity, and learn the art of preparing Japanese cuisine. ■

Survey results shed light on dairy co-op financial performance

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\$1.89 per cwt of milk handled, while those with a minor proportion of total revenue from supply and other items had just two cents per cwt in net margins.

The operations that facilitate farm supply and other non-dairy sales likely require a unique set of additional assets to support the activities, differing from those employed to market members' milk. Total assets per cwt employed by cooperatives with substantial supply operations were more than seven times higher than for those co-ops with farm supply sales that account for a minor portion of total sales.

Likewise, those with limited supply and other sales had the lowest equity

investment per cwt, \$2.02, compared to \$9.50 per cwt for those with a majority of total revenue from supply and other sales. Co-ops with limited supply sales had just 52 cents per cwt invested in other cooperatives. In contrast, investments in other cooperatives for cooperatives with substantial supply sales averaged \$2.71 per cwt.

Varied performances

Finally, there were also differences in the financial statements between cooperatives with the same operational focus, but which handled different amounts of milk.

Some key observations from the survey include:

- Large, diversified cooperatives utilized the most assets per cwt of members' milk.
- Large, bargaining-only cooperatives utilized the least assets per cwt and had negative net margins before taxes, on average.
- Small, bargaining-only cooperatives had supply and other sales almost equal to milk and dairy product sales and the largest net margins before taxes per cwt of milk handled.
- About 25 percent of the profiled cooperatives had negative net margins before income tax. A somewhat smaller proportion of diversified cooperatives had negative returns relative to the other types.
- Substantial supply operations affected the structure of about 8 percent of the dairy cooperatives' financial statements. ■

Tune up your CO-OP



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

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



New

Cooperative Statistics 2013 (SR 75)

A survey of 2,186 U.S. farmer, rancher, and fishery cooperatives ending their business year during calendar year 2013 showed a record business volume and net income before taxes. Get all the facts with this vital window on the agricultural cooperative economy.



Expanded

The Nature of the Cooperative (CIR 65)

These collected articles by USDA Rural Development agricultural economist Charles Ling were originally printed in *Rural Cooperatives* magazine to examine the nature of cooperatives and their place in our free-market economy. Now expanded to 10 articles from the original 5.



The Role of Food Hubs in Local Food Marketing (SR-73)

Consumers are willing to pay a premium for locally-produced foods. But producers are often handicapped by the lack of locally-based distribution systems. The food hub is one collaborative distribution system for local and regional food that shows great promise. This report presents an overview of the myriad issues facing food hubs across the United States.



Member Satisfaction With Their Cooperatives (RR 229) (Web Only)

Dairy cooperatives have adopted a wide range of organizational structures. In some cases, this resulted in fairly bureaucratic, complex business organizations that require high levels of management expertise. This study looks at how such organization affects the satisfaction members have with their cooperatives.



Performance of the Top 18 Dairy Co-ops, 1992-2012 (RR 232)

The equity retained by dairy cooperatives represents a substantial sum of the members' money and competes with the capital needed for financing their farm operations. That's why good financial performance is vital to the well-being of a dairy co-op's members. Learn how well the largest U.S. dairy cooperatives are doing.

Is your cooperative delivering maximum performance for its members? To help ensure that it's 'firing on all cylinders' request copies of any of the publications on these pages. Or download them from the Web. Either way, there is no

For hard copies (please indicate title, publication number and quantity needed), e-mail: coopinfo@wdc.usda.gov, or call: (202) 720-7395. Or write: USDA Co-op Info, Stop 0705, 1400 Independence Ave., SW, Washington DC 20250. To download from the Web, visit: <http://www.rurdev.usda.gov/RDPublications.html>.



Cooperative Employee Compensation (RR-228)

Employee compensation is the largest expense item for most cooperatives, averaging 4 percent of sales. This publication provides a comprehensive survey of compensation rates and benefits of U.S. agricultural co-ops.



Nominating, Electing and Compensating Cooperative Directors (CIR 63)

This report examines the various methods co-ops use for nominating board candidates, voting policies of agricultural co-ops and compensation practices for co-op directors. It also includes a look at the types of leadership skills needed by co-op board members. This collection of articles originally appeared in USDA's *Rural Cooperatives* magazine.



Sample Policies for Cooperatives (CIR 39)

This handbook provides directors and managers of cooperatives with guidelines for writing, adopting and implementing policies. As co-ops mature and longtime directors and employees retire, many oral and implied policies are lost, making it crucial that formal, written policies be adopted to help a co-op attain established goals and objectives.



Marketing Operations of Dairy Cooperatives, 2012 (RR 230) (Web Only)

Farmer owned and operated dairy cooperatives continue to provide the most significant channel for marketing milk from the nation's dairy farms. The number of dairy co-ops is declining, but those remaining are handling larger volumes. This thorough, comprehensive study describes their continuing evolution in today's ever-changing market environment.



Comparing Cooperative Principles of the U.S. Department of Agriculture and the International Cooperative Alliance (RR 231) (Web Only)

The cooperative principles of the U.S. Department of Agriculture and those of the International Cooperative Alliance (ICA) have evolved in slightly different directions since the Rochdale statement of 1860. This report compares the two sets of cooperative principles regarding how they distinguish that form of organization from other forms of business.



Keys to Successful Co-op Housing (SR 44)

This report examines practices and attributes associated with successfully developing and operating a housing cooperative. While the focus of this guide is on low-income housing co-ops, the principles discussed can be applied to any type of housing co-op.

