

# Rural COOPERATIVES

USDA / Rural Development

July/August 1999



## A Sea of Greens

*Low-income farmers use  
vegetable processing,  
marketing co-op to create  
new opportunity in  
north Florida*

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## Catching the Wave

As I write this message in early August, Congress is in the midst of work on legislation to deliver some degree of financial relief to farmers who are facing depressed prices in many commodity sectors. Other producers — particularly in the Mid-Atlantic and Northeast states — have had to watch their crops wither under the assault of what may become the worst drought of the century.

There is not much farmers can do about the weather, and the marketing of commodities poses some tough challenges. But there are still many actions producers can take to increase their probability of success. This publication is, of course, dedicated to promoting public understanding of one of the primary steps farmers and others can take to improve their “financial odds” in the marketplace: creating and managing cooperatives.

Because the marketplace is ever changing, cooperatives are also evolving with the times. That is the point of the article “Amber Waves of Change” in this issue. This article focuses on actions being taken by Kansas wheat co-ops to ride the wave of change, rather than be crushed by it. These co-ops are finding ways to maximize the revenues they generate for their members’ crops. New varieties of white wheat look very promising for export markets and greater use of market pooling is paying off for many co-ops. As Bob Gales of the FCA co-op observes, some grain buyers have had to raise the price they pay farmers when neighbors decide to cooperate, rather than compete with each other. This concept is the foundation of the cooperative movement.

Another good example of Kansas co-ops pooling their marketing is discussed in “Big Steps in the Plains,” which details how four wheat co-ops have merged their grain marketing departments and are jointly constructing a 110-rail car loadout facility. This should greatly increase the marketing clout of the farmers who own these co-ops.

Our cover story, “A Sea of Greens,” is an inspiring story about how co-ops can also help small-scale, low-income farmers improve their lot in life through collective action. The New North Florida Cooperative is processing and packaging vegetables and fruits grown by its 15 members, then marketing them to Florida schools. While the farmers were well versed in the art of growing quality crops, they had little experience in how to add value to their crops or in how to market them. These are the areas where USDA has been providing the co-op with technical assistance. The co-op has so far been a great success story.

Of course, we learn not only from our successes, but also from our failures. That’s the perspective USDA livestock and marketing co-op specialists Brad Gherke and James Matson take in their article “Planning to Prosper,” which examines the lessons learned from nearly a century of livestock processing co-ops. Livestock processing remains an area of the farm economy where co-op influence is fairly minor. But the interest level among ranchers remains intense. They feel that they must reach farther up the food ladder to reap more of the profits generated from livestock if they are to be successful.

Strong cooperatives are an essential part of a healthy rural economy. I hope the articles in this issue will provide you with some ideas that will help you strengthen your co-op.



Jill Long Thompson

Under Secretary, USDA Rural Development

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**On the Cover:** *These collard greens picked by Spencer Lewis will be washed, chopped and packaged before being shipped to one of 30 schools in northwest Florida. Processing and marketing are being performed by the New North Florida Cooperative. USDA photo by Dorothy Staley*



# Amber Waves of Change

## Kansas grain cooperatives adapting to global marketplace

By Pamela J. Karg  
Field Editor

**T**he winds of change are blowing across Kansas, ushering in changes that may seem small at first glance. But when strung together like bits of cloth on a kite's tail, the compound impact of these changes is helping farmers and their cooperatives re-direct their efforts to meet the challenges of an expanding global marketplace.

One cooperative literally made chicken feed of a disaster and created new markets for farmers and jobs for a rural community. State legislators have amended tax laws, providing incentives that encourage construction and repair of grain storage facilities. Farmers are funding research into new varieties of wheat and their potential uses by food manufacturers around the world. USDA is also helping them, examining a program to encourage cleaning wheat bound for export markets.

### The king of Kansas

Wheat rules over the economy of Kansas. Amber waves of grain dominate not only the physical, but also the cultural landscape of the region. Tourists and native Kansans alike stop to watch teams of combines move through the countryside in June and July. Wheathearts, an auxiliary organization of the Kansas Association of Wheat Growers, stages a national annual Bake-and-Take promotion the fourth Saturday in March to encourage people to make baked foods for neighbors. Dozens of similar events and celebrations are held across the state each year in honor of the state's top crop. Kansas wheat groups even sponsor Web sites to help kids learn about wheat.

Of its 31 million acres of cropland, Kansas farmers harvested 495 million bushels of wheat last year, down 1 percent from the 1997 record crop of nearly 502 million bushels. The '98 harvest was

94 percent above the 1996 crop, which was devastated by exceedingly wet conditions that prevailed in large portions of the state. The 1998 crop would make nearly 34.6 billion loaves of bread, or enough to provide every person on earth with nearly six loaves of bread. Kansas is also tops in wheat flour milled and wheat flour milling capacity.

Mennonite immigrants from southern Russia introduced Turkey Red wheat seed in Kansas during the 1800s. Today, hard red winter wheat dominates the Kansas countryside. However, crop prices have been seriously depressed in recent years, so farmers are experimenting with hard white wheat varieties. This year's field trials should yield some answers to farmers' and marketers' questions about how these varieties will fare in the Kansas soils.

"Farmers want to know if there's going to be anymore money in these varieties and buyers want to know how they are going to mill," says Bob Gales, president and chief executive officer of Farmers Cooperative Association (FCA), a grain marketing and farm supply cooperative headquartered in Lawrence.

### Red vs. white wheat

Two-thirds of the Kansas wheat crop is exported even though the world wheat demand is far greater for the white kernels. That makes some people wonder if the entire state should convert to white wheat. But if the conversion happens too quickly, premium payments for white wheat could be lost. Others believe total conversion to white wheat — combined with a strong marketing program, a commitment to identity preservation of individual grain deliveries and investments in cleaning facilities — would position the state's farmers as global players.

Foreign buyers take white wheat from other countries before purchasing red wheat from the United States, according to trade reports. So Kansas agricultural

experts are encouraging farmers to plan their transition to white wheat as red wheat clogs shipping channels.

"Hard white wheat is a tool we can use to regain our presence in the world wheat market," says Eldon Lawless, a Belle Plain farmer on the Kansas Wheat Commission. "We can become competitors again, rather than the suppliers of last resort."

A handful of elevators have been designated for white wheat deliveries this summer. That number will rise over the next two years it will take producers to switch while maintaining the integrity and purity of their new white wheat stands. Government and agribusiness are opening communication with each other and with global buyers in the hopes of producing a product that will sell better in the global market.

### More consolidations

Meanwhile, business consolidations are impacting the Kansas countryside.

"I have been saying for a long time the grain industry would consolidate, like the livestock industry," says Ron Koehn, general manager of Midwest Cooperative, a grain marketing and farm supply co-op in Quinter. "If this happens, it will give us a stronger cooperative presence in the grain industry,"

This spring, the nation's two largest regional grain marketing and farm supply cooperatives, Farmland Industries and Cenex Harvest States, announced plans to consolidate. A feasibility study and governmental review of the proposal could be completed by late this year. If the proposal passes this review, member meetings would take place in early 2000, followed by a vote of the memberships of both cooperatives. The cooperatives have tentatively set June 1, 2000, as a goal for completing the transaction to create a \$20 billion cooperative.

Like Koehn, Gales also applauds the announcement of the consolidation. If



grain farmers hope to be equal players with multi-national corporations, their cooperatives need to grow to at least the size Farmland and Cenex Harvest States would achieve through their proposed consolidation, he says. The market power that size offers to growers is also the reason Gales' FCA has redesigned its grain marketing strategies.

FCA farmers were already taking grain to Farmland's Topeka and Kansas City facilities when the two cooperatives decided to work out a new arrangement. Farmland allocated one million bushels of its terminal storage at the two sites to FCA. Farmers now delivering grain to either location receive a term price, earn patronage on the delivery and still receive settlement from FCA — their local cooperative that they know best. The move also means FCA will not have to invest in railroad infrastructure, which saves its members money. Gales estimates about one-seventh of the cooperative's assets would have been tied up in building a new rail loading facility if the arrangement had not been worked out. At the close of its 1998 fiscal year, the agreement between FCA and Farmland

*Most grain growers in Kansas say they are supportive of the consolidations occurring among grain co-ops, which they feel are necessary to help growers match the marketing power of large multi-national and foreign grain companies. USDA photo*

also meant 2 cents per bushel in patronage on grain delivered directly to the terminals.

At the same time, FCA's grain merchandiser moved to Farmland's Kansas City marketing office. The move has opened up communication and improved marketing programs at FCA, as well as at other local cooperatives. The FCA merchandiser can sell grain from any of the cooperative's locations to anyone. He is not limited to marketing exclusively to Farmland.

"Our grain merchandiser, Larry Coffman, has over 30 years of experience and Farmland has always tried to get the best prices for us," Gales says. "But moving up there to work side-by-side with Farmland has shown us more places we can market our grain."

Farmland also holds regular marketing strategy conference calls, which the FCA merchandiser and merchandisers from other local cooperatives attend. They gain market intelligence on a global

perspective while providing Farmland with current information about what's happening on Kansas farms, he says.

Because of the Farmland terminal allocation combined with the increased market intelligence, FCA can offer effective "price later" and "minimum pricing" contracts to farmers, as well as cash markets. "Price later" contracts allow the cooperative to take title of the grain so it can sell or move it. Producers are then paid on request. "Minimum pricing" contracts allow producers to sell grain to the cooperative to stop storage charges. The cooperative then purchases "calls" on behalf of farmers, who pay the costs incurred in purchasing the call.

Says Gales, "Local buyers have had to raise their prices paid to farmers a bit because it was their job to pit me against my neighbor. But now we're working with our neighbors through Farmland. We're doing what we were supposed to be doing all along — coop-

# Big steps in the Plains

## Kansas grain producers create new venture

By Kent Miller

Communications Director  
Farmway Co-op, Inc.

Four Kansas cooperatives took a giant step this spring when they formed a joint venture which will benefit grain producers throughout the north-central region of the state.

Farmway Co-op of Beloit, Delphos Co-op, Cloud County Co-op of Concordia and Randall Farmers Cooperative Union merged their grain marketing departments into AgMark LLC. It will be located in Beloit. At the same time, the joint venture between the cooperatives began construction on a 110-car load-out facility in Concordia. The site was formerly owned by Cloud County Co-op, which sold it to the limited liability corporation.

When completed in early 2000, the new facility will be capable of handling about 1.6 million bushels. Its five employees will be able to load out 110 rail cars at one stop in 10 hours.

AgMark LLC will generate efficiencies for producers by combining warehouse licenses and marketing efforts, standardizing grain accounting systems and by having a cooperatively owned train loader/terminal facility. These translate into profits distributed back to local co-ops to pay patronage dividends, cooperative leaders note.

According to Byron Ulery, chief executive officer of Farmway Co-op, the most worthwhile projects are not simple. "These four cooperatives have stayed together and formed AgMark LLC for the common good of the members of the cooperatives," Ulery says.

The cornerstone of this project, notes Pat Breeding, chief executive officer at Delphos, is to do together what the four cooperatives could not accomplish alone. "The four local cooperatives will continue to operate their own facilities," he says. "Checks will be written on AgMark LLC checks and will continue to be written at each location, as they are now."

Jeff Bechard manages grain marketing for the LLC. He says the venture will

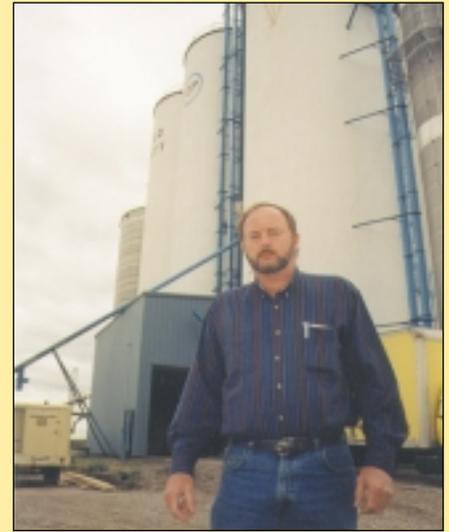
improve the grain prices relative to historical values. "The difference in freight and/or handling fees could result in a different bid at each elevator location of the cooperatives," he says. "We will become more aggressive in picking up on-farm stored grain, price improvement and we will have the ability to load big trains plus still be able to utilize the short-line railroads at the different elevator locations."

Mark Paul, who joined AgMark in fall 1998 as manager of the Concordia terminal, says the facility is being built for the future. Everything is computer-controlled — from unloading farm trucks to loading grain onto rail cars. "I see this as one of the best grain facilities around. It has the ability to get the grain shipped out, which has been a glut to them in the past. The new facility also allows the four cooperatives involved to be in a new market and to get the grain to a market where it is going to make them even more productive. It also helps the four cooperatives because they are working together as a group instead of as competitors."

The State Grain Inspection Service will have a grain inspection lab at the Concordia facility. Paul says the increased rail traffic makes the lab a sensible addition. Inspectors also can service surrounding area elevators. "There will be a lot of samples brought here from other elevators that can be graded here just like they do at Salina or Topeka. With (inspectors) on site, it gets them a lot closer to where the grain is being loaded and where the main volume of grain is being shipped," Paul says.

The economic impact on the north-central Kansas area due to the AgMark terminal will be significant, according to a feasibility study conducted by the four founding cooperatives prior to entering into the joint venture. Up to 14 counties could feel its impact.

"The trickle effect will amount to approximately \$7.5 million a year coming back to the local economy," says Paul.



Mark Paul, manager of the AgMark terminal in Concordia, stands at the future site of a 110-railcar loadout facility.

Photos courtesy Farmway Co-op Inc.

"You will see a grain price increase in some areas due to the freight difference. A producer will still need to get the grain to the terminal. It doesn't matter if you are a member of Farmway, Randall, Delphos or Cloud County — any profit AgMark makes goes back to the local cooperative and they can utilize the profit to their advantage to help their producers."

Adds Paul, "You don't get an opportunity like this very often to come in and set up an elevator to do what it's supposed to do, and that is to move grain in a hurry. This facility is designed to run fast and easily. I believe the producers will be very happy."

In 1996, Farmland, Midland Cooperative of Hays, Kan., and Midwest Cooperative of Quinter, Kan., completed construction on a 100-car grain load facility at Ogallah, Kan., called Westland Terminal.



Farmway Co-op board members discuss plans to expand facilities at AgMark's Concordia terminal.



erating with our neighbors!”

Grain marketings through Farmland by FCA had dropped off before these new communication systems were put in place. Today, the amount marketed by FCA through Farmland has doubled.

### Golden egg emerges from ashes

“There’s been a lot of internal growth as well as mergers among cooperatives here,” observes Bob Nattier, general manager of Mid-Kansas Co-op Association. His organization has experienced both. In rapid succession, Nattier runs through the steps his cooperative has taken in a shifting Kansas agricultural environment.

Headquartered in Moundridge, the cooperative went through a growth spurt in 1992 and today includes 16 grain elevators with combined sales volume of \$90 million. Wheat receipts average 9 million bushels annually. The co-op also handles grain sorghum, corn and soybeans.

The feed grains raised by members fill the needs of a local, diversified livestock industry. In fact, after a fire destroyed a co-op mill in 1986, Mid-Kansas formed a business alliance with egg processor Cal-Maine. The commitment between the two allowed the cooperative to justify re-building the mill. Now it runs two shifts a day and the cooperative supplies the processor

*Kansas farmers harvested just under 424 million bushels of wheat this summer, a bumper crop, but grain quality in some areas suffered because of a late harvest caused by wet weather. USDA photo*

with 25,000 tons of feed annually.

The cooperative is also part of Haven Commodities LLC, a pork production system. It annually markets 150,000 hogs which are fed with 55,000 tons of Mid-Kansas feed.

In a partnership with Farmland Industries, Mid-Kansas has access to a 100-car rail loader. Members don’t have ownership in the loader, yet their cooperative does gain a stronger position to do more grain business.

Three years ago, the cooperative started working with cooperatives in Walton and Andale to do joint grain merchandising. Other arrangements, including mergers, could be in the offing between the organizations. Nattier believes anything is possible as local boards of directors and farmers consider the future.

“Kansas farmers are getting a better understanding of global marketing,” he explains. “They’re looking at ways to reach out to those markets. When they get to that point, they can cut out the middle people and capture more for themselves.”

Mid-Kansas is one of 11 cooperatives that formed Cen-Kan LLC. The company

collects the problematic straw left after wheat harvesting and converts it into strawboard.

“It’s been a painful experience because we all thought we had a better handle on the market,” Nattier explains. Everyone thought it was enough to be a “green” product. No trees are cut down to produce this board. No formaldehyde is used in its processing. Unlike its wood chip fiberboard cousin, though, strawboard is still considered a new product in some market segments.

“We could just sell it to builders and contractors, but that’s a very commodity-based market. We want to develop a niche market,” Nattier explains.

There were equipment problems and major production down-times. But the manufacturing system is now in its third year. Slowly, a market is being built for the strawboard.

“I think members appreciate that we’re trying. Anything we can do that’s new or innovative, members and directors will give us a certain honeymoon period to try it. They want us to look outside the box — and inside the box, too.”

At FCA in Lawrence, Gales agrees



*"Every idea farmers and their cooperatives come up with is worth considering," says Bob Gales, president and CEO of Farmers Cooperative Association (FCA) in Lawrence. FCA has grown through a number of mergers, and today operates 19 elevators with storage capacity of 12.1 million bushels. USDA photo by Bill Tarpenning*



that farmers are willing to examine options that lie both inside and outside the traditional realm of agricultural cooperatives. His grain marketing and ag

supply association was founded in 1953 and grew through six mergers to now serve over 12,000 rural and urban customers in 13 Kansas counties and two Missouri counties. FCA owns 19 elevators with a combined grain storage capacity of 12.1 million bushels and shipped 15 million bushels of grain during the past fiscal year.

In 1997, members of Pauline Farmers Cooperative in Pauline established a closed cooperative called P&B Processors. In turn, P&B became majority owner of Soy King, a limited liability company that produces and sells soybean oil and meal from an expulsion-extrusion mill derived from its members' soybeans. It was one step taken by producers to add value to their soybeans. The Pauline cooperative merged into FCA in late 1998.

Today, Soy King ownership is split between farmers (50 percent), private investors (30 percent) and FCA. As the Pauline facility went up, soybean crush margins narrowed.

"Every idea farmers and their cooperative come up with is worth considering, but timing is everything," Gales says. "Any new venture needs to assure it has adequate start-up capital to weather those first years of operation."

### **Adding more value**

"A major challenge facing farmers and other rural people is the need to make the transition from being producers of raw commodities to producers of value-added products, thereby keeping more of the profits from their labor at home," says USDA Under Secretary for Rural Development Jill Long Thompson.

The members of 21st Century Alliance would agree.

After years of reading about the success stories of other closed farmer cooperatives in North and South Dakota and Minnesota, 750 producers from Kansas and six other Midwest states decided it

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was time to make their own moves toward the marketplace through value-added products. They invested \$750 each to develop value-added businesses and were given the first opportunity to purchase delivery rights with U.S. Premium Beef Ltd., a vertically integrated beef cooperative (see Jan./Feb. 1998 issue of *Rural Cooperatives*). The Alliance has started five new-generation cooperatives in the past three years, including a flour mill, two commercial dairies, a dry edible bean cooperative and a cooperative to procure straw for new value-added ag fiber companies.

Recently, 21st Century's Chief Executive Officer Lynn Rundle said that "getting farmers to build relationships with consumers is the future of agriculture. It won't be for everyone, but for farmers who have a vision of being true food farmers and not just commodity growers, it's going to be a big part of their future. I think we're just at the very beginning of it."

In 1997, 375 of the Alliance members created 21st Century Grain Processing Cooperative, a wheat delivery cooperative, and then bought and renovated a Rincon, N.M., flour mill. Farmers invested \$5,000 per share of stock and promised to deliver 2,850 bushels of hard red winter wheat for each share. The membership stock drive raised \$3.2 million to buy the mill.

Its formation is part of a trend by wheat farmers to get into the milling business and closer to consumers. Thirteen southwest Oklahoma cooperatives formed Southwest Grain Marketers LLC, and invested \$16 million in a flour mill in Saginaw, Texas, near the Dallas-Ft. Worth area. The other partners in the LLC formed in 1996 are Farmland Industries Inc., of Kansas City, Mo., and family-owned Bay State Milling Co. in Quincy, Mass.

Hispanic and Native Pueblo grain farmers in New Mexico are also eyeing

an organic milling operation (see page 14 of this issue).

Back at the Alliance, value-added ventures continue. On the heels of the mill acquisition announcement came news that the Alliance would build a 1,500-head dairy with farmer investments. This summer, cooperative officials announced that a 2,800-head dairy was expected to be up and running by year's end. It will employ 32 people with an annual payroll of more than \$600,000.

The Alliance has formed 21st Century Agriculture Fiber Procurement Cooperative, also known as Golden Forest Ag Fibers. It aims to be a front-runner in the development of the agriculture fiber and wheat straw particle board industries, Rundle says. The cooperative members will contract to deliver straw to manufacturing companies. The cooperative could even expand into other ag fiber such as corn stalks for paper.

"There are a lot of opportunities out there for farmers," Rundle says. "I could spend all my days talking to new customers working on new ideas where farmers can make money in this system, but the key part is building credibility with the customer."

### **USDA provides loans**

Late last year, USDA made \$200 million available to support the creation of cooperatives and stimulate rural economic development. Several Kansas cooperatives have invested in infrastructure through use of USDA funds, including its Business and Industry Guaranteed Loan program.

"We are convinced that producer- and consumer-owned cooperatives can provide a powerful economic vehicle to help rural people meet the challenges they will face in the 21st century," USDA's Long Thompson says.

Rather than duplicating services and investments, north-central Kansas coop-

eratives are striving for more cooperation and communication between cooperatives.

For example, Farmway Co-op of Beloit, Delphos Co-op, Cloud County Co-op of Concordia and Randall Farmers Cooperative Union merged their grain marketing departments into AgMark LLC. The joint venture is now constructing a 110-car loadout facility in Concordia. The site was formerly owned by Cloud County Co-op which sold it to AgMark. When completed in 2000, the facility will handle 1.6 million bushels. Its five employees will load rail cars in as little as 10 hours (see related story, page 6).

While some cooperatives are investing in loading facilities, another Kansas cooperative has sold its rail line. Garden City Co-op sold short line Garden City Western Railway to Pioneer Rail Corp. of Peoria, Ill. The cooperative had operated the line since 1982.

With five grain facilities and one fertilizer facility on the lines, the railway was purchased to ensure service to those operations. The co-op made certain the line went to a company capable of running it, General Manager Irv Clubine reported to members in a recent newsletter. Selling the line enables the cooperative to focus on upgrading its grain storage and fertilizer facilities, he added.

### **Changing never stops**

Remember this: When you're through changing, you're through. So says a sign that sits on Gales' desk. He repeats the slogan often to himself, fellow employees and the cooperative's members.

"We're not going to be — in five or 10 years — the same as we are today," says Gales. "We know that. And our jobs, as cooperatives, are going to be to manage risk and help our members understand how to manage risk. If the lean times in agriculture haven't brought this fact to light yet, the next year or two will. And it's the people who can manage that risk who will survive." ■

# Kansas wheat goes white

## Betty is ready to produce better bread, noodles and tortillas

By Doug Ohlemeier  
Marketing Specialist  
Kansas Wheat Commission

Two Kansas hard white wheats have excellent baking characteristics for pan breads and rolls, according to a research update by Kansas State University (KSU). The project, funded by wheat producers through the Kansas Wheat Commission, examines hard white wheats — Betty and Heyne — for quality breads, Asian noodles and tortillas.

A KSU-bred variety being considered for release in 2000, KS96HW115, also shows promise for Asian noodle production. KS96HW115 represents a new generation of Kansas hard white wheats in that it produces bright, white Asian salt noodles, and bright, pale, yellow alkaline noodles. None of the current Kansas hard white or hard red wheat varieties produce low-browning doughs. To Asian consumers, noodles must not turn brown or dark.

Asian noodles are broadly classified as salt (Japanese-style) and alkaline (Chinese-style). Salt noodles are made with soft wheat flour and appear bright white. Alkaline noodles are made with hard wheat flour and appear bright yellow. White wheat must produce doughs that remain bright white or bright yellow after aging.

Noodles account for a third of Asian wheat consumption, similar to the entire Kansas crop.

"The cooked texture of the alkaline noodles from KS96HW115 was similar to a commercial Japanese alkaline noodle flour. Moreover, the Wheat Quality Council ranked its bread-baking quality as high. KS96HW115 is a multi-purpose wheat suitable for several sizable markets including bread, Asian noodles and tortillas," said Paul Seib, KSU grain science industry professor.

Betty and Heyne are not only as good as their red counter-parts in standard dough-mixing texts, but they produced bread with greater loaf volumes and a whiter crumb color. "It is critical that



any white wheats developed for international markets and for specialty products also be superior in terms of their bread-making quality," notes researcher Finlay MacRitchie.

"This data confirms that the new hard whites are excellent wheats for use in the bread-making industry. For wheat producers, this is reassuring news as Kansas moves toward increased production of hard white wheat. It means the new white wheats can be used to produce almost any bread or roll product on the market today, as well as compete in international and specialty markets," says MacRitchie.

Tortillas and flat breads are niche markets for Kansas hard white wheats and currently the fastest growing U.S.



flour-based product market. Betty and Heyne, milled to an 80 percent extraction rate, produced high-quality tortillas comparable to tortillas produced from 72 percent extraction red wheats.

Bran color is critical because hard white wheat bran in tortilla flour improves a number of the textural properties of a tortilla. Due to the absence of tannins, white wheat bran can impart a sweeter taste. White bran from these two varieties appears to improve a tortilla's textural properties of strength, tearing and the ability to be rolled without cracking. Tortillas produced from Betty and Heyne also better retained moisture during storage and maintained their textural properties for a longer period of time.

The study indicates the new white wheats can be milled to very high extraction rates to produce superior quality wheat food products, resulting in added value for producers and processors.

For a complete report on the producer-funded KWC research project, go to [www.kswheat.com](http://www.kswheat.com) or call 1-785-539-0255.

Meanwhile, Kansas-based marketing and farm supply cooperative Farmland Industries and AGvantage IP Inc., a Kansas cooperative of seed growers, announced this past spring that Farmland would offer production contracts and guaranteed minimum premiums of 10 cents a bushel for farmers to switch from the traditional red wheat to the newly released Betty and Heyne varieties of white wheat. Between 20,000 and 50,000 acres of white wheat are anticipated.



*Wheat field trials are showing that new hard white wheats such as "Betty," "Heyne" and "KS96HW115" can thrive in Kansas. Photos courtesy Kansas Wheat Commission*

**Ron Lienemann**  
 President & Chief  
 Executive Officer  
 RushShelby Energy Rural  
 Electric Cooperative



**“The electric utility industry will change more in the next five years than it has in my 20 years in the business. We must be leaders to direct the change, rather than let it happen to our cooperative and its members.”**

***Co-op description:***

RushShelby Energy Rural Electric Cooperative is a newly formed electric system in east central Indiana. RushShelby Energy came into existence March 1, 1999, with the consolidation of the former Rush County REMC and Shelby County REMC. The new organization serves more than 13,000 members in parts of nine counties. In addition to the traditional electric business, RushShelby Energy has formed a for-profit subsidiary corporation to offer new services and products to members and non-members. The subsidiary currently is a 50 percent partner in a propane gas business, markets a medical monitoring system, and sells personal papers as part

of the Cooperative Paging Network. RSE Service, Inc. is the fastest growing area of the RushShelby Energy corporation and is expected to provide revenues to lower the electric rates over the next decade.

***Background:*** Lienemann grew up in western Nebraska. The son of a Nebraska electric cooperative general manager, Lienemann earned his degree at Wayne State College of Nebraska. He spent 15 years working in various positions at a Nebraska electric cooperative, including power use advisor, member services manager, and assistant general manager. He came to Rush County REMC in 1987 as the general manager. In 1996, he became a shared manager, leading both Rush County REMC and neighboring Shelby County REMC through the consolidation process.

What developments are taking place at RushShelby Energy? “Like nearly every industry, rapid change is coming from all directions. The electric utility industry is the last legalized monopoly and state legislators are changing that. Many states have already made moves toward deregulation and customer choice. In Indiana, it looks as if our legislature will address that issue in January 2000. As an electric company, we must be ready for those changes. As a cooperative, we believe we have always been more ‘customer’ focused than other utilities so we should see positive effects from deregulation.

The other strategic planning item is diversification. We know it will be difficult to survive as just an electric distribution company. By expanding into other services and products, we will demonstrate our enhanced value to our consumers and the community at large. Electricity and those member/owners will remain our priority, but we will use the revenues of these other activities to maintain our primary focus. We hope that when consumers have a choice of their utility that they will believe that they can’t live without RushShelby Energy and will make us their choice. It will take service and reasonable prices to accomplish, but that’s what we have been all about since 1935.”

***Goals for RushShelby Energy:*** “Our primary goal is to provide unequalled service to our member/owners.

Whether it be electricity, pagers, propane, the Internet, or something that comes over the horizon later, we want consumers to think of us first. We will rarely be the lowest cost provider, but we need to provide superior service for the premium the consumer may pay. As we investigate subsidiary activities, we must not lose sight of the fact that we are an electric cooperative first. The goal of these activities is to enhance what we do as an electric utility, not to replace it.”

***Biggest RushShelby Energy concerns:*** “As we look into the next 12 months,

our focus is on the Indiana legislature. We will work with the other electric cooperatives of Indiana to make sure that our organizations are equal players in the legislative action. We also want to make sure that deregulation protects the weakest of our members while opening up opportunities to those consumers who wish to make changes. We support customer choice, as long as each customer has the same safeguards and choices. Protecting our member/owners is a top priority and helping them understand and participate in the process is a concern we will address in the short term. Long-term concerns would fill more space than the publication has. Sweeping changes in the industry mean they are hard to get a handle on and we are planning to hit a moving target. That is always a concern.”

***Key rural development issues:*** “We are fortunate to be in areas that have planned for growth of the industrial sector and are working to make it fit into residential and agricultural areas. The biggest issue is how our cities and counties can provide the infrastructure necessary to make the growth work. The payoff in the long term is exciting, but the up-front costs can sometimes be terrifying. We need to strengthen our public and private partnerships to keep our communities on the grow.” ■

# Hog-tied in Kentucky?

## No, thanks to a co-op helping small-scale hog producers survive in a depressed market

By Bill Brockhouse

USDA Agricultural Economist

**T**he hog industry is wallowing in a tough market. Hog prices have been severely depressed and many producers have gone belly up. But, for some small-scale Kentucky hog producers, their cooperative has prevented them from sinking. The co-op may help them ride out the current crisis and be poised for new opportunities when the hog market improves.

According to USDA's Economic Research Service, hog slaughter was up almost 10 percent in 1998 compared to 1997. As a result, hog prices plunged to an average \$32-\$33 per hundredweight (cwt.), just \$5 ahead of the 1972 average of \$27 per cwt. By mid-December 1998, hog prices were as low as \$10 per cwt. Input costs declined substantially, but not nearly as low as hog prices had dropped. While prices have recovered somewhat this year, they are predicted to only average in the mid-\$30 range.

Small producers, in particular, are feeling the squeeze. But a group of producers began working seven years ago to realize a vision that makes it more likely they'll survive roller-coaster market prices.

This effort initially began in 1991, when Phil Lyvers and Johnny Medley, small-scale hog producers in Springfield, Ky., talked about pooling loads of hogs for shipment to an area packer as one way to save on costs. Their vision led to the creation of the Central Kentucky Hog Marketing Association (CKHMA), a producer-owned and -controlled hog marketing cooperative. Today, Lyvers and Medley are members of CKHMA's board of directors. Members are saving on shipping costs, benefiting from packer incentives for hog quality, and obtaining other services to improve their operations.

### A changing marketplace

Before CKHMA, producers did not think in terms of quality. They received spot prices on a live-weight basis. They didn't know much about base prices or pay attention to market conditions. Then packers started offering yield and grade programs based on quality. Forward-thinking producers like Lyvers and Medley soon realized the potential for improved returns through genetics, as well as lower transportation costs.

Consumer preferences also changed. Today, leaner is better. CKHMA helps members steadily improve hog leanness through improved genetics, production management education, and packer feedback. As a result, members' average leanness (as measured by percent backfat) has improved from 48-49 percent in 1992 to about 52.5 percent at present.

### Leadership and marketing

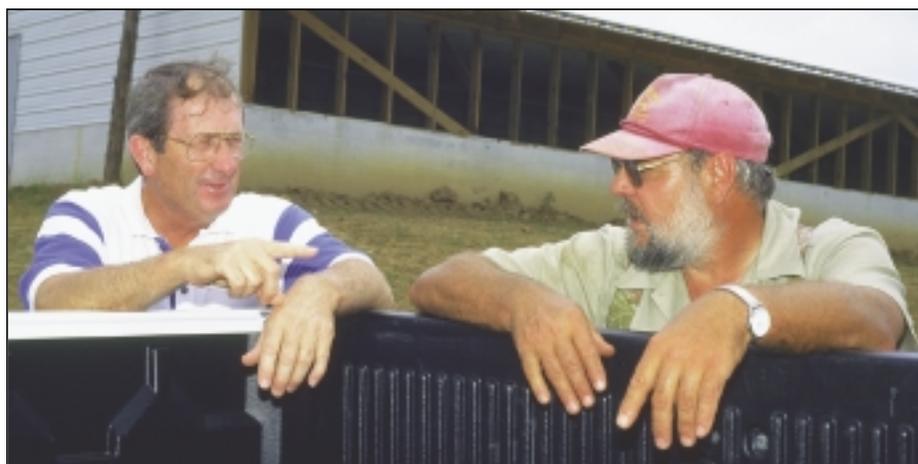
When CKHMA formed in 1992, USDA co-op specialists provided organizational guidance, surveyed producer interest and wrote a business plan. With 25 members, CKHMA marketed about 20,000 hogs that first year. Today, 13 members

market about 31,000 hogs. Most of the membership decline was due to farmers going out of business, but those remaining actually enlarged their operations, in spite of low hog prices.

"CKHMA has helped us stay in production even with historically low hog prices. It has helped members understand that they have to produce quality to get the highest returns," says Lyvers.

Tom Congleton, a vocational agriculture teacher at Springfield High School, agreed to assist the producers, in effect becoming a part-time manager. He talked to packers, along with board members, to determine who could offer the best deal. He also coordinated members' hog shipments to a central stockyard in Springfield, where they were kept overnight and hosed down before loading. Members originally paid 90 cents per hog for loading and marketing services.

However, Congleton repeatedly told producers that "just putting together loads of non-similar animals isn't going to cut it. If one or two producers were getting higher returns because they spent a little more time and money on



*Tom Congleton, manager of the Central Kentucky Hog Marketing Association (CKHMA), and board member Phil Lyvers, helped form the co-op in 1992 to enable small producers to survive the market "roller coaster" by earning more for improved herd genetics. Photos courtesy National Hog Farmer*

producing higher-quality hogs, other producers would be embarrassed because they knew they could do the same thing if only they'd put in a little more effort. There was no reason not to do it. It didn't make economic sense."

The five CKHMA directors were the driving force. With Congleton, they held weekly educational meetings where kill sheet data was summarized and freely shared. Peer pressure was instrumental in getting producers to improve quality.

Members benefited in another way. It was much more time-efficient to let Congleton arrange the marketing and coordinate shipments. Producers could then concentrate on their farm operations.

The biggest advantage during the worst periods last year was access to packers, Congleton says.

"The biggest advantage the cooperative offers is the ability to get pigs in the door. For some smaller producers who weren't members, packers were booked out. But the cooperative never had a load of pigs turned down," he explains.

The cooperative has no "bricks and mortar," since costs such as stockyard and loading fees are variable and hogs aren't actually purchased by the cooperative. Little startup capital was needed. However, the directors agreed to put \$30,000 toward a marketing bond required by the Packers and Stockyards Administration. After a year of operation, CKHMA reimbursed directors.

### More benefits realized

Another member service includes the purchase of feed ingredients in bulk at lower prices. The cooperative takes orders, buys the feed, and arranges for members to pick it up. To promote uniform feeding practices, members are also required to purchase feed ingredients through the cooperative.

In 1995, USDA Rural Business-Coop-



*Hog producer Phil Lyvers says other small-scale hog producers should be able to replicate the success his co-op has had in central Kentucky.*

erative Service staff conducted a strategic planning session with the directors. As a result, Congleton was hired instead of continuing on a volunteer basis. To help pay his salary, the members agreed to raise the fee they pay the co-op to 2 percent of the sales value of their hogs. At first, the steeper fee drove some members away and others went out of business due to economic conditions. But ultimately, hog marketings stabilized.

Al Tank, chief executive officer of the National Pork Producers Council, recognizes CKHMA's success. He spoke at CKHMA's annual meeting in March.

CKHMA members say the future looks hopeful in spite of low hog prices. USDA projects that farrowings will decline later this year, and prices will continue their slow improvement. Some members are even talking about expansion. The cooperative will continue looking for the best terms possible with packers. Members will continue improving quality. Other producers in the area may

join the cooperative and it's possible that another collection point will be opened, Congleton reports.

CKMHA is always looking for new opportunities on the horizon. With the potential for closure of area packing plants looming, members see a need for exploring alternatives for adding value to pork. Custom processing, targeting niche markets and even ownership in a slaughter facility could eventually become a reality for a cooperative.

"Small-scale producers need to get the most out of their hog operations," says Lyvers. "There's no reason CKHMA can't be duplicated by small producers anywhere in the country, with a group of producers dedicated to improving quality, lowering transportation costs, and saving time. It may be the only way for small producers to survive." ■

# Boosting Rural New Mexico

## Farmer co-ops key element in effort to help Hispanics and Pueblo Indians build sustainable communities

By Kristen Kelleher  
Information Specialist  
USDA Sustainable Agriculture Research and  
Education

**N**orthern New Mexicans remain deeply linked to the dramatic landscapes and histories of their lands. Amid the Sangre de Cristo mountain range and in the path of the Rio Grande lie communities with firm ties to the cultures of ancient Native Americans and 16th-century Spanish settlers, both of which highly valued agriculture.

Even so, the influences of modern life and competing economic development now challenge the rural health of the area. The pull of such boom-or-bust industries as mining and tourism lured a generation of people away from their land and agrarian way of life. As in other areas, the newer industries have proven to be less stable and lucrative for many local inhabitants.

Now, through a strong partnership of northern New Mexico producers, community development leaders and agricultural professionals, a promising mix of small-scale farming and value-added enterprises is emerging and reconnecting the community to its agricultural resources.

"This year, we expect to bring in \$100,000 of agricultural income to this part of New Mexico, where there was essentially none a year ago," says Craig Mapel, a marketing specialist from the New Mexico Department of Agriculture (NMDA).

### Team leverages SARE funds

Mapel leads a project funded by USDA's Sustainable Agriculture Research and Education (SARE) program to revive agricultural production in the region. He and a team from the New Mexico State University Cooperative Extension Service and the Taos County Economic Development Center are lever-

aging SARE funds with other public and private assistance to make a significant change in the quality of rural life for Hispanics, Native Pueblo Indians and other families on limited incomes.

Mapel's six-figure estimate refers to the market value of a recent harvest of organic wheat made by a farmer cooperative in Costilla, N.M. It's the inaugural crop for the growers after a generation of local people stopped farming. The farmer cooperative has also served as the impetus for members' spouses to work together to build a greenhouse in which they grow plants and flowers for sale to local residents.

"The cooperative has become much more than just a small grains project," explains Rey Torres of the Taos County Cooperative Extension Service.

The small grain production project in Costilla is one of three hands-on efforts to re-teach Hispanic and Native Pueblo farmer cooperatives how to grow and market products to boost their annual incomes and improve their quality of life.

Other initiatives to enhance sustainable agriculture in the region include a community garden project and food processing and marketing assistance at the Taos County Economic Development Center, both of which intend to jump-start value-added agribusinesses.

"This revitalization project got started because the local people came to us and asked for help to make it happen," adds Torres. "It's been successful because we've combined the grassroots desires and interests of the community with a leadership team that emphasizes the strengths of its players."

The technical expertise of Cooperative Extension linked with the marketing know-how of NMDA and the community activism of development center directors Terrie Bad Hand and Pati Martinson have combined to create diverse, decentralized "incubators" for long-term economic success in the region, says Torres.

### Farming adds stability

Lonnie Roybal, a Costilla landowner and first-time wheat grower, says farming is the only thing he and his neighbors can rely on.

His friend and cooperator Juan Montes agrees. "We're after a strong sustainable community that's not dependent on tourism or other up-and-down economies," he says.

Del Jimenez, extension agent for the grains project, expects far-reaching effects from the agricultural production efforts. "This work benefits more than just a few small towns. The organic wheat produced by the growers fuels niche markets for local mills and bakers, and launches a state product of organic flour that can be labeled as made and milled in New Mexico."

In another part of northern New Mexico, in the commercial kitchen at the Taos County Economic Development Center, "High Desert Delights" pastry



*Chili peppers are an essential ingredient for many of the southwestern dishes created in a commercial kitchen operated by the Taos County Development Center to help create small food processing and marketing businesses that add value to local crops.*

*Photos by Jeff Caven*

chef Leslie Pedlar has fashioned a business out of baking brownies, cakes, cookies and other sweets for local restaurants and shops.

"I probably would have quit by now if this kitchen was not available. It's very difficult to find a restaurant kitchen that will accommodate a small operation like mine," says Pedlar.

The kitchen is part of a gleaming, up-to-code food processing center housed at the Taos County Economic Development Center. Pedlar says combining reasonably priced, accessible work space with the legal and financial services offered at the business park is a great way to give small enterprises like hers a fighting chance to succeed.

The dynamic team behind the development center business park are co-directors Bad Hand and Martinson. They carved out a strategy for community action in Taos County by investigating the desires and strengths of its citizens.

"You have to go to the people," says Bad Hand. "In this area, we learned that agriculture could be a seed of change because of its link to the people's heritages."

Looking to the future, Bad Hand and Martinson say they aim to get the development center's commercial kitchen functioning 24 hours a day with locally produced goods. They also plan to have its companion community garden act as a catalyst for more food business opportunities for limited-income people, as well as an entry point for healthy eating and nutrition education.

### Co-op to buy mill

On the wheat production front, Torres says the farmers had to learn how to work together just as they needed to renew their agricultural skills. After seven years of assistance and advice from outside sources, the cooperative members are about to take a big step. They will mill their own flour for sale to restau-



*Crops flourish in the Taos County Economic Development Center community garden, created to improve local food production.*

rants and bakeries. The farmers want to capitalize on the consumer trend of shopping local to support rural America.

"Because of the changing face of rural America, people realize that, unless you support the local economy — farmers, producers and processors — your community is not going to survive," Torres says. "This is not just about supporting an industry, though. It's about supporting a lifestyle.

"A few years ago," he adds, "these producers would have just marketed their wheat on the open market. Now these same producers have moved on to something unique — their own mill. We know the stamina is there. The will is there. Moving to this critical point has given these cooperative members great hopes for their futures."

First funded by Congress in 1988,

USDA's Sustainable Agriculture Research and Education the SARE program helps increase knowledge about — and helps farmers and ranchers adopt — practices that are economically viable, environmentally sound, and socially responsible. To learn more about how to apply for a SARE grant, access SARE research findings or obtain SARE books and informational bulletins, contact Valerie Berton, (301) 405-3186; [vberton@wam.umd.edu](mailto:vberton@wam.umd.edu) or visit [www.sare.org](http://www.sare.org). ■

# A Sea of Greens

## Low-income farmers use vegetable processing, marketing co-op to create new opportunity in north Florida

By Pamela J. Karg  
Field Editor

**“A**s a small farmer, you’re already on the bottom, so you have no way to go but up,” Spencer Lewis says. “With this new cooperative, it’s a lot better. It makes you feel good. You know you’re moving up.”

When Lewis plants his seeds today in the soils of Florida’s panhandle, he essentially only worries about the weather. He and his wife, Melvina, know exactly how many acres to rent, how much collard or turnip seed to plant, what to do for pest control so the greens can be harvested on time and who’s going to purchase his produce. The Lewises and their fellow farmers credit New North Florida Cooperative for bringing stability to their lives and their operations.

Historically, these small-scale, black farmers have been price takers, says Glyen Holmes of USDA’s Natural Resources Conservation Service (NRCS) in Florida. Farmers sold produce from roadside stands or to local restaurants. What wasn’t sold within days of picking usually spoiled. One neighbor had no idea what another neighbor was planting or harvesting. This turned friends into direct competitors in an already flat local marketplace. And these producers felt there was no hope on the horizon.

“These are small-scale producers,” says Holmes. “They have limited land, limited capital, limits to their experience with marketing, and even limits in local marketing opportunities. Some are only part-time farmers, with jobs in town. These people were raised on farms and knew the production side of business, but they had never organized to market their products.”

That changed when 15 small-scale farmers put their own “sweat equity” to work in the co-op. Helping them in this effort have been USDA’s Agricultural Marketing Service, USDA’s Natural

Resources Conservation Service, Florida A&M University (FAMU) and the West Florida Resource Conservation and Development Council.

### Not all is sunshine

The number of black U.S. farmers has steadily declined, even more rapidly than the trend for all farmers. In 1910, there were one million black farmers who owned 15 million acres of land. By 1998, that number was down to fewer than 20,000 farmers who owned about two million acres.

At the same time, the farmer’s share of the consumers’ food dollar had shrunk from 37 cents in 1980 down to 23 cents in 1998. One reason for the decline is consumers who increasingly want convenient, quick, ready-to-eat products. Consumers want their cabbage washed, sliced and packaged so that they only need to add a few sliced carrots, mix in the dressing, toss it all in a bowl and serve up “homemade” coleslaw. Small-scale farmers such as Lewis don’t have

access to the processing and packaging equipment to give consumers exactly what they want. As a result, income has been shifting away from farmers toward companies that process, package and market food the way consumers want to buy it.

While most people see Florida for its beautiful beaches, thirst-quenching glasses of cold orange juice, Disney World and as a winter haven for snowbird senior citizens, the northern Florida region is experiencing financial difficulties. Federal and state officials studied the environment within which producers wanted to form a new marketing cooperative. Their reports indicate that increased urbanization of southern and central Florida has left northern Florida as the only region where small farming operations continue to exist in large numbers.

Small farmers are further confronted with major problems as they attempt to compete in today’s rapidly changing political, economic and technological environment. Add to this a lack of profitability,



*A 54-row acre of greens provides enough fresh vegetables to serve lunch to each student in all 30 schools served by the cooperative.*



and small farmers are leaving their operations for non-farm employment.

"This growing trend is resulting in the surrounding community becoming overwhelmed with a demand for employment that it is unable to meet. The search for employment is also taking many away to seek employment in other communities. Thus, the extinction of this very important agricultural group, small farm and ranch operators, is a possibility in the northern Florida area," one study noted.

In eight of nine counties in west Florida, unemployment rates range from five to nine percent. These same counties have between 11 and 25 percent of their population living below the poverty rate. The per capita income ranges from \$10,400 to \$11,900. Only Leon County, where the state capital of Tallahassee is located, has a healthier unemployment figure (3.9 percent), poverty rate (9.4 percent) and per capita income (\$15,724).

### Birth of a co-op

Committed and informed, producers established New North Florida in 1995 to try to increase their income through

*Dinner is served: packages of co-op produced and processed collard greens are about to meet the public at the Havana North Side High School cafeteria. From the left are: Dan Schofer, USDA Agricultural Marketing Service; Alonza McBride, cafeteria manager; Joe Ann Yumas, lunchroom assistant; and Glyen Holmes, USDA Natural Resources Conservation Service. USDA photos by Dorothy Staley*

innovative marketing. They knew there were no guarantees for the cooperative's success, even with technical assistance from USDA and local organizers. Each farmer had to commit sweat equity for a share in the new organization, which they hoped would help lift them up the economic ladder through innovative marketing. USDA and community development personnel provided management assistance, but the farmers did not receive any large financial grants.

The cooperative's first delivery was 3,000 pounds of greens to the Gadsden County School District. Food Service Director and Registered Dietitian J'Amy Petersen remembers the free samples.

"I met Glyen Holmes at a USDA Commodity Food Program meeting in Atlanta," she says. "We started talking about the use and how important fresh, local produce is in feeding programs in the public schools," she recalls. "When driving

to the various schools, I saw fields of cabbages, tomatoes, and grapes/berries, fresh food items that students would enjoy with meals and salads."

A short time later, Holmes coordinated the delivery of cabbage, strawberries and watermelon to the district's central warehouse. The produce was distributed to 15 schools that daily feed about 7,000 preschool through high school students, as well as educators and administrators. The district also serves nearly 4,000 breakfasts daily through the National School Breakfast Program. About 80 percent of the district's students receive free or reduced-price meals through the National School Breakfast and National School Lunch programs, the largest of the federal child nutrition programs in terms of spending and the number of children served nationally.

"The quality of the produce was top-notch," Petersen says. "The leaves were



clean with no holes, rot or wilt. The berries and melons weren't mushy, which means they were freshly picked. Glyen was in constant contact with me, asking how the produce looked, what the staff thought and how the kids liked it. He still does that today, which is real important."

More importantly, the kids responded. They loved the taste and texture in their mouths of the fruits and vegetables. For some of the smaller children, it was their first time ever trying fresh strawberries. The smell of fresh cooking cabbage piqued everyone's taste buds so they ate more. Petersen and her local food service managers have noted increases in student participation in the School Lunch Program, which they attribute to the efforts to provide children with high-quality fruits and vegetables. There has even been an increase in the number of teachers, district staff members, and maintenance crews who opt to stay at school for lunch.

Working through Holmes and New North Florida, Gadsden County schools now contract shipments of strawberries, watermelons, turnip and collard greens, cabbage, blackberries and Muscadine grapes. Jackson County School District food service director Linda Wright also purchased produce from the cooperative. New North Florida continues to work with Jackson County schools through Aramark Food service, a private manage-

*If collard greens are clean, with no holes or wilt, producers will cut and bag them for delivery to customers.*

ment firm the district has retained. The Department of Defense's Direct Vendor Delivery payments enable districts to buy more fresh produce without the school food service fund footing the bill. All invoices are sent to the state's Commodity Food Programs, which retrieves money from the Department of Defense food fund to pay the local produce bills.

New North Florida cannot supply either district's complete fruit and vegetable needs all year long.

"In school food service, you learn to go with the flow, be flexible and to work with what you have. Our menus include many fruit and vegetable items," Petersen explains. "One vendor, like the New North Florida Cooperative, cannot fulfill all of our needs, just like one vendor cannot fulfill all the milk, bread and frozen food items. We have to learn to work with each specialized distributor."

Of course, pizza and cheeseburgers are just as popular in Gadsden County as they are anywhere else, and Petersen's staff has learned to complement these items with fresh lettuce, tomatoes, coleslaw and fruit cups as a dessert.

"Those are definite favorites, but the fat content can already be high in children's diets, so the addition of fresh fruits

and vegetables with the needed high fiber and nutrient content can be assets and complement our school meals," stated Petersen. "For many of our children, school breakfasts and lunches provide most of the needed nutrients for brain and body growth, and unfortunately may be the only well-balanced meals they eat throughout the day. We are especially conscious of the nutritional values in daily meal planning. By following the USDA Dietary Guidelines and Food Guide Pyramid, I am assuring they eat properly therefore resulting in lower disciplinary problems, better school attendance and higher learning activity."

The majority of fresh produce is purchased from non-cooperative sources, local produce vendors, Petersen says. The cooperative's prices for some of its items are often lower than those of local produce companies, even after the management team factors in the costs incurred during production, post-harvesting handling, delivery and a reasonable profit level. With strawberries, the cooperative does not set its selling price. Rather, the management team monitors weekly and daily market prices and then sets its own competitive prices.

But Petersen's preference is to do business locally, adding North Florida farm-

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ers' Muscadine grapes or melon chunks to a breakfast fruit cup, or with seasoned cooked greens, cornbread and barbequed or baked chicken for lunch.

### A holistic approach

There's something deeper, even holistic, about Petersen's commitment to the business arrangement. "I'm originally from North Dakota," she says. "My upbringing assisted in understanding the importance of locally grown items and utilizing them wherever possible. The USDA Buying Guide was shared with the cooperative and we talked about how it is used to figure portion sizes. We also shared prices paid for items, the number of breakfasts and lunches served at each school and their locations.

Lewis, for example, plants about 54 rows of collard greens per acre of land. The yield from his field provides enough greens to serve during one lunch at the 30 schools across Gadsden and Jackson counties.

"But my rural roots also create in me a deep appreciation for local farmers," Petersen continues. "I was really glad to be able to buy produce from our farmers because, in a rural area, they're our backbone. I know the importance of giving back, helping the community. And nowhere is that truer than in an economically disadvantaged area."

Dan Schofer, an agricultural engineer with USDA's Agricultural Marketing Service, says the genuine concern expressed by Petersen and others in the local community about the cooperative, its members and their success was crucial to coordinating this pilot project.

"I can't emphasize enough the personal relationships that have been formed between the cooperative's members, the farmers and the management team, the cooperative and its customers. That helped foster J'Amy's willingness to go with this new cooperative before it

was even standing on its own two feet. She took a chance on us when no one else would," Schofer says.

### Turning over a new leaf

Cooperative members now have customer demands to meet through strict production schedules. That was a challenge at first.

"It's one thing to grow a few greens in your garden for use on your family's dinner table or to sell to the neighbors," says Schofer. "But it's quite another to have a high-quality product that meets all the customers' expectations and is ready on a particular date. If J'Amy wants something delivered on Monday, members had to learn that they must deliver."

Only once since it started has New North Florida missed a delivery. The greens didn't arrive, but Petersen had some frozen ones she could distribute to her school cooks. Another time, through a mix-up on the delivery dock, a fruit delivery wilted under Florida's summer sun.

"The cooperative replaced the shipment, and it wasn't even really their

fault," Petersen says.

Holmes, especially, remains intimately involved in the cooperative's daily business. He makes contacts with customers, talks to potential customers, develops delivery schedules and ensures that operations are moving forward. Vonda Richardson, with FAMU's Small Farmer Outreach Project, works on-farm with the members, assisting them with production issues and management questions. She acknowledges that New North Florida is slowly learning to crawl, which it needs to do before it can walk.

"We've seen in our area that the traditional way people start cooperatives — with heavy involvement from members — doesn't necessarily work here," she explains. "These farmers want services so they can concentrate on what they do best — growing produce. We're trying it that way, giving them what they want, the way they want it. That means Glyen and I put a lot of intensity into the effort every day. But we see it as part of the careers we already have working for USDA and Florida A&M."



*Glyen Holmes, (left) and Dan Schofer of USDA help load packaged greens into the co-op's air-conditioned trailer.*



*"The future (of the co-op) does cross my mind when I'm out here," says Lewis.*

*Producers such as Spencer Lewis know how to grow high-quality vegetables and fruit, and their new cooperative provides processing and marketing services.*

### **Growing into the future**

Lewis thinks about the future, too. He knows the cooperative has given his family immediate financial gains. But Lewis also knows local farmers will eventually need to make some tough decisions about building equity in the organization, expanding marketing opportunities and dealing with the challenges growth brings.

"The future does cross my mind, when I'm out there tending to my plants or turning my watermelons, but I haven't sat down to think about it much," Lewis explains.

As members gain self-confidence, they're expanding their knowledge, building their marketing skills and realizing the power that cooperation has given them, says Holmes. They are slowly pushing forward.

New North Florida received its first large financial assistance from a local bank and the Jackson County Development Council, a non-profit orga-

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nization that helps implement the President's Empowerment Zone program. The loan was used to buy a new cutting/chopping machine and a refrigeration storage system. These improvements, along with a packaging/processing shed to house them, were essential to the cooperative's survival, Holmes says.

### Meeting with success

"We've had many successes and learned a few valuable lessons," Schofer says. "We've shown that you can bring different organizations and different people with different expertise together to work on a project that makes a positive difference in people's lives. And you don't have to worry about who gets the credit

because, when it's as successful as New North Florida has been, there's plenty of credit to go around."

In addition to the innovative partnership between farmers and outside sources, the cooperative has shown producers and advisers how north Florida producers work best when organizing and educating themselves to new ideas and changes. New markets have been developed and income to small-scale farmers has increased. New North Florida Cooperative has developed a good reputation for itself among state and federal agencies, as well as heightened awareness in local communities of how much people can achieve when they work together.

"And I think we have a model here that can be implemented in other communities across the U.S. where small-scale, limited-resource farmers want to form a cooperative," says Schofer.

"We're making things better all the way around," Lewis says. "The more people see you do things, the more they'll want to come in to what you're doing. The younger generation wants to know about the cooperative and what we're doing. It makes me feel good when people pay attention. Then we can plant more because we'll have to send out more and we'll make more money. We're working hard and we're being a success. That's all good for small farmers." ■



*Timely deliveries to customers have added to the reputation of the New North Florida Cooperative. Co-op members say the biggest key to their success is hard work.*

# Co-op Member Education Needed in 21st Century



William J. Nelson

William J. Nelson  
Executive Administrator  
Association of Cooperative Educators

Is anyone surprised that we are seeing significant change occurring in the economic and social systems in which cooperatives are involved as the 20th century ends? And should we be surprised that cooperatives themselves are undergoing significant change? We have known for some time that change at the close of the 20th century would accelerate. We should not be surprised that the accelerating rate of change is altering the very structure of the cooperative system, and will continue to do so.

In an article in *Rural Cooperatives* (September/October 1998) Randall Torgerson described several “drivers” behind the rapidly changing cooperative system, including: the implications of the global economy; the combined pressures of specialization and economies of scale; reduction of the “safety net” provided by the federal government; the desire for more control over quality and defined product characteristics leading to vertical coordination of production and distribution; and the need and opportunity for cooperatives to play a critical role in this new marketplace on behalf of their members. This leads to the critical question of who will control our destiny, and — in a producer or consumer-owned cooperative — will the members, directors and staff be prepared to meet the challenge?

He closed the article by calling attention to a key issue: among the many challenges these changes create, a very important one is “keeping the member-owners informed, involved and empowered so that benefits are clearly oriented and delivered to them.”

While today’s changes may seem great, even overwhelming, this is not the first time this has happened in the cooperative system to either producers or consumers. We might be able to learn a little about how to proceed by looking back.

The modern cooperative business structure, and the system it became, grew out of tumultuous and difficult social and economic stress created by the revolutionary new technologies being created by the industrial revolution. Of course not everyone agreed on the value of the new technologies and, in retrospect, the “revolution” never really ended. We emerged into a new era of civilization in which industrialized technology became a driving force, rather than simply an extension of previous small, incremental adaptations of tools and techniques to meet specific human needs.

The changes in technology and the structure of industry created significant social, economic and political turmoil, which — like the change in the structure of commerce and industry — never ended, either. As we progressed into the 19th and 20th centuries, the pace of change began to accelerate. Social, political, and economic change is a little more difficult to see, describe or measure, but the impact is nonetheless significant.

As one very important solution to the problems created by this change, ordinary people created a new type of business structure to meet their needs: the cooperative. From the perspective of consumers, and later as producers, they took calculated risks in a difficult environment, knowing very little about what was ahead of them. They started co-op businesses designed to reduce expenses, increase income or provide a needed service, using a new strategy of combining entrepreneurship with collective action, in a formal business structure. When they got it to work at the local level, they expanded the idea into regional, national, and even global structures and systems.

The cooperative system has been able to function in a range of economic, political and social systems for over 150 years. It promotes desirable competition, creates value, adds value, meets needs and responds to the needs and objectives of

member-owners. Is there something unique about the system that has made it so sustainable through so many changes? If so, what will it take to continue?

A closer look at the formation of the Rochdale cooperatives, the prototype of our modern system, reveals that along with all of the obvious business challenges they faced, they realized they needed to know a lot more than they did, and they devised their own elaborate learning system, including a library, adult education programs and a commitment from the business to support this education effort.

They devised a way to have the business pay for it, as an investment in the future of their business and livelihood. When they created their mission statement with a set of business principles to guide them, they included education about their business as a key guiding principle for future success.

As the system grew, and as basic general education became the responsibility of the public school system, the tasks and responsibility for education on the unique features of a co-op business gradually shifted to what cooperative historian Brett Fairbairn of the University of Saskatchewan has called “the agencies.”

These are organizations such as state and national trade associations, universities, and government agencies, and professional associations. This worked reasonably well for a long time, even though the commitment and capabilities of “the agencies” fluctuates over time, depending on resources and a host of other factors.

The leadership and commitment of “the agencies” today are on an upswing. For example, we have a rejuvenated fed-

eral research and information service through the Rural Business Cooperative Service of USDA Rural Development and rejuvenated and expanded university centers for cooperatives and endowed chairs, with excellent leadership and staff. We have very strong professional associations of cooperative educators and communicators, including the Agricultural Communicators in Education (ACE) and the Cooperative Communicators Association (CCA), and we have new models of collaboration on cooperative education emerging between state cooperative councils.

Foundation support of cooperative education has increased, new electronic technologies are being used for information delivery and increased coordination in the development of new or updated curriculum materials is improving communication efficiency and effectiveness. We have some very strong co-op educational programs in place, including the Graduate Institute for Cooperative Leadership (GICL) and the Legal, Tax and Accounting (LTA) conference of the National Council of Farmer Cooperatives. Consumer cooperatives have similar educational programs.

One key area of cooperative education, leadership development, is being improved on several fronts, including programs such as GICL, and a new program for defined membership cooperatives created through a partnership between the Quentin Burdick Center and several other agencies, foundations and —most importantly — the cooperatives themselves. Other leadership development and support programs include the Future Co-op Leaders Program of the National Cooperative Business Association and the New Cooperative Leaders Scholarship program of The Cooperative Foundation, which supports professional development in cooperative education.

The Cenex Harvest States Foundation has made a commitment to co-op education, including support for professional development of co-op educators. Two new director training series are available, and young farmer programs emphasize leadership development.

But this is only a part of the story. While it is important, necessary and reassuring that “the agencies” are alive and well in actively looking after the principle of cooperative education, it can’t

fully substitute for a full commitment by the cooperative businesses themselves. We need to take another look back, to see what we might need to do now.

When the early cooperatives made a commitment to their own ongoing education, they ensured that they would continue to be risk-takers, innovators, successful competitors in their cooperative marketplace. This approach, which they supported as a necessary business expense and investment, is what we today call “a learning organization.”

A learning organization is an organization which is continually expanding its capacity to create its future, through learning as well as earning. Cooperatives used to do this — it was how they got started and what they had to do to create a new niche market in a very difficult business environment. They started at the most basic level and grew into a system that is locally, regionally, nationally and globally competitive, ensuring a place and future for member-owned and controlled business. But we have gradually lost much of our inherent advantage.

Today, we tend to follow the rest of the business world through one management “innovation” after another: total quality management (TQM), re-engineering, re-invention, systems models, networking vs. hierarchical models of leadership and management, niche marketing, customer orientation, shared profits, incentives, give-backs, adding value and even trying new technologies to sell things. We lament that our democratic system sometimes slows us up, because it takes too long to get the buy-in of members who don’t understand where we need to go on their behalf. We try to “communicate” more, we provide (what sometimes amounts to remedial) education to attract and train directors, we increase our legal and lobbying budgets and we try to find new ways of explaining our unusual capitalization and financial structures to new types of investors. Sometimes we even consider giving up the cooperative business model because we aren’t sure if it is up to the challenge of today’s business environment.

Isn’t “adding value” what we were doing when we started? Weren’t cooperatives learning organizations, innovators, risk-takers, networkers, partnership-builders, profit-sharers, customer service providers, niche marketers, investor-con-

trolled business innovations? Wasn’t the system able to transcend local, regional and national boundaries when it was the appropriate and necessary business thing to do (still done in service to members)? How did we do this? What was the key ingredient? Could it have been ongoing cooperative education? Was this the reason it was included as a principle?

Where, then, do we go from here? Not backwards, except to learn what we can from the past. Just as the originators of any cooperative — whether in Rochdale, England in the 1840s, the Upper Midwest states, the West and East Coasts in the early 1900s or in the Midwest again in the 1990s — we in the cooperative system need to rethink the commitment to cooperative education.

We need to capitalize on the investments made in “the agencies”: the university centers, endowed chairs, state and national councils and USDA. We need to continually re-invest in them to keep them strong and future-focused, emphasizing the “learning organization” aspect of a member-formed, owned, and controlled business. But we also need to make a stronger commitment within our cooperative businesses themselves to make sure we have a membership which fully understands the power and potential of a member-owned and controlled business in today’s global competitive economic environment.

We may need to set priorities: can we, or do we, need to educate the public about cooperatives, which some co-op education advocates believe should be the top priority? If we want to build strong, informed, dedicated members, at what age do we start? What is the best access point, the optimal curriculum, the most efficient and effective delivery system? What does the content for cooperative education in the 21st century need to be?

Some of these questions are being addressed by the agencies, but that is not enough. We need the cooperatives themselves to re-claim their roots as authentic learning organizations. A key step in this direction would be a renewed commitment to member education, as part of a business investment in cooperative education. This may be necessary to, as Torgerson suggested, “keeping the member-owners informed, involved and empowered so that benefits are clearly oriented and delivered to them.” ■

# Planning to Prosper:

## Recalling lessons learned from livestock slaughter and meat packing co-ops

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*"Many farmers and farm groups continue to be interested in handling some livestock through cooperative meat packing plants. This desire to own and operate their own slaughter, processing, and merchandising facilities increases during periods of low livestock prices and small feeding margins."*

**R. L. Fox**

USDA Farmer – Cooperative Service  
April 1957

By Brad Gehrke and James Matson  
USDA Livestock and Marketing Specialists

At the dawn of the 21st century, R.L. Fox's words are no less true than they were 42 years ago. Fox lamented that the farmers' share of the consumers' meat dollar declined from 73 percent in 1946 to 52 percent in 1956. In December 1998, farmers' share of each consumer retail pork dollar had dropped to 12 cents. During the same period, beef producers received 44 to 50 percent of the consumer retail dollar. While beef producers may appear to be in a stronger position than pork producers, note that the 44 percent share at the feedlot gate must compensate cow-calf producers and backgrounders in addition to feedlot-operators.

Increased marketing margins can be partly explained by the addition of consumer-driven characteristics added beyond the farm gate, including such ready-to-cook items as grilling kabobs and marinated steaks. Still, many consumer-desired characteristics are inseparable from the production process, such as leanness, tenderness and flavor. Market-oriented pricing and procurement methods have not always compensated producers for the value of characteristics inherent in genetics or production processes. Cooperative involvement in value-added processing is one method producers can be compensated for the

true value of their production.

Recent interest in cooperative slaughter and meat processing among farmers, ranchers and feeders is driven by low prices and smaller profit margins, as well as by significant changes in the structural and institutional environments that have increased risk among independent producers. Recent changes to a more market-oriented federal farm policy have exposed producers to increased price risk. Continued vertical coordination and integration can potentially reduce market access for some producers. While the globalization of markets increases opportunities, participation in these markets also makes U.S. producers susceptible to additional risk.

Randall Torgerson, deputy administrator of the Rural Business-Cooperative Service of USDA Rural Development, summarized the underlying interest in cooperative slaughter and meat processing in an article he wrote for the United Kingdom 1999 Yearbook of Agriculture:

"Two processes are influencing how the food industry is organized and dealing with this marketing margin situation: more integration and coordination. Cooperatively-owned businesses are a natural vehicle for turning these processes into members' benefit. Through joint ownership of marketing, farm input or service assets, cooperatives become the off-farm business — the business beyond the fence line, in an integrated sense. The key is that the driving force behind this integration is the entrepreneurial business unit — the farmers' operation and not some outside dominating force."

### Successful cooperative organization

As producers attempt to move closer to the consumer and increase their share of the retail food dollar through the formation of off-farm businesses, they face opportunities and risks. These opportunities and risks differ from those they encounter as producers. To successfully

manage these risks, producers need to develop a well-defined organizational plan.

Producers benefit if cooperative strategies take advantage of changes in institutional processes. Careful planning allows producers to effectively recognize risks. Once these risks are identified, the cooperative can develop business strategies that limit these risks to an acceptable level.

In 1996, Galen Rapp and Gerry Ely, USDA cooperative development specialists, codified years of experience in a 16-step sequence for cooperative organizations. The plan may take up to two years to develop and implement, but only after completion of the planning steps should a cooperative commence operations. In "How to Start a Cooperative" (CIR 7, available from USDA Rural Development) Rapp and Ely state that businesses are most susceptible to failure soon after organizing. The two provide a list of 10 actions cooperative organizers should follow to avoid common organizational pitfalls.

### 10 actions to avoid cooperative organizational pitfalls

1. Identify a clear mission for the cooperative with definite goals and objectives.
2. Create detailed plans for achieving the defined goals.
3. Make use of persons experienced in cooperative development.
4. Involve cooperative members or selected leaders in all decisions.
5. Develop board support among the potential member-users.
6. Hire experienced and qualified management.
7. Identify risks early in the organizational process.
8. Use realistic business assumptions.
9. Raise sufficient capital to survive the start-up period.
10. Keep the membership, suppliers and financiers informed.

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Livestock slaughter and meat packing cooperatives are just as likely to fall prey to these pitfalls. Perhaps, given their competitiveness and slim operating margins, these industries are even more subject to these potential problems. Therefore, a lapse in only one area could leave the cooperative vulnerable and susceptible to failure. With this in mind, it is probably good to review the lessons learned since the first cooperative attempts to enter these industries 85 years ago.

### Early livestock processing co-ops

The first recorded cooperative meat packing endeavor took place in La Crosse, Wis., in 1914. Twelve additional groups attempted to establish cooperative meat packing operations between 1914 and 1920. Of these efforts, only one lasted more than three years, and except for one, all ceased operations by 1923.

In 1957, when Fox looked back on these initial ventures, he saw some factors that contributed to their lack of commercial success. He summarized those he believed to be most critical in "Farmer Meat Packing Enterprises in the United States." A review of these factors shows they still have lessons to teach for those who plan to organize cooperatives today.

Fox found that the most common problem associated with cooperative meat packing efforts was lack of sufficient capital. He did not always attribute this to insufficient producer participation. Promoters were paid from 15- to 30-percent commissions on the capital they raised, which significantly reduced the net value of producers' investments.

Excessive valuation of existing facilities resulted in some cooperatives paying high prices for worn-out plants that required renovations, which further diluted the leverage of producer capital. In some cases, producers did not fully fund their stock subscriptions. Lack of producer support was exacerbated when farm-



*Livestock producers in need of profits beyond the farmgate continue to eye co-op owned slaughter and meat packing operations as a primary option. USDA photo*

ers, ranchers and feeders became discouraged because immediate profits and dividends did not materialize as expected.

As with any business venture, capable management was an essential issue. Cooperatives often hired inexperienced and inefficient management, which manifested itself in overpayments for livestock, meat spoilage, inaccurate records, inability to collect accounts payable, extravagance, and lack of aggressiveness. These conditions further eroded producer support because producers lacked confidence in management.

Another area where these organizations had difficulties was their market position. In some cases, unsatisfactory sales outlets, keen competition and low prices also contributed to losses. Other projects were challenged by irregular and inadequate supplies of desirable livestock, or unfavorable freight rates for processed meat.

These conditions undermined the cooperative's ability to compete with established investor-owned firms. Because of these commercial failures, producer interest in cooperative livestock slaughter and meat packing remained dormant until 1930.

### Meat Processing Co-ops, 1930-1948

Five of 13 slaughter and meat processing cooperatives started between 1930 and 1948 were still operating when Fox completed his analysis. Of the eight that

failed, six operated for less than a year. Most of these failed attempts succumbed to the same factors that plagued earlier cooperative livestock slaughter and meat packing operations. Insufficient capitalization by producers, lack of producer commitment, inadequate marketing operations and inadequate management all contributed to their demise.

The factors identified by Fox have been corroborated by the experiences of later cooperative developers and researchers. The lessons from the commercial failures, coupled with those gained from commercially successful ventures, provide insight for people presently interested in organizing livestock slaughter or meat packing cooperatives. These lessons have been incorporated into the recommendations included in the 10 actions to follow during the developmental and planning process.

Unfortunately, not all the difficulties in cooperative organization remain in the distant past. Some recent organizational efforts did not result in commercial success. Several groups have repeated past mistakes. A review of some of these efforts shows the continued importance of careful planning before initiating operations.

### Lamb co-op failures studied

Roland D. Smith and a team of others from Texas A&M University funded by USDA Rural Business-Cooperative Services completed a case study of produc-



*Producers did many things right in launching lamb processing cooperatives, but old problems plagued the operations. Photo courtesy American Sheep Industry Association Inc.*

er-owned lamb processing ventures started in 1989 and 1993. They found that lamb producers did a lot of things right in studying and preparing for the launching of the cooperatives. However, each business operated for less than two years.

Smith's team identified many of the same causes for failure that Fox had found more than 40 years earlier. The researchers categorized these factors into five areas: 1) inadequate financing; 2) limited management expertise; 3) misguided marketing efforts; 4) lack of consistent supply; and 5) the failure of the low-cost contract slaughter operation.

In describing lessons learned from the sheep experiences, the case study refers to planning as a critical element needed for success: "Had the contingency planning and effective evaluation been conducted as a proactive strategic process rather than as a reactive response to the existing economic environment, some of the perceived problems with financing, operations, marketing and management expertise would have been better addressed."

Indiana Family Farms, a pork cooperative, faced similar challenges. It initially purchased an old plant to renovate. But sufficient capital was not available. Probability of success was limited further by lack of producer support.

Indiana Family Farms estimated that 300 members were necessary for the project, while only 60 producers joined. It

began custom slaughter, processing and distribution operations in November 1997. These operations were suspended in July 1998. In his column in "Feedstuffs," Steve Marberry concluded that "Buoyed by \$60 per hundredweight hog markets [in 1996-97], producers decided to ride the spot market into an uncertain future."

Despite several unsuccessful efforts in organizing slaughter and processing

cooperatives, a number are commercially successful. Farmland Industries entered the pork processing industry in 1959 by purchasing a plant. Today, Farmland is the fourth largest marketer of pork products in the United States and a leader in international value-added marketing.

In December 1997, U.S. Premium Beef initiated operations as a new-generation marketing cooperative. Operations began after 28 months of planning. Early



*Interest in forming beef cooperatives remains high all across North America as producers seek higher profits and stability. USDA Photo by Ken Hammond*

this year, Chief Executive Officer Steven Hunt said the cooperative paid out more than \$4.8 million in premiums over the cash live cattle market. This represents a \$9 per head premium. During its first year of operation, the cooperative paid a total average return of 34 percent to its 675 members.

Producers continue to eye margins beyond the farm gate. Hog producers in North Carolina, Georgia, Illinois, South Dakota and Minnesota; beef producers in plains and mountain states; as well as intermountain sheep producers are considering the potential for producer-owned, cooperatively governed slaughter and processing operations.

### **Prospering with co-ops**

“Cooperatives are responding to the changes in one of the most aggressive restructuring periods in the history of American cooperation,” says USDA’s Torgerson. The current interest by producers to increase their share of the consumer’s retail dollar through cooperatives offers them an opportunity to benefit from changing market processes. With care, producers can take advantage of these changes to prosper through cooperatives. Lessons learned from more than 85 years of cooperative slaughter and processing show how to avoid organizational pitfalls through planning. ■

## **Cooperatives’ Response Needed for 1999 Survey**

The annual survey of farmer cooperatives conducted by USDA’s Rural Business-Cooperative Service (RBS) is the only source of detailed information on cooperatives and their service to American agriculture. This data source, the only one with a national scope, provides an important view of cooperatives’ progress, growth and trends.

Data are collected annually to gauge current cooperative activities, develop trend lines, and obtain needed information for important research, education, and information on cooperatives.

### **How are the data collected?**

The data are collected through the use of questionnaires. Similar questions are asked each year so that important data series can be maintained. Periodically, additional questions are included for conducting special studies of various aspects of farmer cooperatives. The 1999 survey will collect additional information for a special study of local cooperatives’ involvement in providing crop protectants to their members.

Forms are mailed in early September to all cooperatives ending their business year between January and June. Cooperatives whose business year ends from July through September receive a questionnaire in early December. Those whose business year ends in the last quarter receive questionnaires in early March of the following year. Cooperatives are encouraged to furnish a copy of their annual or audit report along with the completed questionnaire. Such reports provide important information not requested on the questionnaire.

USDA/RBS staff maintain data for

use in research, education and technical assistance. Any data used in presentations or publications are combined to maintain the confidentiality of individual cooperatives. Individual report forms are kept strictly confidential.

### **How are the data used?**

Data collected from the annual survey of farmer cooperatives are combined, expanded to represent the total population, and selected data are published in reports such as: Rural Cooperatives, Statistical Abstract of the United States and Agricultural Statistics. Farmer cooperative statistics are used by cooperative leaders, educators, researchers, policymakers and others interested in farmer cooperatives. Agency staff frequently use the information for important studies and presentations. Educational materials, from pamphlets to college textbooks, rely heavily on statistics collected by the agency. Many people, including foreign visitors, contact the agency when they want to learn about the structure and operation of U.S. farmer cooperatives.

### **How can farmer cooperative statistics be acquired?**

A copy of the annual statistics report is sent to each cooperative. Additional copies of the report can be ordered from RBS. If you have questions regarding farmer cooperative statistics, please call, e-mail or write Charles A. Kraenzle at (202) 720-3189, or [charles.kraenzle@usda.gov](mailto:charles.kraenzle@usda.gov), or USDA/RBS/Statistics, STOP 3256, 1400 Independence Ave, SW, Washington, DC, 20250-3256.

# Co-ops Remain Major Players in Dairy Industry

By K. Charles Ling  
Agricultural Economist  
USDA Rural Development

**D**airy cooperatives continue to play a major role in the U.S. milk industry. While dairy products represented 30 percent of the value of all agricultural cooperative marketings during 1997, dairy cooperatives received or bargained for 83 percent of all milk sold by farmers to the Nation's plants and dealers. It is the major finding from a survey of dairy cooperatives' operations for the fiscal year ending in 1997.

The number of dairy cooperatives decreased 15 percent, from 265 to 226, between 1992 and 1997. Similarly, cooperatives that processed and manufactured dairy products dropped from 86 in 1992 to 63 in 1997. Following the same pattern, the number of cooperatives selling raw whole milk fell from 230 in 1992 to 204 in 1997. But cooperatives' share of total milk volume sold by farmers inched up from 82 percent to 83 percent.

Sixty-one percent of total cooperative volume was sold as raw whole milk in 1997 compared to 60 percent in 1992. The other 39 percent was manufactured at plants operated by cooperatives.

There were 87,938 producers delivering milk to 222 dairy cooperatives with direct members. Three regions—East North Central, West North Central, and North Atlantic—together accounted for 83 percent of all member-producers and 55 percent of cooperative milk volume.

In 1997, dairy cooperatives owned 298 plants, 91 of which were shipping and receiving facilities only. The cooperatives operated 62 plants for manufacturing American cheese, 30 for Italian cheese, 54 for packaging fluid milk products, 43 for manufacturing dry milk products, and 35 for churning butter.

While net sales of butter and dry milk products decreased from 1992 to 1997,

those of cheese increased. However, cooperatives' shares of these products declined.

Cooperatives' shares of butter decreased from 65 percent to 61 percent during the five-year period. Dry milk products (nonfat dry milk, dry buttermilk, and dry whole milk) also decreased, from 81 percent to 76 percent.

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*Most dairy cooperatives continue to be relatively small business organizations. However, through consolidations and mergers, an increasing amount of dairy products were sold by larger cooperatives.*

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Cheese marketed by cooperatives grew 3 percent, from 2.82 billion pounds to 2.907 billion pounds, while total cheese production increased 13 percent. Cooperatives' shares of the natural cheese market declined from 43 percent to 40 percent by 1997.

Sales of packaged fluid milk products by cooperatives decreased both in volume and in share of market. The 7.73 billion pounds marketed was 14 percent of the Nation's production, down from 16 percent in 1992. Cooperatives' sales of cottage cheese as a percentage of national production, at 10 percent, was also lower than in 1992. Share of ice cream decreased from 10 percent to 6 percent.



A new report from USDA provides an overview of the marketing operations of the nation's dairy cooperatives. To order a copy, send a check for \$5 (\$6 for foreign orders), payable to USDA, to: USDA Rural Development, Co-op Publications, Stop 0705, 1400 Independence Ave. SW, Washington D.C. 20250-0705.

In 1997, cooperatives marketed 11 percent of the Nation's ice cream mix, 4 percent of yogurt, 65 percent of bulk condensed milk, and 48 percent of dry whey products.

Most dairy cooperatives continue to be relatively small business organizations. However, through consolidations and mergers, an increasing amount of dairy products were sold by larger cooperatives. The 20 largest dairy cooperatives received 77 percent of all producer milk marketed through cooperatives. And 89 percent of cooperative milk processing and manufacturing was conducted by the 20 largest cooperatives with plant operations.

To obtain a copy of the full report, please order RBS Research Report No. 173, "Marketing Operations of Dairy Cooperatives." ■

### Michigan producers receive USDA grants

The Michigan Potato Industry Commission and the Michigan Allied Poultry Industries have each received funding from USDA Rural Development through its Rural Business Enterprise Grant Program (RBEG). The potato commission will use its \$90,000 to assist in construction of a long-term storage bin for Michigan-grown potatoes. Allied Poultry Industries received \$95,000 so the newly formed turkey growers cooperative can conduct a feasibility study on creating a West Michigan turkey slaughtering plant.

"The development of a more advanced storage facility will be a great benefit to Michigan's potato producers," says Donald L. Hare, state director for USDA Rural Development operations. "USDA Rural Development's mission is to help agricultural producers find ways to enhance the profitability of their products. Agricultural producers can no longer rely on simply producing a raw product to succeed. They must look toward the process of adding value to their product and increasing their bottom line profits."

USDA's RBEG program is designed to help public bodies, non-profit corporations, and federally recognized Indian tribal groups finance and facilitate development of small and emerging private business enterprises located in rural areas.

### Small Farm Conference Oct. 12-15

"Building Partnerships for the 21st Century" is the theme of the second National Small Farm Conference, sponsored by USDA, the Environmental Protection Agency and four other organizations. It will be held Oct. 12-15 at the Regal Riverfront Hotel, St. Louis, Mo. Registration is \$125, due by Sept. 17, 1999. Hotel reservations should be made directly by registrants, and the deadline for special group rates is Sept. 10.

The conference provides an opportunity for public and private sectors, including community-based organizations, the land-grant university system, and small- and medium-sized family farmers, to strengthen collaboration and partnerships to work more effectively with the small farm community. In addition to workshops, participants will tour farms and ranches which emphasize direct marketing, alternative and sustainable agriculture.

Twelve USDA agencies, including USDA Rural Development, are co-sponsors of this project. In addition to the EPA, other sponsors include Lincoln University, University of Missouri, W.K. Kellogg Foundation and Farm Foundation. For more information, visit the conference Website at [www.luce.lincolnu.edu/nsfc](http://www.luce.lincolnu.edu/nsfc) or contact Denis Ebodaghe, USDA-CSREES, in Washington, D.C., at (202) 401-4385; fax (202) 401-5179; or e-mail [debodaghe@reeusda.gov](mailto:debodaghe@reeusda.gov).

### St. Paul Bank and CoBank merge

The stockholders of the St. Paul Bank for Cooperatives and CoBank overwhelmingly approved a plan to merge the two banks, effective July 1, 1999. The results of the May 24 stockholder vote were jointly announced by the chairmen of the two banks. The merged bank will have assets of approximately \$22 billion with about \$1.7 billion in capital and \$17.8 billion in loans outstanding.

### Michigan FCS may consolidate

The four Farm Credit Services associations in Michigan's Lower Peninsula continue their plans for statewide consolidation with the announcement of a joint management agreement. Under joint management, the four associations will operate as one, but will remain as separate legal entities until stockholder-members approve the consolidation. That vote is expected later this year. If approved by stockholders, the new FCS organization would have assets of \$1.5 billion and a surplus that exceeds \$200 million. The association is expected to save \$2 million in annual operating expenses, which will translate into reduced stock requirements and more favorable interest rates for customers. The target date for the consolidation is Jan. 1, 2000.

### Cleberg on U.S. Treasury's IMF Committee

Farmland President and Chief Executive Officer H.D. "Harry" Cleberg has been selected to serve on the U.S. Department of Treasury's Advisory Committee on International Monetary Fund (IMF) policy. The IMF has been at the center of the effort to resolve the international financial crisis that began in 1997. The committee is to meet with and advise the secretary and deputy secretary of the Treasury on the extent to which IMF programs meet policy goals set forth in the policy advocacy provisions of the IMF funding legislation. This legislation includes strengthening financial systems in developing countries, encouraging the opening of markets for agricultural commodities and products, and promoting greater transparency and accountability. One of eight committee members, Cleberg will represent the agricultural industry.

### Diamond Walnut forms German subsidiary

Diamond Walnut Growers Inc., Stockton, Calif., has formed a new joint venture subsidiary company in Cologne, Germany, under the name of Diamond of Europe, GmbH. The new entity will be primarily responsible for Diamond's consumer retail business in Germany and Austria, formerly managed by another German retail broker. Diamond of Europe will assist Diamond in providing distribution, currency conversion and local market packaging services for

shelled and inshell customers in Germany and the European continent. The cooperative's leadership reports the new structure provides Diamond with a low-risk yet potentially high-return entry into the European retail distribution business.

### California growers fight Greek peaches

At a late June meeting of the California Canning Peach Association, growers voted to fight against the intrusion of subsidized Greek peaches into a key market Golden State growers invested heavily to establish. The association's board will investigate all options, including export incentive programs for shipping fruit to Mexico, to safeguard that vital market, says CCPA President Ron Schuler. Presently, California supplies nearly 10,000 tons of peaches to Mexico with an estimated value of \$10 million.

The U.S. government has taken both formal and informal actions against the European Community for its subsidies to the Greek peach industry and currently includes Greek canned peaches on the Beef Hormone retaliation list, which is being formally announced by the United States and Canada. While this may protect domestic and Canadian markets, Schuler says it does not impact the vitally important Mexican market.

### Chiquita to buy Agripac Division

Agripac Inc., a bankrupt Oregon-based vegetable processing cooperative, sold its frozen food division earlier this year for \$90 million to New York-based Pro-Fac Cooperative Inc. and thought they were selling their canned food division to Norpac Foods Inc., a Stayton, Ore.-based cooperative. Among other items, the sale to Norpac was contingent on reaching agreement with the union representing the canner workers. Agreement could not be reached, thus Norpac was unable to complete the purchase.

It now appears that Chiquita Brands International Inc. will purchase the division. If the bankruptcy court accepts the Chiquita offer, about 100 farmers who grow beets, carrots, beans and corn will get a contract for their produce, but without any ownership in the further processing of their products.

### Dakota Dairy Specialties files for bankruptcy

Dakota Dairy Specialties Cooperative shut down its cheese plant in Hebron, N.D., and filed for bankruptcy this spring, two years after beginning operation. Most of the 40 farmer-members now ship milk through Dairy Farmers of America. The plant made its first batch of cheese in February 1997. It had been operating sporadically since October 1998 as it tried to finance \$1 million of equipment to improve operating efficiencies. The bankruptcy may affect Rural Business-Cooperative Service's guaranteed loan exposure to the cooperative. Dakota Dairy Specialties is the only so-called "new generation" cooperative in the dairy sector.

### FCA purchases LCCA's Oskaloosa assets

Farmers Cooperative Association, Lawrence, Kan., has purchased the assets of the Oskaloosa branch of the Leavenworth County Cooperative Association. The acquisition gives Farmers Co-op a total of 19 elevators and increases its grain storage capacity to nearly 12 million bushels. The cooperative provides complete grain handling, marketing, crop production services, feed manufacturing and delivery, and supplies to about 9,500 members and 12,000 customers in one Missouri and 20 Kansas communities.

### Golden Oval Eggs to expand

Golden Oval Eggs, a farmer-owned cooperative based in Renville, Minn., announced it has raised more than \$5 million necessary to expand into Iowa with a house for 1.8 million laying hens. The Iowa site could eventually house up to 5.4 million hens if additional equity is raised. Golden Oval now has about two million hens producing about 500 million eggs annually. The cooperative, formed in 1994, is now owned by more than 600 farmers. It ranks within the top 30 enterprises in U.S. egg production and within the top 10 in egg processing. The minimum initial investment for new members was \$10,000.

### American Growers offers chemical-free food

American Growers Foods, Sioux Falls, S.D., is offering 13 grain-based, chemical-free foods to consumers. Farmer-members of the cooperative receive a base price of \$5 for a bushel of corn, far above the typical market price of \$2. Similar premiums are received for oats and wheat. The grain is tested at harvest and delivery for 300 different chemicals. Despite the higher prices to producers, retail prices are about the same as national brand-name products and, in some cases, even less. Products from the one-year-old cooperative can be found in about 700 stores nationwide.

### Plains, Yazoo Valley oil mills merge

Plains Cooperative Oil Mills, Lubbock, Texas, and Yazoo Valley Oil Mill Inc., Greenwood, Miss., have announced their intentions to merge. The new cooperative will serve over 20,000 cotton growers in eight southern states and market 30 percent of the U.S. cottonseed. Combined sales are approximately \$250 million from vegetable oil for cooking and the by-products of cottonseed production. Cottonseed meal and hulls are primary ingredients in livestock feed and the linters are used in manufacturing mattresses, upholstery padding and high-quality paper.

### Gerry represents U.S. in Ireland

Michael Gerry, president of the Idaho Wool Growers Association, was selected to represent the American sheep industry at the World Meat Congress in Ireland. The Congress has met 12 times in the past 25 years.

Representatives from all participating countries discuss beef, sheep and pork marketing situations. U.S. Secretary of Agriculture Glickman also addressed the meeting. Gerry's trip was sponsored by the U.S. Meat Export Federation.

### Bison Co-op members to promote

Members of the North American Bison Cooperative, New Rockford, N.D., voted to use 7 percent of what they get for their bison as a promotion fund for the cooperative. The cooperative's marketing focus will fall in three areas: production of numerous products, a national distribution system and restaurant chain accounts. The cooperative has members in 15 states and four Canadian provinces.

### ECLSA elects three to board

Three new directors have been elected to the board at Equity Cooperative Livestock Sales Association, Baraboo, Wis. The 10-person board welcomed Larry Brandemuehl, Lancaster, Wis., George Roemer, Hartford, Wis. and Joe Schaitel, Sparta, Wis., following 10 district annual meetings across Wisconsin and Iowa.

President and Chief Executive Officer Gregory A. Beck reported membership attendance at the annual meetings was up 20 percent from the 1998 meetings. Beck believes the increased attendance was because "today's producers are facing the same issues which their forefathers faced 77 years ago when they formed the cooperative: price volatility, packer concentration and lack of government supports. Producers may be once again turning to their cooperative for help." The ECLSA had gross sales of \$450 million last year, making it one of the top two livestock marketing associations in the U.S.

### NSAC recognizes Duft

Ken Duft, professor of agribusiness management and finance at Washington State University and a director on the Washington State Council of Farmer Cooperatives, received the Martin L. Black award from the National Society of Accountants for Cooperatives. Duft received the award for his journal article, "Patron Demand Deposit Account Financing by Cooperatives: Prospects and Pitfalls." As part of his recognition, Duft received a cash award and a trip to NSAC's annual meeting.

### EPA Offers Sustainable Development Challenge Grants

The Environmental Protection Agency (EPA) is soliciting proposals for the Sustainable Development Challenge Grant (SDCG) program, one of President Clinton's "high priority" actions described in the March 16, 1995, report, "Reinventing Environmental Regulation." Approximately \$9.4 million will be available for the SDCG program in fiscal

### Y2k Resources Available

Jan. 1, 2000, is only a few months away. So for all you procrastinators, there is no more time to delay making sure all your computer-controlled systems are Y2k ready. There are a number of resources that can assist you with information on this task. They include:

- USDA Y2k Program Office: [www.ocio.usda.gov/y2k/index.htm](http://www.ocio.usda.gov/y2k/index.htm)
- President's Council on Year 2000 Conversion: [www.y2k.gov](http://www.y2k.gov)
- National Software Testing Lab: [www.nstl.com/html/nstl\\_y2k.html](http://www.nstl.com/html/nstl_y2k.html)
- Small Business Administration: [www.sba.gov/y2k](http://www.sba.gov/y2k)
- Federal Emergency Management Agency: [www.fema.gov/y2k](http://www.fema.gov/y2k)

The President's Council on Year 2000 Conversion may also be called toll free at 1-888-872-4925.

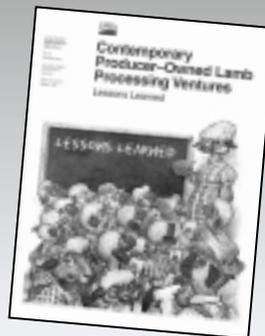
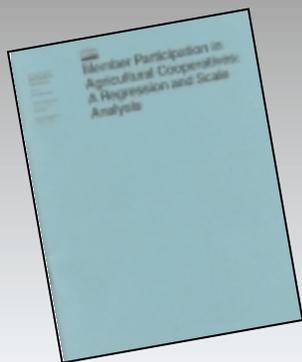
year 1999-2000. This includes \$4.7 million already authorized by Congress for FY 1999 and an additional \$4.7 million requested for the program in the president's FY 2000 budget request and subject to Congressional authorization.

The SDCG program challenges communities to invest in a sustainable future that links environmental protection, economic prosperity and community well-being. It provides an opportunity to develop place-based approaches to problem solving that can be replicated in other communities. The program strongly encourages community members, business and government entities to work cooperatively to develop flexible, locally oriented approaches that link place-based environmental management and quality of life activities with sustainable development and revitalization.

These challenge grants are intended to be a catalyst for community-based projects to promote environmentally and economically sustainable development; build partnerships which increase a community's capacity to take steps that will ensure the long-term health of ecosystems and humans, economic vitality, and community well-being; and leverage public and private investments to enhance environmental quality by enabling community efforts to continue beyond the period of EPA funding.

Applicants may compete for funding in two ranges: (1) requesting \$30,000 to \$100,000 with a total project budget of \$125,000 or less; and (2) requesting between \$100,001 and \$250,000 with no limit on the total project budget amount. Proposals will compete with other proposals in the same range. Applicants in each category are required to provide a minimum 20-percent match from non-federal funding sources. Project proposals must be postmarked by Sept. 29, 1999, to be considered for funding during fiscal year 1999-2000.

Editor's note: Please see the full text of the Federal Register notice (published July 1, 1999) for complete information about applying for a Sustainable Development Challenge Grant. ■



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**What is a Cooperative?**

*CIR 50-S*  
 Spanish Translation  
 Galen Rapp  
 Translated by Jim Matson  
 4 pages. 1999

A new, Spanish-language version of a pamphlet that covers the basics of cooperatives: what they are and how they are organized. It is intended to introduce the cooperative concept to someone who knows nothing of cooperatives, or as a quick refresher for those who may have forgotten some of the basic principles which co-ops are founded upon. It covers why cooperatives are organized, cooperative business principles, the 10 steps in organizing a co-op and sources of information and technical assistance from the Rural Business-Cooperative Service of USDA Rural Development.

Free

**Member Participation in Ag Co-ops: a Regression and Scale Analysis**

*Research Report 165*  
 Tom Gray/Charles Kraenzle  
 30 pages. 1998

This research report identifies characteristics that influence member participation in cooperatives. Participation measures include attendance at meetings, serving on committees or as elected officers, and recruiting other farmers to join the co-op. Nineteen characteristics were found statistically related to member participation in co-ops. These include: farm characteristics, member demographics, beliefs in cooperative principles, collective action, member influence on the co-op, cooperative impartiality toward members and satisfaction with farming and cooperative officers.

Price: domestic: \$5; foreign: \$6

**Lessons Learned: Contemporary Producer-Owned Lamb Processing Ventures**

*RBS Research Report 167*  
 Roland D. Smith, et.al  
 18 pages. 1999

This case study evaluates two producer-owned lamb processing and marketing ventures, one in Texas and the other in Virginia, and why they failed. Findings have relevance to future vertical coordination efforts in the lamb processing and marketing arena in an industry characterized by significant concentration among a few established marketing firms. The researchers focus on organizational background for the development of each venture, factors that contributed to failure, positive outcomes and challenges for producer-owners in future ventures.

Price: Domestic: \$5; foreign: \$6

**A New Approach to Measuring Dairy Co-op Performance**

*Research Report 166*  
 K. Charles Ling  
 Carolyn Liebrand  
 21 pages. 1998

This report describes a new method to evaluate and compare operational performance of dairy cooperatives. A business performance measurement was modified to fit cooperatives. A cooperative is creating extra value if its net operating margin can more than cover its operating cost, including the cost of operating capital (the sum of fixed assets and working capital). The extra-value measure can be "common-sized" by operating capital to create an extra-value index. The scale-neutral index is an objective measure for comparing operating efficiency between dairy cooperatives and dairy-investor-owned firms.

Price: Domestic: \$5; foreign: \$6

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