

# Rural COOPERATIVES

USDA / Rural Development

January/February 2002

~~CO-OP~~

CO-OP  
EDUCATION:  
Are We  
Making the  
Grade?



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## *Cooperative education: whose responsibility is it?*

Major discussions are now taking place about what national organizations will take responsibility for education about cooperative principles, practices and methods of operation. Should there be a responsibility at the national level at all? In the article on page 8, Professor Brett Fairbairn, director of the Center for Study on Cooperatives at the University of Saskatchewan, makes a strong case that whether cooperatives succeed or fail in the new century depends to a large extent upon cooperative educational efforts.

In the formative days of many of today's cooperatives, Dr. Edwin G. Nourse and Aaron Sapiro supported vigorous education efforts. Out of this effort the American Institute of Cooperation (AIC) was formed in 1925 as a "floating university," attended annually by hundreds of cooperative leaders. Nurturing the cooperative idea was achieved through the sharing of experiences. Advisors active in farm organizations, extension, university and government agencies were also active participants.

The annual educational conference initially lasted up to 2 weeks, but was later shortened to 3-5 days. Programs were targeted to youth, young farm couples, adult cooperative members and educational professionals. Educational credits could be earned through certification of the program as a recognized professional educational offering. The floating university charter ended in 1991, when the AIC was dissolved. Responsibility for the educational program was then assumed by the Education Division of the National Council of Farmer Cooperatives (NCFC).

Examples of the need for constant

education about the cooperative method of doing business are not hard to find. A number of high profile cooperatives have failed when they hired outside management that had no fundamental comprehension of the user-owned nature of cooperative businesses. Similarly, in recent Farm Bill debate, an environmental working group leveled criticism at regional cooperatives for receiving "government payments" which the cooperatives, it turn, passed on to their producer-members. These critics lacked fundamental recognition of the service role cooperatives play in delivering farm program payments to members through USDA's Cooperative Marketing Association (CMA) program (see article on p. 24).

Or consider efforts by some cooperatives to use outside sources of capital to finance expansion, thereby lessening member ownership and effectively leading cooperatives down the path to takeovers by outside, non-producers or conversion of cooperatives into investor-owned firms. One observer even recently pondered whether some regional cooperatives really think of themselves as cooperatives now.

Finally, consider action last month by a state farm organization to encourage legislation for redemption of a member's capital if a cooperative was perceived by the member as competing with him or her. Each of these examples attest to challenges to the underlying principles and practices of cooperation that require careful review and exchange of knowledge in an active educational setting.

Fundamental cooperative education must extend far beyond existing cooperatives. Increasing recognition of the

vital roles cooperatives play in rural development, urban revitalization and all parts of the American economy requires that every person understand the basics of cooperatives.

A decade ago, a national cooperative educational task force—jointly sponsored by USDA and NCFC—set out an expansive, badly needed vision for cooperative education. It said that "every individual in the United States should have enough knowledge about the cooperative form of business enterprise to know its general distinguishing characteristics, assess its appropriateness to meet economic and social needs, and recognize cooperatives' purposes and benefits." Only if cooperative education strives to reach this vision can all cooperatives of every kind reach their true potential. And only then can benefits derived from cooperatives be gained by individuals and businesses throughout every part of the economy. This should be a national educational mission.

Education about cooperatives is critical to the long-term survival of producer- and user-owned businesses as instruments of change and effective representation of members' interests. The focus should not be preserving institutions for the sake of institutions, but rather how co-ops can produce more member benefits. Education about cooperatives is a fundamental process undergirding their future success. The question is whether this is recognized and how committed leadership is to enhancing programs that accomplish it.

**Randall Torgerson**, *Deputy Administrator Rural Business-Cooperative Service*

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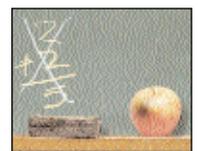
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*Brett Fairbairn explores vital education issues which will likely play a major role in the future success of cooperatives. Page 8. Graphic by Ron Pride*



# Vermont electric co-op looks to landfill for methane recovery

**By Steve Thompson**  
USDA Rural Development

*Editor's note: This is the second in a series of articles on farm and utility cooperatives that are producing, or using, alternative fuels. In upcoming issues, the focus will shift to wind and solar power, and then to ethanol.*

 Vermont is a “green” state (its name, after all, means “Green Mountain”), and many Vermonters are not very enthusiastic about nuclear power. So when the end of Washington Electric Cooperative’s contract with a nuclear power plant was in

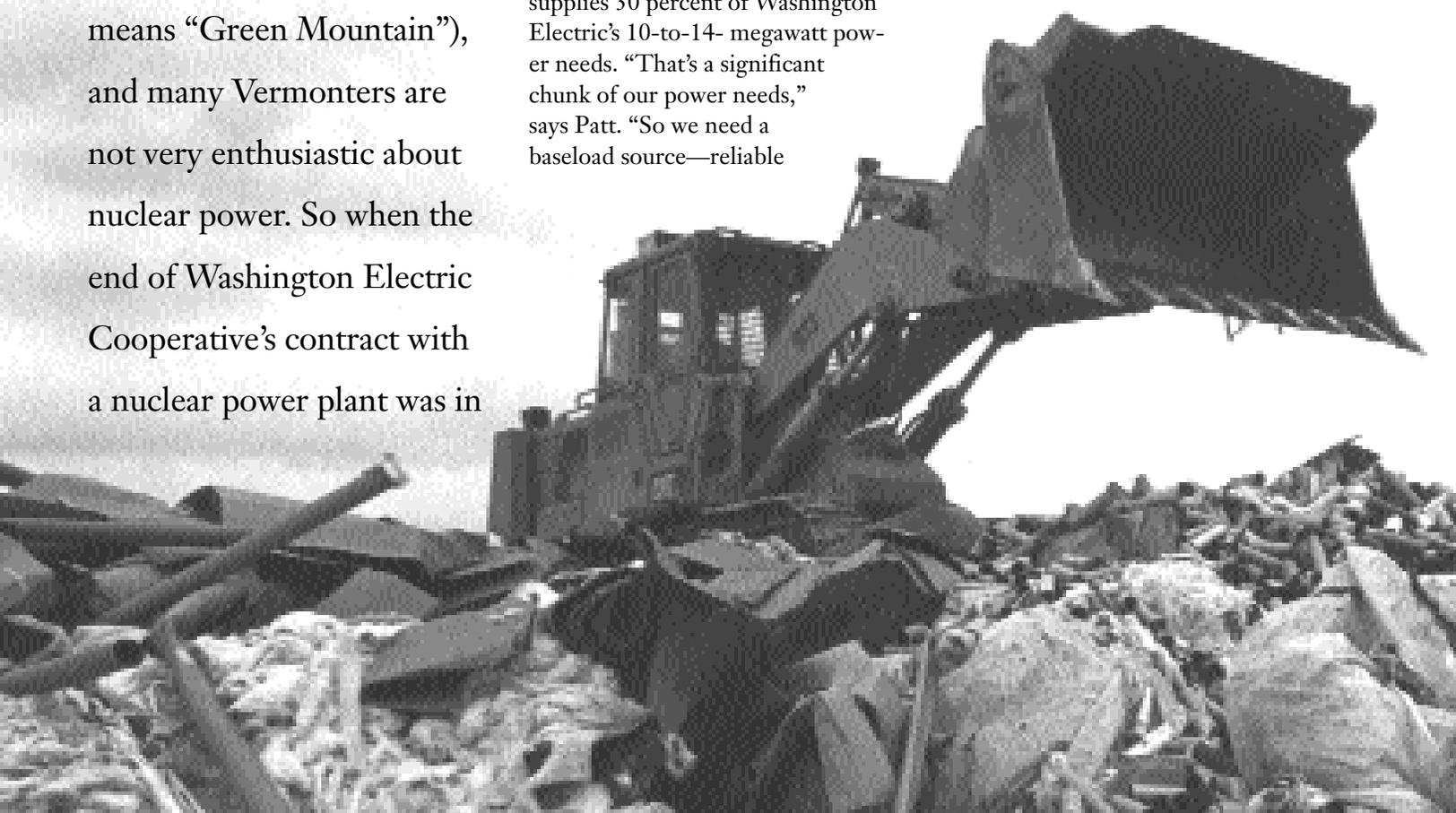
sight, the co-op looked around for a practical source of renewable energy.

“We consider ourselves a “green” co-op,” says General Manager Avram Patt from the co-op’s offices in East Montpelier. “Both our board and our members wanted to find a source of electric power that’s environmentally sound.”

Vermont Yankee Nuclear Power Corporation operates a 550-megawatt nuclear power plant in Vernon, and supplies 30 percent of Washington Electric’s 10-to-14- megawatt power needs. “That’s a significant chunk of our power needs,” says Patt. “So we need a baseload source—reliable

and economically feasible generation that isn’t dependent on weather or other variable factors.”

That leaves out solar and wind power—technologies that are considered highly desirable as renewable energy sources, but are not suitable for baseload generation because of their very nature. Solar power generation is greatly affected by cloud cover, and, of course, does not operate at all at night. Wind generation is useful in some circumstances, depending on geographic location. However, in most areas wind produces the least power at times when



## Federal tax credits boost biogas and methane energy

Biofuels are the “fuels of the future, and their production is closely linked to our nation’s security,” President George W. Bush said recently. “These fuels are made right here in America, so they can’t be threatened by any foreign power,” the president said while addressing an audience of farmers and agribusiness officials attending the *Farm Journal’s* annual forum in Washington, D.C.

Bush and other national leaders said that renewable energy production may be one of the major cash crops for farmers and others in the new century. “These fuels are gentle on the environment,” Bush said. “They are fuels that can be renewed year after year, and fuels that can expand our farm economy.”

Former CIA director James Woolsey said new methods of turning range grass, crop stubble and even garbage into ethanol could replace 30 percent of the gasoline the nation now uses. “North America is to farms what Saudi Arabia is to oil. We have an opportunity to have a huge impact on our own national security.”

It is expected that the new Farm Bill will provide substantial boosts in subsidies for bioenergy development. Already, the following incentives are available to encourage development of alternative fuels:

**Renewable Energy Production Tax Credit:** Taxpayers are allowed a credit (under Section 45 of the Internal Revenue Code) of 1.5 cents per kilowatt-hour for electricity generated from “closed-loop biomass” projects. In the fall

of 1999, Congress amended section 45 to let more facilities take advantage of the tax credit. The new rule extends the “placed-in-service” date for qualifying facilities and includes poultry waste as a qualifying energy resource.

Under this rule, qualifying facilities are defined as wind, closed-loop biomass and poultry-waste facilities. These plants will be eligible for the 1.5 cents per kilowatt-hour tax credit if they are placed in service before Jan. 1, 2002. The previous rule required facilities to be placed in service before June 30, 1999, and did not include poultry waste as an acceptable energy resource.

**Renewable Energy Production Incentive:** Section 1212 of the 1992 Energy Policy Act allows DOE to make payments of 1.5 cents per kilowatt-hour, adjusted annually for inflation, for electricity generated and sold by qualifying facilities.

**Accelerated Depreciation:** Certain equipment in an electric generating plant that uses biomass for fuel qualifies for accelerated depreciation over 5 years, provided the plant is a “qualifying facility.”

**Tax-Exempt Financing:** Assuming that the facility has more than 10 percent private business use, a biomass project can qualify for tax-exempt financing if it fits into one of two categories: 1) the project supplies gas or electricity to an area no larger than two contiguous counties or one city and a contiguous county; or 2) the facility is a solid waste disposal facility. ■

it is most needed: hot, still days in which customers’ air conditioners maximize power demand.

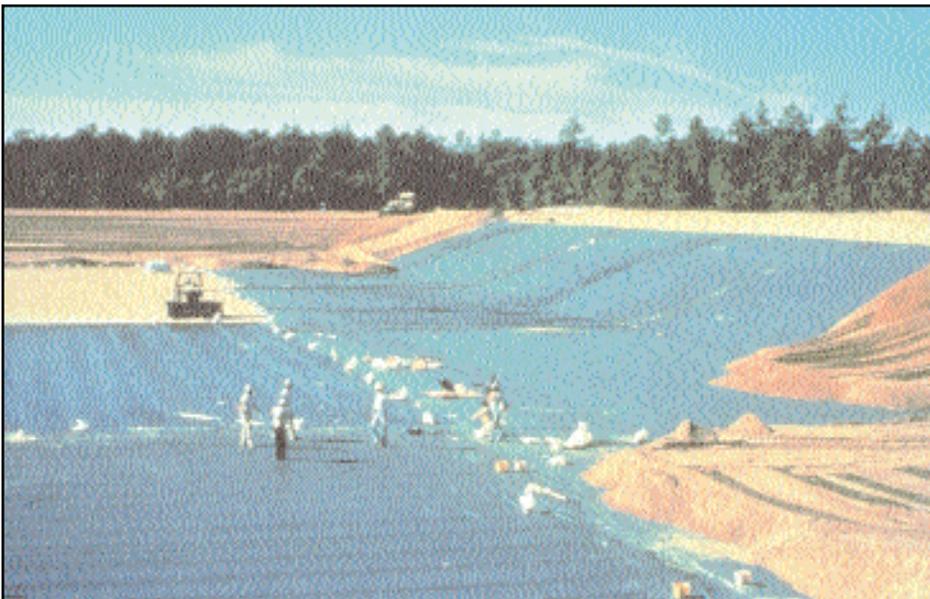
Both of these technologies—while excellent for some uses—are limited by the lack of a workable means to store for later use the power generated during periods of low demand. So they are practical primarily as supplemental sources of power. Both are also

significantly more expensive than more conventional energy sources.

The co-op found what it was looking for in, of all places, a huge landfill located in a nearby state. As the materials buried in landfills decay, the action



*“These (bio) fuels are made right here in America, so they can’t be threatened by any foreign power.”*  
—President George W. Bush



*The membrane sealing the bottom of this landfill will prevent garbage from causing groundwater contamination. With the addition of a second membrane sealing the top of the finished landfill, the methane gas generated by the decay of refuse can be recovered and burned to produce electric power. Photos courtesy National Renewable Energy Laboratory*

of microbes produces methane gas. The gas can be burned in conventional steam-turbine power plants, or in smaller gas-turbine generators. The technology for using landfill gas is well developed and in use in dozens

of areas around the country, and its cost is significantly lower than wind or solar power. Best of all, recovering landfill gas and burning it reduces the net amount of atmospheric methane, a gas that is considered 27 times

more destructive as a greenhouse gas than is carbon dioxide produced by its combustion.

### Competitive energy prices

Landfills across the country use this technology. The use of landfill methane is not free—a sizeable investment is required for infrastructure to mine it from a landfill. However, while wind and solar sources enjoy the greatest state and federal green power incentives available to utilities, methane recovery can also receive financial benefits (see sidebar). With the incentives available, the co-op's board of directors determined that they could provide landfill-generated power to their customers at prices competitive with market forecasts.

Washington Electric is a long-time borrower and customer of the Rural Electric Administration and now the Rural Utilities Service (RUS), an agency of USDA Rural Development. The co-op is now working out the details of a financing plan with assistance from RUS, which has program funding to help electrical co-ops take

## Gas Turbines: coming into their own

Gas turbines are used in many applications today. One of the most popular and best known is providing thrust for airplanes. Others include powering ships, providing easily portable sources of stationary power, and generating electricity in permanent installations.

Gas turbines have many advantages:

- They are very light and compact for their power output;
- They can run on a variety of fuels, including diesel oil, kerosene, and various combustible gases;
- They have very low vibration levels because they have no major reciprocating parts;
- Unlike other power sources, including piston internal combustion and steam turbine power plants, they do not need a dedicated coolant: the air used to combust fuel is also used to cool the engine;
- Compared to steam turbines, they can be started and brought up to peak output in a few minutes instead of hours;
- Today's gas turbines require very low levels of maintenance.

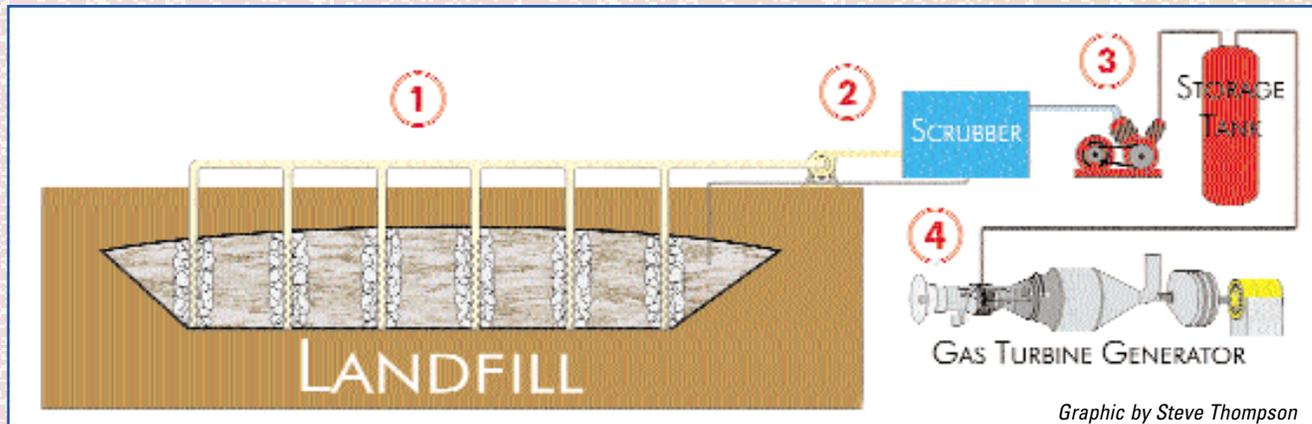
The gas turbine is simple in concept. It compresses and heats incoming air, mixes it with fuel, burns the mixture, and uses the resulting hot expanding gasses to cause a set of fans—the turbine—to rotate. In contrast, steam turbines use steam generated in an external boiler to rotate the fans.

Because they can be brought quickly on line, gas turbines have been used for decades by utilities as emergency power generators for times of peak demand. However, until recently they were not considered practical for baseline electrical generating purposes. In large part this was because their efficiency in converting fuel to useable energy was low compared to piston engines and steam turbines.

However, new technology has enabled the production of gas turbines whose efficiency is roughly analogous to those of other power sources. Moreover, future designs promise to be significantly more efficient than steam turbines, which are currently the most widely used source of power for generating electricity. ■

# How landfills generate electricity

1. Gases produced by decaying refuse are collected through slotted pipes buried in a landfill. Rock surrounding the pipes is used as a moisture barrier. Plastic membranes encase the landfill and prevent pollutants from escaping into the environment.
2. A fan pulls the landfill gases through a collection manifold and blows it into a scrubber. The scrubber removes acids, moisture, and other contaminants, which are returned to the landfill.
3. The clean, dry gas is compressed and stored.
4. The stored gas fuels a gas turbine connected to an electrical generator. A set of reduction gears converts the high-speed rotation of the turbine's output shaft to a slower speed more appropriate for powering the generator. The result is clean, environmentally-friendly electric power.



advantage of renewable energy sources. The primary contractors chosen to build the facility are La Capra Associates of Boston.

Blaine Stockton, RUS assistant administrator, sees a growing role for the agency in the trend to “green” power. “Encouraging the use of renewable energy is not only the policy of the federal government,” he says, “it’s also what many utility co-op members want. It’s an important part of our job to help rural electric co-ops find sources of renewable energy they can provide their customers at attractive prices; and we see that role growing more important in the future.”

Avram Patt says the project is compatible both with the co-op’s desire for clean energy and with its commitment to providing low-cost power for its members. “We’re especially concerned with reducing the volatility of our costs,” he says. “We’re interested in long-term commitments—bringing our

ownership and financing abilities to bear to keep our prices down.”

## Uncomplicated technology

The technology involved is well established and uncomplicated. A membrane lines the bottom of all new landfills. This is to prevent leakage of polluting substances into the water table and soil, but it also serves to help seal in the methane and other gases produced by microbial action on garbage. Vertical-slotted pipes made of plastic are installed and surrounded by porous rock, which acts as a moisture barrier. A membrane is installed over the top of the fill, and a fan is used to create a slight negative pressure, drawing the gas as it is generated through the pipes. With existing landfills, holes are drilled into the fill, into which the slotted pipes are inserted.

Once the gas is extracted, it is scrubbed to remove acids and dehumidified. The condensate is returned to the

landfill. It is then compressed, stored and used to power one or more generators. The Washington Electric Cooperative’s installation will use a clean-burning gas turbine similar to an aircraft jet engine to combust the fuel, instead of the more traditional method of burning it in a boiler to generate steam that in turn drives a generator. There is no release of gases into the atmosphere except through the exhaust stack.

A landfill gas installation provides a reliable source of power for some 30 years, although gas production does decline somewhat over the life of the installation, says Ralph Overend, a researcher at the National Renewable Energy Laboratory (NREL) in Denver. “At the end of the 30 years, you’ve used it up, so you walk away and start over,” he says. However, while any single installation is not a permanent source of power, the supply of producing landfills promises never to run out—truly a renewable energy source. ■

# Making the Grade

*Will co-ops succeed or fail in the new century? The answer lies with co-op education efforts*

**By Brett Fairbairn**

Director, Center for the Study of Cooperatives  
University of Saskatchewan,  
Canada

*Editor's note: This article is based on an address the author gave at the National Institute on Cooperative Education (NICE) in Atlanta, Ga., last summer.*



What kind of cooperative education is needed in an information age? Experts in globalization see the

changes in our society as shifts in:

- *extensity*—the degree to which cultural, political and economic activities are “stretching” across new frontiers;
- *intensity*—the magnitude and regularity of interconnectedness;
- *velocity*—of global interactions and processes; and
- *enmeshment*—or interdependence, of the global and the local.

(William S. Coleman, after David Held *et al.*)

No business and no organization will escape the impacts of these kinds of changes. Currently, we are seeing the reorganization and restructuring of many—perhaps most—sectors of human activity: new ideas, new influences, new attitudes, new competitors, new products and new methods. The resulting challenges for enterprises are not solved by simply throwing more capital or more labor at them: *information* is the key.

Cooperatives need to perceive and recognize change. They need to be

flexible to innovate and adapt appropriately and quickly in order to deal with complex, interrelated problems. Education has a role in every one of these processes and is essential to the success of cooperatives.

One of the most remarked-upon features of the new age is an excess of information. *Facts* abound. No one can keep up with all the stories, reports, articles, events and opinions. *Skills* and skill-training are everywhere, constantly changing and updated with the latest technology or the latest approaches. What people desperately need is not more information to add to all this noise, but rather mental tools to deal with information, to sort out what is meaningful, what is significant and what is needed.

We must distinguish training from education. Training imparts specific, predetermined facts, procedures and skills. Education develops in people the capacity to know what is important, how to do something and to find the information and skills they need. Cooperatives have gotten by for decades by doing a great deal of training—particularly of staff and elected leaders. But in the new information age, they have to go back to doing more education, especially member education. This must be a new and innovative kind of education.

## Education for change

Education must respond to four key needs on the part of members and leaders of cooperatives: a need to innovate; a need to respond flexibly to fundamental changes; a need to deal with complex problems; and a need to overcome com-

partmentalization within organizations.

Cooperators need the ability to deal with *rapid change*. They must be able to generate and adopt *innovations*, assess new ideas and implement them appropriately. This doesn't mean buying new machines or software off the shelf. The most important innovations in today's business world are innovations in how firms are organized, how work is done, and how different units are linked together. Such innovations require a pervasive kind of education and minds that are not only open to new ideas, but that are also critical and constructive in applying them.

Cooperatives will need the ability to handle surprises, because the economy and world events will remain volatile and unpredictable for a long time to come. *Flexibility* will be a key attribute and will have to be encouraged and supported by education. Members and leaders who are trained only for specific roles and functions will find this training inadequate when the world changes around them. In addition to job- and role- specific training, cooperators will need a broader foundation of understanding of the economy and of their place, and their cooperative's place, in that economy.

Co-op members and leaders also have to be able to grasp *complex phenomena*, bundles of problems and changes that are interconnected and go beyond simple solutions. Changes in many spheres of society are occurring in parallel. What is happening in agriculture, for example, is related to retailing, manufacturing and science. What is happening within cooperatives is connected to what is going on outside

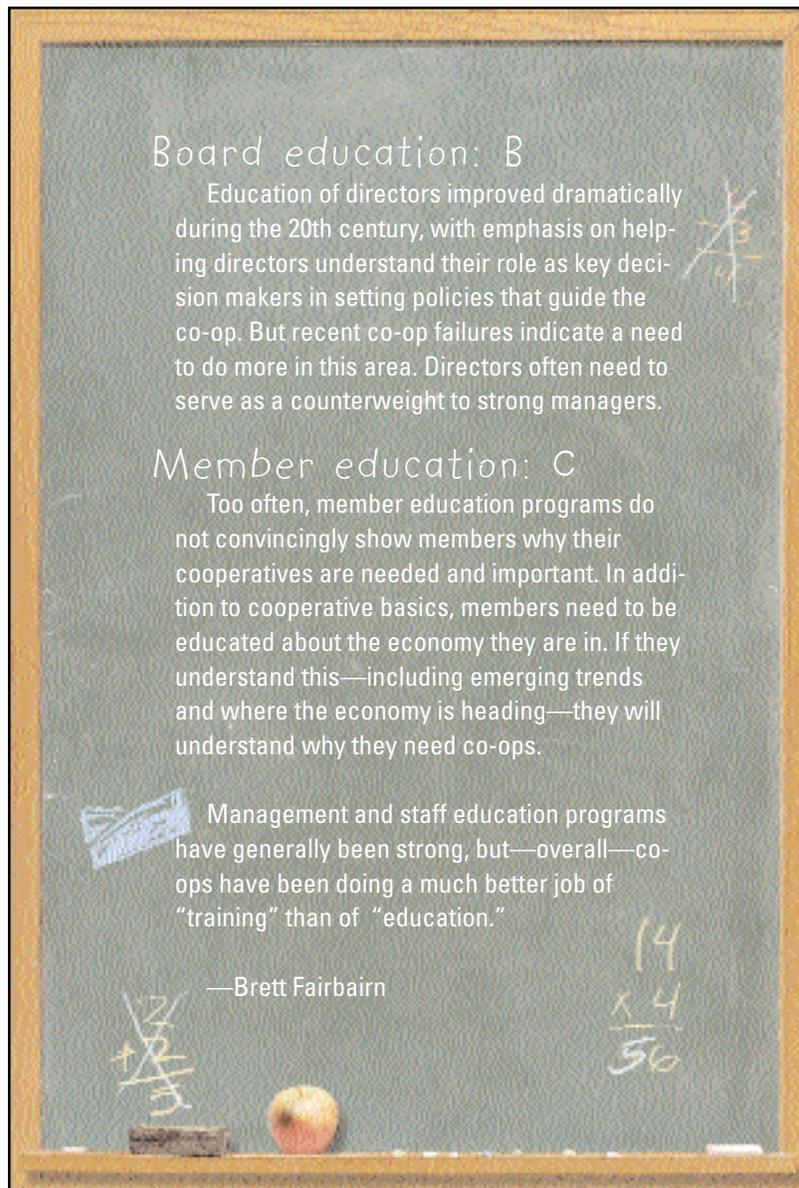
them. Cooperatives mirror the society they are part of. Changes in social priorities and attitudes are reflected in changes in cooperative members' and employees' values and behaviors. It is increasingly the case that cooperators need to understand society in order to understand their co-op.

All of these needs, requirements and trends are bound up with a fourth factor: *non-compartmentalization of knowledge* has become a central challenge for all organizations. Previously, organizations dealt with tasks and information by "bee-hiving" them off into specialized units. Today, in all walks of life—business, communities, governments and universities—the challenges that matter require people to cross these boundaries and to connect knowledge of different kinds, from different people, about different things. There is no formula or specific structure to do this. It is, rather, a question of adopting a network model for how organizations work.

### Education and strategy in a networked world

Networks are an increasingly prominent form of relationship in the post-modern economy. Instead of being entrenched in ponderous and long-lasting organizational structures, networks go across and between existing organizations with a minimum of structure. They are coordinated through information and sustained by communication.

This network environment encourages diffusion of ideas, adaptation and innovation—exactly the qualities cooperatives urgently need in their new



business environment. Within a network environment, particular kinds of education are important. Cooperatives will need education that releases and puts into operation *contextual knowledge* (knowledge of local people, members, employees, stakeholder groups and partners in specific ventures).

In other words, education will not just spread knowledge, but will also create knowledge. Among the knowledge that will be most relevant is knowledge about *strategic ideas*—the visions and concepts that bring people together, that provide a focal point for cooperatives and for networks. Education will be intimately connected to cooperative business strategy. Education will shape strategy, and strategy will shape education.

One of the purposes of cooperative education is to help make the organization *transparent*. Due to their size, horizontal and vertical integration, and multiple roles and pressures, many cooperatives have become rather complicated organizations. An important corollary of this is a weakening sense of member commitment. Members feel less attached to organizations that seem more remote or harder to understand. There is less trust or loyalty when the cooperative's overall direction eludes easy grasp, when it serves many interests, or is active in many product lines or regions. The cooperative is like a black box: members put something in (patronage, loyalty, participation) and get something out (benefits and services), but the exact connection is obscure. These characteristics contribute to problems of collective action: members may fail to support the co-op as much as they should, even when it is in their interest to do so.

The difference in a "transparent" co-op is that the members can more easily see and understand the inner workings of the co-op, what it does, where surplus is generated and for whom, which members or regions participate and benefit in which ways. Making a co-op transparent in this way is partly a question of organizational design and business strategy. New-generation co-ops, for example, use concentration on a single commodity and an explicit linkage of equity and delivery rights to make clear how the co-op works and how it benefits members.

The result is member commitment, expressed in a willingness to invest that is exceptional compared to other kinds of cooperatives. The general principle of transparency is one that other co-ops can learn from, even if they do not adopt the new-generation structure. Equally, transparency is an issue not only of how a cooperative is structured, but also of how it is explained: of education, in other words.

To appreciate the role of education in a post-modern enterprise, it is necessary to think about how organizations work. The most important decisions are rarely based on “facts,” at least not directly. Participants base their decisions on mental representations of what they think their organization is, their environment and their competition. These mental images amount to *models* of the organizational self and of the others with whom it deals. While such mental concepts were always important to organizational success, they are now critical to strategy and innovation.

Rapid and bewildering change puts more stress on the need for models and strategies to be *accurate*; decomposition of old relationships and lines of authority puts more stress on them being *shared*, rather than imposed. Increasingly, organizations cannot function unless they develop sophisticated analysis and strategy that goes beyond the senior leadership group so that there is buy-in from all stakeholders into a shared strategy.

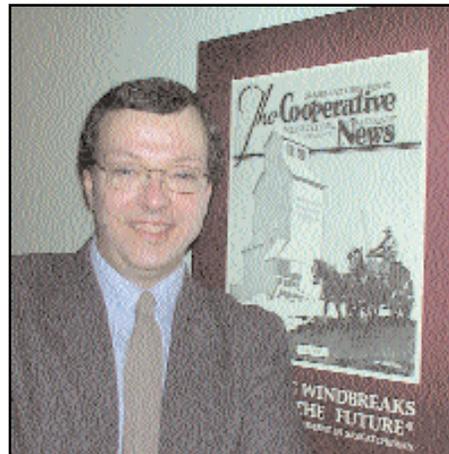
### Conscious organization

In a specific sense, it is appropriate to say that the challenge for organizations is to develop a higher level of *consciousness*. It is consciousness that allows flexible, creative and adaptive responses and initiatives for organizations and people. Consciousness has been described by neurologist Antonio Damasio as involving three interrelated sets of mental constructs: a model of one’s self; a model of the external environment; and a model of how one affects the other.

We can transfer this terminology to

organizations. Effective organizations require a clear sense of who they are: an organizational identity shared among members, leaders and stakeholders. This is not a static thing, such as a plaque on a wall; it is a real, living image of what members are buying into when they join, including a sense of common purpose and values.

Organizations also require an understanding of their industry, its trends, where the competition is going and how all this fits into the broader society. Most importantly,



Brett Fairbairn, flanked by a vintage Canadian co-op publication cover.  
Photo courtesy University of Saskatchewan

they need a mental model of how these two things interact and fit together: the role and position of their organization in the evolution of their industry and society.

The overriding goal of cooperative education is to help create this conscious organization, the conscious cooperative. This is an integrative and connective function that has to be linked closely with business strategy and planning and with many other areas. *Research* is a critical related function. To have accurate and updated understandings of the industry, of communities and of stakeholder groups requires a permanent and creative research function. Cooperatives will generally need to expand their research capacity and to link research more closely to both education and planning.

### Education as linkage

Cooperatives need to remember that education is not only a means of distributing knowledge, but also of creating it. This creative function arises from education’s role in making linkages—linkages between ideas and information, and linkages between people and groups. Members have knowledge that cooperatives need and should value: knowledge about their local community and conditions, about their needs, about their spending, purchasing, or marketing plans and intentions.

Engaging these members in an educational process is a way of unlocking their knowledge, for the benefit of the cooperative as well as of themselves. Education reveals how to see their own operations in relation to the co-op and the industry—it shows what information is valuable and what linkages and relations are useful. At the same time, the cooperative has knowledge that members need—knowledge about the industry, research about trends and innovations. Education also has a function in making the cooperative’s knowledge accessible to the members.

Effective marketing of co-ops also has educational dimensions. There are a variety of new and important approaches to cooperative business that have been thought out by co-op innovators, and tested by early adopters. These include marketing the cooperative advantage, values-based marketing, new structures of member ownership and commitment and communication strategies that make co-ops more transparent.

All of these related approaches are on a similar track. They have at least two things in common. First, they focus on *members* as a source of renewal and identity, of new commitment and of increased business success. You can’t renew a co-op without members. Second, it is important to note that all approaches involve or presuppose effective cooperative education. Education is not the same as marketing, but in a well-functioning cooperative the two are closely connected: each feeds into the other, provides feedback and

works in a complementary fashion.

Besides research and marketing, one can also highlight *training* of staff and elected leaders, and *communications* with members and the public, as additional organizational functions that overlap with education. Education is a mission that should over-arch and inform many separate functions of cooperatives; it should be designed to integrate, to cross over different units and activities and to link them. The tendency over the last several decades for cooperative education to be isolated in separate units, marginalized or professionalized—a tendency driven not only by cost-cutting managers but also, in some cases, by educators themselves—needs to be reversed in favor of a more integrated model.

### Rethinking co-op education

Generally speaking, cooperatives need to rethink education and reconceptualize how it can support innovation, leadership, member loyalty and business strategy. Innovation—even among co-ops!—normally begins with small groups and local units. Part of the job of education is to encourage and empower groups and localities, and—once innovations emerge—to promote their diffusion and replication.

Education has to support an atmosphere of experimentation and openness within the cooperative and among its members and partner organizations. In doing this, a critical role falls to education in mediating the tension between the *diversity* of ideas that makes for innovation, and the *unity* of vision that enables a cooperative to pursue a sound business strategy. Education has to contribute to both aspects—diversity within the cooperative and unity of purpose—and has to do its part to help keep them in balance.

Co-ops have long been committed to education and have done many things well, but naturally there are barriers to new ideas in existing organizations. There are shortages of resources and appropriate concerns with efficiencies and effectiveness. In the long run, such concerns should not hinder a well-

conceived education strategy. However, there are also less reasonable and less logical hindrances: most importantly, a lack of legitimacy in many cooperatives for any active educational function; structural barriers to the effectiveness of educators within organizational structures; and mental barriers to realizing the importance of education.

It is important to be frank and realistic about the nature of these barriers, and creative in overcoming them. The most important step in doing so is to

*Inadequate education is going to contribute to inappropriate business strategies, failed innovations and weak member commitment.*

articulate a vision of cooperative education that clearly relates its function to the basic goals of the cooperative and to the challenges of the new information economy.

In summary, cooperative education in the information age will focus on the following approaches and themes:

- innovation, experimentation and diffusion of new ideas;
- ideas, models and strategies—not just facts, roles, and skills;
- close links to research, communications and business strategy;
- making the co-op transparent to members;
- creating and sustaining networks; developing relationships and cultivating local knowledge;
- fostering a sense of organizational identity;
- creating understanding of the organization's environment, trends in

the industry, and the role of the cooperative in relation to these trends.

To some, this may sound futuristic, but in fact it is a return to co-op basics. Cooperatives were born during the industrial revolution, a time of technological and organizational change that was at least as bewildering for people then as the information age is for people now. Early nineteenth-century British cooperators—Owenites, forerunners of the Rochdale Pioneers—identified a need for “useful knowledge.” What they meant by “useful” was knowledge about the new industrial economy and how it worked, about the mechanisms of economic and political power. They appear to have believed that if members understood the new economy, they would understand why they needed their cooperatives.

Cooperators would do well to translate that lesson from a far-off age of economic transformation into the present age of globalization. The most important cooperative education is to educate members about their place in the economy, about their sector and its trends, about their cooperative's role. That is true now as it was then.

*Education* is about what members and leaders need to know to make important decisions. It is much more than public relations, and it is not a social or charitable activity. It is the prerequisite for the co-op to innovate and to act as a unified organization with a common vision. It is the means by which members become economically supportive, loyal and make the cooperative a financial success. The greater the velocity and intensity of change, the more need there is for education.

Cooperative education conceived in these ways will be the single most important factor in the success or failure of co-ops in the 21st century. Inadequate education is going to contribute to inappropriate business strategies, failed innovations and weak member commitment. Effective member education, on the other hand, will be part and parcel of sound strategy and good marketing. If education ever was a luxury, it isn't any more. ■

# Revenue up, net margins down

*Ag cooperatives struggle with lower prices, higher costs*

**By David Chesnick**

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*Editor's note: A more detailed examination of the financial performance of the top 100 U.S. farm cooperatives will be available in late January at: [www.rurdev.usda.gov/rbs/pub/newpub.htm](http://www.rurdev.usda.gov/rbs/pub/newpub.htm)*



With a few exceptions, most agricultural sectors continued to battle with lower prices and higher costs of production in 2000.

Most cooperatives labored under these pressures. According to the just-released "Farmer Cooperative Statistics, 2000" (RBS Service Report 60), published by USDA's Rural Business-Cooperative Service, total revenue for all farmer cooperatives increased 4.7 percent. However, net income was down 3.9 percent.

Business consolidation at the top continued in 2000. The volume of business conducted by the largest 100 cooperatives represents nearly 62 percent of the total gross business volume of all cooperatives, up from 58 percent in 1999. These major co-ops (which represent 3 percent of co-ops by number and a much larger percent by membership) also control 60 percent of the total assets of cooperatives.

The largest 100 cooperatives vary tremendously in the volume and type of business they perform. Their total volume of business ranges from \$40 million to \$12.3 billion. The types of businesses include manufacturing, farm supply sales, marketing and processing. In this report, the category in which a

cooperative is included is based primarily on the type of commodity they market or process for their members. While more than half of the largest cooperatives sell farm supplies, only those that sell predominantly farm supplies will be included in that category. Some cooperatives are involved with several commodities and cannot be easily categorized. These cooperatives were classified as diversified cooperatives

## Operating revenue rebounds

Total operating revenue (which includes all farm supply and crop/livestock marketing sales and service income) earned by the top 100 cooperatives was up 7 percent (table 1) from 1999, to more than \$70 billion. This gain reversed 4 years of declining operating revenue—the same trend that held true for all cooperatives in 2000. Most top 100 cooperatives saw an increase in revenue in 2000, with 57 showing higher revenue (compared to 39 the year before). However, 69 percent of this increase was due to large gains made by three cooperatives.

Farm supply sales, which jumped \$2.7 billion, were the main force driving revenue higher. Petroleum sales led the way, accounting for 83 percent of the total increase in farm supply sales.

For co-ops that process and market farm commodities and products for their members (referred to as "marketing cooperatives") the picture was mixed. Dairy, rice and sugar cooperatives all saw revenue decline despite higher production volume. But the increase in output could not

offset lower prices. Most other types of marketing cooperatives fared better, resulting in an overall 4-percent increase in revenue for marketing co-ops as a group.

Overall, the cost of goods sold increased by the same amount (7 percent) as that of revenue. However, across commodity groups there were variations. For example, poultry/livestock cooperatives paid a higher percent of the increased revenue back to their members in the form of cost of goods sold. In 1999, 92 percent of their sales represented cost of goods sold. By 2000, that same percentage reached 94 percent. On the other hand, fruit/vegetable cooperatives had lower cost of good sold despite having higher revenue.

## Gross margins continue upswing

Gross margins increased by the same proportion as sales and cost of goods sold. Gross margins were up 7 percent, to \$6.9 billion from 1999. Every commodity group but poultry/livestock showed an increase in gross margins. As explained above, poultry/livestock cooperatives increased their payments for their members' products by more than the increase in sales, thus lowering their gross margins. This represents the second year in a row the top 100 cooperatives ended their year with higher gross margins.

Operating expenses jumped 5 percent in 2000. Leading this increase were cotton cooperatives, with a 30-percent increase in expenses. Next were dairy co-ops, with a 10-percent

**Table 1—Consolidated Statement of Operations 1999-2000,  
Top 100 Cooperatives**

	2000	1999		Percent
	\$ thousand		Difference	Change
<b>Revenues</b>				
Marketing	51,559,378	49,664,378	1,895,000	3.82%
Farm Supply	18,266,457	15,573,040	2,693,417	17.30%
Total Sales	<u>69,825,835</u>	<u>65,237,418</u>	<u>4,588,417</u>	<u>7.03%</u>
Other Operating Revenues	616,537	574,118	42,419	7.39%
Total Operating Revenues	<u>70,442,372</u>	<u>65,811,536</u>	<u>4,630,836</u>	<u>7.04%</u>
Cost of Goods Sold	63,494,154	59,345,306	4,148,848	6.99%
Gross Margin	<u>6,948,218</u>	<u>6,466,230</u>	<u>481,988</u>	<u>7.45%</u>
<b>Expenses</b>				
Operating Expenses	6,015,351	5,721,550	293,801	5.13%
Net Operating Margins	<u>932,867</u>	<u>744,680</u>	<u>188,187</u>	<u>25.27%</u>
Other Revenues (Expenses)				
Interest Expense	(749,403)	(654,451)	(94,952)	14.51%
Interest Revenue	82,847	68,008	14,839	21.82%
Other Income	256,137	374,942	(118,805)	-31.69%
Other Expenses	(132,378)	(58,055)	(74,323)	128.02%
Patronage Revenue	<u>35,387</u>	<u>51,481</u>	<u>(16,094)</u>	<u>-31.26%</u>
Net Margins from Operations	425,457	526,605	(101,148)	-19.21%
Non-Operating Rev. (Exp.)	29,410	470	28,940	6157.45%
Net Margins	<u>454,867</u>	<u>527,075</u>	<u>(72,208)</u>	<u>-13.70%</u>

jump. Farm supply and sugar cooperatives had lower operating expenses in 2000 compared to 1999. Most of the farm supply decline was due to the restructuring of a few cooperatives while all the sugar cooperatives showed lower expenses. All other commodity groups showed a moderate, 5-percent increase in their operating expenses.

For those cooperatives reporting labor expenses, total wages and benefits increased 6 percent. Reported labor expense represents 50 percent of total operating expense, which was similar to 1999.

### Net operating margins bounce back strong

Net operating margins have been declining since peaking in 1995. However, 2000 showed a remarkable reverse in that trend. Net operating margins for the largest cooperatives

jumped 25 percent, to \$933 million. But not all commodity groups fared well. While cotton, poultry/livestock and rice cooperatives had lower net operating margins, most of these lower values resulted from a single cooperative within each sector.

Most of the other commodity groups had mixed results, with the majority having higher net operating margins. Farm supply and sugar cooperatives showed the largest turnaround. This was mostly due to better control of operating expenses.

### Higher margins don't equal stronger bottom line

Despite what appears to be higher margins from operations, other revenues and expenses pushed down overall net margins to the lowest level since 1986. Interest expense jumped nearly 15 percent in 2000, to nearly \$750 million. This was due mostly to a higher

amount of debt, which reached a record of more than \$10 billion. Dairy, diversified, fruit/vegetable and farm supply cooperatives were most heavily involved with debt financing. These groups hold 75 percent of the debt of all cooperatives, while representing 54 of the largest 100 agricultural cooperatives.

Interest income was up 22 percent in 2000. However, nearly 50 percent of that increase was due to two poultry/livestock cooperatives.

Other income and expenses include rental income, gain/loss on the sale of fixed assets, income or losses associated with joint ventures or unconsolidated subsidiaries. These income/expenses are generally not related directly to cooperative operations. Other income that helps cooperatives with their bottom line fell 32 percent while other expenses jumped 128 percent. The cumulative effect pushed down these other revenues/expenses to \$124 million, a decline of 61 percent. Only grain and cotton had higher revenues from these other sources.

Patronage refunds received by the largest cooperatives continued to fall and reached the lowest levels since 1988. Total patronage refunds received by the largest agricultural cooperatives was \$35 million in 2000, a 31-percent decline from the year before. These refunds include patronage from both cooperative banks and other cooperatives. Every commodity group reporting patronage refunds showed a net decline.

The net effect of these non-operational activities pushed down net margins to \$455 million. This 14-percent drop in net margins was the lowest level since 1988. Higher interest expense coupled with declining revenues from joint ventures were the main cause in continuing declining net margins for 2000.

Dairy cooperatives as a group had the largest net margins, accounting for 47 percent of the total top 100 cooperatives. They were followed by the diversified cooperatives, with 29 percent of the net margins. Farm supply, poultry/live-

stock and sugar cooperative commodity groups ended the year with net losses.

### Despite lower margins, member patronage climbs

Members received higher patronage refunds in 2000 (as measured both by higher percentage of net margins and absolute value). Despite lower net margins, members received \$88 million more than in the previous year, a 28-percent increase. Eighty-eight percent of total net margins were returned to members as cash and allocated equity. This compares to 60 percent in 1999. All commodity groups allocated patronage to their members, with the exceptions of fruit/vegetable and sugar cooperatives.

If cash is king, then members should be feeling better in 2000. Forty-five percent of net margins were paid out in cash in 2000 compared with 32 percent the prior year. That equates to a 21-percent increase in cash payments in real dollars.

Dividends paid also increased 11 percent, to \$50 million. With the exception of sugar, all commodity groups paid cash to their members. Despite net losses, farm supply and poultry/livestock cooperatives deducted from their unallocated equity to return cash back to their members. Only three cooperatives use non-qualified, non-cash patronage refunds.

Due to the combined effect of lower margins and higher allocations, unallocated equity actually was negative in 2000. In other words, unallocated equity was used to cover losses and allocation shortfalls.

As a whole, the largest cooperatives also ended the year with a tax benefit. Twenty-five cooperatives had tax benefits in 2000 totaling \$93 million. This compares with a total tax liability for the other 75 cooperatives of \$79 million. While some of the tax benefits were due to net losses, seven cooperatives received a benefit by allocating unallocated equity back to members.

**Table 2—Consolidated Balance Sheet 1999-2000, Top 100 Cooperatives**

Assets	2000 \$ thousand	1999	Difference	Percent Change
<b>Current Assets</b>				
Cash	831,570	897,744	(66,174)	-7.4%
Accounts Receivable	6,084,896	5,688,296	396,600	7.0%
Inventory	6,216,827	5,970,359	246,468	4.1%
Other Current Assets	1,088,555	1,074,468	14,087	1.3%
<b>Total Current Assets</b>	<b>14,221,848</b>	<b>13,630,867</b>	<b>590,981</b>	<b>4.3%</b>
<b>Investments</b>				
Cooperative Banks	358,996	338,887	20,109	5.9%
Other Cooperatives	1,880,531	1,713,491	167,040	9.7%
Other Investments	2,004,331	1,880,291	124,040	6.6%
<b>Total Investments</b>	<b>4,243,858</b>	<b>3,932,669</b>	<b>311,189</b>	<b>7.9%</b>
Net PP&E	8,741,537	8,622,080	119,457	1.4%
Other Assets	2,574,725	2,403,178	171,547	7.1%
<b>Total Assets</b>	<b>29,781,968</b>	<b>28,588,794</b>	<b>1,193,174</b>	<b>4.2%</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Short-term Debt</b>				
Current Portion of Long-term Debt	609,828	673,360	(63,532)	-9.4%
Cooperative Banks	1,325,521	1,301,882	23,639	1.8%
Commercial Banks	1,263,801	887,576	376,225	42.4%
Other Sources	518,405	401,213	117,192	29.2%
<b>Total Short-term Debt</b>	<b>3,717,555</b>	<b>3,264,031</b>	<b>453,524</b>	<b>13.9%</b>
Accounts Payable	3,600,745	3,694,631	(93,886)	-2.5%
Member Payables	483,278	421,833	61,445	14.6%
Patron and Pool Liabilities	1,517,292	1,302,047	215,245	16.5%
Other Current Liabilities	1,971,214	1,576,405	394,809	25.0%
<b>Total Current Liabilities</b>	<b>11,290,084</b>	<b>10,258,947</b>	<b>1,031,137</b>	<b>10.1%</b>
<b>Long-term Debt</b>				
bank for cooperatives	2,768,352	2,921,132	(152,780)	-5.2%
bond issued by cooperative	2,556,168	2,604,804	(48,636)	-1.9%
other sources	1,610,540	1,629,588	(19,048)	-1.2%
<b>total long term debt</b>	<b>6,935,060</b>	<b>7,155,524</b>	<b>(220,464)</b>	<b>-3.1%</b>
less current portion	6,325,232	6,482,164	(156,932)	-2%
other liabilities and deferred credits	1,223,722	1,200,551	23,171	1.9%
<b>total noncurrent liabilities</b>	<b>7,548,954</b>	<b>7,682,715</b>	<b>(133,761)</b>	<b>-1.7%</b>
<b>total liabilities</b>	<b>18,839,038</b>	<b>17,941,662</b>	<b>897,376</b>	<b>5.0%</b>
minority interest	888,238	776,512	111,726	14.4%
member equity	8,280,076	8,025,753	254,323	3.2%
unallocated capital	1,774,615	1,844,867	(70,252)	-3.8%
<b>total equity</b>	<b>10,054,691</b>	<b>9,870,620</b>	<b>184,071</b>	<b>1.9%</b>
<b>total liabilities and equity</b>	<b>29,781,967</b>	<b>28,588,794</b>	<b>1,193,173</b>	<b>4.2%</b>

### Assets continue to expand

Total assets for the top100 co-ops grew 4 percent in 2000 (table 2).

Leading the increase were current assets, which increased \$591 million, to \$14 billion. Almost all of that growth

came from inventory accumulation and higher accounts receivable. In a stagnant economy, increases in these accounts can prove to be troubling.

The accounts receivable turnover ratio dropped from 17.5 to 16.8 in 2000. This indicates that accounts receivable are growing in relation to sales revenue. The inventory turnover ratio increased from 49.8 to 55.1, showing that inventories were not expanding faster than sales.

The majority of inventory and accounts receivable accumulation occurred in diversified, fruit/vegetable and farm supply cooperative sectors. The fruit/vegetable group accumulated the most inventories while diversified cooperatives accounted for the largest increase in accounts receivable.

Investments also jumped, increasing 8 percent, to \$4 billion. While the cooperatives increased their investments in non-cooperatives, the majority of the increase was investments in other cooperatives. This includes both cooperative banks and other cooperatives. Investment in non-cooperative enterprises also increased \$124 million. Diversified cooperatives led the increase in investment in other cooperatives while poultry/livestock cooperatives had the greatest increase in non-cooperative investment.

Fixed assets increased 1 percent, to \$8.7 billion. Farm supply, poultry/livestock and sugar were the only commodity groups to decrease the amount of fixed assets held.

### **Higher current debt boosts total liabilities**

Total liabilities increased \$897 million, up 10 percent from 1999. All of this increase was due to a jump in current liabilities.

Short-term debt was up \$454 million in 2000, with most of the increase coming from commercial banks. Current portion of long-term debt fell due to lower interest rates and declining long-term debt. Cooperative banks provided cooperatives with the largest source of working capital. However, commercial banks are increasing their

cooperative loan portfolio.

Cooperative bank loans increased 2 percent, to just over \$1.3 billion. Most top 100 co-ops have grown to the extent that they have exceeded the lending limits of cooperative banks and are thus doing more supplemental borrowing from private banks. Fruit/vegetable and grain co-ops continue to rely heavily on cooperative banks for operating loans. The other commodity groups are relying more on commercial banks as those loans jumped 42 percent, to just under \$1.3 billion. However, large diversified cooperatives accounted for 60 percent of the increase in borrowing from commercial banks. Bank loans, both cooperative and commercial, accounted for the majority of cooperative short-term financing, with 70 percent of the total short-term debt. The exceptions are cotton and sugar cooperatives. Cotton cooperatives balanced bank loans with commercial paper as sources for working capital. Sugar cooperatives relied on government sources to provide more than half of their total short-term debt.

Accounts payable dropped 3 percent, to \$3.6 billion. Liabilities owed to members jumped 16 percent, to \$2 billion. These member liabilities include cash payments, dividends and revolving equity (which has been declared but not yet paid), pooling payments and other member credits. However, 50 percent of the total increase was caused by a single cooperative.

Total long-term debt less current maturities dropped by 2 percent, to \$6.3 billion. Most of the decline is attributed to diversified and farm supply cooperatives. Cooperative banks and debt issued by the cooperative accounted for 77 percent of total outstanding long-term debt. Cotton, fruit/vegetable and grain cooperatives relied heavily on cooperative banks for long-term funding. Diversified, dairy and rice cooperatives relied more on issuance of bonds and other notes to finance their long-term needs.

### **Despite lower margins, equity hits new record**

Total equity grew 2 percent in 2000, with the largest cooperatives ending their fiscal year with a record \$10 billion in total equity. Member equity that includes member certificates, preferred and common stock increased by 3 percent. On the other hand, unallocated equity fell by 3 percent. As was mentioned earlier, lower margins and higher payments to members brought about a decline in unallocated equity.

### **Performance measurements continue downward slide**

The average performance measures for all 100 cooperatives continued to show deterioration over the prior years. The tools developed to analyze the cooperative's financial information include several performance measurements or ratios. These measurements are standard ratios found in most financial textbooks. A list of average ratios for all cooperatives and by sector group is presented in table 3.

The current and quick ratios examine cooperative liquidity. Both ratios show that the average cooperative liquidity eroded over the prior year. The current ratio fell from 1.40 to 1.37 between 1999 and 2000. The quick ratio fell from 0.78 to 0.76 during the same period. The main cause for declining liquidity was lower cash flows from operations and the need for cooperatives to acquire working capital loans to help fund operations.

Leverage ratios show the risk associated with financing and cooperatives' ability to meet their long-term and short-term obligations. The debt-to-asset ratio illustrates how assets are financed. In 2000, the debt-to-asset ratio was 0.61, up slightly from 0.60 in 1999. Examining long-term financing, we focus on the long-term debt-to-equity ratio. This ratio increased from 0.6 in 1998 to 0.61 in 2000, raising the level of risk.

What the combined effect of higher liquidity and stable leverage ratios

**Table 3—Ratios by Commodity Group, 2000**

	Current Ratio	Quick Ratio	Debt To Assets	Long-Term Debt To Equity	Times Interest Earned	Local Assets Turnover	Fixed Assets Turnover	Gross Profit Margin	Net Operating Margin	Return On Total Assets	Return On Members Equity
	Ratio		Times			Percent					
All cooperatives	1.37	0.76	0.61	0.61	3.31	2.66	14.45	16.47	1.34	3.73	9.41
cotton	1.44	0.69 <sup>e</sup>	0.56	0.42	3.25	2.64	22.40	15.49	5.20	9.77	21.59
dairy	1.30	0.93	0.60	0.34	9.12	4.52	26.09	12.88	1.64	6.24	15.93
diversified	1.25	0.84	0.72	1.47	1.62	2.18	10.28	10.36	0.63	1.32	3.47
fruit/vegetable	1.44	0.61	0.71	0.97	1.42	1.88	9.67	27.15	0.47	1.59	7.10
farm supply	1.41	0.61	0.58	0.53	2.39	1.99	10.94	16.74	1.52	3.62	7.43
grain	1.27	0.67	0.58	0.46	1.88	2.30	8.53	13.25	1.25	3.41	8.70
poultry/livestock	2.06	1.73	0.63	0.75	1.13	3.48	45.42	6.14	1.60	1.93	1.66
rice	1.68	0.77	0.50	0.34	3.98	2.29	5.63	29.38	2.10	5.06	10.70
sugar	1.15	0.53	0.67	1.09	0.92	0.86	1.63	26.03	(0.40)	(0.33)	(2.16)

illustrates is the change in the term structure of the debt. In other words, cooperatives appear to be shifting their debt loads from long-term to short-term. Expansion of fixed assets slowed down while the need for working capital increased. Short-term financing bridged this working capital need.

While leveraging a cooperative is not necessarily a bad thing, it does put more risk on the business. The biggest risk comes from cooperatives defaulting on their loans. An examination of the times-interest-earned ratio provides a quick look at that scenario. It looks at the number of times interest expense is covered by net margins with interest added back in.

This ratio fell from 4.7 to 3.3 in 2000, the lowest level in the past 5 years. While there is no current crisis, the leverage ratios point to a situation where cooperatives are leveraging themselves to fund operations while the revenues from those operations continue to shrink.

Activity ratios look at how well the cooperative uses its assets. Cooperatives are finding activity ratios holding steady. Local-asset-turnover (calculated by taking total revenues divided by local assets) was constant at 2.7 in 2000. This represents how much revenue is generated by each dollar invested in local assets. Local assets are total

assets less investment in other cooperatives. Fixed-asset-turnover increased slightly from 14.3 to 14.4 in 2000.

Activity ratios indicate that cooperatives slowed down on their investment in fixed assets. They instead invested, either voluntarily or involuntarily, in accounts receivable and inventory as their total revenues increased.

Profitability ratios, while not an absolute indicator of fiscal health, do nonetheless provide a view of financial strength for a cooperative. Gross profit margins jumped from 15.9 to 16.5 in 2000, continuing an upward trend ongoing since 1996. However, net operating margins have been falling during that same time, falling from 1.6 in 1999 to 1.3 in 2000. This would indicate some inefficiency in handling the higher volume of sales.

Return on total assets (calculated as net margins plus taxes and interest expense divided by total assets) fell from 4.5 to 3.7 in 2000. This ratio focuses on the operation itself without respect to how the cooperative was financed. This reflects lower efficiencies in the use of the cooperative's assets in generating net margins.

Return on member equity is a ratio that looks at the return on member investment after all expenses have been deducted, including taxes and interest. After increasing for a few

years, the return on members' equity dropped from a high of 13.8 in 1998 to 9.4 in 2000.

#### Are co-ops ready to face the future?

Facing a slow world economy at present, the agricultural sector will continue to experience lower exports. The surplus of agricultural goods built up over the past few years will keep prices in check. Yet, domestic demand should remain healthy and keep prices for output somewhat buoyant. Costs related to inputs should climb, resulting in lower margins for farm supply goods.

Tighter credit standards will pinch cooperative financing and lead to lower margins. Overall, the agricultural economy will shadow that of the total economy. Other industries will have to tighten their belts and control costs, and so must cooperatives.

Mergers, consolidations and joint ventures will, in all likelihood, continue to provide cooperatives a cheaper means to access new markets. Adjustments in operations to lower costs will be driving many decisions in board meetings and executive offices. Hopefully, cooperatives will be able to adapt to the changing environment and continue to provide member benefits and position themselves for the future. ■

# Co-op issues in spotlight at USDA's Ag Outlook Forum



Value-added marketing by cooperatives, world trade, bio-fuels and biotechnology issues will be among the featured topics at the 78th annual USDA Agricultural Outlook Forum, Feb. 21 and 22. The forum will tackle some of the biggest issues facing U.S. agriculture and provide in-depth analysis of farm commodity prospects for the year ahead. The annual forum is expected to draw more than 1,350 to the Washington suburb of Arlington, Va.

The opening session will focus on the future of agricultural biotechnology in world trade. Agriculture Secretary Ann Veneman will provide the keynote address and USDA chief economist Keith Collins will look at 2002 agricultural prospects. J.B. Penn, USDA under secretary for Farm and Foreign Agricultural Services, will discuss U.S. trade and agricultural policy. A panel discussion will explore the myriad issues surrounding rapidly emerging biotechnology and how it relates to world trade. Annette Clauson, agricultural economist with USDA's Economic Research Service (ERS), will provide an outlook for retail food prices in 2002.

Farm finance outlook sessions will focus on changing farm-lender relationships. Mitch Morehart, senior economist with USDA/ERS, will lead a panel exploring the farm income, finance and credit outlook for 2002. Others will focus on prospects for farm financial conditions, the changing farm lending scene and the market for farm land.

A number of sessions will be of particular interest to cooperative leaders. Don Nugent, chief executive offi-

cer of Graceland Fruit Cooperative, will participate in a panel on global markets for processed products and will discuss how small U.S. agricultural processing firms can compete globally.

Randall Torgerson, deputy administrator of USDA's Rural Business-Cooperative Service, will moderate a panel discussing value-added marketing as a means to promoting sustainable rural development. Panelists include Richard Bell, CEO and president of Riceland Foods, who will discuss value-added marketing in domestic and international markets, and Rodney Christianson, CEO of South Dakota Soybean Processors, who will explore niche opportunities for new-generation cooperatives. Other panelists include Doyle Freeman, farmer and manager of Penn's Corner Farm Alliance, Bruce Babcock and Mary Holz-Clause, co-directors with the agricultural marketing resource center at Iowa State University, a national center promoting value-added agriculture

Co-op leaders will also want to attend a Feb. 22 session exploring consolidation and competition in dairy markets. James Miller, ag economist with USDA/ERS, will provide an outlook for milk and dairy products. Addressing consolidation and competition in dairy markets will be Robert Pettit of the Australian Dairy Corporation.

Following that, a panel will consider issues and strategies for rural and community prosperity. Panelists will include Lionel Beaulieu of the Southern Rural Development Center at Mississippi State University, who will discuss what workers and entrepreneurs need to succeed in today's markets. Norm Reid, represent-



ing USDA Rural Development, will join Cornelia Flora, North Central Regional Center for Rural Development, to discuss community-led development.

Co-op leaders will participate in a panel discussion on Feb. 22, moderated by Dan Looker, business editor of "Successful Farming" magazine, which will explore initiatives to deal with negotiating farm- production contracts. John Welty, executive director of California Tomato Growers Association, and Vernon DeLong, executive director with the Maine Agricultural Bargaining Council, will discuss negotiating specialty crop contracts. Paul Hitch, president of consolidated Beef Producers and Mary Clouse, former poultry grower now with RAFI International/USA of Pittsboro, N.C., will discuss negotiation issues in the beef and poultry industries.

Later that morning, a panel will examine the future of the U.S. sugar program, with Rick Dorn, president of the Rocky Mountain Sugar Growers Cooperative, gauging impacts of sugar market developments on producer-owned cooperatives.

Roger Conway, director of USDA's Office of Energy Policy and New Uses, will moderate a panel discussion on Feb. 22 that explores the economic outlook for bio-fuels.

Registration information is available by calling 202-314-3451 or online at: [www.usda.gov/oce/waob/agforum.htm](http://www.usda.gov/oce/waob/agforum.htm). For questions regarding the program, call 202-720-3050, or e-mail [agforum@oce.usda.gov](mailto:agforum@oce.usda.gov). ■



Pork producers are among those who are forming new co-ops to pursue value-added alternatives. USDA Photo by Ken Hammond

# Hard times breed new livestock co-ops

By Dan Campbell, Editor

**J**ames Rhodes, an ag economics professor at the University of Missouri, once described cooperatives as “the children of distress.” If so, small wonder the family of livestock co-ops did some growing in the 1990s, which was a very stressful period for the livestock industry, Brad Gehrke, livestock specialist with USDA’s Rural Business-Cooperative Service, said during a seminar held at the National Institute on Cooperative Education (NICE) in Atlanta, Ga., this past summer.

Increased interest in livestock co-ops—particularly in new-generation co-ops—can be attributed to low farmgate prices—including \$8 pigs in December 1998. The ever-widening gap in the farm-to-retail price margins and the plunging number of spot livestock sales markets (which may be completely gone within 2 years, according to University of Missouri livestock economist Glenn Grimes) also have played a part.

Antitrust laws, the Packers and Stockyard Act, price reporting, commodity check-off programs and traditional co-ops have played roles in helping the industry in the past, Gehrke noted. “But producers perceive that traditional strategies are ineffective to address current market conditions.” Instead, more are turning to value-

added activity and new-generation co-ops, which have formed as a response to a host of challenges.

Gehrke cited U.S. Premium Beef, Consolidated Beef, Pork America, Prairie Farmers Cooperative and Mountain States Lamb Cooperative as examples of new-generation co-ops born of the recent period of distress.

In the first round of USDA’s new value-added grants program, Gehrke said about 20 percent of the applications and 40 percent of the grants (by value) were awarded to livestock ventures. These included:

- Colorado Homestead Ranches—making ready-to-eat, natural meat products;
- Natural Meat Cooperative—feasibility study for a natural meat co-op;
- American Premium Foods—support for a pork processing plant project;
- Iowa Lamb Corp.—making freezer case-ready lamb products;
- Upper Mississippi Family Meats—feasibility study of a cooperatively owned, multi-species processing plant;
- Vande Rose Foods—production of pork jerky snack products;
- Prairie Farmers Cooperative—support for development of a 72,000-head processing plant;
- Eastern Foods—joint venture to process and merchandise pork;
- North American Bison Co-op—developing export sales and marketing division;
- American Native Beef—feasibility study for new-generation beef processing plant;

- Southern States Cooperative—fish farming, processing and marketing of tilapia;

- Valley Organic Meat Co-op—establishing an organic meat co-op.

Quoting from a book by Joseph G. Knapp (former USDA Farmer Cooperative Service administrator) and Edwin G. Nourse, Gehrke said that “failure to educate is the greatest cause for cooperative failure.”

Gehrke’s co-panelist, Mike Bumgarner, vice president for marketing services with United Producers Inc., Columbus, Ohio, described how his cooperative was formed in 1999 through the merger of MFA and Producers Livestock Association (PLA). In 2000, the co-op purchased selected assets of Interstate Livestock Producers Association (ILPA), and in March of 2001 it acquired the MLE livestock marketing division of Southern States Cooperative. Today, United Producers has 70,000 patrons, 58 facilities (located in Ohio, Kentucky, Indiana, Illinois, Michigan, Missouri and North Carolina) and 270 full-time employees in 15 states.

Trends such as market globalization, increased market volatility, biotechnology and consolidation in the food industry are requiring the co-op to expand beyond its traditional livestock marketing and credit functions.

The co-op now has three main arms: United Producers Inc., which performs livestock marketing services; Producer’s Credit Corp., which provides producers with financing; and Producers Technologies Inc., which provides information and technology services. Most people still think of auctions and

*continued on page 30*

# Locals gain by diversifying

*From funeral homes to pizza parlors, Southwest co-ops find ways to boost earnings*

**By Lynette Cockerell**

*Plains Cotton Cooperative Association*

*Editor's note: This article is reprinted from the Summer 2001 issue of Plains Cotton Cooperative Association's (PCCA) "Commentator" member magazine.*

**A**s the climate in the agribusiness world becomes exceedingly competitive, local cooperatives are discovering new and inventive ways to increase earnings, distribute larger dividends or provide additional services to their members.

In the Southwest, as elsewhere, the cooperative system and the thousands of dedicated people who work for it are driven by one central purpose: to help member-producers achieve long-term success. Part of this goal is achieved by providing not only greater profits and larger dividends, but offering quality products and services to cooperative members. As agriculture diversifies, the services and products offered by many local cooperatives will expand as well.

Following are some examples of Southwest cooperatives that have found ways to help their members succeed.

## **Convenience store yields profits for supply co-op**

Crosby County Fuel Association (CCFA) has diversified from the farm business by opening two CENEX/AMPRIDE convenience stores. The stores, in Crosbyton and Ralls, Texas, are not only a convenience to local patrons, but they also allow CCFA to capitalize on the through-traffic of U.S. Highway 62/82.

The co-op's board of directors entered into the venture only after extensive research. The fuel association studied the feasibility of the project with the help of Country Energy LLC, a company formed by two of the United States' largest farmer-owned cooperatives: Cenex Harvest States (St. Paul, Minn.) and Farmland Industries Inc. (Kansas City, Mo.).

Country Energy offers a full-range of products and services to marketers considering a CENEX/AMPRIDE convenience store facility. The business provides assistance with site selection, building size and layout and helps define petroleum and in-store equipment needs. In addition, the company offers retail training that spans all facets of convenience-store operations. Country Energy also assisted CCFA in choosing an appropriate mix of products and services.

The stores opened in February and March of 2001, respectively, and carry a wide range of products. In addition



*This CENEX/AMPRIDE C-store is one of two such operations generating new income for the Crosby County Fuel Association in Texas.  
Photos by Lynette Cockerell, courtesy PCCA*

to convenience items and fuel, the CENEX/AMPRIDE location in Crosbyton also contains a Noble Roman's Pizza Parlor and a Taco Bell. The Ralls location is home to a Pizza Hut and TCBY Yogurt.

"The fuel business is picking up as truckers and travelers hear about our stores, but the restaurants have been far more successful than the co-op had anticipated," says Monty Bevel, CCFA's general manager.

Despite extensive research by the co-op board and the advice of seasoned professionals, the stores were not ready for the influx of food orders they received in the first month of business.

"We made 350 pizzas a day at our Pizza Hut the first two weeks we were open, and lines extended out the door," David Henry, Ralls CENEX/AMPRIDE manager says. "In a town with few eating choices, we offer four fast food restaurants within eight miles of each other. However, we never anticipated that customers would come from as far as Spur, Dickens and Floydada," he adds. Bevel is pleased with the progress the stores have made in such a short time.

"We have a lot to learn about being in a non-ag business, but we are catching on fast," Bevel says. "We're really happy with our new operation, and we expect it to be profitable," he concludes.

### Ten co-ops open fertilizer plant

In a joint venture with Farmland Industries, 10 High Plains cooperatives joined together to open a co-op fertilizer plant in 1997. Frontier Fertilizer and Chemical, with locations in Hurlwood, Texas and Seagraves, Texas, supplies liquid fertilizer blends and solutions to members as well as to independent dealers on the Texas High Plains and eastern New Mexico.

A management committee, comprised of representatives from the member cooperatives, operates Frontier Fertilizer. The members co-ops are quite diverse, including Lockney Co-op Gin, Crosby County Fuel Association, United Farm Industries in Plainview, and Spade Co-op, among others.

The fertilizer plant specializes in custom fertilizer blends and management takes pride in prompt delivery and responsive customer service. Dry fertilizer, trace elements and potash also are available from the plant. According to Jay Garretson, Frontier's manager, product quality also is of the utmost importance to the co-op. Consequently, the business has never received a bad report from government fertilizer sample testing in its 5 years of operation.

"Our fertilizer blends are made to order and include the exact ingredients in the precise proportion the customer has requested," Garretson says. The plant has been a great asset to

its member cooperatives and has saved them a considerable amount of money.

"We are able to buy ingredients in volume and pass the savings on to our customers," says Charlie McQuhae, Frontier chairman and manager of Lockney Co-op Gin. "Of course, we don't just service our members. Approximately 40 percent of our business is with independents," he explains.

"A group of co-op managers brought this business idea into fruition, and we are very proud of our operation and its great success," McQuhae says.

### Girl's death leads to co-op funeral business

In 1936, Lone Wolf Planters Co-op in southwestern Oklahoma added a funeral home to its list of assets. The sequence of events was set in motion when William Kosanke, the co-op manager, lost his daughter in a house fire. Compounding the tragedy of that loss, he and his wife were surprised by the high cost of a funeral.

When Lone Wolf Funeral Home was offered for sale, Kosanke suggested the co-op purchase the business and—as a service to the community—operate it at cost. The idea eventually was well received by the co-op board, which



*Hold the anchovies? Monty Bevel, general manager for the Crosby County Fuel Association, ponders this and other options at the co-ops new pizza operation, which sold 350 pizzas a day its first week in business.*



*"Some people had a problem with paying their co-op bill on one side of the building and then wandering into the funeral home to view their loved ones," says Bill Kosanke. Above, funeral home director Jay Hunn.*

approved the purchase and the co-op entered the funeral business, renaming it People's Cooperative Funeral Home.

At first, the co-op venture was not welcomed by the funeral industry. The co-op experienced difficulties buying equipment and supplies for many years after its inception. Companies would deliver caskets only in the middle of the night, and many equipment and supply orders simply disappeared before being filled.

The funeral home originally was operated out of the funeral director's residence; however, the business soon outgrew the location. Consequently, the gin office was divided, and the funeral home moved into one side. The sign on the co-op building read "Planters/People's Co-op."

"The locals didn't give that sign a second thought, but strangers driving through town got a good laugh," Bill Kosanke, son of the late William Kosanke and a past Lone Wolf Co-op board member, recalls.

"Some people had a problem with paying their co-op bill on one side of the building and then wandering into the funeral home to view their loved ones. So, we moved the funeral home across the street in 1976," Kosanke explains.

A new facility was built in 1996, and 145 services were performed in 2000 – a far cry from the 17 services recorded in 1936. The funeral home now has a large trade territory, and news of its reasonable prices has traveled far. Jay Hunn, the funeral director at People's Co-op Funeral Home, has performed various funeral services for clients from Oklahoma City to South Texas. The business operates with a small number of employees to keep overhead costs down. The funeral home has two full-time employees and five to seven part-time workers, as needed.

Kenny Hahn, Lone Wolf Planters Co-op manager, and Hunn agree that providing affordable funeral services as close to cost as possible still is the main goal of the cooperative funeral home.

"Many times, our prices are half of what you would pay at

another funeral home," Hahn says. "Families appreciate the fact that we offer a quality service with outstanding care, and they return to us the next time they are in need."

"It's just like any other co-op. If people aren't saving money, they won't use it," Kosanke adds. "We aren't into white-gloved pallbearers and a line of limousines, and people don't expect it," he concludes.

### **Gin co-op diversifies with cucumber shed**

The cotton market can be fickle. Therefore, producers often seek alternative crops in an attempt to increase their profits and limit costly inputs. Fiber-Tex Co-op Gin near Brownfield, Texas, has found a way for its members to capitalize on the harvesting of cucumbers, now one of the more popular alternative crops in that area.

Cucumbers have been planted more widely around Brownfield since Hartung Brothers Inc., a vegetable company from Arena, Wis., entered into contracts with producers in Terry County and the surrounding area to grow the crop. Representatives of Hartung Bros. plant and harvest the cucumbers. Growers are responsible only for irrigating the crop, making it an attractive alternative for farms with adequate irrigation water. Cucumbers, which are planted in June, are a 45-day crop and often can be double-cropped if irrigation water is available. Because cotton in the area also is planted in June, the two crops frequently share an irrigation pivot.

In a joint venture with Hartung Bros., Fiber-Tex built a cucumber shed on one corner of the gin yard in 1998. After the cucumbers are harvested by Hartung Bros.' machinery, they are trucked to the cucumber shed to be cleaned, separated by size and chilled before transport.

"We built the cucumber shed as a service to our existing members and to entice new customers," says Bobby Moss, Fiber-Tex Coop Gin manager. "The shed is self-sustaining, and no money comes out of the members' pockets. After the facility is paid-off, our members will profit from the operation," he adds.

The vegetable company and gin have no trouble sharing the gin yard, because the cucumber harvest is complete by the time cotton is coming in. In fact, Hartung Bros. opens its office at the cucumber shed July 1 and employs local workers who often obtain jobs at the gin when the seasonal cucumber operation closes in mid-September.

The arrangement has worked equally well for both businesses, and both parties anticipate a continuation of their relationship for quite some time.

"Producers in the area grow cucumbers of exceptional quality, and demand for cucumbers from the area is growing," Jim Nottner of Hartung Bros. says. "Our relationship with Fiber-Tex has been outstanding, and we have been incredibly happy with the arrangement and look forward to working with them in the future." ■



# How does your local farm supply cooperative rate?

**Beverly L. Rotan**  
*Economist, USDA/RBS—Cooperative Service*

**H**ow did your cooperative compare with cooperatives with similar functions this past year? Was your co-op's performance higher, lower or about the same as the average of a cross section of local farm cooperatives with similar factors—sales,

product mix, etc. Comparisons with other cooperatives may help to determine whether your cooperative is doing well or poorly. These include trend and industry norm comparisons.

The two tables below contain average financial data compiled from a survey of 331 cooperatives for both years, 1999 and 2000. Fill in the blanks and compare these benchmarks with your cooperative's financial data. How's your cooperative doing? ■

**Table 1—Compare your farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions**

Measure/Item	Unit	Size (1999) <sup>2,3</sup>				Size (2000) <sup>2,3</sup>				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Sell farm supplies only	Percent	96	47	21	7	96	47	21	7	_____
Total assets	Mil. dol.	1.8	4.3	8.4	13.1	1.6	4.0	7.4	13.9	_____
Long-term debt	Thou. dol.	94.8	386.6	764.7	1,805.5	82.0	283.7	644.1	1,813.3	_____
Total liabilities	Thou. dol.	460.8	1,450.8	3,246.1	5,211.2	460.3	1,375.8	2,849.1	6,083.6	_____
Total sales	Mil. dol.	2.5	6.6	13.2	23.8	2.6	6.3	12.8	26.6	_____
Total service revenue	Thou. dol.	87.8	190.8	457.0	576.2	88.8	180.0	327.2	712.8	_____
Total revenue	Mil. dol.	2.7	7.0	14.1	25.1	2.7	6.6	13.4	27.7	_____
Net income (losses)	Thou. dol.	91.1	264.4	467.0	795.4	52.3	151.2	213.8	439.9	_____
Labor of total expenses	Percent	54	54	55	54	55	53	53	53	_____
Patronage refunds received	Thou. dol.	66.3	158.4	293.8	596.5	26.3	77.7	113.2	267.5	_____
<b>Liquidity ratios</b>										
Current	Ratio	2.31	1.67	1.33	1.38	2.19	1.64	1.40	1.31	_____
Quick	Ratio	1.32	0.89	0.62	0.75	1.16	0.89	0.76	0.70	_____
<b>Leverage ratios</b>										
Debt	Ratio	0.26	0.34	0.38	0.40	0.28	0.35	0.38	0.44	_____
Debt-to-equity	Ratio	0.35	0.51	0.63	0.66	0.38	0.53	0.62	0.78	_____
Times interest earned	Ratio	6.90	6.39	5.06	4.77	4.24	4.19	2.87	2.67	_____
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	6.68	5.80	4.78	5.94	8.16	6.15	5.77	6.39	_____
Total asset turnover	Ratio	1.45	1.55	1.57	1.81	1.57	1.59	1.73	1.91	_____
<b>Profitability ratio</b>										
Gross profit margins	Percent	18.26	18.39	20.07	17.06	16.80	16.66	17.98	15.56	_____
Return on total assets before interest and taxes	Percent	6.48	7.79	7.57	8.24	4.43	5.32	4.80	5.50	_____
Return on total equity	Percent	9.46	11.82	12.30	12.69	5.67	7.70	6.40	7.16	_____

1/ 100 percent of sales were generated from farm supply sales. 2/ Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million. 3/ There were 329 cooperatives surveyed in both years.

**Table 2—Compare your mixed farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions**

Measure/Item	Unit	Size (1999) <sup>2,3</sup>				Size (2000) <sup>2,3</sup>				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Market farm products and sell farm supplies	Percent	12	15	16	20	12	15	16	20	_____
Total assets	Mil. dol.	1.3	3.8	8.8	16.7	1.3	4.2	8.4	18.8	_____
Long-term debt	Thou. dol.	70.1	382.6	1,286.8	2,291.5	56.9	461.4	1,109.1	2,737.0	_____
Total liabilities	Thou. dol.	337.5	1,368.3	3,654.8	7,472.6	341.2	1,656.0	3,721.6	9,089.4	_____
Total sales	Mil. dol.	2.6	6.6	13.0	29.4	2.5	7.3	13.8	33.1	_____
Total service revenue	Thou. dol.	70.7	391.2	687.7	1,458.9	84.3	342.4	656.6	1,554.4	_____
Total revenue	Mil. dol.	2.7	7.2	14.2	31.6	2.6	7.8	14.8	35.3	_____
Net income (losses)	Thou. dol.	15.0	165.8	418.2	805.7	12.1	68.9	202.8	627.9	_____
Labor of total expenses	Percent	52	51	52	50	51	49	52	49	_____
Patronage refunds received	Thou. dol.	29.9	95.9	319.2	484.6	10.1	52.0	156.1	220.1	_____
<b>Liquidity ratios</b>										
Current	Ratio	2.27	1.57	1.38	1.38	2.00	1.43	1.28	1.35	_____
Quick	Ratio	1.27	0.85	0.74	0.73	1.11	0.77	0.69	0.68	_____
<b>Leverage ratios</b>										
Debt	Ratio	0.27	0.36	0.42	0.45	0.27	0.40	0.44	0.48	_____
Debt to equity	Ratio	0.36	0.56	0.71	0.81	0.37	0.65	0.80	0.93	_____
Times interest earned	Ratio	2.22	4.09	3.78	3.53	1.89	1.95	2.30	2.67	_____
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	7.85	5.59	4.85	5.88	6.36	5.27	5.59	5.94	_____
Total asset turnover	Ratio	2.06	1.75	1.48	1.76	1.95	1.73	1.64	1.76	_____
<b>Profitability ratio</b>										
Gross profit margins	Percent	12.01	14.21	17.05	16.21	13.08	14.46	15.69	15.43	_____
Return on total assets before interest and taxes	Percent	2.48	6.23	6.87	7.40	2.16	3.60	4.71	6.37	_____
Return on total equity	Percent	2.51	9.88	10.47	11.01	2.09	3.85	5.75	8.63	_____

1/ 50 to 99 percent of sales were generated from farm supply sales. 2/ Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million. 3/ There were 329 cooperatives surveyed in both years.

## Wool co-op, mill in pact; Olympic blankets to follow

The Mountain States Lamb and Wool Cooperative at Casper, Wyo., has agreed to supply high-quality wool to Faribault (Minn.) Woolen Mills, one of last remaining domestic wool mills. The co-op's 97 members ranch in Wyoming, Colorado, Utah, Montana, Idaho and South Dakota. They will receive a higher price for their wool and a percentage of profits from Faribault's sale of woolen blankets, throws and bedding accessories in the high-end retail and catalog market. The first project of the joint venture will be exclusive production of wool blankets for the 2002 U.S. Winter Olympics team.

# Cooperative Marketing Association Program:

*Another way grain co-ops can serve their members*

**By Marc Warman and Alan D. Borst**

*Agricultural Economists  
USDA Rural Business-Cooperative Service*

**Chris Kyer**

*Agricultural Program Specialist  
USDA Farm Service Agency*



rain marketing cooperatives can provide their members an important service by participating in USDA's Cooperative

Marketing Association (CMA) program. Qualified cooperatives may obtain non-recourse marketing assistance loans and loan deficiency payments (LDPs) on behalf of their members. The CMA program uses Commodity Credit Corporation (CCC) funds and is administered by USDA's Farm Service Agency (FSA).

Participating cooperatives must meet certain eligibility requirements and follow specified operating procedures. Once designated a CMA, a cooperative may obtain marketing assistance loans or LDPs for any eligible members' qualified commodities covered by a marketing agreement.

## **Marketing Assistance Loan Program**

Marketing assistance loans provide participating producers with interim financing after harvest, allowing them to use their crops as collateral. These are mostly non-recourse loans, which means CCC will accept ownership of the crop as repayment should the producer decide not to repay the loan during its 9-month term. However, a producer

may repay the loan, reclaim title to the commodity and sell it at prevailing market prices at any point during the term of the loan.

Producers have three loan repayment options. A producer may borrow money from CCC at the county loan rate and repay it at principal and interest or repay at the marketing assistance loan repayment rate. This rate is calculated by subtracting the posted county prices (for wheat, feedgrains and oilseeds) or the adjusted world price (for rice and cotton) from the loan rate to calculate the CCC-determined value. When this calculated rate drops below the original loan rate during the term of the loan, a producer may repay the loan at the lower rate and earn the market gain—which is the difference between the repayment rate and the CCC-determined value.

For example, a producer obtains a marketing assistance loan for corn at \$1.80 per bushel, the applicable county loan rate. With principal and interest, the producer will owe CCC \$1.88 per bushel. If the producer decides to repay the loan on a day when the applicable county's repayment rate is \$1.75 per bushel, the producer may redeem the loan at \$1.75, thus saving 5 cents in principal ( $\$1.80 - \$1.75 = \$.05$ ) and 8 cents in interest. The difference between the county loan rate and a lower repayment rate (in this example, 5 cents) is called the marketing loan gain.

Using commodity certificates is the third method of repayment. Producers can purchase commodity certificates at the repayment rate and immediately exchange the loan collateral with commodity certificates to redeem the loan.

Commodity certificate exchanges are not subject to payment limitations.

## **Loan Deficiency Payments**

LDPs are payments to producers who agree to forego a marketing assistance loan. The LDP payment rate is the difference between the county loan rate and posted county price or adjusted world price, as applicable. Thus, producers who decide not to take advantage of the commodity loan program have the same opportunity to receive marketing loan gains as producers who do. However, producers who obtain commodity loans can receive benefits other than marketing loan gains, such as having storage cost and interest expense forgiven.

Whenever the county repayment rate is below the county loan rate, producers can apply for LDP at their local FSA offices for that difference. For instance, if the county loan rate is \$1.80 per bushel and the repayment rate is \$1.75, the LDP would be 5 cents per bushel. After approval, producers can sell their crops or continue storage, but cannot get a commodity loan using the same grain as collateral.

A producer is eligible for either a loan or LDP on any given commodity, but not both. Producers are taking a risk when they apply for an LDP because the marketing gain may increase at a later date. And, a producer can only receive one LDP on a commodity of harvested crop.

Currently, most producers participate in the commodity loan and LDP programs through a local FSA office. An alternative is the CMA program. This allows qualified cooperatives to

secure marketing assistance loans and LDPs for their eligible producer-members on commodities committed to the cooperative through marketing agreements. FSA allows grain and rice cooperatives and individual producers to follow the same administrative procedures. Thus, a cooperative with many eligible members will use the same paperwork as an individual farmer. After receiving the marketing assistance loan or LDP, the cooperative distributes the funds to its participating members. To make this even simpler, a federated CMA may obtain marketing assistance loans or LDPs on behalf of its member affiliates if they have been certified as CMAs by FSA.

The CMA program began in 1934 for cotton cooperatives. The list of eligible commodities has since been expanded to include barley, canola, corn, cotton, crambe, flaxseed, mohair, mustard seed, oats, rapeseed, sunflower, rice, safflower seed, sesame seed, sorghum, soybeans and wheat. Cotton and rice cooperatives have used this program more extensively than those marketing other eligible grains and oilseeds. Grain and oilseed cooperatives have not used CMA as much because of the complexity of the certification requirements and historically high market prices compared to county loan rates.

However, the CMA program was recently amended to make it more accessible and attractive to cooperatives marketing other eligible commodities. With these changes and the increased demand for marketing assistance loans and LDPs from their grower members (due to lower grain prices and the weaker farm safety net), grain cooperatives have a greater incentive to participate in the CMA program. Program participation has increased in recent years from both newly certified cooperatives and those long designated as a CMA. Currently, 28 out of the 47 approved CMAs are grain marketing cooperatives.

### Eligibility requirements

Cooperatives must meet five basic eligibility requirements to be certified as a CMA. Three of the factors are set to ensure the cooperative is, in fact, operating as a cooperative (see below). A financial requirement is included to ensure the cooperative has the liquidity to operate securely. Finally, a cooperative must have marketing agreements with members who want to receive marketing assistance loans or LDPs. The CMA must be owned and controlled by active grower-members and



*Through USDA's Cooperative Marketing Association Program, co-op managers can obtain non-recourse marketing assistance loans and loan deficiency payments on behalf of their members, saving them a great deal of time and effort. USDA photo*

provide evidence that this is the case. A majority of directors must also be active members of the cooperative. A CMA may not provide marketing assistance loans or LDPs to non-members who are marketing through the cooperative.

A cooperative not owned and controlled by its active members may still apply for certification and be conditionally approved by FSA under certain conditions. These cooperatives must demonstrate that they can, and will, vest ownership and control in active members by retiring the equity of inactive members, or by obtaining new members, usually within 1 year. Cooperative applicants must provide FSA with documented proof that they admit every membership applicant who is eligible under the cooperative's articles of incorporation. This confirms that the cooperative is not discriminating against a particular individual or

group. However, a cooperative may refuse membership to an applicant whose admission could potentially undermine the cooperative's operations. Open membership is presumed until relevant information is provided from a person who was prevented from joining the cooperative.

At least 50 percent of a crop of an authorized commodity delivered to a CMA for marketing must be produced by its members to obtain marketing assistance loans or LDPs. FSA may waive this requirement for up to 2 years if the applicant can prove that such authorization is necessary for the efficient operation of the cooperative and that its FSA-approved plan will bring it into compliance with program rules.

Under the CMA program, a cooperative must maintain a certain level of liquidity for making advances to its members and of marketing its commodities (you can't market without cash). A current ratio of at least \$1 of current assets for each \$1 of current liabilities is the required level of liquidity. The balance sheet a cooperative submits to FSA with its application is the source of proof.

Finally, a CMA must sign a uniform marketing agreement with each member who delivers a commodity to a marketing pool. (A loan pool is any CMA pool containing the commodity used as collateral by the CMA to obtain either marketing assistance loans or LDPs.) The identification number used by the member to report acreage on applicable forms to FSA must appear on the agreement. These agreements give CMAs the authority to pledge the commodity as collateral for a marketing assistance loan, to place a lien on such commodity and to market the commodity on behalf of their members.

Cooperatives may offer seasonal or specific pricing pools to their eligible members. In specific pricing pools, individual members retain the right to determine the price at which the commodity will be sold. In seasonal pools,

the cooperative markets the pooled commodity and determines the price at which it will be sold. FSA is not concerned with the structure of the pools, only that the member receives the loan or LDP proceeds.

### Application process

To become a CMA, a cooperative must submit an application with the following information for approval to FSA:

- A completed Form CCC-846 listing commodities the cooperative wants to handle through the program. This form, plus other marketing assistance loan and LDP forms, can be obtained from USDA's e-forms website at: [www.sc.egov.usda.gov/Formsearch.asp](http://www.sc.egov.usda.gov/Formsearch.asp).
- A balance sheet, dated within the last year, prepared for the cooperative and accompanied by a letter from an independent certified public accountant certifying that the balance sheet was prepared in accordance with generally accepted accounting principles.
- A copy of the articles of incorporation or articles of association.
- All marketing agreements for loan pools and certification that this material is current. The individual pools do not have to be set up prior to applying for CMA certification. However, marketing agreements that will be used must be submitted as part of the application process.
- A resolution (part of CCC-846) from the board of directors stating that the cooperative will comply with all the requirements of the program, including the nondiscrimination provisions and all other related FSA policies. This resolution must be signed by the secretary of the board.
- A detailed description of how loan pool proceeds will be distributed to members.
- Any other information as requested by FSA about the organizational, operational, financial, or any other aspect of the cooperative

related to its proposed methods of conducting marketing assistance loan and LDP business. In the past, only addendums to marketing agreements such as farm-stored addendums have been requested.

The CMA must be recertified each year and provide the following information:

- A completed Form CCC-846-1 to show the number of active and inactive CMA members, the CMA's allocated equity, the CMA's unallocated equity, the quantity of each loan pool commodity delivered to the CMA for marketing, and the volume of such commodities received during the previous crop year.
- The CMA's latest balance sheet, dated within the past year, accompanied by a letter from a certified public accountant certifying that the balance sheet was prepared in accordance with generally accepted accounting principles.

FSA can require a CMA to submit a new initial application instead of a recertification application if it has questions on whether the CMA is operating according to documents previously submitted.

### Approval

If a cooperative is successful, FSA will provide written conditional or unconditional approval of the application. If the applicant meets all the discussed requirements, unconditional approval is granted for 1 year. If an applicant is in substantial but not total compliance with the requirements, FSA may provide conditional approval. An example would be a cooperative that had only 49 percent member business during the past year, but normally member business is much higher. The CMA must then come into full compliance within a period of time specified (usually a year) in the conditional approval notification.

A CMA can be suspended from par-

ticipating in the marketing assistance loan and LDP programs if the cooperative has not operated according to its application or its last recertification, complied with all applicable regulations, corrected any deficiencies as noted by FSA or violated any of its agreements with FSA. A suspension is normally lifted after the cooperative has made the necessary changes. If a suspension is not lifted within 1 year, the CMA's certification automatically terminates. If it does not have any marketing assistance loans outstanding, a CMA may voluntarily terminate its participation in the marketing assistance loan and LDP programs through written notice to CCC.

FSA may call in all outstanding marketing assistance loans made to a suspended or terminated CMA. Commodities pledged as collateral for marketing assistance loans must be redeemed by a specified date. If not, title to the commodity transfers to CCC, which will have no obligation to pay the commodity's market value above the principal amount of such loans.

### Operating procedures

Once a cooperative is certified as a CMA, it must follow certain procedures to ensure proper operation of the marketing assistance loan and LDP programs. For example, CMAs can establish separate pools as needed for the various eligible commodities. Marketing assistance loans or LDPs will be available to CMAs for any eligible commodity in a loan pool under these conditions:

- All of the commodity in the pool is eligible for marketing assistance loans and LDPs, except as specified.
- The commodity was delivered to the CMA by members who are eligible for marketing assistance loans and LDPs.
- Members retain the right to share in marketing proceeds from the commodity distributed according to the FSA procedures.
- Members agreed to accept an initial advance from the CMA.

There are two instances when ineligible commodities may be included in

eligible pools. The first is when a CMA inadvertently included ineligible quantities based on grade, quality, or other factors. Secondly, if there are eligibility discrepancies within FSA records, the producer has certified to the CMA that the commodity is eligible for a marketing assistance loan, and there is no market gain or LDP involved in the marketing pool for the crop year.

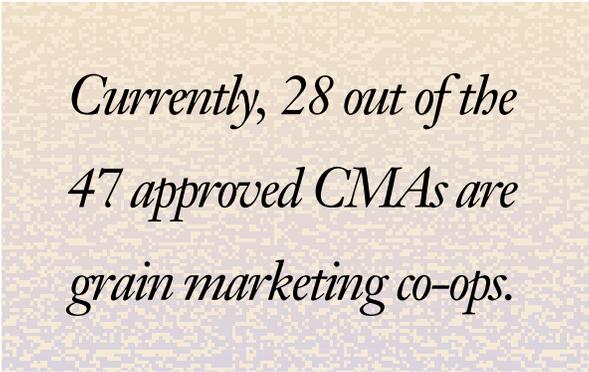
CMA's are required to monitor market gains they receive on behalf of their members and to ensure that marketing gains for members do not exceed their payment limitation. Again, a marketing gain is the difference between the loan rate and a lower marketing assistance loan repayment rate due to a decline in the commodity's price. Marketing gains are treated as direct government payments. Producers are normally subject to a \$75,000 per-person, per-crop-year payment limit on these gains. The payment limitation for crop years 1999 and 2000 was increased to \$150,000.

CMA's are also required to maintain inventories of each class and grade of grain at least equal to the quantity pledged as loan collateral. A CMA must have identity-preserved marketing pool commodities stored in approved warehouses while the commodities are pledged as collateral for marketing assistance loans. Marketing assistance loan eligibility for commingled commodities stored on a farm or in a warehouse may be transferred to an approved warehouse. Marketing assistance loans will be available to the CMA for the quantity of farm-stored commodity that is part of the CMA's loan pool. This will be specified in the CMA's marketing agreements with those members who store on-farm.

Commodities pledged as collateral for CCC loans have to be free of all liens and encumbrances and the cooperative is not allowed to take any action to cause a lien or encumbrance to be placed on a commodity after a marketing assistance loan is approved. The cooperative is responsible to CCC for any loss related to commodities

pledged as collateral for marketing assistance loans or used to obtain LDPs. This will occur when the CMA fails to comply with FSA regulations, there are changes in the quantity or quality of the pledged commodities, or liens are imposed on either the CMA's or its members' financial agreements.

A CMA cannot apply marketing losses from a commodity not used as collateral against the marketing proceeds of a commodity that is used. And it cannot carry forward losses from one loan pool and apply them against a sub-



*Currently, 28 out of the 47 approved CMA's are grain marketing co-ops.*

sequent loan pool without FSA authorization. This may occur if carrying forward the loss complies with FSA's marketing assistance loan and LDP program intent.

If FSA makes marketing assistance loans or LDPs for any grain in a marketing pool, the money will be distributed to pool participants based on the quantity and quality of the commodity delivered by each member, less any authorized charges for services performed or paid by the CMA necessary to condition or make the commodity eligible for marketing assistance loans or LDPs. This includes storage and administrative fees. Payments need to be delivered within 15 days from the date the CMA receives marketing assistance loan or LDP money from FSA, except when marketing assistance loans are redeemed within 15 work days of the date of disbursement of the marketing assistance loan.

With one exception, loan pool payments cannot be combined with non-loan pool payments and the CMA must distribute loan funds according to information given to FSA during the

approval process. However, sales proceeds from a loan pool may be combined with those from other pools if the proceeds from such pools are allocated among the pools according to the quantity and quality of the commodity included in the pools.

CMA's need to maintain records for each marketing assistance loan or LDP commodity, showing the quantity received from each member and nonmember as well as the quantity eligible for marketing assistance loans and LDPs. They also have to maintain records on the quality of the commodity as specified in the applicable commodity regulations. Finally, CMA's need to maintain records on their unprocessed inventory broken down by the above three items.

Inventory needs to be allocated until the entire loan pool is depleted. For processed commodities, the pool's inventory must be adjusted when the commodity is withdrawn for processing. For non-processed commodities, the pool's inventory has to be allocated to the pool and then adjusted when the commodity is shipped. If a marketing assistance loan or LDP is obtained for any quantity in a loan pool, allocation of costs and expenses must be made according to generally accepted accounting principles.

The books, documents, papers and records of the CMA and subsidiaries must be maintained for 5 years after the applicable crop year. FSA has the right to examine all books, documents and papers to verify whether the CMA is operating or has operated appropriately.

While somewhat complicated, the CMA program provides cooperatives another way to serve their members. The eligibility requirements for participation are simple, and well-managed grain cooperatives should have no problem qualifying. Cooperatives interested in becoming a CMA can request an application packet by writing to: Director, USDA-FSA Price Support Division, 1400 Independence Avenue, SW, Stop 0512, Washington, DC 20250-0512, (202) 720-7935 ■



## Kansas cotton co-op thrives

Members of a Kansas cooperative are proving that growing cotton isn't limited to southern states. Producers in south-central Kansas are ginning a crop once unheard of in their state. "We're seeing some high-quality cotton grown in irrigated land this year," said Gene Latham, manager of the South Kansas Cotton Growers Cooperative. Latham began working with cotton at age 15 and subsequently added entomology to enrich his background.

Kansas is free of boll weevils and—even with prices at 30-year lows—1,000-pound-per-acre cotton harvests can generate more income than a 200-bushel-per-acre corn crop (a corn yield that is hard to sustain). Top cotton yields this year reached three bales—or about 1,500 pounds—per acre, Latham said, with 45,000 acres planted. Last year, when 40,000 acres were planted, the state generated \$6 million in production value.

## Riceland Foods shipping rice to hurricane-hit Cuba

The first shipments of U.S. rice sold to Cuba in nearly 40 years were heading to Havana in December after leaving Riceland Foods at Stuttgart, Ark. The cooperative is joining several other major food processors to ship relief supplies to the country, devastated Nov. 4 by Hurricane Michelle, which destroyed crops and thousands of homes. Terry Harris, Riceland's marketing vice president for Latin America, was in Havana in late November to seal the deal.

Cuba declined a U.S. offer of humanitarian aid after the hurricane,

but instead Alimport, its import company, proposed a one-time cash purchase of American food and medicine. In 2000, Congress approved food exports to Cuba without U.S. financing of the transactions. The country has been under a U.S. trade embargo since 1961.

Richard Bell, Riceland president, said it expected to provide at least one half of the rice supply, primarily the long-grain variety. Last year, the rice processing cooperative donated 20 tons of rice to Cuba to help its residents in an area devastated by drought.

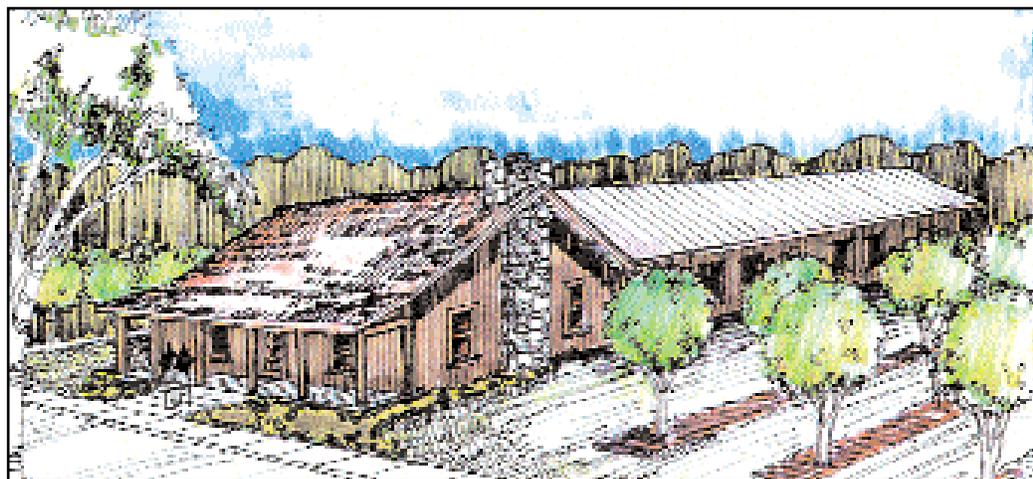
## Florida's Natural opens new visitor center

Florida's Natural Growers' recently dedicated a new visitors' center, called "Grove House," just west of its processing facility in Lake Wales, Fla. The 5,200-square-foot building will help consumers learn more about the co-op, its products and Florida's citrus industry, says Frank Hunt, the co-op's presi-

dent. Among the exhibits are historical displays about the co-op, founded in 1933, and a documentary film which traces how orange and grapefruit juices are made, from grove to glass. A working citrus grove borders the center, where visitors and school groups can learn more about citrus production. The co-op has 1,100 member-owners with 60,000 acres of citrus. Its Lake Wales juice plant employs 1,000 and can process 10 million pounds of fruit every 24 hours in peak season.

## Financial picture improving for Farmland Industries

Despite a \$90 million net loss for fiscal 2001, Farmland Industries, the nation's largest agricultural cooperative, continues to make progress toward regaining financial strength, CEO Bob Honse told more than 2,500 members, employees and business partners attending the cooperative's annual meeting, Dec. 6, in Kansas City.



*Displays at the Grove House – Florida Natural Growers' new visitor center – will educate tourists and students about one of the nation's top cooperatives and the citrus industry.*

Honse said it was a year of rebuilding. Farmland cut its debt by \$268 million, slashed corporate expenses by more than half, improved food company operations, increased pre-tax operating income \$566 million and reported a one-time, principally non-cash, restructuring charge of \$80 million.

Honse said work will continue to strengthen agricultural marketing joint venture companies, namely Agrilience,



*Bob Honse reports on the financial progress made by Farmland Industries. Photo courtesy Farmland*

ADM-Farmland and Land O'Lakes Farmland Feed. The cooperative closed two inefficient pork plants and opened three new pork and beef case-ready facilities in 2001, altering plant configurations to meet changing consumer needs. The co-op also invested in advertising and promotion to build national recognition of its Farmland brand pork, beef and catfish products. Further cost reducing moves in Farmland's food companies will be made in 2002, Honse said.

Harry Fehrenbacher, a grain and livestock producer from Newton, Ill., was elected chairman. He is president of the Effingham (Ill.) Equity cooperative. New directors elected to the board include Douglas Kuhlman from St. James, Minn., and Larry Shriver from Los Alamos, Colo.

### **Petroleum operations fuel doubling of CHS' income**

A big jump in petroleum income helped CHS Cooperatives' net income surge to \$178.6 million for fiscal 2001, more than double the \$87.4 million income reported the year before. Value-added products also helped con-

tribute to the income gains.

"Our grain-based agricultural foods cooperative is well on the way to adding economic value for our producers, from the field to the consumers' table," John Johnson, CHS president said in his address to 2,500 delegates at the co-op's annual meeting Nov. 29 in Portland, Ore.

Net sales of \$7.8 billion dipped 9 percent from the \$8.5 billion reported last year. The cooperative will return 50 percent, or \$72.2 million, in 2001 earnings, after tax adjustments, to member-owners in equity redemptions and cash patronage.

Other CHS highlights of the past year included: focusing on destination delivery of grain at home and abroad; the upcoming groundbreaking (in April) on Harvest States' soybean processing facility at Fairmont, Minn.; repositioning wheat milling in a joint venture with Cargill to serve bakery customers nationwide; expanding ownership of Ventura Foods and acquiring additional Mexican foods production facilities; improving its petroleum refinery at Laurel, Mont.; planning changes to meet federal environmental standards at National Cooperative Refinery Association at McPherson, Kan.; and purchasing Farmland Industries' share of the Country Energy joint venture.

New directors elected to the CHS board include Dennis Carlson, Mandan, N.D., a third-generation co-op member who grows wheat, sunflowers and runs a cow-calf operation. He is chairman of Farmers Union Oil Co. of Bismark, N.D. Also elected was Randy Knecht, of Houghton, S.D., who farms 4,000 acres of corn, beans, wheat and alfalfa, and operates a 450-head cow/calf operation. Current Chairman Steve Burnet of Moro, Ore., and all other current officers were re-elected to serve during 2002.

### **USDA offers paid summer intern jobs**

The U.S. Department of Agriculture (USDA) is looking for summer interns for 2002. A catalogue has been pub-

lished listing jobs available for students currently enrolled in a college or university and pursuing a bachelor's or graduate degree. The paid jobs provide students an opportunity to work as assistants in scientific, professional and technical fields. The jobs may provide selectees with a head start toward acquiring a career position with USDA. For more information, check the following Web site: <http://www.usda.gov/da/intern.htm> Or call Junius Scott (202) 692-0199, or Marilyn Jenkins (202) 720-7168.

### **Illinois pork processor co-op picks Rantoul for plant site**

An east-central Illinois site in the village of Rantoul has been chosen by American Premium Foods Inc.—a new pork-processing cooperative owned by 250 producers—as the site for its new \$25 million plant. Rantoul is near Champaign-Urbana, home of the University of Illinois. Twenty communities competed for the facility.

The Rantoul village board approved an incentive package that included discounts on utilities, a multi-year tax abatement, a waiver of permit fees and a pledge to maintain stable wastewater rates. Closure of an Air Force base left the community with ample water supplies. Still ahead is closing on a 40-acre site and a final engineering study. Ground breaking is slated for the spring, followed by 15 months of construction and anticipated operations by the summer of 2003.

Chairman Jack Rundquist said the firm initially will employ about 200 people. About 2,000 hogs will be processed daily into bacon, chops and other pork products and marketed under the Meadowbrook Farms brand. Jim Burke will manage the cooperative. In June, American Premium Foods received a \$500,000, value-added agricultural market development grant from USDA Rural Development.

### **NMPF, dairy experts eye new market opportunities**

Dairy marketing experts from National Milk Producers Federation

(NMPF) are joining their counterparts from Dairy Management Inc. and the U.S. Dairy Export Council on a task force examining both threats and opportunities facing the nation's dairy industry. NMPF Chairman James P. (Tom) Camerlo recently met with the other organization chairmen and key staffers to discuss market threats that may displace U.S.-produced milk in products such as cheese and ice cream.

"We formed the task force to create a strategic plan to identify ways to remedy these potential threats," Camerlo said. "The team will examine emerging technologies, trends in imports and trade policy, the use of non-dairy ingredients and the challenges to the current dairy standards of identity. All of these areas could detrimentally impact the use of domestic milk and prices paid to American farmers." The team seeks to develop a domestic milk protein concentrate, increase use of alternative dairy-based ingredients and examine marketing methods for products marketed by the U.S. dairy industry.

"We are at a critical juncture," Camerlo said, "and need to embrace new technologies that make our industry more efficient and productive, while maintaining the integrity and quality of our dairy products. We must be mindful of the impact of these technologies on producer prices. It will be critical in shaping the activities of this

organization in the future."

Six new directors were named to the NMPF board: David Fuhrmann of Foremost Farms USA; Peter Kappelman of Land O' Lakes; Randy Mooney, Ed Schoen and Bill Siebenborn, all of Dairy Farmers of America; and Bob Swenson of Ellsworth Cooperative Creamery.

### **Southern States restructures to build future business**

An executive restructuring at Southern States Cooperative (SSC) based at Richmond, Va., is paving the way for reorganization plans that will alter the company's business structure. Wayne Boutwell, SSC's chief executive officer, said the change resulted from an assessment of the cooperative and trends in the agricultural industry.

"We will be focused on our customers and better able to optimize our buying power," Boutwell said. "Our ability to cross-sell products and services also will be enhanced. Over time, members will benefit because our resulting efficiencies will boost our ability to compete and build the business for the future." As an example of the change, crop inputs and services, animal feed, petroleum products and farm supplies will be marketed under a common umbrella, rather than through four separate divisions.

Four executive vice presidents will now report to Boutwell: Gene McClung, chief administrative officer; Tom Scribner, chief merchandising offi-

cer; Joe Koch, chief operations officer; Jonathan Hawkins, chief financial officer. Senior vice presidents also reporting to Boutwell will be Hopper Ancarrow, legal officer, and C.A. Miller, information systems officer.

### **.coop Internet domain to launch Jan. 30**

The new, top-level Internet domain for cooperatives will be launched Jan. 30, 2002, by National Cooperative Business Association (NCBA) and its partners, Poptel of the United Kingdom and International Cooperative Alliance of Geneva, Switzerland. Agreement to begin offering the new domain through NCBA's subsidiary, DotCooperation LLC, has been reached by the Internet Corporation for Assigned Names and Numbers.

"This new Internet domain gives co-ops a unique opportunity to finally get the names they wanted under .com," said Paul Hazen, NCBA president. "It provides them with important competitive advantages—their ability to differentiate their business in a sea of .coms and benefit from the consumer trust cooperatives have built over the past 100 years." He urged co-ops eligible to reserve names before the launch. So far, more than 2,400 of the 12,000 eligible have prequalified with domain names. On Jan. 30, all co-ops around the world will be able to purchase .coop domain names.

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## **Hard times breed new livestock co-ops** *continued from page 18*

sale barns when the co-op's name is mentioned, Bumgarner said, but its new mission is to be a total livestock services business that operates on a cooperative basis.

New information management services include: production and carcass data; collection and analysis and "QuickPig" production modeling software. The co-op is expanding risk-management services, including forward contracting to provide long-term

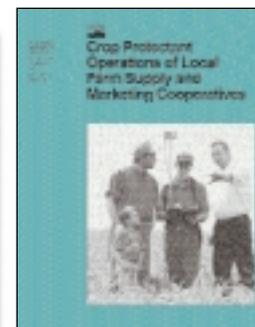
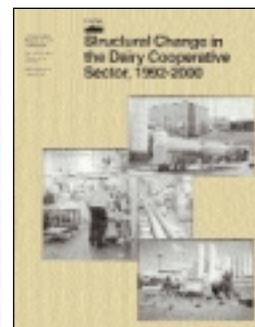
packer contracts, feeder-preference marketing agreements and brokerage services.

Other new services offered through the co-op include a beef improvement service, bull leasing, production coordination to manage pig flows, consulting services and equipment rental (of gear such as livestock chutes with electronic scales and other expensive equipment needed to help collect data). The co-op is also forging alliances with

other marketing and producer groups. Most of its new services are not being operated on a patronage basis.

Given escalating food safety concerns, Bumgarner said "we are kidding ourselves" if we don't think a mandatory carcass identification system is coming in the near future. Tagging animals so that they can be tracked through the packing system will also help producers make better management decisions, he noted. ■

# New Co-op Publications From USDA



## Strategic Planning in Farmer Co-ops

Research Report 184

By James J. Wadsworth

This report examines cooperatives' use of strategic planning, the various technical aspects of it, and the degree of director involvement in strategic planning. It also analyzes their financial position and certain aspects of financial change.

Price: \$5; foreign \$5.50

## Cooperative Feasibility Study Guide

Service Report 58

James Matson

Steps for conducting a feasibility study, how to evaluate a study and how to implement a completed study are outlined. Tips on selecting and working with consultants also are provided.

Price: domestic—\$5; foreign—\$5.50

## Cost of Balancing Milk Supplies: Northeast Regional Market

Research Report 188

K. Charles Ling

The seasonal nature of milk production and fluid consumption necessitates maintaining seasonal and operating reserves to ensure fluid demand is satisfied. This report looks at actual milk volume and use in the Northeast market to estimate the costs incurred by those manufacturing plants in balancing reserve milk supplies.

Price: domestic—\$5; foreign—\$5.50

## Structural Changes in the Dairy Co-op Sector, 1992-2000

Research Report 187

Carolyn Liebrand

Dairy cooperative numbers between 1992 and 2000 showed a net decline of 52. This report shows that more than 80 dairy co-ops went out of business, or dairy was reduced to a minor part of the business. Thirty-two new cooperatives were formed, some by consolidating existing co-ops. Some dairy co-ops became vertically integrated while others focused only on bargaining.

Price: domestic—\$5; foreign—\$5.50

## Local Co-ops in the Identity-Preserved Grain Industry

Research Report 181

By Julia A. Hogeland

This study reports on how 230 local grain co-ops in the Midwest have responded to the transition to identity-preserved grain marketing. Results showed overall commitment to identity-preserved grain was determined in large part by a co-op's openness to innovation.

Price: \$5; foreign \$5.50

## The Impact of New-Generation Co-ops on Their Communities

Research Report 177

By David Trechter et al.

Findings are reported from a study of five cooperatives and their local communities in the Upper Midwest. The authors, five university professors, look at the new-generation cooperative movement. The report is aimed to help those involved in establishing co-ops and those working in the field of community development.

Price: \$5; foreign \$5.50

## Crop Protectant Operations of Local Farm Supply and Marketing Cooperatives

By E. Eldon Eversull

Research Report 183

The 1999 crop protectant sales and services of 383 local cooperatives are examined and compared with sales trends for the past nine years. The study focuses on regional differences as well as differences among cooperatives based on size and type.

Price: \$5; foreign \$5.50

## Cooperatives: What They Are and the Role of Members, Directors, Managers and Employees

Cooperative Information Report 11

By James Wadsworth

This is an educational guide for teaching basic information about cooperatives. It examines business principles and structural characteristics of cooperatives and responsibilities and roles of members, directors, managers and employees.

Price: Free

## **The NFO: A Farm Belt Rebel A History of the National Farmers Organization**

By Don Muhm

The National Farmers Organization was born in the tough economic times following the Korean War. It directed a series of controversial food market boycotts in its attempts to obtain collective bargaining for American agriculture. This book recounts the history of the NFO and its "sparkplug" leader, Oren Staley.

Price: hardbound \$20; softbound \$16

## **Assessing Performance Needs of Cooperative Boards of Directors**

Co-op Information Report 58

By James J. Wadsworth

This report helps directors assess individual abilities and areas for improvement, how well the board performs, how it can be improved and productivity and effectiveness of board meetings. Assessments help spot weaknesses or areas needing improvement.

Price: Free

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

Research Report 182

Beverly L. Rotan

Financial statements of local cooperatives are examined for 1999, 1998 and for the decade 1990-1999. Trends for major balance sheet and income statement, as well as financial ratios, are presented for four cooperative sizes and types. The information gives managers and directors a basis for comparing the performance of their local cooperatives.

Price: \$4.50; foreign \$5.00

## **Grain Co-op Mergers, Acquisitions, 1993-97**

Research Report 180

By Anthony Crooks

Operational and financial characteristics of cooperatives that were merged or consolidated during 1993-97 are examined. The report frames these and surviving cooperatives in the context of economic restructuring in the ag industry. Lessons

learned provide insights into the challenges that lie ahead for grain cooperatives hoping to thrive.

Price: \$5; foreign \$5.50

## **Cooperative Employee Compensation, 1999**

Research Report 189

Beverly L. Rotan

Salaries and fringe benefits offered to mid- to upper-level employees of cooperatives are the focus of this study. It shows that financial performance of the cooperative was the basis for bonuses, setting salaries and evaluating employees.

Price: domestic-\$5; foreign-\$5.50

## **Financial Management, Co-op Ratio Analysis**

Research Report 175

David S. Chesnick

Differences in financial management and goals that exist between investor-oriented firms and cooperatives are examined. This report reviews what bankers look for when appraising potential borrowers. A summary of financial ratios used to analyze businesses is included.

Price: \$5; foreign \$5.50

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1400 Independence Avenue SW, Washington, D.C. 20250-0705. Include publication number, title and number of copies wanted. There are no additional taxes or shipping charges. You may also fax requests for free publications to: (202) 690-4083, attention Dan Campbell. If you have Internet access, most of these (but not the NFO book) and more than 150 other USDA co-op publications can also be viewed and downloaded at: <http://www.rurdev.usda.gov/rbs/pub/newpub.htm>

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