

# Rural COOPERATIVES

USDA / Rural Development

January/February 2004



**Fresh approach  
at co-op produce  
auction**

## *International co-op development promotes trade, democracy*

Cooperatives yield enormous benefits not only to their member-owners in the United States, but also around the world. USDA has long been active in helping to spread the use of the cooperative business structure internationally, a charge contained in the Cooperative Marketing Act and other legislation. This work may be accomplished through the exchange of educational and research materials, engaging in joint activities, providing direct technical assistance to agricultural producers and even by stationing representatives at institutions or with farm organizations in foreign countries.

Since Congress has not specifically provided a budget for international co-op development work carried out by the Cooperative Services program of the Rural Business-Cooperative Service (part of USDA Rural Development), most of our assistance over the years has either been through information exchanges and meetings or through in-country technical assistance (usually funded by international donor groups). Countries receiving this assistance tend to follow the thrust of U.S. foreign policy direction at a given time (hence, Central and South America in the 1960s and 1970s, the Pacific Rim in the 1980s and Africa in the 1990s and at present). Significant historical events have also played a part in directing these efforts, such as the fall of the Iron Curtain and a resulting emphasis on developing co-ops in Eastern Europe.

RBS Cooperative Services also hosts hundreds of foreign visitors annually (usually farm organization representatives and government officials) who are interested in U.S. cooperatives and how their practices and operations

might be adopted for use in their native lands.

Of course, USDA cooperative publications are in high demand by these groups and by others around the world. Many of our basic cooperative

*By helping developing nations adopt Western-style cooperative business structures that raise farm incomes, we will build stronger trading partners and related economic relationships.*

publications have been reprinted in foreign languages and are widely distributed around the globe, both in hard copies and through the Internet. For example, one of our basic co-op primers, "Co-ops 101" by Donald Frederick, was recently translated into

Chinese. The U.S. style of cooperative structure, where farmers are the owners and beneficiaries of a business, has obvious global appeal.

Most direct international technical assistance provided by RBS Cooperative Services is closely linked to assistance efforts by other USDA agencies. For example, the Nigerian assistance effort (reported on page 12 of this issue of *Rural Cooperatives*) is part of an overall USDA initiative to help the Nigerian Ministry of Agriculture achieve broad-based rural development objectives in agriculture. Technical expertise in Nigeria is also being supplied by USDA's Cooperative State Research, Education & Extension Service, Foreign Agricultural Service, Agricultural Research Service, Food Safety and Inspection Service, Natural Resources Conservation Service, Animal and Plant Health Inspection Service and Agricultural Marketing Service.

In a neighboring West African country, cooperative development and education work is at the centerpiece of a partnership between USDA and Ghana's Ministry of Food and Agriculture. Several of the other USDA agencies named above are also involved in a wide range of joint projects to strengthen Ghana's agricultural sector. Projects are underway to strengthen the farmer cooperative system in Ghana by adapting contemporary cooperative principles and business practices to that nation's needs. In so doing, cooperatives should become more effective competitors in the marketplace and generate more income for their farmer members.

RBS Cooperative Services-directed projects in Ghana, done in partnership

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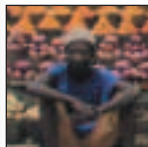
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*The goal of the Badgerland Produce Co-op Auction in Montello, Wis., is to sell produce at a fair price – for both farmers and buyers. Article on page 8.*  
Photos by Pamela J. Karg



# On the front line

*Field representatives are the eyes and ears of a co-op*

**By Catherine Merlo**

*Editor's note: Merlo is a Bakersfield, Calif., based freelance writer and editor who is a frequent contributor to this and other co-op publications.*



On any given day, Bill Van Skike's office might be a California cotton field, a coffee shop or even the

hood of his silver Dodge Durango, miles from the headquarters of California Planting Cotton Seed Distributors (CPCSD), his employer.

Larry Seamans regularly reports to work for Maryland and Virginia Milk Producers at a dairy barn or milk hauler's station.

It's not unusual for Land O'Lakes' Ray Cherry and one of his field staff to meet at the kitchen table of a

Minnesota dairy producer.

Each of these men is a field representative for an agricultural cooperative, a role that's vital as "the liaison between management and member," according to Dave Baker, director of member relations for Blue Diamond Growers, the almond co-op based in Sacramento, Calif.

Although their specific responsibilities vary from co-op to co-op, field



*Tom Burlando, field representative for Diamond of California, guides a camera crew through a California walnut orchard during filming for a cable TV food show. Photo courtesy Diamond of California*



*"I can teach a person what he or she needs to know about the co-op and the industry. But I can't give them the personality that farmers relate to," says Bill Van Skike, here meeting with CPCSD member John Hernstedt during a lunch stop at a café near Shafter, Calif. Photo by Catherine Merlo*

representatives share common responsibilities. They answer members' questions, provide information and nurture relationships for the organization and owners they serve. They are the eyes and ears of a cooperative, a primary communications link and the "go-to" source for members. They deliver good news and bad, take the heat during tough times, and frequently form genuine friendships with co-op members. They work on salary without commission and often are part-time or former farmers themselves.

"We take the business of the co-op to the growers, and the business of the growers to the co-op," says Tom Burlando, a field representative for Diamond of California, the Stockton-based walnut co-op.

### Connecting with grower-members

Everyone interviewed for this article agreed that successful field representatives for a farmer-owned organization must have, and show, enthusiasm for the co-op and agriculture in general. Personal integrity is also paramount. Straight shooters make the most successful field reps.

"I find more and more that if I don't have a good feeling about the field representative, I don't have a good feeling

about the co-op," says Richard Stadden, a cotton grower from Tulare, Calif., who belongs to two co-ops and serves on the board of one. "A member has to have confidence in the field rep, who not only needs to know the nuts and bolts of the co-op but have real enthusiasm for it."

A background in agriculture, biology — even finance — helps co-op field representatives provide expert service to members. But personality may count most of all.

"I can teach a person what he or she needs to know about the co-op and the industry," says Van Skike, who is also president of the 1,600-member CPCSD. "But I can't give them the personality that farmers will relate to."

"Personality is extremely important," says Cherry, director of Land O'Lakes' Midwest Milk Supply Division. Cherry supervises 17 field representatives and four procurement managers for 2,000 Land O'Lakes' dairy members in the Midwest.

"You have to be able to express empathy," Cherry says. "You've got to be able to deliver a strong, succinct message to people you truly like to work with, especially when it's bad news."

Seamans, Maryland and Virginia Milk Producers field rep, agrees. "You've got to be able to handle any situation without taking things personally," he says.

Personality includes not only discretion and diplomacy but self-motivation as well.

"There's a lot of flexibility and freedom in the job," says Jeff Bitter, vice president with Allied Grape Growers, a 500-member co-op based in Fresno, Calif. Bitter oversees the co-op's four-member field staff. "A field representative needs to be active in the grower community, to regularly provide new information and insight, to take the initiative to gather information from buyers."

### Necessary knowledge

Soliciting new memberships, keeping farmer-members informed on state and federal regulations and reporting on marketing conditions are part of the field representative's responsibilities. Knowledge of farming and cultural practices is important, too. Many field representatives are actively involved in helping improve their members' quality and yield, lower their production costs and share best-management practices.

For example, dairy producers can earn a quality premium for meeting strict milk standards. In some cases, the premium can bring a producer an extra \$4,000 each month. For both Seamans and Cherry it's part of the job to monitor members' milk quality and to help them achieve the premium.

"My job involves helping our producers find their weak points and improve their practices to help them be successful," says Seamans, who was a Virginia dairy producer for 17 years before he was hired by Maryland and Virginia Milk Producers.



*Sun-Maid's Mark Sorensen (left) and member Bir Dillon examine just-harvested raisins near Delano, Calif. "We interact with our members on the quality of the raisin crop, the market, sales, prices and delivery," Sorensen says.*

The five field representatives who serve the 2,000 members of Diamond of California must “know everything about walnuts,” Burlando says.

“It used to be that growers farmed from the boots up,” says Burlando, who holds a master’s degree in plant pathology. “Now, in addition to knowing about varieties, pests, disease and weather, it’s become more and more important to know about soil health and maintenance, as well as cover crops.”

“You have to understand the grower’s perspective,” says Mark Sorensen, part of the grower relations department for Sun-Maid Growers of California, a raisin co-op. “That’s easy for me to do.”

A fourth-generation Fresno-area farmer and Sun-Maid member, Sorensen was recruited to become a field representative for the co-op two years ago.

“If you know what you’re talking about as far as growing practices, growers will trust you,” Sorensen says. “When I talk to growers about pruning or harvesting, I tell them how I’m doing it on my farm. It relieves them that I know how to do it.”

### Tools of the trade

Because the job’s flexible nature often takes a field representative far from the cooperative’s offices, his or her most valuable tools may be a cellular phone or laptop computer.

“Farmers don’t clock in at 8 a.m. or

out at 5 p.m.,” Van Skike says.

“There’s no off-time for them, and that means there’s no off-time for us. My cell phone is the first thing I turn on each morning and the last thing I turn off at night.

“The No. 1 issue is communications,” he adds. “Nothing is more important. If a grower has a question or problem, we get back to them right away. And if we don’t know the answer, we don’t beat around the bush. We let them know we’ll get back to them with an answer as soon as we know it.”

Says Seamans, “Every one of our members knows he can call me at 1 a.m., if necessary. We’re on call 24 hours a day, seven days a week.”

Still, the latest in high-tech tools can’t replace face-to-face contact with members.

“We try to spend time in our members’ world,” says Sun-Maid’s Sorensen. “Meeting in vineyards or coffee shops is part of that world.”

“Coffee shops are a valid meeting place because they’re informal,” agrees Van Skike. “Growers are open to talk about what’s really on their minds. Sometimes, coffee shops offer better quality time than at meetings, which are more structured.”

How often field representatives meet with their members varies.

“Some members need more contact than others, while others are comfortable with an annual visit,” says Burlando, who has 550 grower accounts while also serving as a plant

manager for Diamond’s walnut receiving and processing plant in Linden.

Sun-Maid has 1,200 members and five field representatives. “Our goal is to visit every grower at least once a year,” Sorensen says.

Most also use co-op meetings and industry functions as opportunities to visit with their members.

### The downside

Like any occupation, a co-op field representative’s job has its downside. Member problems with crop or milk quality, payments or shipments can cause difficulties for field representatives. Agriculture’s economic troubles, competitor-driven rumors and the tragedies of life can also weigh heavily on the relationship-based job.

“It’s been very hard watching the anguish and hardships that have been occurring over the past 20 months,” says Cherry. “The worst part has been watching farmers losing their farms, and that’s been occurring on a daily basis.”

“The hardest part is getting tangled in their lives,” Burlando says. “There might be a death in the family, a bad business decision or an economic challenge. You work through their grief with them.”

Co-op field representatives sometimes find themselves walking a fine line in serving members.

“Occasionally, a member will want special treatment,” Van Skike says. “If it’s a small request, you try to accom-

## Successful practices of cooperative field representatives

- **Be truthful.** “Integrity rates extremely high with producers,” says Land O’Lakes’ Ray Cherry. Don’t sidestep bad news. Don’t feel you have to have an answer for everything. But if you don’t know, make sure you let the member know you’ll work to get him or her the answer.
- **Respond to members’ questions or needs as quickly as possible.** Be accessible.
- **Reach out to members. Don’t wait to be called.** “Growers appreciate a spontaneous call or visit,” says CPCSD’s Bill Van Skike. When you do pay a visit, bring news or the latest information on the market or crop production.
- **Be consistent.** Treat each member as you want to be treated. Don’t cut special deals or give special treatment.
- **Do your homework.** Know what’s going on in the co-op, industry, field and market.
- **Have the right attitude.** Believe in your co-op and project a positive image. ■



*"A field representative is the front line, the first contact, and sometimes the first impression a producer receives of the co-op," says Larry Seamans of Maryland and Virginia Milk Producers, here in the milk house of member Kevin Phillips of Waynesboro, Va. Photo courtesy Maryland and Virginia Milk Producers*

modate that. But sometimes, those requests are not in the best interest of the membership or of fairness. You have to handle that as politely as possible. You've got to learn to say 'no.' I've found it's best to handle it right then and there."

### Rewards

But there are rewards that come with the job. Not long after a neighboring dairy cooperative merged with Maryland and Virginia Milk Producers, Seamans called for the first time on one of the newly merged members.

"The dairy producer was about 60 years old and he told me he had never made a quality premium before," says Seamans. "We found his weak points and fixed them. He's now made the quality premium for 12 months straight. That's rewarding to me."

Blue Diamond's Baker says he is rewarded when "a grower gets out of the co-op, several years pass, and then he comes back to the co-op."

In the end, field representatives agree that theirs is a job of building relationships, and that takes time.

"It's not the first or the third or the 10th visit that builds the relationship but all the visits," says Burlando. "All relationships, whether they're personal or professional, are built that way. You have to find out how to satisfy a person's needs and how to tailor each relationship."

CPCSD's Van Skike agrees. "The more and the longer you're out there, the better your relationship," he says.

"If you can earn your members' trust," says Sun-Maid's Sorensen, "most of the battle is done. The bottom line is that if we don't have happy growers, we lose them. They're the basic unit of the co-op, and without the crop they supply, nobody has a job. That's why field representatives are extremely important to the co-op they serve." ■

## Measuring job performance

How does a co-op measure the success of its field staff?

Comments and phone calls to management from members, directors and industry participants are taken seriously in helping a co-op gauge its representatives' performance. Feedback from the field staff itself also is valuable.

"Do we hear about issues in their infancy or after they've blown up?" says Bill Van Skike, field representative and president of California Planting Cotton Seed Distributors. "Good field reps are in touch with members and they report regularly to management, so there are no surprises."

Management also may look at the number of new memberships a field representative brings into the co-op. Likewise, the field staff's performance may be judged by the number of members who withdraw during the co-op's sign-out period.

Field managers and representatives for Land O'Lakes must meet performance objectives, such as securing specific volumes and quality of milk from producers. "These help measure our performance," Cherry says.

Land O'Lakes also has a number of feedback tools in place to gauge how its field staff is functioning. This includes member surveys, exit interviews with producers who are withdrawing from the co-op and a computerized tracking system of compliments and complaints. ■

# Wisconsin co-op offers fresh approach to produce auctions

By Pamela J. Karg

*Editor's note: Karg is a freelance writer based in Baraboo, Wis., with extensive experience working with cooperatives.*

**G**rowers are hauling professionally boxed fruits, vegetables and flowers into a large metal auction building, where they line up their goods on neat rows of pallets. Keeping a watchful eye on the action is Juanita McDowell, manager of Badgerland Produce Co-op Auction near Montello, Wis.

"We really stress that the auction be fair for both the sellers and the buyers," McDowell says of the newly formed sales outlet. At precisely 10 a.m., she welcomes the growers and the auctioneer goes to work, selling everything from raspberries and sweet corn to gladiolas and mums.

"We've had a lot of growing pains," McDowell says. "But we really keep encouraging each other because we know it's going to take time."

The project began when a grower shared an article on an Ohio produce auction with Laura Paine, an agricultural agent for the University of Wisconsin (UW)-Extension in Columbia County. "I thought it was an interesting idea," says Paine, "but it was the grower's persistence that made it a reality. He wanted to see this happen for Columbia County growers."

After several grower meetings, a core group emerged and decided to form a cooperative. Completing its first year, the co-op continues making small steps toward success.

## Farmer-driven co-op

"It's been the same evolution you'd see with any new business," Paine says. "The strength of the organization is that it's farmer driven and directed. That's the weakness, too, because these members are also trying to run their farms. It's hard to juggle both."

The auction is the third of its kind in Wisconsin and the first with open co-op enrollment. Its organizers learned about produce auctions, structure



*Badgerland Produce Co-op is "an excellent example of different cultures and groups having a common interest and working together to make something happen," says Kathleen Haas of UW Extension.*

*Photos by Pamela J. Karg*

options, capital requirements and other start-up issues from similar operations at Withee, Wis., which organized as a limited liability corporation, and at Cashton, Wis. The latter is a cooperative of Badgerland Amish growers who obtained information from Amish friends and relatives involved in produce auctions in Indiana.

Badgerland received an \$18,000 Agricultural Development and Diversification grant from the Wisconsin Department of Agriculture, Trade and Consumer Protection, and another small grant from the UW-Extension Central District. In addition to UW-Extension assistance, growers spent hours with UW Center for Cooperatives staff.

"I was very impressed by the speed with which the farmers acted this spring to set up the auction," says the UW Center's Greg Lawless. He advised growers on the fundamentals of creating a cooperative. Center staff provided initial legal assistance for the co-op.

"Despite the reluctance of some of the more conservative but supportive producers, who wanted to wait a year and get more ducks in line, a core group said 'it's now or never,' and they just plowed forward," Lawless says.

Starting in mid-June, auctions were held two to three times per week. In October, auctions were held only on Fridays. Lawless attended auctions several times this past year.

"While supply and demand still aren't where they need to be, it's very impressive what they've accomplished so far," he says. "While a common opinion of co-ops is that they are too slow and clunky due to their democratic nature, this group was definitely an exception."

## More buyers needed

"Just the fact that the auction exists is an incredible success, but they do need to seek out more buyers," says Kathleen Haas, county UW-Extension



community development agent. She and ag agent Paine are local resource people to the co-op. "The first year has been rough, but it's given the co-op time to figure out roles for people like Juanita, as the manager, and the expectations members have for the auction."

On the buyer side, produce stand operators, supermarket owners and restaurateurs participate. On any day, however, it's guesswork who will show up. Everyone agrees more buyers are needed to strengthen this weakness.

To that end, McDowell makes buyer reps available if buyers are too busy to attend. These substitute buyers have sold to wholesale warehouses and know top-quality produce. The buyer rep gets the limit an absentee buyer is willing to go and then bids accordingly.

Although membership in the cooperative is not required to sell there, it is encouraged through reduced commission rates. Badgerland membership spans the gamut of the local community. Amish and Mennonite farmers participate as both buyers and growers. Other members include Hmong and Hispanic people.

Growers come from down the road or across several counties to participate. Each grower comes as an equal partner, willing to support and encourage the other as they sort out this new business.

"We really have a nucleus of support and almost a family feel," McDowell says.

"It's an excellent example of different cultures and groups having a common interest and working together to make something happen," Haas says.

Recognizing that diversity, producer user fees are set on a sliding scale. Non-Amish growers decide at what level they want to buy in. A parallel fee structure respects the Amish growers' reluctance to join formally organized groups, yet it provides them with similar co-op benefits.

Clean produce, boxed or packaged professionally and picked fresh within the previous 18 hours, are marks of quality.

### Striving for fair prices

While several Badgerland members had wholesale experience and knew these expectations, a series of grower meetings helped ensure all producers brought quality wares to market. Certified organic produce requires that documentation be presented before each auction.

Some days, the price of sweet corn is low. Other days, colorful pepper prices soar.

"We're really striving for fair prices for every farmer and every buyer. It's that simple," McDowell says, adding that their own first experiences at an auction were "interesting."

"Even though we still go to the Dane County Farmers Market (on Saturdays in Madison, Wis.), we wanted to know how an auction worked, just to get more familiar with it. So we drove to Withee," she says. "Coming home, I realized that I only got \$2.50 for 20 pounds of tomatoes. I wasn't going back. But it was a good thing it was such a long ride home."

During that ride, she realized that other produce brought average-to-good prices. Moreover, there were many tomatoes for sale the day she marketed hers. The McDowells went back a few more times. Sometimes, prices were good. Other times, they were OK. Overall, though, the experience was good and convinced the McDowells and others that an auction could work in central Wisconsin.

"Many of our growers had wholesale experience, but that market is changing," McDowell explains. "Through a lot of mergers, buyers are getting bigger and changing how they do business. They don't mean to, but some are squeezing out the smaller farmers who have been selling

to them for years." She said the auction brings together farmers seeking a viable new market outlet and buyers who want to emphasize local farm produce.

Through another small grant, county agent Paine wrote and received from the UW-Extension Emerging Agricultural Markets Team,



*Recognizing the diversity of its membership, the co-op's producer user fees are set on a sliding scale.*

Badgerland organizers plan to "fellowship" this winter with Cashton and Withee members. Paine says the meetings will focus on education as well as explore ways in which the three auctions might cooperate further, such as bulk-buying packaging materials.

For more information about the auction, contact McDowell at 608-297-8989 or e-mail her at [jmcdwll@maqs.net](mailto:jmcdwll@maqs.net) or <http://www.ccedc.com/ag/badgerland.asp> or Laura Paine at 608-742-9682 or e-mail her at [laura.paine@ces.uwex.edu](mailto:laura.paine@ces.uwex.edu). ■



# USDA helps Michigan sugarbeet growers purchase processing plant

By **Richard E. Leach**, *Director of Community and Government Relations, Michigan Sugar Company*



we had just finished supper at Imperial's hunting lodge, about 10 miles outside the small southwest Texas

town of Hebbronville. Imperial Sugar Co. had invited the executive board of the Great Lakes Sugar Beet Growers on a quail hunting trip in January 2000. Imperial, owner of Michigan Sugar Co., had a reason for the hunting trip: to ask if the growers would consider forming a cooperative to explore the feasibility of purchasing Michigan Sugar Co. From that weekend forward, the Great Lakes Sugar Beet Growers Association would never be the same.

The first step in the exploration process was to find the best attorney with experience in creating sugar cooperatives. Attorney Randon Wilson, Salt Lake City, Utah, was hired to organize the feasibility of a purchase and move the project forward.

The growers appointed a steering committee. Attorney Wilson went to work almost immediately with a trip to Imperial's home office in Sugar Land, Texas, to establish himself as the buy-out attorney for the growers and to gather information. Imperial told him that they would not set a price on Michigan Sugar — the growers would need to make an offer.

A financial modeler was hired who, along with Wilson, began collecting



*The Michigan Sugar Beet Growers cooperative used financing from USDA Rural Development, including a \$210,000 Rural Business Enterprise Grant, to purchase this processing plant from Michigan Sugar Co. Below, Pioneer Sugar is the co-op's branded product. Photos courtesy Michigan Sugar Beet Growers*

financial information to evaluate the value of Michigan Sugar. Financial information was difficult to obtain and even more difficult to understand. Part of the problem was that in 1984, Michigan Sugar had been sold by the Flegenheimer family to Savannah Foods & Industries. Imperial purchased Savannah Foods in 1997, including Michigan Sugar. After the purchase, Imperial moved all the



accounting to its home office in Sugar Land, Texas.

Imperial became more difficult to work with. The president and CEO of Imperial was telling the growers that the buyout was never going to work because they couldn't raise the money.

Money to fund the project became a real problem. Because one of Michigan Sugar's factories is located in Michigan's Huron County, the Huron County Economic Development Corporation provided a \$50,000 matching-fund grant to help with attorney expenses. In early 2001, the growers received a \$210,000 Rural Business Enterprise Grant (RBEG) from USDA Rural Development. This matching-funds grant was for the feasibility study.

In the fall of 2000, Michigan Sugar Beet Growers Inc. was formed as a cooperative. Shortly afterwards, a draft offer (in the form of a letter of intent) was sent to Imperial. We received no meaningful response and, in mid-January of 2001, Imperial and their subsidiaries, including Michigan Sugar, filed for protection under Chapter 11 bankruptcy.

The growers (under contract) had delivered the 2000 sugarbeet crop and received approximately 70 percent of the estimated value of that crop. Growers were considered "critical vendors" under the bankruptcy and could be paid at Imperial's discretion. At this time, a bankruptcy attorney was hired to represent the growers.

The growers were reluctant to sign a 2001 contract to grow sugarbeets for

*continued on page 36*

# Agribusiness, co-ops awarded \$28 million in USDA grants



USDA Rural Development in December awarded \$28.7 million to promote development of value-added products made

from U.S. agricultural commodities, which USDA hopes will spur economic growth in 40 states. Cooperatives received 79 of the 184 grants.

“These grants will foster the development of value-added projects to help create the opportunity for economic development and job creation in rural areas,” Agriculture Secretary Ann Veneman said. “The Bush Administration is committed to providing the necessary tools to help rural businesses create jobs and improve the

quality of life for their communities.”

Authorized as part of the 2002 Farm Bill, the Value-Added Producer Grants provide an opportunity to refine agricultural commodities and products to increase their value in the marketplace.

Applications selected for funding range from Planters Cotton Oil Mill Inc. in Arkansas, which will receive \$497,000 to develop a feasibility analysis and business plan for marketing and manufacturing oilseed products (neutralized dried soap stock), to Massachusetts Woodlands Cooperative LLC, which will receive \$499,253 to expand markets that focus on forest stewardship, green certified materials and other value-added forest products.

In support of President Bush’s 2001 energy plan, 29 applications focusing on bio-mass and renewable energy were selected to receive \$4.3 million in grant funds. For example, the Central Illinois Energy Cooperative will use \$250,000 as working capital to operate its 30-million gallon per year ethanol processing and cogeneration facility.

Funding of selected applicants will be contingent upon meeting the conditions of the grant agreement.

Following is a list only of cooperatives that received grants. A complete list of the grant recipients can be found at the USDA Rural Development Web site at: <http://www.rurdev.usda.gov>. ■

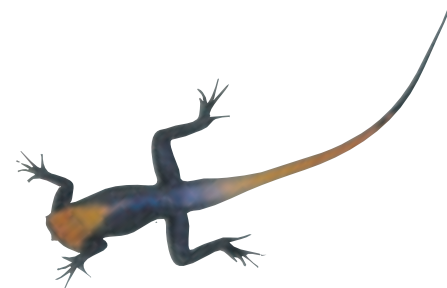
## Co-op recipients of USDA Value-Added Producer Grants

Recipient	Grant Amount	Recipient	Grant Amount
Ag Processing, Inc., MN	\$ 198,500	East Central Ag Products, Inc., MO	\$ 500,000
Ag Ventures Alliance, IA	\$ 12,500	Farmer Direct Foods, Inc., KS	\$ 349,033
AgraMarke Quality Grains, Inc., MO	\$ 235,950	Farmers Co-op Oil Company, NE	\$ 120,000
Agriculture Marketing Institute, Inc., KY	\$ 79,900	Farmers Union Marketing & Processing Assoc., MN	\$ 500,000
Agri-Mark, Inc., VT	\$ 175,000	Garden State Ethanol, Inc., NJ	\$ 75,000
Amalgamated Sugar Company, ID	\$ 91,200	Great Lakes Pork Cooperative, IN	\$ 280,000
Aurora Cooperative, NE	\$ 309,600	Hallock Cooperative Elevator Company, MN	\$ 50,000
Beef Marketing Group Cooperative, Inc., KS	\$ 37,500	Hawaii Cattle Producers Cooperative Association, HI	\$ 319,960
Blue Diamond Growers, CA	\$ 329,938	Home Grown Wisconsin Cooperative, WI	\$ 20,000
Blue Sun Producers, Inc., CO	\$ 450,000	Hopkinsville Elevator Co., Inc., KY	\$ 87,500
Cal/West Seeds, CA	\$ 100,030	Kearney Area Ag Producers Alliance, NE	\$ 162,000
Calcot, Ltd., CA	\$ 337,400	Kentucky Produce and Aquaculture Alliance, Inc., KY	\$ 35,000
California Canning Peach Association, CA	\$ 39,962	Living Forest Cooperative, WI	\$ 39,500
California Olive Growers, CA	\$ 500,000	Michigan Edible Bean Cooperative, MI	\$ 247,175
CEA Farm Cooperative Steering Committee, TX	\$ 40,000	Michigan Sugar Company, MI	\$ 74,120
Central IL Energy Cooperative, IL	\$ 250,000	Michigan Turkey Producers Cooperative, MI	\$ 55,574
Citrus World Inc., FL	\$ 293,000	Mid-Iowa Cooperative, IA	\$ 450,000
Columbia County Farm Bureau, Inc., WA	\$ 50,000		
Dairy Farmers of America, CA	\$ 150,000		
Diamond Walnut Growers, CA	\$ 500,000		

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# Boosting the giant

*USDA assistance effort helping Nigerian producers to help themselves with user-owned cooperatives*



**By James Haskell, Gerald Ely and Jeff Jobe**

*Editor's note: Haskell is acting deputy administrator of the Rural Business-Cooperative Service of USDA Rural Development; Ely is the USDA Rural Development co-op development specialist for Pennsylvania, while Jobe holds the same post in Iowa. They recently spent two weeks in Nigeria training key cooperative technical assistance providers in three targeted agricultural states.*

**N**igeria is the giant of western Africa, with a land area about twice the size of California and a population of 123.3 million – more than the entire U.S. population west of the Mississippi River. Only 10 percent of the labor force in Nigeria works in industry, and 20 percent in service trades. The other 70 percent has ties to agriculture, yet agriculture accounts for only 39 percent of the gross domestic product; crude oil exports account for most of the remainder.

Agriculture in Nigeria primarily consists of producers tilling and harvesting small land holdings, producing food for their family and as a source of income. Their products may be sold to others in their community or to buyers who go from village to village buying fruit, vegetables and animal products for resale in more distant markets.

When traveling across the country, producers set up colorful roadside markets to sell their produce. Driving through the countryside, you can stop to purchase a bundle of bananas or a

sack of peanuts (called groundnuts) to snack on. The prices received by these producers are often limited by their access to market information, their inability to transport products to a better market or to process their crops into value-added food products.

In an effort to improve the lives of rural residents, the U.S. Department of Agriculture has teamed with USAID's Opportunities Industrialization Centers International program to conduct several efforts to strengthen Nigeria's agriculture processing and marketing. One program, the Nigeria Agricultural Cooperative Marketing Project, focuses on cooperative organizations that serve agricultural producers.

Cooperatives have long served U.S. farmers in their efforts to improve income for their products, to secure quality farm production supplies at reasonable costs and for credit and utility services. Cooperatives offer similar

opportunities for agricultural producers in Nigeria.

While associations of farmers, frequently called cooperatives, exist in Nigeria, they do not have a history as viable business entities. Rather, they have served as vehicles for distribution of governmental programs. Membership in the associations has been the means by which farmers might receive seeds, fertilizer, credit, technical services or other assistance in agricultural production. Farmers have rarely made use of cooperatives for marketing purposes.

## **Making strides**

Nigeria is making strides toward business development, placing increased emphasis on the development of successful cooperative businesses. The development of sustainable cooperative businesses requires sound feasibility analysis and business planning. In fact, the new cooperative



*A typical rural home in northern Nigeria. Chameleons (top of page) are an ever-present part of the landscape in Nigeria, often seen on building walls, basking in the sun.*  
USDA Photos by Ely Gerald

development policy currently being implemented in Nigeria requires each cooperative to pass an “economic feasibility” test before it can even be registered as a cooperative. It’s essential that assistance providers have the capacity to carry out this new mandate.

The initiative to developing stronger business cooperatives is focused on training cooperative leaders and a cadre of extension specialists and other technical assistance providers. These individuals, in turn, will train others in the field about cooperative principles and operations. They also work directly with cooperative leadership to form new cooperatives or improve the business operations of existing organizations.

Training conducted by USDA began with basic cooperative governance, principles, practices and operating procedures. A second team, including the authors of this article, focused on feasibility analysis and business planning. Seminar participants learned about the components of a feasibility analysis; then they split into small groups and worked through analytical exercises for

a real or hypothetical cooperative marketing effort. All of these marketing endeavors were relevant to their individual communities.

The final step was to learn how to evaluate business feasibility and the results of financial projections to reach a decision as to whether a proposed business activity could be successful. Participants learned to recognize the importance of using realistic business

assumptions, careful analysis and well-developed business plans.

“It was exciting to see some of the projects the groups came up with, and — as they developed the project — to see how the assumptions they made in each phase of the feasibility study process affected the outcome and financial results of the proposed business,” Jobe says. “We stressed to the participants that if the results of the analysis



*A Nigerian boy takes a break from his schoolwork to help cultivate his teacher's cornfield.*



*Jeff Jobe, co-op development specialist for USDA Rural Development in Iowa, takes a turn laying the foundation for the new Abia State Agricultural Business Development and Planning Center in Umhahia, Nigeria. USDA is supporting the center.*

indicated that the project wasn't feasible, they were doing their job in preventing a producer group from investing in a project that was not feasible.”

### **Wide application possible**

Training was provided to a dozen handpicked technical assistance providers in each of three agricultural states: Abia, Nasarrawa and Kano. Each session lasted three days. Workshop materials developed by USDA were contained in a notebook that included discussion information, work exercise aids and slides that could be reproduced as teaching aids. In addition, project leaders were provided a CD that included all workshop materials that can be reproduced for additional training programs.

Each training recipient was asked (he or she knew this in advance) to use their newly gained knowledge by: (1) training an additional 10 technical assistance providers in their state, and (2) presenting a feasibility analysis and a business plan for a designated agricultural marketing cooperative in their community. Follow-up procedures are in place to access the results of their work.

Future training is being planned to continue the development of successful cooperatives. Sessions on market analysis, financial management and cooperative marketing techniques are planned for next year. Classes on the responsibilities of directors and cooperative bookkeeping will follow.

As in other parts of the world, Nigerian cooperatives will only be successful with informed and responsible leadership.

“International co-op development is always a very interesting learning experience,” Haskell says. “Terminology typically used in the United States often carries different meanings in other cultures. For example, on this trip, Jerry (Ely) was explaining how and where to account for patronage refunds on the various forms included in the



*James Haskell of USDA Rural Development is presented with a blanket by the director of the ag development programs for the Nigerian state of Kano. Below, roadside markets where farmers sell their produce are a common sight throughout Nigeria.*

feasibility analysis. Following a short period of confusion, the group finally explained to us that in Nigeria, patronage covered such things as a “direct cash payment” in order to get one’s truck to the front of the line. They thought this should be counted as an operating expense. Always quick on his

feet, Jerry promptly found a substitute phrase for patronage refunds.”

Nigeria has vast potential to improve its food production and distribution systems, and the cooperative form of business provides a strong self-help vehicle to enable producers there to continue to strive toward a better future. ■



# African ag co-ops leading fight against HIV/AIDS

**By Susan G. Schram,**  
Vice President  
Ag & Co-op Programs, ACDI/VOCA

*Editor's note: See ACDI/VOCA's 2003 "World Report" for more on this and related international aid efforts at [www.acdivoca.org](http://www.acdivoca.org).*

**A**CDI/VOCA is helping agricultural cooperatives play a critical role in the fight against HIV/AIDS around the world, particularly in Ethiopia and Malawi.

Cooperatives are well suited to serving as conduits for delivering information, training and technical assistance to farmers and their families. Co-op members represent a significant proportion of the agricultural labor force in rural communities. As democratically governed, member-based institutions, co-ops help determine their own solutions to problems, use their own resources and can work in partnership with community-based health organizations to bring education and change to hard-to-reach areas.

The productivity of the agricultural labor force is the lifeblood of developing countries, particularly in Africa. Broad-based food security and prospects for economic growth depend largely on the health of the agriculture sector. But in many developing countries, the HIV/AIDS pandemic is devastating smallholder farms, diverting assets from food production and changing conditions from surplus to subsistence, or even shortage.

ACDI/VOCA's Agricultural Cooperatives in Ethiopia (ACE) pro-

gram has undertaken a three-year awareness and prevention initiative to address the severe human resource and capital impact of HIV/AIDS on cooperatives. In Ethiopia, current infection

radio and through the church, they had never received any direct training. Although they knew condoms could prevent HIV, they said, they had never seen one.

The number of infected family members returning home for care and support is increasing, but poor rural families typically lack the assets and the ability to look after the ill. ACDI/VOCA's ACE program will help cooperatives create, implement and monitor sustainable HIV/AIDS mitigation activities prioritized by their members.

To carry out this program, ACDI/VOCA-Ethiopia has teamed with DKT, a social marketing organization with expertise in HIV/AIDS. The program will use a "train the trainer" approach, using cooperative bureau promoters and key cooperative union staff. Twenty-five cooperative unions will receive training.

The unions will then implement a comprehensive HIV/AIDS awareness and prevention program in their respective 399 primary co-ops, reaching a total family member population of 2.5 million. In addition to development of training materials, condoms will be made available for sale in cooperative shops, and mobile resource centers will host frank discussions with question-and-answer sessions. Music and drama will be used to convey health messages and literature will be made available.

ACDI/VOCA helped establish the National Smallholder Farmers' Association of Malawi (NASFAM),

*continued on page 31*



*At meetings such as this, co-op members in Malawi and Ethiopia learn about the health risks of HIV/AIDS and how to fight its spread.*

*Photo courtesy ACDI/VOCA*

rates are estimated at 7 percent of the population, but in high-risk groups rates are as high as 50 percent.

Ethiopian farmers interviewed prior to the program reported that, although they had heard of HIV/AIDS on the

# Meeting the test

*8,200 service calls in 24 hours tests mettle of Adams Electric Co-op*

**By Steve Thompson, writer-editor**  
*USDA Rural Development*

*Editor's note: This article concludes a three-part series focusing on rural electric co-ops that deliver exceptional service and which have expanded their traditional duties to better serve their communities.*



With its well-groomed farms and verdant countryside, the area of southern

Pennsylvania served by Adams Electric Cooperative looks as if it could have been painted by Norman Rockwell. But the scene was anything but idyllic late last summer when Hurricane Isabel came calling. Co-op employees who thought they had seen Mother Nature dish out her worst say it inflicted more damage than any other storm in three decades. But the co-op came through with flying colors for its 28,000 consumer-members, restoring all power within 72 hours when many other areas hit by the storm took weeks to get everyone back on line.

## **Changing service area**

Although still an agricultural area, the four counties around Gettysburg served by Adams Electric Cooperative are among the fastest growing parts of Pennsylvania, home to a growing number of new bedroom communities. It is also a haven for retirees. Despite these changes, the area retains a sense of community and neighborliness, a characteristic mirrored by the co-op that provides it with electrical power.



Adams Electric, like other power distribution cooperatives, sees itself as more than a utility. It is an active participant in the communities it serves, and has earned a reputation for service and efficiency across its service area and beyond. That reputation is based on hard work, community involvement, a commitment to its members' interests and a friendly, "can-do" attitude.

## **Hurricane puts co-op to the test**

Hurricane Isabel put those qualities to the test. By the time the storm ripped through southern Pennsylvania, it had been downgraded to a "tropical storm." But Isabel still packed a wallop, with 40- to 60-mile-per-hour winds that brought down trees and power lines all over the region. The storm hit the night of Thursday, September 18, uprooting trees and snapping off others like matchsticks.

Rural power providers such as Adams were especially hard hit. Many

of their lines run through heavily forested, mountainous areas in which the trees are dozens of feet taller than the power poles. Lines were often downed in hard-to-reach places, making merely finding the breaks difficult, especially in the rain, wind and dark.

"Hurricane Agnes was bad," says Ron Plank, the co-op's manager of operations, referring to the 1972 storm that caused 48 deaths and more than \$2 billion worth of damage in Pennsylvania. "But this was the worst storm I've seen in 30 years."

Power utilities had their work cut out for them, rerouting power lines and replacing downed lines. Some nearby investor-owned utility companies still had customers without electricity as much as a week after the storm. Even though Adams Electric Cooperative's lines suffered the full brunt of the storm, every one of its members was back on line by Sunday evening.



On the day of the storm, linemen and other employees put in a regular eight-hour workday, then prepared to do battle. Once the storm hit, it didn't take long. By 7:30 p.m. power outage reports started to trickle in. Soon calls were flooding in – 8,200 in the first 24 hours.

“They were coming in as fast as we could answer them,” says Wanda Spahr, the member/office services supervisor for the Gettysburg District office. The cooperative encourages everyone who has a power outage to call in. “That’s the only way we can be sure we’ve restored power to everyone,” she points out. “If you assume that because your neighbor called in, you’re covered, your power may not be restored because you’re on a different circuit, or because there’s a fault on the line to your house.”

Account representatives staffed the phones 24 hours a day in eight-hour shifts. But for the linemen, there were no shifts at all. They worked for 24 hours straight before taking four or five hours off to grab some sleep – sometimes they had to sleep in their trucks. That Saturday morning they were out at first light, working until 10 p.m.

### Trees topple like dominoes

During the night of the storm, the wind often blew so hard that workers had trouble keeping their feet under them. Falling trees and branches were a constant hazard, both during the storm and afterwards. But lineman Mitch Orchowski says that the hardest part of the job was getting ready to move on after restoring a break, only to see another tree topple and take the same lines out again.

“Sometimes the trees would fall like dominoes,” Orchowski recalls. “One would fall over, push another one over, and so on.”

Plank says that the quick restoration of service resulted from the dedication of Adams employees and the workers detailed to Adams by four other electric co-ops.

“The journeyman linemen and the phone workers have the two toughest jobs in the co-op,” he says. “Without



*Adams Electric works closely with volunteer fire departments in the communities it serves, especially when responding to lightning strikes, fires and vehicular accidents. Here, Arendtsville Fire Co. Chief Chris Herman, left, and Fire Captain Jack White, second from right, thank Jim Cole and Jim Krut of Adams Electric for the co-op’s help in purchasing this tower truck. USDA Photo by Steve Thompson*



*Trees toppled like matchsticks when Hurricane Isabel hit. Here Adams’ CEO/General Manager Dan Murray, left, surveys damage near Rinley, in York County. Photo courtesy Adams Electric Co-op*  
*Facing page: The front page of the York Daily Record from last September captures the terrible damage inflicted in southern Pennsylvania by Hurricane Isabel. Reprinted courtesy York Daily Record*

their commitment to the co-op way of doing things, we would have had five to six days of power outages instead of only three days.” The night of the storm, Plank learned from an area investor-owned utility that it wasn’t planning to send out its crews until the next morning.

### Close relationship with firefighters

Adams’ close ties to the local communities it serves is exemplified by the ways its crews cooperate with volunteer fire departments. Co-op line crews and fire companies often work closely during outages caused by lightning strikes, vehicle crashes and fires.

Jim Krut, the co-op’s manager of communications and community services, says that firefighters have told

him they're glad when the affected lines belong to Adams, because of the co-op's fast response. The co-op also supports fire companies by hosting informational dinner meetings at their fire halls. A fire company ambulance provides emergency services at the co-op's picnic-style annual meeting.

When a huge ice storm felled trees and power lines in the Buchanan Valley in March 1996, Adams and the local fire company worked as a team. The firefighters cleared fallen trees to open roads while co-op linemen repaired the downed lines. Adams provided two-way radios to the fire companies to help speed the work.

The emergency brought out the best in the rural community, says Duane Kanagy, Adams Electric's communications coordinator. "Everybody pulled together," he says. "People brought in chainsaws to help clear downed trees. And the fire department fed everybody."

#### **USDA, co-op help purchase fire truck**

When the village of Arendtsville needed a new fire truck for its all-volunteer company, it was only natural that they looked to Adams for help with the financing.

A year before, the co-op had assisted with the purchase of a new, automated external defibrillator (AED).

Using a \$400,000 Rural Economic Development Grant (REDLG) from USDA Rural Development, the co-op established a Community Development Fund. The fund was used to offer the Arendtsville Fire Company a \$100,000, low-interest loan to be used toward the \$165,000 purchase price of a used tower truck. Finance manager Joe Cole and Jim Krut processed the loan and presented it to the cooperative's board of directors for approval.

In addition to carrying a number of portable ladders, the tower truck uses a telescoping arm equipped with a high-pressure pipe and nozzle with two buckets on either side to carry firefighters. The nozzle can be directed

from the buckets, or from the ground.

Firefighters say they feel much safer using the tower than a traditional ladder. "Having this truck helps out the whole county," says Arendtsville Fire Co. Captain Jack White. "No local fire department can have everything they need, so we all cooperate. Some departments have rescue trucks, while others have tankers or 'brush' trucks that can go off-road. They go where they're needed."



*Marvin Snyder (left), shipping line superintendent for Adams Electric, discusses ways the co-op can help the Beistle Co. reduce its energy costs with Ken Strayer and Ron Parr of Beistle. USDA Photo by Steve Thompson*

The Arendtsville firefighters were so grateful for the co-op's Community Development Fund that they put a sign on the truck: "Financed in part by Adams Electric Cooperative." The truck got a fresh paint job and was displayed at the co-op's annual meeting last June. Hilda Legg, administrator for the Rural Utilities Service of USDA Rural Development, was guest speaker at the meeting.

Other fire companies have also benefited from the cooperative's Community Development Fund. Four loans have been made, including one for \$125,000 for the construction of the Bendersville fire hall and community center. Another was to Buchanan Valley Fire Company, which assisted the cooperative during the 1996 ice storm.

#### **Dry hydrant program makes rural areas safer**

Less visible, but also important, is a program started in 1995 to make it easier for firefighters to draft water from ponds and streams in rural areas where there are no pressurized hydrants. Adams Electric's dry hydrant program enlists the labor of local fire companies and the excavation equipment of local municipalities to construct the dry hydrants. Sections of 6-

inch PVC pipe are buried underground between a water source and the road. A strainer at the water source filters out debris, and a hydrant-head at the road enables firefighters to make a quick connection to their pumper truck and begin to draft water. This avoids chopping through the ice in winter or getting fire equipment bogged down in a muddy field in the spring, and speeds the delivery of water to the fire.

The installations, for which the co-op provides the hardware at no charge to fire companies or at cost to businesses or homeowners, are called "dry hydrants" because they are unpressurized, relying on suction from the pumper to draft the water. Since the program began, 125 dry hydrant kits

have been donated, providing quick, potentially life-saving sources of water. Adams has even created a manual for the installation and care of the hydrants.

The close relationship between Adams and local fire companies was highlighted when Hurricane Isabel came to town. The house of Adams lineman Guy Gorman – who was working with a line crew at the time

on storm-related repairs – was destroyed by fire. Members of his family were injured in the blaze, which was not caused by the storm.

Firefighters responded by starting a collection, to which many Adams employees and members contributed. “The whole community pulled together to help them,” says Plank. “And we were able to get Guy to the hospital before

the ambulance arrived with his family.”

Adams is involved in a number of other community-service efforts, including electrical safety demonstrations and electricity lesson plans for local schools, a program that installs free street lights in small communities and various individual projects, including raising the funds, designing and

*continued on page 37*

## Co-op strives to help members reduce power use, lower bills

Helping members reduce their power use is the key to keeping a lid on their electric bills. Adams Electric CEO and General Manager Dan Murray points out that, unlike investor-owned utilities, the co-op has no incentive to sell members more power.

“Our goal is to provide excellent service at the best prices possible, not to increase our sales,” Murray says. “When members reduce energy use, it makes their electric bills more affordable. If conservation measures mean we can defer some capital expenditures, it means we can save money for members. Keeping down power use also reduces the need to purchase supplemental power, which is usually coal-fired and can be costly.”

Scott Wehler, the co-op’s engineering manager, says that load management is the key. “Traditionally, utilities have concentrated on their large customers when it comes to controlling power use,” he says. “But we sell 85 percent of our power to residences, so we had to find ways to save power in the home.”

Electric water heaters of customers can be controlled remotely from a computer in the Adams Electric dispatch center at co-op headquarters outside Gettysburg. Eighty percent of co-op members have electric water heaters, so they represent a sizeable proportion of the base load.

The co-op sells the \$350, 80-gallon units for only \$80 to members, who also get a break on their electric rates. About 10,000 of the co-op’s 28,000 members currently have load control switches on their water heaters. “Half the benefit goes to the customer, half to the co-op,” Wehler says. “They get an inexpensive water heater and a lower rate.” Resulting reductions in peak-demand costs mean that the water heaters pay for themselves within three years.

When loads get too high, some or all of the heaters can be turned off. “They can be off for as long as four hours; most people never even notice,” Wehler says.

Some customers also have air conditioning and heating units that can be remotely controlled to reduce power use at peak times.

### Co-op’s technology helps poultry farm

Remote control also contributes to the bottom line for a large chicken farm. With a million birds in seven large chicken houses — each of which draws a peak load of up to 150 kilowatts — farmer Jim Bailey has a strong incentive to control his power consumption.

Power failures also pose a major threat to his flocks, so the farm maintains its own emergency generators – a significant capital investment. Bailey and Adams Electric have an arrangement under which the utility can remotely start the generators at times of peak demand. In return, Bailey gets a \$9-per-kilowatt-hour rate break.

Several golf courses in the service area also have remote controls on their irrigation pumps, while others have timers restricting their use to non-peak hours. All of these power-saving programs are completely voluntary.

Using the load-management tools at its disposal, Adams can control 10 percent of power use without inconveniencing any members. Load-management programs have won environmental stewardship awards for the co-op, including one each from the Commonwealth of Pennsylvania and the local Chamber of Commerce.

These power-management efforts extend to the co-op’s own headquarters. Its air conditioning system uses three 1,600-gallon tanks containing an anti-freeze and water mixture that turns to icy slush when cooled by a large compressor during off-peak periods.

When air conditioning is needed, the compressor is turned off and small, circulating pumps — which use much less electricity than the compressor during demand peaks — help to cool the building.

– By Steve Thompson



# Southern Marketing Agency Inc.



**What is the Southern Marketing Agency (SMA)?**

SMA is a marketing-agency-in-common, the primary purpose of which is to seek efficiencies in supplying the fluid milk needs of the southeastern United States. SMA began operations on April 1, 2002, as a Kentucky agricultural cooperative organized under provisions of the Capper Volstead Act. Current members are: Arkansas Dairy Cooperative Association (Damascus, Ark.); Dairy Farmers of America Inc. (Kansas City, Mo.); Dairymen's Marketing Cooperative Inc. (Mountain Grove, Mo.); Lone Star Milk Producers Inc. (Windthorst, Texas); and Maryland & Virginia Milk Producers Cooperative Association Inc. (Reston, Va.).

**Initial goals:**

1. Promote member cooperation and communication;
2. Seek cost savings in the purchase of supplemental milk;
3. Preserve over-order prices in the Southeast;
4. Seek cost savings in farm-to-market hauling;
5. Seek cost savings in seasonal surplus balancing.

**Results to date**

- "Member cooperation and communication simply could not be better," says Jeff Sims, as administrator and assistant secretary of the agency. "The goals of the agency are clearly defined and all the members are dedicated to working

together to reach the goals."

- Supplemental milk purchase costs have declined, and supplemental milk agreements have been restructured, Simms notes. The new supplemental milk agreements have allowed Class I utilization percentages in the Appalachian and Southeast Federal Milk Marketing Orders to increase over comparable months last year.
- Prices over federal-order minimums in the Southeast were not only preserved, but they increased in 2003, Simms reports.
- Agency members have saved more than \$10.6 million in hauling costs since April 2002, adding more than 12 cents per hundredweight to the SMA-weighted average pool value. Savings are also increasing month-to-month.
- A study of current and future needs for seasonal milk surplus balancing capacity is underway to help determine short- and long-term needs for balancing capacity and optimum plant locations.

**Key management members:**

Day-to-day operations of the agency are handled through the Operations Committee, made up of senior management members of the member cooperatives. Committee members are: Floyd Wiedower, from Arkansas Dairy Cooperative Association; John Collins from DFA; Don Allen from Dairymen's Marketing

Cooperative Inc.; Jim Baird from Lone Star Milk Producers Inc.; Jay Bryant from Maryland & Virginia Milk Producers. Other members of senior management of each cooperative may, and regularly do, participate.

**How is SMA governed?**

The Operations Committee reports directly to the SMA board of directors, made up of 10 dairy farmers, all of whom are producer-members of the five member cooperatives. Board seats are apportioned by member patronage, with each member entitled to at least one board seat, without regard to any minimum patronage level.

**Biggest obstacle overcome**

"The change in mindset of cooperation vs. competition is not always an easy transition to make. The group has now fully completed that transformation and cooperation is at an extremely high level," Simms says.

**Future plans?**

The agency continues to seek efficiencies in milk hauling, which is a major cost in serving a milk-deficit market. "Agency members feel the cost-savings achieved thus far in milk hauling may have only scratched the surface. The recommendations from the study of balancing plant needs will offer opportunities for savings there too," Simms says. "As production continues to decline in the Southeast and fluid milk sales continue to grow, focusing on the efficient and cost effective procurement of supplemental milk to fill the growing deficit will be an ongoing process." ■

# Co-op leaders focus on strategies for success



**By Kimberly Zeuli,**  
*Assistant Professor,*  
*University of Wisconsin—Madison*

**R**eading major newspapers lately, one might get the erroneous impression that all agricultural cooperatives are in trouble. A recent *New York Times* article stated: “The collapse of Farmland has some farm groups worried that co-ops are losing their ability to compete with big food companies” (Sept. 16, 2003). The demise of Farmland and Agway has been the subject of many similar articles. Still others have focused on financial issues at Land O’Lakes, governance problems at Ocean Spray and the conversion of such notable co-ops as Dakota Growers and Birds Eye to investor-owned firms.

Is the agricultural cooperative sector close to collapse? Are successful cooperatives fleeing a sinking ship? Whatever happened to the optimism and missionary-like zeal that surrounded the wave of new generation cooperatives created during the 1990s?

This challenging, changing business environment requires innovative thinking and tough decisions. Cooperative executives and board members are being called upon to redefine their cooperative’s vision and to create new, competitive strategies. To help them in this process, the sixth annual Farmer Cooperatives Conference, *Executing Vision and Strategy with Success*, was held in Kansas City, Mo., Oct. 30–31. Each year for the past six years, co-op directors and CEOs, government representatives, financial and legal profes-

sionals and cooperative scholars have met at this conference to think broadly and critically about the future of agricultural cooperatives.

The University of Wisconsin Center for Cooperatives (UWCC) established this conference series in 1998, with financial support from Farm Foundation, to provide a forum for the exchange of ideas on a timely set of issues affecting the agricultural cooperative sector.



*Don Gales, president of ADM-Collingwood Grain, addresses the Farmer Cooperatives Conference in Kansas City. Photo courtesy University of Wisconsin*

Implementing these strategies — to make the vision a reality — can be more difficult and time consuming than cooperative leaders and members anticipate. By addressing the constructive and successful action some co-ops have taken, the conference offered a counterperspective to the press reports.

## **Speed of execution**

According to Chris Peterson, ag economics professor at Michigan State University, cooperatives need to pay particular attention to a new trend:

ever-shorter product and operational cycles. Agribusinesses are being forced to respond faster and faster to customers and changes in the marketplace. “The key to success in the new agribusiness world is to either be big or be fast, but never get caught in the middle,” Peterson said.

Steve Montgomery, executive vice president at CoBank, and Jack Gherty, president and CEO of Land O’Lakes, agreed that co-ops are competing in a fast-paced, tough marketplace. Montgomery said the recent bankruptcies of Farmland, Agway and TriValley have led many to wonder if the cooperative model is broken. But, he noted, the failures of Enron, MCI Worldcom and other investor-owned companies have not caused similar questions about the future viability of the corporate model.

All agribusinesses face a “new reality” — an economy that has evolved from being industrial-based to one that is knowledge-based, driven by management, technology and customer demands. Success requires navigating this new reality with a strong board of directors and management team executing a strategic business plan with measurable objectives.

Montgomery warned co-ops: “... if you are not adding value for your members, then why should you remain in business?” Gherty added: “Change... You don’t have to do it. Survival is not mandatory.”

## **Non-traditional equity arrangements**

Many cooperatives are looking into alternative equity strategies. Mark Semmens, managing director of invest-

ment banking at D.A. Davidson, compared alternative capital structures that allowed co-ops to compete with other business types in capital markets. Using CHS Inc. as a case study, Semmens explained how co-ops can successfully use perpetual preferred stock to achieve their capital objectives.

David Swanson, of the Dorsey and Whitney law firm, said changes in the co-op model in some states were driven by a desire for greater flexibility in raising capital, tax treatment and member-equity liquidity. Without greater flexibility, more cooperatives may convert business structures, he said.

Steve Wright, CEO and general manager of Pro-Fac, a Rochester, N.Y.-based fruit and vegetable growers' cooperative, provided an overview of recent changes at the co-op. In August 2002, the Pro-Fac board of directors accepted a private infusion of equity from Vestar Capital Holdings, which invested roughly \$175 million in AgriLink Foods. AgriLink had been a wholly owned subsidiary of the co-op, but Pro-Fac had to seek outside capital due to the heavy debt load it accumulated when purchasing AgriLink and Dean Foods' vegetable operations (Birdseye Foods). The co-op is now a minority (40 percent) owner in the food company, which has been rechristened Birdseye Foods.

### Closing local plants and branches

Jeff Stroburg, CEO of West Central Cooperative in Iowa, kicked off a trio

of presentations by discussing the difficulties involved with closing local plants and branches. Smaller margins, he said, are forcing co-ops to investigate unprofitable sources in the business. All local plants and branches need to be assessed in terms of their ability to create value; they should not remain open simply because they are a "legacy location."

David Fuhrmann, president of Foremost Farms in Baraboo, Wis., discussed the tough decisions facing the dairy co-op. Confronted with declining regional milk production, excess manufacturing capacity and "devastating" milk prices following the 9-11 terrorist attacks, Foremost pursued a "plant-rationalization" strategy. Fuhrmann explained that these actions require cooperatives to "plan, plan, plan, and communicate, communicate, communicate."

### Building brands

Don Schriver, executive vice president of Dairy Farmers of America (DFA), said "a cooperative's brand is the face it presents to the world." According to Shermain Hardesty, Director of the Center for Cooperatives at the University of California, only a limited number of cooperatives have nationally prominent brands. Some structural characteristics of cooperatives seem to impede brand building, she noted. Several presentations discussed the importance of brands to cooperative growth and

innovative strategies for achieving strong brand names.

### Keys to success

Mark Hanson, attorney at the Lindquist and Vennum law firm, said there are four keys to successful cooperatives: leadership, a solid and focused business plan, an efficient capital structure and member liquidity. Hanson said that cooperatives need to distinguish between an income business model, in which earnings are distributed, and a business growth model, in which earnings are reinvested. Co-ops also need to understand where their capital is coming from — not through assumption, but by close observation.

Mike Maranell, senior vice president at Ag Processing Inc. (AGP), an Omaha, Neb.-based soybean-processing co-op, provided these "take-home concepts" in his conference wrap-up:

1. It is important to understand the "purpose" of a business, particularly *your* business.
2. The success of execution depends on the following key ingredients:
  - a clear vision of what you want the business to look like in the future;
  - a formalized, strategic plan that involves multiple stakeholders;
  - alignment of the board of directors and management;
  - finding the right people for co-op leadership positions.
3. The cooperative system has, and will continue, to evolve. ■

## Previous Farmer Cooperatives Conferences have addressed the following issues:

- The impact of global and industrial trends in agriculture on cooperatives (1998).
- Achieving excellence in cooperative governance (1999).
- Building cooperatives' economic strength with new ideas regarding capitalization and equity redemption programs (2000).
- Measuring a cooperative's value and choosing competitive business strategies (2001).
- How cooperatives have adapted their structures to succeed in a challenging business environment (2002).

Post-conference summaries, programs, and some presentations can be found on the UWCC Web site (<http://www.wisc.edu/uwcc/farmercoops03/index.html>). ■

# How business culture drives economic behavior in co-ops

By **Julie A. Hogeland**,  
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*Editor's note: The following article is based on the author's presentation at the "Mapping Cooperative Studies in the New Millennium" conference, held at the University of Victoria, Victoria, British Columbia, May 29, 2003.*

*Conference papers may be found at: [http://web.uvic.ca/bcics/map\\_conf\\_papers.html](http://web.uvic.ca/bcics/map_conf_papers.html)*

**T**he premise of this article is that culture affects economic behavior. The focus is on how the concept of service, as offered by regional and local farm supply and grain cooperatives, has evolved during the past 20 years.

Service started out as a producer-driven concept, associated with cultural expectations of entitlement. The institutional framework for realizing these expectations was created by multi-commodity cooperatives, such as Farmland, Countrymark and Agway. The producer's needs were foremost in this setting. Service ended up becoming defined as a market-driven concept, where the needs of the customer become paramount.

The institutional framework has evolved into an industrialized system of agriculture, in which producers have faded more into the background as cooperative identity has coalesced around participation in value-added food chains. In this context, being a low-cost supplier or getting a high price becomes the key definition of service.

Typically, economists have not paid much attention to culture. They tend to treat most decisions as a matter of price and quantities, or as financial considerations, such as interest rates. Cooperative management, members and directors also have not explicitly considered culture. When decisions diverge from economic considerations, the cooperative community typically regards the decision-making process as "political." This does not mean a political party, but refers to the variety

understandings of what cooperatives should be and the values and duties they should encompass. These typically include:

1. Emphasizing service over making money;
2. Being altruistic — not exploiting the business for a profit;
3. Attaining self-sufficiency to minimize farmer dependency on those perceived as outsiders;
4. Emphasizing a hierarchical style of leadership and dependence;



*Ag Processing Inc. (AGP) staff led buyers from some of the nation's largest food manufacturers on a field-to-factory tour to show them how soybeans are raised and processed. AGP focuses all of its attention on what it does best: process and market soybean products.*

*Photo by Jim Rodenburg, courtesy AGP*

of commodity interests, geographic interests or farm organization affiliations that can subtly influence cooperative agendas on a day-to-day basis.

## **Characteristics of cooperative culture**

There is an underlying, more fundamental and unified aspect of cooperative culture that reflects common

5. Often displaying an unwillingness to let go of relationships, things or places;
6. Valuing the "small and personal" over the "large and impersonal";
7. Preferring to subordinate individual goals to the good of the whole; and
8. Valuing equality (treating everyone equally).

Collectively, these are the social mores of a group that is more like a family than a business. Together, they form a framework for understanding multiple dimensions of cooperative behavior.

These themes were drawn from some 30 interviews conducted with regional and local cooperative management during the past two years.

During the interviews, managers were asked to provide examples of expressions or language that represented traditional ways of talking about cooperatives. Managers were also asked how they would respond to such traditional thinking. This give-and-take provides a useful compendium of how local cooperative managers —

tives only when needed to offset monopoly power, or to compensate for inadequate services.

After cooperatives had disciplined potential monopolists through the yardstick of competitive efficiency, Nourse believed they should simply maintain watchdog status over an industry, not try to dominate it themselves. He even suggested cooperatives might consider abandoning industries where they had been particularly successful in establishing competition. Leave it to others to compete and let farmers go back to their traditional activity of farming, he advised. This was a very passive vision of cooperation that left unanswered many of the questions that concern cooperatives today.

Today, the concerns of farmers and their cooperatives are much different. These concerns include: getting access to information, finding a place within a value-added system, negotiating an equitable ownership role within that system and addressing food safety and other product specification issues which are integral to the success of those systems.

Recent severe financial pressures, including the bankruptcies of the Farmland Industries, Agway and TriValley cooperatives, suggest that the culture may be pointing cooperatives in the wrong economic direction, at least in some respects.

### The primacy of service

The primary cultural value that drives economic behavior in cooperatives is service. The way service dictates choices within cooperatives is demonstrated when managers or directors say, “We take care of our members.” Or, if managers want to cut costs, and so cut back on services, they may say: “I can’t do it because my members won’t let me.”

As part of this service culture, there is a broad definition of member needs because farmers are continually asked what they want their cooperative to do. This leads to an “add-on” mentality, in which the mindset is: “let’s add on this and add on that.” This attitude is reinforced by certain expectations, which local cooperative managers describe as: “Farmers like to go into every location and get everything they want.” Or, “Farmers like to see their equity investment spent at their own location, where they can see it.”

The service culture gives primacy to member needs above all other factors. The fact that members want something and the cooperative exists to serve their needs makes other factors secondary, including what the service costs, how it fits in with the other services offered by the cooperative, whether the service is already offered by competitors and so on. The economic consequence is that the cooperative can become a multi-purpose business that lacks a clear customer definition.



*AGP headquarters in Omaha, Neb. This regional soybean co-op has a straightforward mission: get member co-ops a better price for their soybeans. Photo courtesy AGP*

who are on the front lines of cooperative activity, because they interact directly with farmers — are gradually reshaping cooperative culture.

### Cultural road map

The primary cultural road map followed by most co-ops (other than bargaining cooperatives) is the competitive yardstick model of Edwin Nourse (Nourse 1992). But in some important ways, this is probably an outdated script. Nourse established the “competitive yardstick” in the 1940s. He believed farmers should form coopera-

For example, it is not clear how big cooperatives should get, how long they should stay in a particular industry and whether their relationship to other industry participants should be one of competitor or partner. The main prescription of Nourse’s competitive-yardstick model was that cooperatives should provide “an extra bid” or “extra competition” to “keep everyone honest.” But this cultural model was formed in response to concerns about market concentration and farmer exploitation during the first part of the 20th century.



The expression, “Cooperatives are all things to all people,” reveals the fundamental loss of purpose created by the add-on mentality, which other cooperatives (discussed later) are attempting to recover. With the “add-on” mentality, the cooperative defines itself as it goes along, by accumulating a wide number of product lines, which are often not clearly related. Ultimately, it becomes very difficult for such cooperatives to achieve the critical mass and scale economics that would enable them to compete with more efficient and focused suppliers.

### **“Add-on” mentality leads some to ruin**

The “add-on” mentality brought Agway, the largest cooperative in the United States in the 1980s, to bankruptcy in 2002. Despite a strict policy that it would not get involved in dairy processing, the New York-based supply cooperative in 1980 purchased H.P. Hood, a fluid dairy company, in order to help members of Northeast dairy cooperatives stabilize milk markets (Anderson & Henehan 2002:3).

“Agway had no prior experience running a fluid milk business,” which is “very competitive, and operates much differently than an agricultural supply company,” according to Anderson & Henehan. In the following decade, Agway was able to pay a patronage refund only twice.

Intense member support for a particular service, sometimes just the highly vocal support of a few members, can be sufficient to dilute or override the importance of economic factors. “Members, at times, asked Agway to do too much on their behalf without thoroughly understanding the costs involved” (Anderson & Henehan 2002:11).

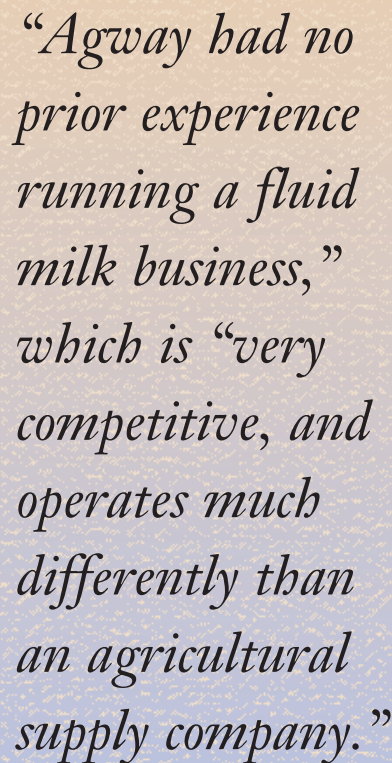
The management of the cooperative, particularly a regional cooperative, then has the responsibility to build an organization around member choices. Gold Kist used the slogan “Diversification is Our Strength” to reflect its interests in poultry, agronomy, cotton, poultry and peanuts. “By

shedding its non-core businesses, Gold Kist Inc. is fast becoming a lean, mean poultry machine,” according to the May 2002 issue (page 16) of “Refrigerated & Frozen Foods.”

### **Farmer attrition limits diversification strategy**

If there are a large number of farmers to be served by the cooperative, the cooperative may be able to make a diversified service strategy work. However, there are particular economic stressors that make it particularly hazardous for cooperatives to follow this strategy.

Chief among these factors is farmer attrition. As the number of farmers declines, fewer will want any particular



*“Agway had no prior experience running a fluid milk business,” which is “very competitive, and operates much differently than an agricultural supply company.”*

service. When agriculture began leaving the Southeast, Gold Kist’s diversity became a weakness. Farmers also have become increasingly specialized, so their demands have become more one-of-a-kind. Consequently, the service culture can set the cooperative up for dying a slow economic death, insofar as the assets accumulated to serve

members in a variety of ways are slowly and painfully sold off, one by one.

To maintain cash flow, Agway shed two profitable businesses, Telmark leasing and its North Dakota sunflower business. But this did not save it from bankruptcy.

Some service cooperatives have turned to “bundling” — grouping a particular service within a group of related products or services and pricing them as a unit. As economic pressures force many producers out of farming, those that remain are forced to examine costs more closely. Cooperatives that have bundled items together may be forced to decouple them so that producers can compare prices individually.

Cooperatives that have built an administrative or overhead system around providing service packages or production systems may find that producers prefer to assemble their own systems, piecemeal, from different vendors because it is cheaper. Appealing to customers through a broad product array may make a cooperative vulnerable to transient consumer loyalties.

Farmers may pick and choose, but the cooperative is stuck with the overhead. Cooperatives may have invested in costly assets, such as feed mills, and assumed that farmer desire was equivalent to farmer use. Managers refer to this cultural concept as: “We will build it, and they will come.”

### **Large producers demand bargains**

Consolidation among suppliers and farmer-customers has resulted in large producers driving hard bargains, and agribusiness conglomerates are often willing to do what is necessary to capture the business of these customers. In this context, the service strategy puts cooperatives in a particularly vulnerable position. More and more farmers may be seeking the one-time-only “best deal.”

So, local cooperative managers are beginning to revise the way they approach the concept of service. Some are asking: “Who do we serve? Who is our customer? Will they still be there

in the future? Is that the business we want?” There’s good business and bad business.

These managers are starting to look at how much it will cost to serve a group of farmers. Some are saying: “Hey, we can’t do that. Let’s walk away. Let someone else serve them.”

This is the sort of approach a corporation operating for profit would take. Instead of serving all customers — being all things to all people — the cooperative “cherry-picks” by pursuing the most attractive customers.

### Co-ops: a family business?

Looking at their farmer-patrons in terms of their potential profit to the cooperative introduces a form of “distancing” into what may have been a personal or social relationship. In some rural communities, the relationship between management, directors and cooperative members has been so personal and closely linked that the cooperative is more like a family, in some ways, than a business.

This is shown in the way managers of small-town, locally owned grain elevators and farm supply stores go out of their way for their farmer-members. When a farmer pulls up at the co-op elevator at closing time with a truckload of grain, the manager will stay late, even though elevators operated by multinational corporations have probably closed. Similarly, the co-op will spray the farmer’s fields at night because that is when the winds have died down.

Why do managers do this? “Because our kids go to school with their kids,” they say.

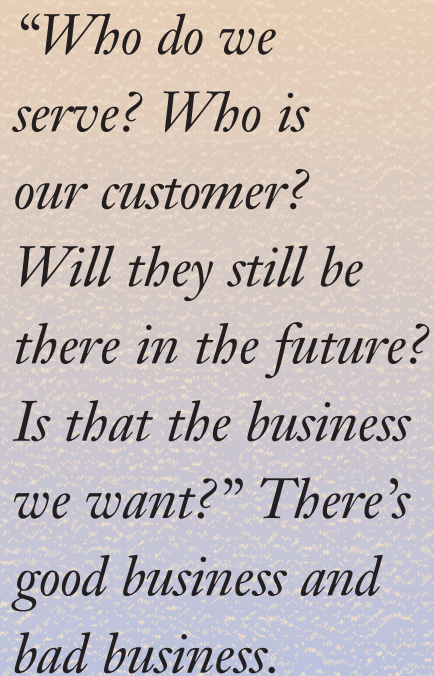
In such communities, there is an intertwining of economic, social, neighborhood, kinship and political dimensions within the cooperative bonds. While this has given cooperatives their cohesiveness and unity, it has also established certain expectations among farmers that may be resistant to change.

If managers charge for advisory services previously provided as a free service, farmers have objected, saying: “You

never charged me before. You want my business? You better do it [for free].”

Yet managers cannot attract the skill level of technical help farmers need without paying a particular salary level. So, they have to become, in their words: “more of a business than a cooperative.” This linguistic distinction shows the extent to which cooperatives have been put in a class apart from other businesses and held to different rules and expectations.

As managers try to revise these expectations, they anticipate their cooperatives will become less personal than what their father’s co-op was, more of a business (“arm’s length”) than family relationship. Long-term margins will be in technical support services, not in the bulk commodity products that have been the traditional source of income for local cooperatives.



*“Who do we serve? Who is our customer? Will they still be there in the future? Is that the business we want?” There’s good business and bad business.*

### Regionals must also adjust

Regional cooperatives have a similar adjustment to make. Their task as manufacturers is to answer the question: “What are we good at?”

For Gold Kist, the answer was poultry, which co-op leaders defined as the co-op’s core business. This decision led them to divest their operations in

agronomy, pecans, catfish, farm supplies and peanuts. Similarly, Land O’Lakes recently announced a phased reduction of its involvement in the pork industry, due to the displacement of family farmers by integrators and increased market volatility.

By streamlining and narrowing their commodity focus, these cooperatives are approaching the question of service from the standpoint of: “Who do we serve?” and “What are we good at?”

They are using a dual focus that allows them to take more than just producer interests into account. Agway essentially looked at the question of service from the standpoint of, “Who do we serve?” That is, of producer interests. “What are we good at?” is a question that addresses the economic efficiencies of the cooperative.

The multi-commodity cooperative has to balance different producer interests, which can be a difficult task. Farmland and Countrymark were two such cooperatives. These cooperatives had portfolios that, between them, included grain, pork, turkeys, fertilizer, beef, agronomy and petroleum. The portfolios were built from the standpoint of anticipating that a good year in one commodity would offset a bad year in another.

So, an expectation of loss was built into the cooperative’s culture. At some point, a commodity cycle was going to hit the cooperative hard. And, in fact, when particularly severe losses occurred for one commodity, as in the case of Farmland and fertilizer, it hit sufficiently hard to push the entire cooperative into bankruptcy.

The case of Farmland is particularly interesting because it represents a mix of cooperative values of self-sufficiency and service. Self-reliance may be a value that can be traced to pioneer values and distrust of outsiders. It also has figured prominently in farmers’ desire for a source of domestic fertilizer supplies so they can undertake spring planting on schedule.

During the 1970s energy crisis, farmers were able to accomplish this critical task because cooperative

resourcefulness maintained sufficient natural gas reserves, a seedstock for fertilizer. This accomplishment became an established cultural model for a later period of high natural gas prices.

During 2001-2002, a period of particularly high natural gas prices, Farmland Industries tried to assure farmers of self-sufficiency for fertilizer supplies, following the example set by cooperatives 30 years earlier. At the recommendation of members, Farmland went into considerable debt to buy domestic manufacturing plants.

Imported fertilizer would have been much cheaper, possibly less available and sometimes it even looked odd, because it was colored black instead of white. Farmland was the largest U.S. farmer cooperative, but the fertilizer debt helped pitch it into bankruptcy.

What was different between the energy crisis of the 1970s and 2002 was that new suppliers, such as Russia, had come on stream. The need for cooperatives to respond to the mandate "We take care of our members" was suddenly an anachronism in the context of the wider availability of supply on the world fertilizer market.

### **New service model needed?**

Rethinking conventional notions of service means that some demands made by farmers have to matter less than others. Some demands have to go by the wayside. The rules of the game have changed.

The expectation that farmers will automatically be loyal to their cooperatives is no longer true. Someone else may be cheaper. Someone else may have a better product. The cultural obligation — that cooperatives should go out of their way to provide service to their farmer-members — may no longer be valid.

Farmland and Agway experienced problems in part because their definition of service was so producer driven that the overall health of the cooperative became secondary.

For the local cooperatives that are members of Ag Processing Inc. (AGP),

a regional cooperative, service is defined as getting a better price for their soybeans. AGP, as a regional cooperative, is focused only on soybean processing. That dedication allows AGP to be a low-cost supplier to industry users of soybean oil and meal.

If there is a lack of demand for soybean oil or some other setback in the soy-processing industry, the local cooperatives that own AGP accept this as a consequence of their ownership. The lines of accountability are clear. This clear demarcation of boundaries seems to be one of the evolving characteristics of cooperation.

The intensive specialization followed by Gold Kist and AGP was triggered by recognition that consolidation has happened within interdependent parts of the food chain. Cooperatives that lack the critical mass, focus and capitalization will be locked out of desirable value-added opportunities, such as instant meals.

To qualify as players in this high-stakes game, cooperatives often need to be low-cost producers, which requires high product volumes and dedicated, efficient handling.

Cooperatives such as Farmland and Countrymark that pursued a counter-cyclical, diversified portfolio had to spend considerable attention managing the divergent commodity cycles and any resulting complications in member relations. Their definition of service was necessarily producer-driven.

With specialized cooperatives, such as Gold Kist or AGP, the relationship with the investment partner becomes paramount, whether the partner is another cooperative or a corporation, as they jointly develop their respective contribution to a value-added system. What becomes important in defining service is not what Farmer Joe wants, but what the *customer* wants. The definition of service is market driven.

### **Re-evaluating Nourse**

The cultural model of Nourse's competitive yardstick was a negative

one, skewed toward countering monopolistic exploitation and power, not the pursuit of opportunities for cooperative growth and influence. Nourse wanted to see that farmers were served well. His cultural legacy may have been a sense of "farmer entitlement" that has overburdened the economic capacities of cooperatives.

With the industrialization of agriculture, the pendulum is swinging back the other way. Farmers are often now regarded in a more detached way as "the most efficient managers of land" within an industrial management system (Urban 1996:70). Attention has shifted from farmers *per se*, to the drivers of the value-added systems found in agriculture today, including cooperatives. These systems could offer an economically healthier cultural environment for cooperatives to flourish in than the Nourse-influenced setting of a previous era. ■

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# Farmer cooperative sales, income fall in 2002

By **Eldon Eversull**, *Ag Economist*  
*USDA Rural Development/RBS*

**D**espite sales gains in the livestock and cotton sectors, final sales data for 2002 shows that net business volume for the nation's 3,140 farmer-owned cooperatives fell to \$96.8 billion, with a net income of \$1.21 billion. With assets totaling \$47 billion and almost \$20 billion in equity, farmer cooperatives con-

tinued to be a major employer in rural areas, with 166,000 full-time workers and 54,000 part-time and seasonal workers.

U.S. farmers overall had increased sales of products that they produced in 2002, but many farmer-owned cooperatives experienced lower sales and incomes. There are a number of reasons why cooperative sales and income do not strictly follow national farm trends. The fiscal year for about half of cooperatives ends in June or earlier,

meaning that most of their sales are from the prior year while farm production trends are based on calendar years. Further, many cooperatives sell value-added products that do not necessarily reflect raw commodity prices.

Cooperative marketings declined in all sectors in 2002, except for livestock and poultry, which increased \$600 million (4.5 percent), and cotton, which climbed \$100 million (2.5 percent). Low milk prices caused dairy co-op sales to drop while several larger fruit

**Table 1—Farmer cooperatives' net business volume<sup>1</sup>, 2002 and 2001<sup>2</sup>**

Commodity or function	2002	2001	Commodity or function	2002	2001
Million dollars			Million dollars		
<b>Products marketed</b>			<b>Supplies sold</b>		
Cotton	2,461	2,400	Crop protectants	2,713	2,957
Dairy	23,038	26,187	Feed	5,373	3,998
Fruits and vegetables	7,338	8,822	Fertilizer	4,315	4,966
Grains and oilseeds <sup>3</sup>	17,474	18,055	Petroleum	7,157	8,446
Livestock and poultry	12,304	11,776	Seed	1,086	1,051
Rice	748	756	Other supplies <sup>5</sup>	3,035	3,338
Sugar	2,440	2,648	<b>Total supplies sold</b>	<b>23,679</b>	<b>24,756</b>
Other products <sup>4</sup>	3,852	4,398			
<b>Total products marketed</b>	<b>69,656</b>	<b>75,042</b>	Related-services and other income <sup>6</sup>	3,416	3,471
			<b>Total</b>	<b>96,750</b>	<b>103,269</b>

<sup>1</sup> Excludes inter-cooperative business. Volume includes value of products associated with cooperatives that operate on a commission basis or bargain for members' products.

<sup>2</sup> Preliminary. Totals may not add due to rounding.

<sup>3</sup> Excludes cottonseed.

<sup>4</sup> Includes dry edible beans and peas, fish, nuts, tobacco, wool, and other miscellaneous products.

<sup>5</sup> Includes building materials, containers, hardware, tires-batteries-auto accessories (TBA), farm machinery and equipment, food, and other supplies.

<sup>6</sup> Includes receipts from trucking, ginning, storage, artificial insemination, rice drying, and other activities as well as other income.

and vegetable co-ops had much lower sales. Overall, almost all of the decline in sales occurred on the marketing side, falling about 7.2 percent from 2001.

Net business volume includes receipts from the sale of crops, live-stock and value-added products marketed by cooperatives, as well as farm production supplies sold and services provided by cooperatives. It does not include sales between cooperatives.

Farm production supply sales fell 4.4 percent due to large decreases in petroleum and fertilizer sales. On the plus side, livestock feed and seed sales both increased, with feed sales growing by \$1.4 billion.

Net income for cooperatives fell from \$1.4 billion to \$1.2 billion. Sales were lower in each of the three primary sectors USDA tracks: crop and live-

stock marketing (including value-added goods), farm supplies and farm services.

Several types of marketing cooperatives bucked the downward trend, reporting higher net income in 2002. After posting almost no income in 2001, rice cooperatives were back to historically high levels, with net income of \$6.6 million. Cotton cooperatives' net income almost tripled from 2001, to \$89.6 million, while grain and oilseed cooperatives had a 4-percent increase.

Farmer-owned cooperatives had combined assets of \$47.5 billion in 2002, and net worth of \$19.6 billion. Cooperatives financed about the same percentage of assets with debt capital (58.7 percent in 2002 vs. 58.4 in 2001) rather than equity.

The number of cooperatives declined to 3,140 in 2002, down from

3,229 in 2001 and 3,346 in 2000. The main causes were mergers, consolidations, acquisitions and dissolutions.

Memberships in farmer cooperatives totaled 2.8 million in 2002, down from 3 million in 2001. The number

*Several types of co-ops bucked the downward trend...*

of memberships is larger than the number of farmers in the United States because many farmers belong to more than one cooperative.

Co-op data is generated by USDA Rural Development's annual survey of cooperatives. ■

**Table 2—Farmer cooperatives' net income<sup>1</sup>, 2002 and 2001<sup>2</sup>**

Cooperative type	2002	2001
	Million dollars	
<b>Marketing</b>		
Cotton	89.6	33.4
Dairy	283.6	364.2
Fruits and vegetables	-147.8	76.6
Grains and oilseeds	258.7	248.8
Livestock and poultry	69.1	-67.3
Rice	6.6	0.1
Sugar	71.2	-23.2
Other products <sup>3</sup>	131.8	176.8
<b>Total marketing</b>	<b>762.7</b>	<b>809.5</b>
<b>Total farm supply</b>	<b>337.8</b>	<b>429.0</b>
<b>Total related-service<sup>4</sup></b>	<b>109.1</b>	<b>118.4</b>
<b>Total</b>	<b>1,209.6</b>	<b>1,356.9</b>

<sup>1</sup> Preliminary. Totals may not add due to rounding.

<sup>2</sup> Net income less losses and before income taxes.

<sup>3</sup> Includes dry edible bean and pea, nut, tobacco, wool, fish, and other product marketing cooperatives.

<sup>4</sup> Includes trucking, ginning, storage, artificial insemination, and other.

**Table 3—Farmer cooperative numbers and memberships, 2002<sup>1</sup>**

Cooperative type	Cooperatives <sup>2</sup> Memberships	
	Number	Thousand
<b>Marketing</b>		
Cotton <sup>3</sup>	14	43
Dairy	198	82
Fruits and vegetables	212	33
Grains and oilseeds	768	542
Livestock and poultry	85	120
Rice	15	12
Sugar	48	14
Other products <sup>4</sup>	219	203
<b>Total marketing</b>	<b>1,559</b>	<b>1,049</b>
<b>Total farm supply</b>	<b>1,201</b>	<b>1,637</b>
<b>Total related-service<sup>5</sup></b>	<b>380</b>	<b>107</b>
<b>Total</b>	<b>3,140</b>	<b>2,794</b>

<sup>1</sup> Preliminary. Totals may not add due to rounding.

<sup>2</sup> Operations of many cooperatives are multi-product and multi-functional. They are classified in most cases according to predominant commodity or function as indicated by business volume.

<sup>3</sup> Cooperative cotton gins are included with related-service cooperatives.

<sup>4</sup> Includes dry edible bean and pea, nut, tobacco, wool, fish, and other product marketing cooperatives.

<sup>5</sup> Includes cooperatives that primarily provide trucking, ginning, storage, artificial insemination and other.



# How is your co-op doing?

*Tables give local co-ops a chance to compare their performance to national averages*

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**T**he past year saw cooperatives struggle with economic downturns for many commodities and bad weather in some regions, among other challenges. Financially, has your cooperative fared better, about the same or worse compared to

cooperatives with similar functions? Comparisons with other cooperatives may help to determine whether your cooperative is doing well or poorly. These include trend and industry norm comparisons.

The two tables on these pages contain average financial data compiled from a survey of 263 cooperatives for 2001 and 2002. Fill in the blanks and compare these benchmarks with your cooperative's financial data. How's your cooperative doing? ■

## Compare your farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions.

Measure/Item	Unit	Size (2001) <sup>2,3</sup>				Size (2002) <sup>2,3</sup>				Your coop
		Small	Med.	Large	Super	Small	Medi.	Large	Super	
Sell farm supplies only	Number	72	31	24	10	72	31	24	10	_____
Total assets	Mil. dol.	1.6	4.0	7.6	14.2	1.9	4.1	8.0	15.4	_____
Long-term debt	Thou. dol.	77.6	272.6	627.9	2,150.3	95.2	366.4	687.4	2,711.6	_____
Total liabilities	Thou. dol.	450.0	1,458.0	2,852.0	6,001.0	544.0	1,453.7	3,180.1	7,183.5	_____
Total sales	Mil. dol.	2.6	6.7	13.7	28.0	2.9	6.8	13.2	26.5	_____
Total service revenue	Thou. dol.	80.4	214.5	224.6	631.7	84.8	240.6	191.8	632.1	_____
Total revenue	Mil. dol.	2.7	7.0	14.2	29.3	2.9	7.3	13.7	27.6	_____
Net income (losses)	Thou. dol.	40.4	169.6	373.9	607.1	40.1	199.4	380.0	155.4	_____
Labor of total expenses	Percent	54	52	55	51	55	52	55	52	_____
Patronage refunds received	Thou. dol.	26.1	65.3	107.8	272.5	43.2	104.4	245.9	474.5	_____
<b>Liquidity ratios</b>										
Current	Ratio	2.24	1.60	1.42	1.30	1.95	1.67	1.38	1.40	_____
Quick	Ratio	1.14	0.93	0.79	0.65	0.97	0.92	0.78	0.78	_____
<b>Leverage ratios</b>										
Debt	Ratio	0.26	0.35	0.38	0.46	0.29	0.35	0.40	0.47	_____
Debt-to-equity	Ratio	0.34	0.54	0.62	0.85	0.41	0.55	0.66	0.87	_____
Times interest earned	Ratio	4.68	4.17	3.79	2.10	3.21	5.96	6.99	1.59	_____
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	8.15	5.97	5.94	5.91	7.42	5.85	5.83	5.60	_____
Total asset turnover	Ratio	1.57	1.54	1.75	1.88	1.47	1.66	1.65	1.72	_____
<b>Profitability ratio</b>										
Gross profit margins	Percent	16.57	16.78	18.47	15.75	17.52	16.63	20.29	17.97	_____
Return on total assets before interest and taxes	Percent	4.19	5.51	5.73	4.90	3.32	6.25	6.25	2.93	_____
Return on total equity	Percent	5.43	8.04	8.39	5.70	3.94	10.32	10.58	2.35	_____

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

## Compare your mixed farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions.

Measure/Item	Unit	Size (2001) <sup>2,3</sup>				Size (2002) <sup>2,3</sup>				Your coop
		Small	Med.	Large	Super	Small	Medi.	Large	Super	
Market farm products and sell farm supplies	Number	11	8	20	18	11	8	20	18	_____
Total assets	Mil. dol.	1.4	4.2	7.9	20.0	1.6	4.2	8.4	23.4	_____
Long-term debt	Thou. dol.	70.6	455.2	934.3	2,856.7	30.6	405.3	902.7	3,909.0	_____
Total liabilities	Thou. dol.	465.7	1,661.9	3,254.8	9,776.0	410.7	1,443.2	3,444.1	12,342.3	_____
Total sales	Mil. dol.	2.8	7.1	13.5	38.0	3.3	7.1	13.1	38.9	_____
Total service revenue	Thou. dol.	123.0	298.9	555.6	1,455.1	125.3	350.7	634.6	1,788.7	_____
Total revenue	Mil. dol.	3.0	7.7	14.2	40.2	3.5	7.7	14.0	41.5	_____
Net income (losses)	Thou. dol.	26.8	141.8	293.4	628.6	9.2	-9.7	311.8	473.5	_____
Labor of total expenses	Percent	51	52	51	50	53	47	51	51	_____
Patronage refunds received	Thou. dol.	25.7	54.2	161.3	309.7	27.3	94.8	192.4	474.5	_____
<b>Liquidity ratios</b>										
Current	Ratio	1.94	1.35	1.34	1.33	2.68	1.77	1.39	1.33	_____
Quick	Ratio	1.02	0.64	0.74	0.66	1.72	0.86	0.74	0.67	_____
<b>Leverage ratios</b>										
Debt	Ratio	0.33	0.40	0.41	0.49	0.25	0.34	0.41	0.53	_____
Debt to equity	Ratio	0.50	0.66	0.71	0.96	0.33	0.52	0.69	1.12	_____
Times interest earned	Ratio	3.15	3.07	2.99	2.47	2.16	2.13	4.47	2.36	_____
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	10.68	5.77	5.77	6.51	9.17	5.76	5.72	5.83	_____
Total asset turnover	Ratio	2.02	1.71	1.71	1.90	2.00	1.69	1.55	1.66	_____
<b>Profitability ratio</b>										
Gross profit margins	Percent	13.14	14.15	15.76	15.50	14.18	14.04	15.60	14.72	_____
Return on total assets before interest and taxes	Percent	3.49	5.46	6.04	6.02	1.30	2.29	4.96	4.06	_____
Return on total equity	Percent	3.92	7.82	8.65	8.56	1.05	-0.43	8.45	6.08	_____

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

## African ag co-ops leading fight against HIV/AIDS *continued from page 15*

which today has 100,000 members. NASFAM is using its well-honed outreach capacity to spread information regarding HIV/AIDS. Issues related to the disease are discussed at general meetings, and labor-saving farming techniques are promoted to counteract family labor losses.

Each issue of NASFAM's monthly newsletter, "Titukulane," devotes a page to HIV/AIDS, arming local groups with accurate information and encouraging them to abstain from risky sexual behavior and to help infected group members with their farming enterprises. More

women are joining NASFAM and they will be able to benefit from this life-saving information.

It has been said that the best existing vaccine for HIV/AIDS may be empowering women. UNAIDS estimates that infection rates among young women in Africa are three to five times higher than among men in the same age group.

Mounting HIV/AIDS programs that effectively reach rural people will require long-term, results-based cooperation between the health and agriculture sectors in developing countries, and within and among international devel-

opment organizations. The rural populations of nations hard-hit by HIV/AIDS are critical to this effort, both because they constitute a vital food production resource and because — if their means of livelihood is undermined — migration to already overstressed cities may result.

Cooperatives represent a ready-made, proven conduit to hard-to-reach rural people as well as a means to communicate their needs back to government, civil service agencies, community organizations and others that serve them. ■



# Trio being inducted into Cooperative Hall of Fame

A trio of outstanding cooperative leaders will be inducted into the Cooperative Hall of Fame this spring. Honorees are Henry Schriver, Ohio farmer and cooperative educator, who has motivated thousands of young farmers in speeches and workshops to become active in cooperatives; Ralph Paige, executive director, Federation of Southern Cooperatives/Land Assistance Fund, and Allen Thurgood, founder and CEO of 1st Rochdale Cooperative.

The award, the most prestigious in the cooperative community, is a tribute to the inductees' outstanding efforts on behalf of cooperatives. The presentations will be made April 28 at the National Press Club in Washington, D.C.

Schriver is a true believer of the cooperative model whose career as an active volunteer in local farm credit, farm supply and dairy cooperatives spans 61 years. Schriver left his mark as an exceptional volunteer, educator and advocate. Not only has he been a teacher of cooperative principles, but he also has been a motivator who has brought many people into cooperative organizations.

His success in teaching the basic principles of cooperatives, which spans more than 40 years, can be measured by the number of young farmers he has motivated to get involved in cooperatives in more than 3,000 speeches and participation in numerous workshops sponsored by farmer cooperatives, youth organizations and other farm groups. His cooperative legacy includes raising a family of true co-op believers. Six of his sons are currently farming and serving as members of a variety of cooperative organizations.

Paige has dedicated his life's work to proving that cooperatives can be used to enhance incomes and improve quality of life for black family farmers and rural, low-income families. Never deterred by scarcity of resources or organized resistance, he has been a tireless advocate,

fund-raiser and teacher. Under his leadership, the federation has been the primary organization representing black farmers and fighting their precipitous decline in farm ownership and independence.

Among the federation's accomplishments under his leadership: more than 200 units of low-income housing developed; 18 community credit unions formed; 75 cooperatives started; and the federation's rural training center at Epes, Ala., was opened. He has put the federation at the center of national advocacy and legislative battles for public policy affecting farmers. He made the federation's model and cooperative development expertise available to international audiences.

Thurgood has a well-earned reputation at the state and national level as an effective consumer advocate, community activist and government advisor. His clear, pragmatic understanding of the cooperative model helped him bring cooperative solutions to areas such as housing, health care, banking, issues of aging and energy. He led the metropolitan New York cooperative housing community as executive director of Cooperative Housing Services and as coordinator of the Coordinating Council of Greater New York. He formed a powerful coalition of diverse community housing cooperatives that have effectively worked together to address the common concerns of more than 500,000 New York families.

He helped secure passage of federal legislation to clarify IRS code exemptions for housing cooperatives and he played an important role in securing the funding for Naturally Occurring Retirement Communities that allow seniors to age in place. He led the New York community in its advocacy on behalf of credit unions as they competed with the commercial banking industry. And as New York restructured its electric utility industry in the 1990s, Thurgood developed 1st Rochdale as the nation's first metropolitan electric utility cooperative.



## Record growth for Organic Valley

Producing organic farm products and marketing them through a cooperative can help farmers earn 60 percent more and buck the trend that is driving 330 farmers out of business every week, according to the George Siemon of Organic Valley Family of Farms, at La Farge, Wis. The co-op had record sales of \$156 million in 2003, a 25-percent increase from 2002. It projects that 2004 sales will rise to \$189 million. It paid its 633 members an average \$20.17 per hundredweight of milk in 2003, which far outpaced the national average price of \$12.07 per hundredweight, Siemon noted.

“Organic Valley’s goal is to plow our profits back into the earth and our rural communities,” Siemon says, adding that the co-op has been 100 percent farmer owned since its founding in 1988 and now produces 130 products labeled under USDA’s new organic standards.

“Organic Valley never measures success in dollars alone,” says Pam Riesgraf, a co-op board member who milks 60 cows and farms 250 acres with her husband, Jeff, near Jordan, Minn. “What counts for us is the number of farmers we’re able to keep on the land. This year’s total of 633 (members) is living proof that the Organic Valley model can be a lifeline.”

Organic Valley, which built a \$4 million, 45,000-square-foot barn-shaped headquarters in 2003, says major product accomplishments this year include: the introduction of its Omega 3 organic eggs, winning the prize for best salted butter at the World Dairy Expo, the introduction of 11-ounce plain or chocolate single-serve reduced-fat milk in Holstein-patterned packages and launching an educational organic foods Website, [www.moomom.com](http://www.moomom.com), among others.

The co-op also has added a veterinarian to its services staff. Paul Detloff, DVM, will assist the cooperative’s mem-



bers with a full range of animal health issues and provide special guidance to new organic farmers who are just learning new herd health strategies. Detloff is a leading authority on botanical, homeopathic and alternative animal treatment methods and the author of four books, including his newest, “Alternative Treatments for the Ruminants.”



Sculptor Tom Paul Fitzgerald puts the finishing touches on a 330-pound butter cow, exhibited at the Michigan State Fair. The unsalted butter was churned at the Constantine plant of Michigan Milk Producers Association. Fitzgerald, a contemporary art sculpture professor at Wayne State University, has sculpted 40 cows. Photo courtesy MMPPA

## CHS income down despite sales climb

“What we do reaches far beyond the farmgate, grain elevator, refinery and food production plant,” CHS President and CEO John Johnson told shareholders attending the St. Paul cooperative’s annual meeting in December. While CHS net income of \$123.8 million was down from \$126.1 million in 2002, sales were up significantly from \$7.2 billion to \$9.3 billion in fiscal 2003. During fiscal 2004, CHS will return \$56.2 million of its fiscal 2003 earnings to its members and other investors in the form of cash patronage, equity redemptions and preferred stock dividends.

Highlights for the year showed growth in the CENEX brand energy

business, initiation of federally mandated upgrades to reduce sulfur content in fuels and emissions produced at its refinery at Laurel, Mont., and opening grain shuttle facilities at Friona, Texas, and Collins, Miss., to reach livestock and poultry producers. Other highlights included completion of a soybean processing plant at Fairmont, Minn., and repositioning

CHS’ Mexican food business to gain greater efficiencies and improved economics while enhancing service to food service and other customers.

## Western Sugar plans new \$3.5 million diffuser

Western Sugar Cooperative has announced plans to install a \$3.5 million diffuser at its processing plant in Billings, Mont. The new tower is expected to save the cooperative on energy costs by more efficiently extracting sugar from beets. The new unit will replace the existing diffuser, installed in 1955. The improvement is scheduled for February, after the sugar beet harvest.

Meanwhile, grower payments totaling \$21.5 million for the 2002 crop and averaging nearly \$40 a ton were mailed

in December to the cooperative's 1,300 members in four western states. It was the highest gross payment made to farmers in the past five years.

### Swiss Valley picks pair to replace CEO Quast

The board of Swiss Valley Farms at Davenport, Iowa, has tapped a pair from its management team to lead the cooperative during the interim until a replacement is found for CEO Gene Quast, who resigned in late October to pursue other interests. In his place, the board has chosen J. Gordon Toyne, vice president of membership and procurement, and Donald Boelens, chief financial officer, to jointly act as the office of interim chief executive officer.

Gerald Bratland, board president, said the pair had the board's "full confidence and support to move the company forward. Jobs are secure and the coop's leadership is strong and experienced and positioned for new opportunities." The cooperative serves 1,400 dairy-producer members operating in five Midwest states. It has 700 employees and annual sales of about \$550 million.

Meanwhile, dairy industry conditions have forced the cooperative to extend revolving members' equity from a seven-year to a 10-year schedule. The change is for allocated earnings only, not the Swiss Valley Farms revolving fund paid in December. Coop leaders note that Swiss Valley still has one of the fastest member equity revolvments in the dairy industry and one of the strongest marketing arms in the upper Midwest.

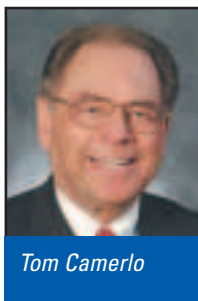
### DFA allocates \$28 million; plans N.M. cheese plant

For the fifth consecutive year, members of Dairy Farmers of America (DFA), Kansas City, Mo., are sharing patronage allocations totaling \$28 million, including \$7 million in cash. The payout represents 8 cents per hundred-weight of milk on 35 billion pounds marketed in 2002. DFA annually markets and processes milk for more than 24,000 dairy farm families in 48 states.

Meanwhile, DFA has purchased 50

percent interest from its partners in Sinton Dairy, Colorado Springs, Colo., and subsequently sold its entire interest to National Dairy Holdings (NDH) LP of Dallas, in which DFA has an ownership interest and supply contract. An \$8 million expansion was completed last spring at Sinton. The 232-employee workforce may be expanded if NDH decides to shift production to the plant. NDH now operates 32 plants in 15 states.

In another move, DFA is partnering with Glanbia PLC of Ireland and its cooperative partners in the Greater Southwest Agency in a \$170 million cheese processing plant in Clovis, N.M. The plant will employ about 200 people. Operations should begin in the second half of 2005. The plant will benefit from low milk transportation costs, since many of the producers operate in a 50- to-60-mile radius of the future plant. Other cooperatives in the Greater Southwest Agency are Select Milk Producers Inc., Lone Star Milk Producers Inc. and Zia Milk Producers Inc. Select Milk was formed in 1994 by a group of dairies in New Mexico and has since added others in west Texas.



Tom Camerlo

### Tom Camerlo Dairyman of Year; Beckendorf to lead NMPF

Dairy Farmers of America (DFA) Chairman Tom Camerlo Jr., a dairy farmer from

Florence, Colo., was named 2003 dairyman of the year at the World Dairy Expo at Madison, Wis. "Those who initiate change and lead us in uncertain times inspire us and guarantee a bright future in the dairy industry," Expo Manager Tom McKittrick said of Camerlo. Camerlo recently stepped down as president of the National Milk Producers Federation in Washington, D.C., to concentrate his attention on DFA. Charles Beckendorf of Tomball, Texas, also of DFA, was elected by NMPF delegates to succeed Camerlo. Beckendorf cited two major

challenges facing the dairy federation: how to use dairy ingredients for the benefit of farmers and how to serve producers of every farm size.

### Riceland buys ADM share of grain venture

Riceland Foods of Stuttgart, Ark., has gained full control of a grain milling and storage partnership with Archer Daniels Midland (ADM). The ADM-Riceland Partnership, a nine-year-old venture, processes rice and rice products. Riceland President Richard Bell said the firms had "different missions and interests and concluded the assets in the partnership more nearly fit the continuing interests of Riceland." He said the purchase will be financed from working capital, with no material impact on the cooperative's balance sheet. Since its inception, the partnership has operated rice milling and grain storage facilities at Stuttgart and Jonesboro, Ark., and Crowley, La. Riceland intends to continue those operations.

### Premium Pork plans plant in Missouri

Pork producers of the Premium Pork cooperative plan to build a \$130 million processing plant at St. Joseph, Mo. The plant would be built in the city's stockyards area and eventually employ about 1,000 people. Chief Executive Officer Rich Hoffman anticipates that construction would begin this spring. Members of the cooperative claim to own 5 percent of the nation's pork supply. While members will continue to own their individual farms, genetics and nutrition will be coordinated by the cooperative to produce a uniform pork product.

One of the members is Allied Producers Cooperative, which represents small- and medium- sized farms in Nebraska, Kansas and Missouri. The cooperative had been looking to invest in a processing center for the past few years. Allied Producers will be represented on the new board by Gerald Schmidt of Jansen, Neb. Members have committed 435,000 hogs to the venture.

### **Sun-Maid buys raisin facility in Selma**

The city manager of Selma, Calif., has welcomed Sun-Maid Growers back to the community after it purchased the former International Raisins property. Sun Maid owned the facility nearly 60 years ago. It will be used to receive, store and inspect the cooperative's raisins harvested this season.

The facility has the capacity to store 10,000 tons of raisins. It will employ about 20 seasonal workers. Sun Maid President Barry Kriebel said the cooperative considered building a new facility but found purchasing the Selma property for nearly \$1 million more cost effective. The raisin cooperative now owns three plants, including its 130-acre processing plant at Kingsford, its headquarters.

### **AGRI Industries to end grain pact with Cargill**

AGRI Grain Marketing, a joint venture of 17 years standing between AGRI Industries of West Des Moines, Iowa, and Cargill Inc., is being terminated as of March 1, 2004. The venture has 30 employees who handle grain trading, accounting and logistics and another 80 working at 11 grain handling facilities in Iowa, Illinois and Wisconsin. AGRI Industries also serves producers in Minnesota and Nebraska. The three terminals originally owned by AGRI Industries – in Burlington, McGregor and Fulton, Ill. — and Cargill's seven terminals will

revert back to the parent companies. No decision has been made on jointly owned facilities at Joy and Pekin, Ill.

AGRI's share of the profits have accounted for 50 to 75 percent of the cooperative's total annual net income. Chief Executive Officer Jerry Van Der Kamp says the decision was prompted by the changing nature of the grain trade. Farmers are now selling grain and soybean directly to feed mills and ethanol plants, bypassing grain elevators that had been their traditional market.

### **Chippewa Valley's Lee heads Renewable Fuels Association**

Bill Lee, general manager of the Chippewa Valley Ethanol Co., a farmer-owned ethanol cooperative organized in 1993 at Benson, Minn., was elected chairman of the 30-member board of Renewable Fuels Association (RFA) at its recent annual meeting in Washington, D.C. RFA President Bob Dinneen said Lee's election "is a reflection of the evolution of the ethanol industry. It has added 20 plants and more than a billion gallons of production in just the past three years. Most of that growth has been in farmer-owned ethanol plants, bringing jobs and economic development to rural America."

### **Agway seeks court OK to sell produce business**

The Agway name continues to fade from the Northeast farm supply and

fresh produce market as the Syracuse cooperative spins off segments of its operation to satisfy creditors lined up since it sought Chapter 11 bankruptcy court protection last year to cover \$1.5 billion in liabilities. The bankruptcy court at Utica, N.Y., had granted the cooperative until Jan. 25 to have its reorganization plan approved.

Agway signed a deal to sell its Agway Energy Products LLC assets to Suburban Propane Partners for \$206 million from which Agway will net about \$175 million. The energy subsidiary served 500,000 customers, employed about 1,800 people, and produced annual sales of \$500 million. The cooperative is selling its Country Best Produce and Country Best Adams Divisions to AMPCO Distribution Services LLC for \$8.3 million. The business had 223 employees and its sale should net Agway \$7.6 million. Meanwhile, the Syracuse cooperative received a bid of about \$6.7 million from NSM Feed of East Middlebury, Vt., for its Feed Commodities International division.

### **LOL member promotes farmer-to-farmer aid**

"Global leaders may sit around tables and discuss peace, but farmers helping farmers will build peace, because farmers know that peace doesn't have a chance where people are hungry." That was Pete Kappelman's message at a

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## **Commentary** *continued from page 2*

with Opportunities Industrialization Centers International, include: technical assistance and education work with rice, fruit and vegetable cooperatives; organizing new cassava cooperatives; and curriculum development and design and information technology-capacity building with the Cooperative College in Kumasi, the sole institution of higher learning in Ghana dedicated to cooperative education. Ghana's extension personnel are also being

taught about cooperative organization and methods. These efforts and similar work done recently in Senegal have involved a wide range of public- and private-sector partners, many of which have been named above, plus the U.S. Peace Corps, the Federation of Southern Cooperatives, CLUSA and USAID.

What are the benefits emanating from such international work with cooperatives? By helping developing

nations adopt Western-style cooperative business structures that raise farm incomes, we will build stronger trading partners and related economic relationships. Cooperatives also help export that most fundamental of all American values: democracy in action.

**By James Haskell,**  
*Acting Deputy Administrator  
Rural Business-Cooperative Service*

recent press conference in Washington, D.C., held to showcase the efforts of the Volunteers for Peace program of the U.S. Agency for International Development (USAID).

Kappelman, a dairy producer from Two Rivers, Wis., and vice chair of the board of directors of Minnesota-based Land O'Lakes, discussed his trip to Malawi in sub-Saharan Africa. He worked there on a USAID-funded project designed to foster individual family dairy production and cooperative marketing of their milk to provide better nutrition for families and to stimulate economic development for their communities.

"The Volunteers for Prosperity initiative will allow Americans to play an expanded role in assisting people in developing countries, and give Land O'Lakes the opportunity to send more of its farmers and employees on volunteer assignments that build the food-producing capacities of those nations," Kappelman said.

"Volunteers for Prosperity is a vehicle for practical action. It facilitates the



*LOL Dairyman Pete Kappelman, left, and Ernest Bethe, LOL ABCI, right, are joined by Malawi associates including the manager (yellow headband), chairman of the board (top right), and Austin Ngwira, LOL Malawi country coordinator (top left) at the milk bulk cooperative. (LOL Photo)*

opportunity for concerned and dedicated American professionals to help meet people's basic needs and lay the foundation required for peace to exist," he said.

Established in May by President George W. Bush, Volunteers for Prosperity is a new volunteer-based initiative designed to support major U.S. development initiatives overseas, using the talents of highly skilled Americans who work with U.S. organizations in helping to promote health and generate prosperity in countries around the world.

### **NCRA invests \$340 million to settle clean air suit**

National Cooperative Refinery Association (NCRA) will invest \$340 million to install pollution-control equipment at its refinery at McPherson, Kan. The environmental enhancements will be completed within two years. The cooperative opted for the pollution controls to settle lawsuits with the Environmental Protection Agency (EPA) and the Kansas Department of Health and Environment. The settlement included a \$350,000 fine. The investments were part of the cooperative's clean fuels modernization project aimed at meet-

## **USDA helps Michigan sugarbeet growers purchase processing plant** *continued from page 10*

Imperial, because of the bankruptcy and the uncertainty of receiving the balance of payment for the 2000 crop. A sugar company without sugarbeets loses value fast. With the real possibility of not having beets to process, the new cooperative was able to negotiate the letter of intent with four separate agreements and a lease agreement in the event the purchase could not be completed by harvest time. The negotiated purchase price was \$83.5 million and the agreements were approved by the bankruptcy court.

The cooperative successfully contracted growers to produce the 2001 crop. After the contracting was completed (114,000 acres), Imperial informed the cooperative that it could not continue to run Michigan Sugar, rebuild the factories and pay the growers the remaining balance owed them for the 2000 crop. Agreements were finalized and the growers were paid all

but \$2.44 per ton (approximately 7 percent of the total value) owed them for the 2000 crop.

In June of 2001, a co-op stock offer was made to area growers for \$200 per share. Each share required, and allowed, one acre of sugarbeets to be delivered to the cooperative.

That same month, the cooperative received approval of a \$5 million loan from the state of Michigan, at no interest, for five years, to be used for the purchase of the company. In August, a \$500,000 matching funds grant was approved by USDA Rural Development for use of startup operating expenses.

The sale of shares was progressing slowly and the cooperative was having trouble raising capital for the purchase. Imperial Sugar changed chief executive officers and the new CEO wanted to sell Michigan Sugar. In a meeting in October, the new

CEO offered to lower the purchase price by \$20 million (making the new price \$63.5 million) and to finance the transaction. This was exactly what the cooperative needed and the share offering became over subscribed. The purchase was completed on Feb. 12, 2002.

The first year under cooperative ownership, Michigan Sugar Co. produced a record amount of sugar — over 630 million pounds. The 2003 crop that has just been harvested is also an excellent crop.

Michigan Sugar Company provides over 350 full-time jobs and 1,000 seasonal jobs. The company adds \$180 million to the Michigan economy.

The grower-owners and employees of Michigan Sugar Co. are proud to produce pure and natural Pioneer® Sugar with only 15 calories per teaspoon. ■

ing EPA standards for low-sulfur fuels. Harmful air emissions will be reduced by more than 3,000 tons a year.

Another \$1.5 million will be spent to clean up an underground water contamination zone south and east of McPherson. NCRA officials spotted trouble after an audit in 2000 and disclosed its findings to the environmental agencies. The inter-regional cooperative is owned by, and provides petroleum supplies to, CHS Inc., GROWMARK Inc. and MFA Oil Inc.

### **USDA, NRECA seek to boost renewable energy use**

Agriculture Secretary Ann Veneman has signed a memorandum of understanding between USDA and the National Rural Electric Cooperative Association (NRECA) to identify and advance voluntary opportunities for rural electric cooperatives to partner with farmers and ranchers to reduce greenhouse gas emissions. The agreement emphasizes the potential for public-private cooperation in research,

standards development and education in communities served by rural cooperatives. The goal is to increase the use of renewable resources to generate electricity.

NRECA will help co-ops to increase the use of renewable energy, including biomass gasification power plants, waste-to-energy systems and wind and solar power. It will continue research and development of new technologies and will explore ways to integrate renewable electricity into the grid.

## **Meeting the test** *continued from page 19*

installing a lighting system for a local high school's soccer field.

The co-op hasn't limited its efforts to its service area. It has a sister co-op, Coopelesca, in Costa Rica, to which it donates engineering assistance and training. Adams also recently donated surplus maintenance vehicles to the Costa Rican cooperative, as well as the national electric company in Guatemala.

### **Promoting business, creating jobs**

Despite growth in the Adams service area, it is not heavily industrialized. However, outside the town of Shippensburg stands a huge, 650,000-square-foot factory and warehouse that is home to the Beistle Company – the oldest and largest manufacturer of paper party goods in the world. With a payroll of over 450 people, the company is vital to the local economy.

Ken Strayer, plant facilities superintendent, and Ron Parr, assistant supervisor of the maintenance department, say the co-op goes beyond supplying power by providing energy efficiency and safety advice. "I could not imagine a better relationship," says Parr. "If we have a problem, they're right here or on their way."

Strayer and Parr say a good example of how the co-op goes beyond supplying power is its energy-efficiency advice and safety services. Power utilities use infrared detectors to scan switches, lines, and other equipment for hot spots, indicating faults or

potential problems. When Adams crews are doing scans in the area, they stop by Beistle to check the plant's electrical junction boxes.

The biggest benefit Beistle enjoys from being an Adams member, according to Parr, is the help it receives in keeping costs down. "They analyzed our heating and air-conditioning needs and suggested a new work schedule to minimize power usage at peak times. At the time, we had a four-day, 10-hour work schedule. We tried their suggestion, an eight-hour day ending at 2:30 p.m."

Management originally presented the new schedule to the employees as an experiment. "They agreed to go along with it because we're a profit-sharing firm, and they benefit from any money we can save," says Parr. After trying it for a while, the workers actually preferred the new hours. "A lot of our people are mothers with school-age children. Now they can be home with their kids after school. And we're saving about \$12,000 a year by avoiding peak power-demand periods."

The co-op also studied the plant's lighting requirements using a software program called Lighting Technology Screening Matrix (LTSM). The software looks at each lighting fixture in a facility and suggests more economical alternatives. As a result, plant management spent \$140,000 to switch to more efficient lighting systems. The changes paid for themselves in only two years, Strayer says.

Even minor items, such as exit signs, have come under scrutiny. The company used to spend four hours a week checking each one and replacing burned-out light bulbs. At the suggestion of Adams staff, the signs were replaced with units that use light-emitting diodes (LEDs). These not only last far longer, but also save the company \$1,000 worth of energy per year, in addition to labor savings.

"Most vendors encourage you to buy more from them," says Beistle president Tricia Lacy. "Adams encourages us to save more money. They work with us to make us stronger. It's very much a partnership."

### **Co-op members reap \$11 million patronage**

In part due to its load-management efforts, not only has the cooperative managed to keep power prices down, it has also returned more than \$11 million in patronage refunds to its 33,000 members since 1991, including a record \$1.29 million in December 2002.

Adams's efforts to go the extra mile for its members are repaid by loyalty and friendship.

"People often go out of their way to stop by and chat, instead of dealing with us by mail or telephone," says Spahr. "And during the storm almost everybody was polite and considerate when they had to call in."

The co-op and its members have the kind of relationship most urban utilities can only dream about. ■

## PCCA net margins double as co-op marks 50th year

It was a fitting financial and marketing performance that marked the 50th anniversary of Plains Cotton Cooperative Association (PCCA) at Lubbock, Texas.



Total net margins of \$7.6 million for fiscal 2003 (ending June 30) more than doubled the 2002 performance. PCCA also distributed \$15.2 million in cash patronage to its members.

The increase stemmed from an improved denim market for the co-op's textile division, record setting warehouse division performances and good overall marketing volume. PCCA President and CEO Van May said working capital increased, as did patron equities. "We had a tremendous turnaround year in our textile division and posted an overall net margin of more than \$4 million while most of the industry struggled."

## USDA to provide \$1 million in grants for rural home health care co-ops

USDA is providing \$1 million in grants to promote the establishment of rural home health care cooperatives. Deadline for applying for the grants, provided under the Rural Community Development Initiative (RCDI), is Feb. 13, 2004. The grants are to be used for pre-development work or revolving loans.

"Creating a strong network of rural health care services is critical to improving the quality of life of families living in rural areas," says Agriculture Secretary Ann M. Veneman. "These grants will support community-based efforts to establish home-based health care cooperatives that will help meet local health care needs."

Pre-development grants to assist cooperatives with providing outreach to home-based health care providers, assessing local-level human service provider needs and assisting with the organizing and implementation of a successful cooperative structure are

available to qualified public bodies or nonprofit-based community development organizations.

Grants to assist in the funding and administering of a revolving loan program to provide start-up and operating funds to newly created home-based health care cooperatives are available to qualified public or nonprofit intermediary organizations (including tribal organizations).

For revolving loan fund grants, recipients are required to obtain matching funds equal to the amount of the USDA grant. Eligible applicants must be located in rural areas with populations of 50,000 or less. Funding of selected applicants will be contingent upon meeting the conditions of the grant agreement.

Detailed information about grant requirements and information on how to apply is available in the Federal Register or by visiting USDA Rural Development's Website at: <http://www.rurdev.usda.gov/rhs/redi/>

## Agribusiness, co-ops awarded \$28 million in USDA grants *continued from page 11*

Recipient	Grant Amount	Recipient	Grant Amount
Midwest Grain Processors, IA	\$ 150,000	Sequim Growers Cooperative, WA	\$ 85,084
Mountain States Lamb Cooperative, WY	\$ 200,000	Siskiyou Sustainable Cooperative, OR	\$ 18,875
National Trail Biodiesel Coop., IL	\$ 33,000	Southeast Nebraska Alternative Crops Association, Nonstock Cooperative, Inc., NE	\$ 96,355
NC Farm Bureau Foundation for Agriculture in the Classroom, NC	\$ 53,700	Soyex Cooperative, IA	\$ 149,000
Nebraska Turkey Growers Cooperative, NE	\$ 120,000	Stateline Bean Producers Cooperative, NE	\$ 500,000
Norpac Foods, Inc., OR	\$ 55,676	Sunrise County Wild Blueberry Association, Inc., ME	\$ 5,000
Ohio Premium Pine Cooperative, OH	\$ 78,950	Sunsweet Growers, CA	\$ 500,000
Olive Growers Council, CA	\$ 148,250	Texas Aquaculture Cooperative, TX	\$ 245,000
Organic Essentials, Inc., TX	\$ 450,000	Texas Hair Sheep Producers Coalition, TX	\$ 145,194
Ozark Mountain Pork Cooperative, MO	\$ 420,000	TOPC Texas, LLC, TX	\$ 249,500
Palouse Grain Growers, Inc., WA	\$ 24,955	TransCon Ag, Inc., MO	\$ 332,119
Planters Cotton Oil Mill, Inc., AR	\$ 497,000	Two Rivers Grape and Wine Cooperative, IA	\$ 150,000
Planter's Grain Cooperative, TX	\$ 349,240	United Cooperative Farmers, Inc., MA	\$ 248,250
Premium Ag Products, LLC, MO	\$ 349,990	United Farmers Cooperative, NE	\$ 367,500
ProFac, NY	\$ 180,000	Upstate Farms, NY	\$ 20,000
Progressive Producers Nonstock Cooperative, NE	\$ 450,000	Ursa Farmers Co-op, IL	\$ 30,000
Purchase Area Aquaculture Cooperative, Inc., KY	\$ 139,700	Valley Fig Growers, CA	\$ 34,409
Santa Fe Family Farmers Cooperative, NM	\$ 51,510	West Bend Elevator, IA	\$ 30,500
Schoharie Co. Coop. Dairies, Inc., NY	\$ 15,000	West Central Cooperative, IA	\$ 140,000
Seafood Producers Cooperative, WA	\$ 48,000	Western United Dairymen, CA	\$ 299,871

# Stuff

## You Need to Know

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

RBS Research Report 198

### Alternative Milk Price Series: Information for Cooperatives

Compares prices generated by the Chicago Mercantile Exchange spot and futures markets with Federal Milk Market Order Class I base, Class III, and Class IV prices. (\$5.00)

RBS Research Report 196

### Measuring the Economic Impact of Cooperatives: Results from Wisconsin

Wisconsin cooperatives support nearly 30,000 full-time jobs and generate almost \$1 billion in total income, with agricultural co-ops contributing the lion's share. This report analyzes the financial data of almost 800 cooperatives, both agricultural and non-agricultural. (\$5.00)

RBS Research Report 199

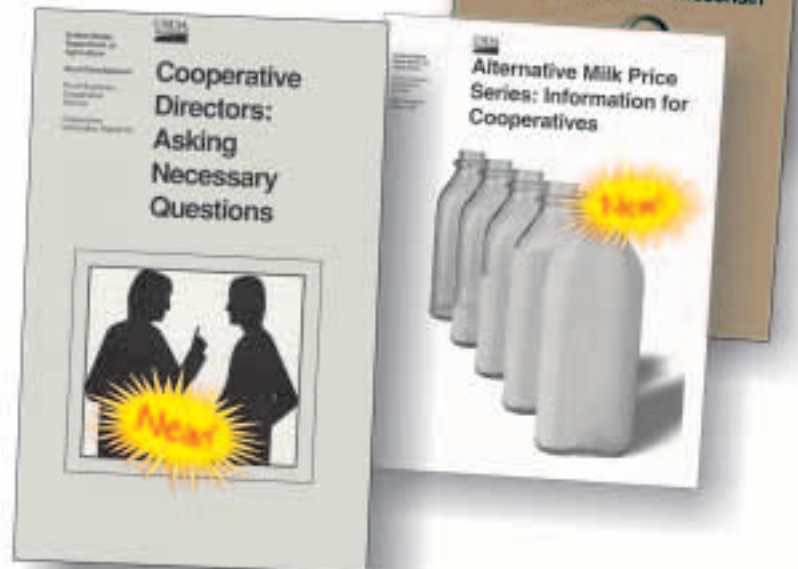
### Financial Profile of the 100 Largest Agricultural Cooperatives, 2001

While mergers and acquisitions dominated the ag co-op scene in the '90s, joint ventures and limited-liability companies were the focus of activity among the largest co-ops at the start of the new millennium. Read about the new trends, challenges, and opportunities. (\$5.00)

RBS Cooperative Information Report 11

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

Essential overview of co-ops. Explains what cooperatives are – their business principles and structural characteristics; and the responsibilities of their members, directors, managers, and employees. (Free)



Cooperative Information Report 62

### Cooperative Directors: Asking Necessary Questions

Co-op directors with little business experience may not know what to ask managers, staff, auditors, members, and others about the status of their cooperative. This report guides directors in asking the necessary questions to get the information they need.

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