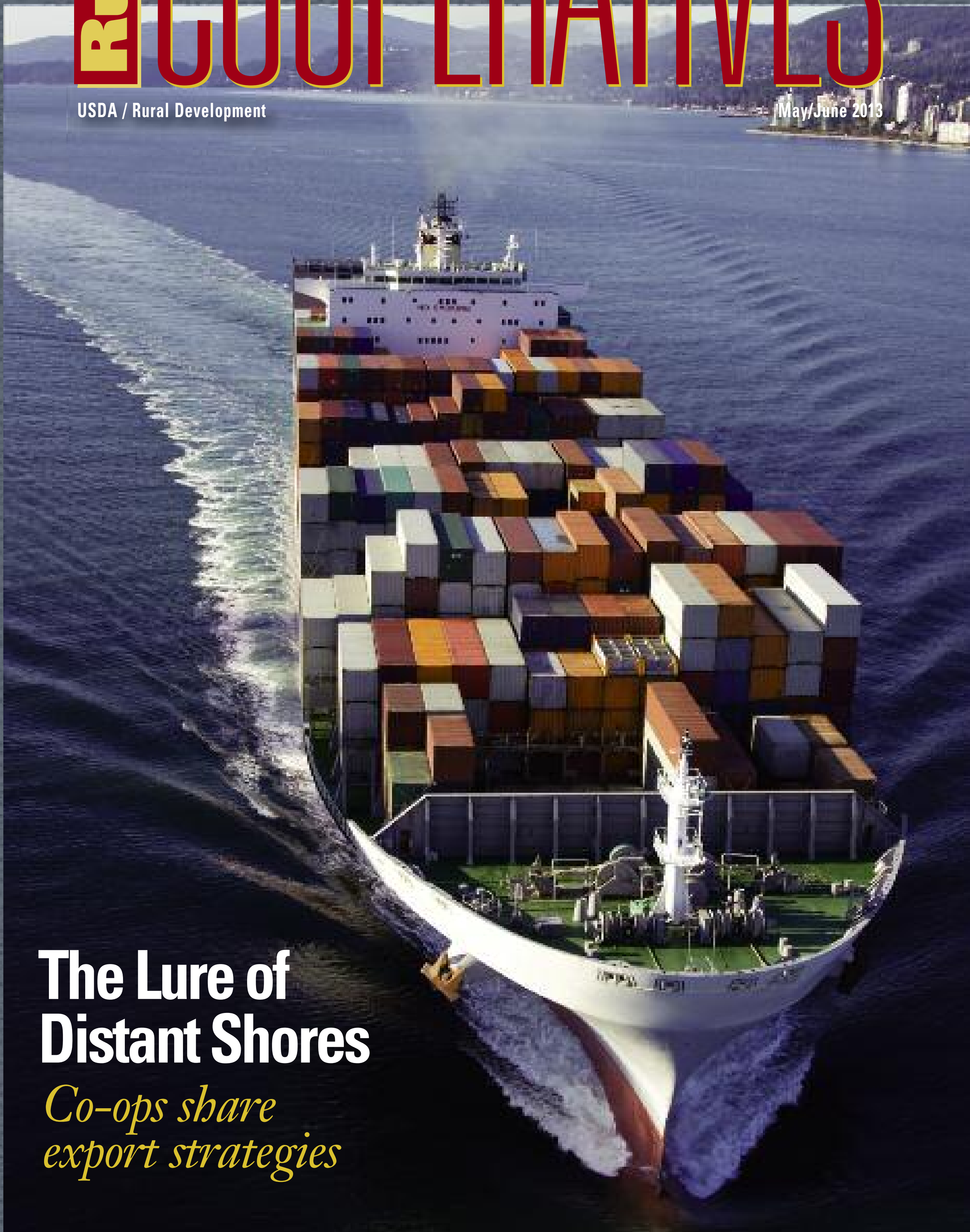
Rural COOPERATIVES

USDA / Rural Development

May/June 2013



The Lure of Distant Shores

Co-ops share export strategies

USDA United States Department of Agriculture

Commentary

The Co-op Way

By Dallas Tonsager, Former Under Secretary
USDA Rural Development

I grew up in the "co-op culture" of rural South Dakota, relying on co-ops for everything from farm supplies to electricity. So I've always had a healthy respect for how vital co-ops are to rural America. But the past 4 ½ years serving as Under Secretary for USDA Rural Development has given me an even greater appreciation of how these user-owned, user-controlled businesses are helping to build a stronger rural economy.

I have had the good fortune to spend 17 of the past 20 years working in the federal government. As I leave this current assignment, I do so with the knowledge that cooperatives are well poised to continue to help drive forward the nation's rural economy, just as they have been doing for more than a century.

Our farmer cooperatives are a major reason that the nation's agricultural economy is thriving, setting new sales records and helping to export our farm products around the world (see page 20 for some examples of the latter). Likewise, electric cooperatives not only keep the lights on across much of the nation, they are: helping to expand rural broadband service; pursuing new energy technologies, including wind and solar energy; and deploying smart-grid technologies.

These are also exciting times for cooperatives because of a new wave of co-op formations across the land. There's a genuine sense of enthusiasm about doing business "the co-op way" as a new generation of co-ops forms to help meet the burgeoning demand for more local foods, for developing renewable energy resources, for forging worker co-ops and filling many other needs.

The common denominator that underlies these new co-ops is the driving spirit to work collectively — arising from a sense of community and common cause — to achieve something in the marketplace as a group that would be difficult or impossible to achieve as individuals.

Dallas Tonsager, right, tours a truck and auto parts accessory manufacturing facility that benefited from USDA support.

Sometimes the enthusiasm that helps launch a co-op can dissipate over time as it passes from one generation to the next. While new co-ops can learn much from older, established co-ops, the latter can also benefit from the sense of excitement and "all for one" that we see among the new crop of co-ops.

Co-ops have never been afraid of a challenge. Indeed, many, if not most, of our successful co-ops were created in challenging times. Thousands were formed in the 1930s-1960s, fueled by an absolute need — such as the need for a source of quality farm supplies and electricity at affordable prices, or the need to market and add value to crops in order to gain clout in the marketplace.

This still holds true today. It was absolute need that drove the formation of the new-generation co-ops and limited liability corporations of the 1990s and early 2000s, which were key to developing the nation's biofuels industry. There was a critical need for those businesses because market prices for corn had collapsed and a new source of demand was needed. I believe biofuels will continue to play a role in our nation's move toward greater energy independence and that producer-ownership of these facilities benefits rural America.

After the surge in new-generation co-ops in the 1990s, interest in them flagged, which is unfortunate. I hope that more people will take a closer look at the new-generation business model, because it still holds great potential to raise capital and develop businesses that benefit producers and their communities.

I'd also like to see more established farmer and utility co-ops working closer with the nation's network of cooperative development centers, which we help fund through the USDA Rural Cooperative Development Grant program. The expertise of co-op leaders can play a big part in helping these centers fulfill their mission to support co-op development.

Just being in a co-op, of course, does not mean that you will be successful. Some co-ops fall victim to not recognizing changing market circumstances. Co-op boards must hold

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Features

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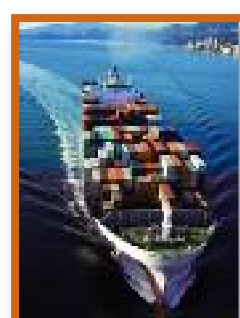
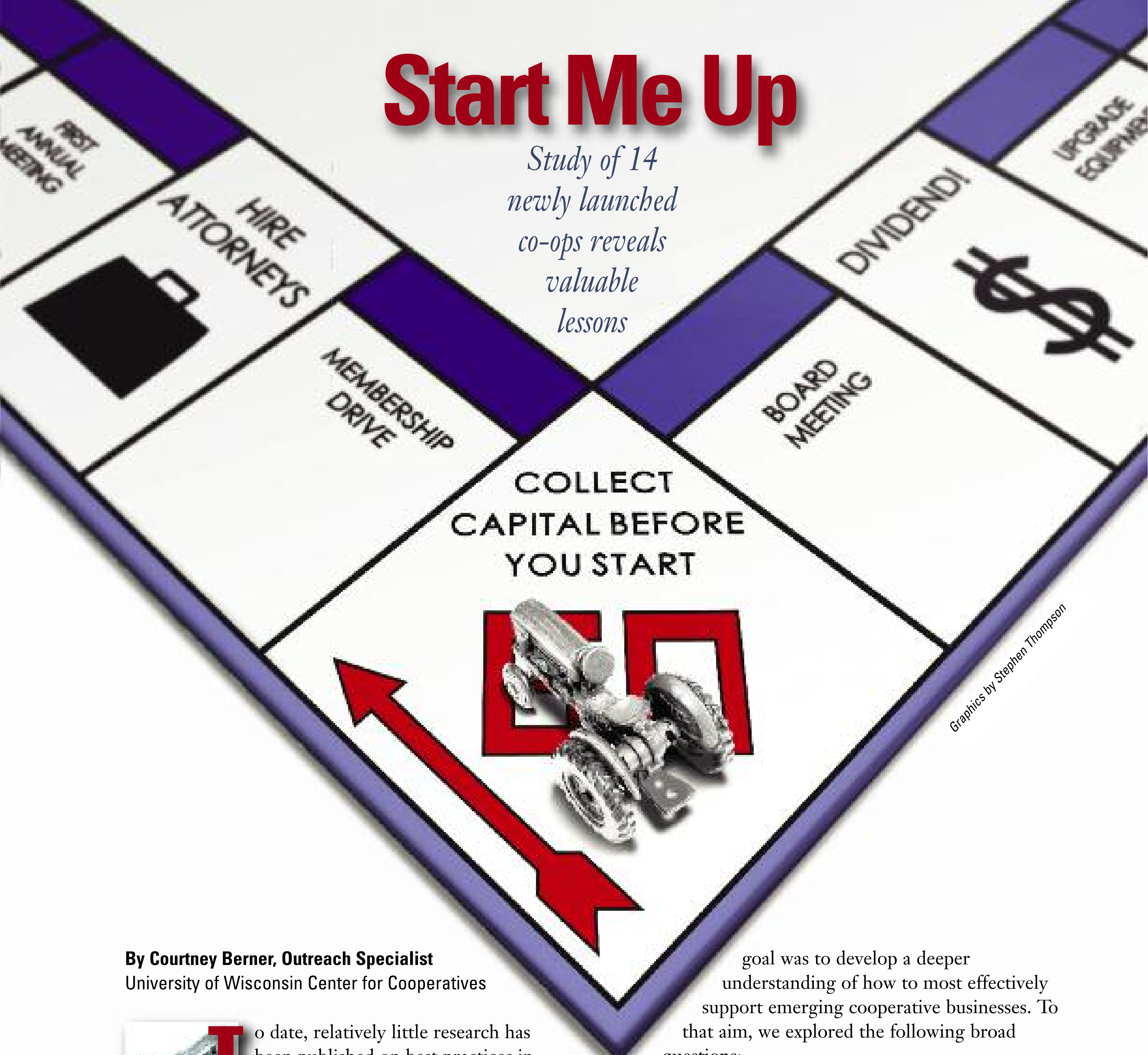
Departments



ON THE COVER: *U.S. agricultural exports set a new record in 2012, at $143.5 billion. Ag co-ops are among the nation's leading exporters, including three co-ops that provide insight into their overseas marketing strategy, beginning on page 20.*

Start Me Up

Study of 14 newly launched co-ops reveals valuable lessons



Graphics by Stephen Thompson

By Courtney Berner, Outreach Specialist
University of Wisconsin Center for Cooperatives

To date, relatively little research has been published on best practices in cooperative business development. Many co-op development best practices have emerged from anecdotes, case studies and personal experience. While these are important and relevant sources of information, a systematic exploration of the successes and failures of cooperative development efforts is needed.

Building on previous research on cooperative governance and management structures, the University of Wisconsin (UW) Center for Cooperatives conducted a preliminary study examining cooperative start-up success factors. Our goal was to develop a deeper understanding of how to most effectively support emerging cooperative businesses. To that aim, we explored the following broad questions:

- How are groups organizing new cooperatives?
- What resources are available to start-up co-ops? Of these, which resources are start-ups using and benefitting from? Where are there gaps?
- How are start-up cooperatives financed?
- What factors during start-up lead to successful cooperative businesses?

To answer these questions, we interviewed stakeholders from 14 Minnesota and Wisconsin cooperatives involved in the food or agriculture sectors that incorporated 5 to 10 years ago. The study sample represented a diverse array of cooperative ownership types, sectors and sizes. The list includes consumer-owned co-ops, worker-owned co-ops, producer-owned co-ops, multi-stakeholder co-ops and shared-services co-ops owned by other business entities. Of these, 11 are active, while the remaining three have either dissolved or no longer operate as co-ops. Three of the co-ops in the sample converted from other business types within the past 5 to 10 years.

Our survey included questions related to key characteristics of cooperative development projects and their primary stakeholders; governance and management structures; financing models; and the impact of cooperative development resources, such as technical assistance and financing.

This article provides a summary of our findings with an emphasis on lessons learned and four general topic areas that span all stages of development: capitalization, management, governance and technical assistance. The full report, which includes more detailed sections on organizing, feasibility analysis and business planning, can be downloaded at: http://www.uwcc.wisc.edu/pdf/Co-op_Business_ Development_in_ Wisconsin_and_Minnesota_Final.pdf.

Start-up process

Organizing — The organizing stage is the first phase in the life of a co-op. It typically begins with one or more people who recognize a common need and have an idea for addressing it. This stage usually lasts 6 to 12 months or longer and includes the following activities: convening a core organizing group and developing leadership within that group; assessing common interests and needs; building a shared vision; possibly undertaking an informal, preliminary feasibility assessment; creating a member financing structure; incorporating as a legal entity; and recruiting members.

The organizing stage can be uniquely challenging in that a unified vision is not yet established and raising funds to pay for early organizing work often requires creativity and risk-taking on the part of the core group. Three important components of the organizing phase are: co-op champions, steering committees and project management.

Feasibility and business planning — Once a steering/organizing committee is in place and has the appropriate level of internal readiness or organizational capacity, it moves into the feasibility and business planning stage. The two core products of this stage are a feasibility study and a business plan. The less tangible outcomes of this stage include a more unified and comprehensive understanding of the business concept and enhanced commitment and capacity of the organizers.

Half of the co-ops included in the study performed some type of feasibility analysis. Of the seven groups that did feasibility studies, four reported that the studies were useful, two found the studies somewhat helpful and one co-op did not find the study helpful at all.

The main complaints regarding feasibility studies were that the studies were too optimistic, the projections were wrong and outside consultants sometimes did not understand the community well enough. Co-ops started by people with extensive industry experience were less likely to do a feasibility study. One group conducted its own feasibility study, while the other six hired outside consultants to complete their studies.

If the results of the feasibility study are positive and the group decides to move forward, the next step is completing a business plan. Of the 14 co-ops interviewed, 11 wrote business plans, which varied significantly in their length and content.

Co-ops with established businesses as their members were more likely to just put together a set of financial projections rather than a full-blown business plan. Of the three co-ops that did not do plans, two were conversions that had written business plans at start-up and the third was essentially a "virtual organization with no assets."

The ways to start a co-op are as diverse as the sector itself, so it is best to avoid the one-size-fits-all approach.

Capitalization

All businesses need capital to launch and run their operations. Cooperatives are no different, but the arsenal of tools at their disposal differs slightly from that of traditional investor-owned firms. Co-op financing tools include member stock, preferred stock, member loans, grants and loans from banks or other lenders.

The options available to each co-op are influenced by tax considerations and by the state in which they incorporate. Co-ops meet their start-up capital needs using a variety of financing mechanisms, typically a combination of member equity and debt from lenders.

Despite the variety of tools at their disposal, co-ops still face challenges related to capitalization. Co-ops cited a lack of sufficient member equity, community fundraising and not being taken seriously by banks as some of their key capitalization challenges.

Under-capitalization and poor financial planning are the most commonly cited reasons that new cooperatives fail. Several pieces of advice related to finances emerged from our interviews:

- Financial commitment from members is critical.
- Never underestimate working capital needs.
- Think about the future impact of debt. Don't undercapitalize, but avoid overburdening the co-op with debt.
- Do not let grants dictate the development process. Many groups apply for grants during the organizing stage, which can slow a group down.
- Thoughtfully plan for growth.
- Strong financial literacy of the board and management is key.
- Work with an accountant who understands co-ops and can set up a sound bookkeeping system.

Management and governance

The importance of good governance is felt from the earliest stage of development through the entire life of the co-op. Establishing good governance early is critical, as it shapes the cultural norms of the organization and affects how the steering committee works as a team to develop a unified vision; establish roles, responsibilities and expectations; and to recruit other co-op members.

Our research did not generate a great deal of data on management and governance, but it did reveal that the line between the board and management is often blurred during start-up. From the data we collected, these four strong themes emerged:

(1) A significant amount of volunteer labor is responsible for organizational and management tasks before the first employee is hired. In nearly every co-op we interviewed, an all-volunteer steering committee or interim board was driving the planning process. Even in cases where a project coordinator was hired during the development process, volunteers still contributed many hours.

During start-up, the board is often directly involved in co-op operations. As the co-op begins to stabilize, the board transitions from a working board to a governing board. This transition can take time and education; it can also sometimes be painful, but the emergence of a healthy relationship between the board and management is critical.

(2) Hiring good management is critical to success. Several co-ops cited their first hire as either the key to their success or their biggest regret, including this comment: "We've had a manager since 2006 or 2007 who has been absolutely terrific. Finding somebody who will do the work and get it done and not try to bring every issue to the board is absolutely invaluable. That's the number one success piece."

Another co-op had a less positive experience. Both interviewees from that co-op listed their first general manager as their major regret and admitted it nearly cost them the business.

(3) Management needs clear direction from the board, especially at start-up. While the steering committee and board of directors probably spent a great deal of time building and articulating their shared vision for the co-op, it is unlikely that management was part of those early conversations. As a consequence, it is critical that directors communicate their vision to management and ensure that there is alignment regarding how to carry out that vision.

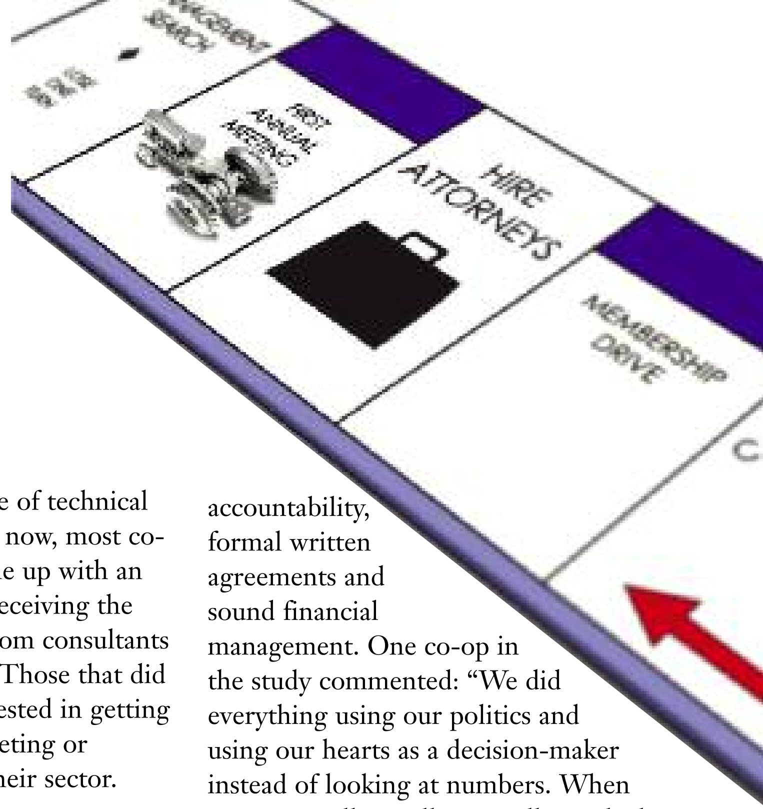
(4) Worker cooperatives experience distinct management challenges. Worker cooperatives are often started with the goal of creating democratic workplaces. There may be strong resistance to hierarchy from the founding members. The worker co-ops in our study emphasized that lack of structure and policies at start-up caused significant management problems later on in the life of the business.

One co-op described its experience this way: "As a worker co-op organized as a collective with really no job descriptions…there were no systems of accountability, no idea of how tasks should get done…There are collectives that are highly structured. We were not that…You have to have that solid structure stuff in the beginning. You do it in the beginning before things get wrapped up in the personalities, before people are used to lack of structure and all the dysfunctional behavior that comes with it."

(5) Plan for ongoing good governance. The business plan should include a thoughtful section on ongoing management and governance. The size and structure of the board are critical components of establishing an efficient and effective board. The founders must consider the size of the future cooperative, the geographic scope and the key stakeholders. Small boards can facilitate good discussion, but some cooperatives benefit from having more members participate on the board. Four of the cooperatives in the study elect board members using a district or delegate system, which encourages member input at a local level and ensures representation from diverse regions. The largest board in the study has 11 members and the smallest has three.

Since most boards experience turnover, directors must address the task of building sustainable board leadership. New board members need to be nominated, mentored and educated on how to represent members and monitor the performance of the cooperative. After start-up, continuing education of new members is critical to maintaining members' clear understanding of the co-op's value proposition.

Another cooperative in our study stays relevant to members by establishing member-led committees and encouraging direct communication between members and the board chair. Annual meetings are another way to get feedback from members. Of the nine



Peer co-ops are an excellent source of assistance to start-ups because they understand the co-op business model and the specific industry.

co-ops that regularly have annual meetings and reported attendance rates, the average attendance rate was 44 percent. Attendance tends to be quite low at co-ops with consumer co-op members (26 percent on average) and quite high at all others (88 percent).

Technical Assistance

New co-ops generally need two types of assistance: general support in areas such as governance, structure, legal documents, capitalization and for industry-specific advice. While only 9 of the 14 co-ops reported that they worked with consultants during start-up, almost every group identified at least one professional, such as an accountant or attorney, who assisted them.

Assistance providers ranged from private consultants and nonprofits to extension agents and local economic development agencies. Half of the co-ops in the study received assistance from other co-ops, and all said that the advice was useful.

Assistance from peer co-ops was especially prevalent in the well-developed and well-networked grocery sector. One grocery co-op reported that its "most important partnerships were with CDS Consulting Group and…through the other co-ops," which provided both financial and operational support. Another co-op credited its existence to a peer grocery co-op, saying: "We wouldn't be here without its support." Peer co-ops are an excellent source of assistance and information to start-ups because they understand the cooperative business model and the specific industry.

When asked what type of technical assistance they could use now, most co-ops either could not come up with an answer or were already receiving the assistance they needed from consultants or industry associations. Those that did respond were most interested in getting help with sales and marketing or information specific to their sector.

Lessons learned

Despite the diversity of co-ops represented in the study, the following general lessons emerged about the start-up process:

Lead with a strong value proposition. Whether it is a high-quality product or exemplary service, the co-op must offer its customers and/or members something special, beyond just being a cooperative. Several co-ops cited the quality of their product and service as the key to their success. One interviewee emphasized that in the case of grocery co-ops: "Ultimately, there has to be something beyond the belief in co-ops that will sustain these businesses…So that value proposition ultimately has to be there on some level."

Build alignment around a shared vision. In addition to defining the vision, it is also critical to clearly articulate the vision to members and confirm that everyone has similar expectations from the co-op and one another. These expectations can be written out in a formal member agreement.

Treat the co-op like the business it is. While co-ops are motivated by their members' needs rather than pure profit, they are still businesses that require accountability, formal written agreements and sound financial management. One co-op in the study commented: "We did everything using our politics and using our hearts as a decision-maker instead of looking at numbers. When we were really small it actually worked that way. But as we grew and the organization needed to become more structured and sophisticated, it was really hard for us to make that shift."

Another co-op commented: "There was too much trust involved and not enough verbiage in the contract...We thought we were on the same page when, in reality, they [a major partner of the new business] were the business people and were looking out for their own pockets; we were naïve."

Invite the right people to the table. A group should carefully consider the personalities and skill sets it wants to have on the founding team. One group made a decision early on: "The strategic decision was okay, so are you going to go with people who are more mild-mannered and will easily be influenced and molded into what you think they ought to do, or are you going to go with people who are aggressive and are going to have their own ideas? We decided on that second category…And that has worked out wonderfully."

Another co-op credited its success to a willingness to say that this co-op was not for everyone. "If all they were looking for was the ability to increase pricing position in the marketplace,

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ACDI/VOCA celebrates 50 years of expanding opportunities worldwide

By Anja Tranovich, Editor
ACDI/VOCA

Fifty years ago, during an unseasonably warm Chicago fall, a group of U.S. cooperative leaders met for a lofty purpose. Spurred by the U.S. government's call to encourage economic development abroad, these leaders wanted to infuse the nation's nascent foreign assistance program with a co-op approach.

At the gathering, Howard Cowden, a founder of Farmland Industries, reflected on his recent visit to Latin American cooperatives. "Their development is about where we were some 40 years ago," he said. Cooperatives abroad faced a high percentage of product spoilage, lack of credit and access to inputs, and improperly maintained records.

To have a greater impact, Jerry Voorhis, president of the Cooperative League of the U.S.A. (today part of the National Cooperative Business Association) proposed forming an organization that would become a strong force for economic development overseas. "It needs to bring together every single one of the organizations we can possibly bring together," he said.

During the summer of 1963, these co-op leaders launched what would become ACDI/VOCA. It had 19 co-op members and $16,000 of pooled capital.

ACDI
VOCA
5
YEARS

Spreading American expertise worldwide

Since its founding, ACDI/VOCA has worked in 145 countries, spreading American expertise in agriculture, business, financial services and community development around the globe. It has handled complex projects that address the most pressing and intractable development challenges, pioneering comprehensive approaches to help strengthen entire value chains.

In 2003, USAID Administrator Andrew Natsios called ACDI/VOCA the "premier agricultural development NGO [non-governmental organization] in the world." In 2012, the organization benefited more than 3 million people, creating almost 47,000 jobs and increasing incomes by tens of millions of dollars.

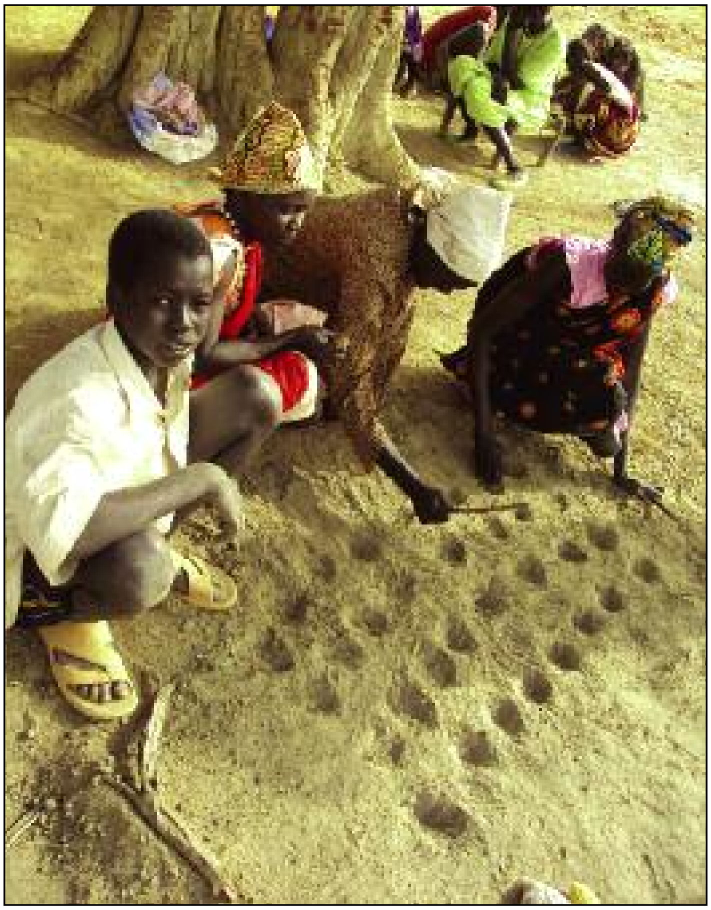
Yet, much remains unchanged since its founding. Local capacity building is the cornerstone of the organization's work. ACDI/VOCA still supports producer groups that reflect the merits of joint ownership, democratic governance and economies of scale.

Lasting legacy

One of its early accomplishments was helping to found the Indian Farmers Fertilizer Cooperative Ltd. (IFFCO). During the early 1960s, famine was predicted in India. New, high-yielding varieties of wheat and rice were being introduced, but farmers needed chemical fertilizers to be more

In Iraq (above), ACDI/VOCA implemented USAID's Community Action Program (CAP) from 2003 to 2012, promoting participatory economic development. Photos courtesy ACDI/VOCA.

Training in South Sudan helps producers approach their farming as a business. Here farmers use a makeshift abacus to calculate income.



ACDI/VOCA developed market linkage opportunities for 3,000 farmers in India using its value-chain approach and FreshConnect, a program that disseminates weather and price information.

productive. IFFCO was conceived to help Indian farmers meet their urgent need for crop inputs.

In a show of solidarity, U.S. farmer co-ops collected more than $1 million to supplement U.S. and Indian government funding. The $125 million fertilizer project was completed at cost and on time. Prime Minister Indira Gandhi presided at a ceremony at the start-up of one of the new IFFCO plants. Food shortages were averted, and IFFCO entered the annals of agricultural development history as a triumph of the Green Revolution. Today, IFFCO continues its success and is an ACDI/VOCA member.

Then-Vice President Hubert Humphrey commented: "This is a unique and significant act of statesmanship on [U.S. cooperatives'] part. In this effort, farmers are investing in the development of future markets for their products and contributing to sound international cooperation."

Development works

ACDI/VOCA today continues to help Indian farmers innovate. Ongoing projects reduce poverty, increasing the

ACDI/VOCA has been called the world's premier nonprofit ag development organization.

Clockwise from top: Women farmers in India learn how to test soil. In Ecuador, ACDI/VOCA has helped improve the lives of 22,000 families – including this cocoa farmer – and generated more than 18,000 permanent jobs. In South Sudan, ACDI/VOCA helped train government Extension agents and farmers and distributed agriculture micro-grant kits to support training and boost production.

“I might be going to the project to teach, but I’m really learning in the process as well.”

incomes of smallholder and marginal farmers by boosting production efficiencies.

One recent effort used modern communications technology to deliver local, up-to-date cooperative extension and market information to rural farmers via text and voice mail. Another effort targeted aid for women farmers, who saw their incomes increase by more than 30 percent. They also benefited from a 60-percent increase in access to credit.

ACDI/VOCA is currently involved in 75 such economic development projects around the globe, helping to expand economic opportunities.

In the process of creating broad-based economic growth, ACDI/VOCA is also creating demand. This directly helps U.S. agriculture, which is vitally dependent on overseas markets. When people in developing countries increase their incomes, one of the first things they do is improve and diversify their diets, and U.S. producers benefit from a rising tide of consumption.

People-to-people assistance

U.S. expert volunteers who conduct hands-on training and consultation are one of the organization’s hallmarks. ACDI/VOCA has sent over 11,000 volunteers, many from U.S. co-ops and Farm Credit banks, to 130 countries for short-term assignments in support of projects. Their expertise has ranged from co-op capacity building to strategic planning, from vegetable production to product packaging, and from rural finance to animal breeding.

ACDI/VOCA is a lead implementer of the U.S. Agency for International Development (USAID) Farmer-to-Farmer program, which is funded under the Farm Bill. Farmer-to-Farmer volunteers have completed thousands of overseas assignments, teaching their skills to farmers struggling to create a better life for their families and communities. The Americans also bring back a poignant sense of life overseas that compels many of them to stay engaged.

Jerry Nolte, who has volunteered for a number of projects, described what his assignments mean to him. “I might be going to the project to teach, but I’m really learning in the process as well.” On one assignment, he helped a loose band of traditional farmers in Sudan coalesce as a cooperative.

“We spent time talking about the principles and practices of a cooperative, then we took it from concept to working up a set of rules that they would follow,” Nolte said. After undergoing training, more than half of the group doubled their returns.

One member of the co-op sent his sister to Juba University. She was the first family member to acquire higher education. Another member renovated his crumbling house and bought two donkeys to establish a water-supply business.

A banking model in Central Asia

Agriculture is a vital sector of the economy in most developing countries, and a vast majority of the world’s poor are small-scale farmers. To modernize, enlarge their operations or make significant improvements in their livelihoods, these farmers need access to capital.

This was especially true in Kyrgyzstan in the 1990s, after Soviet farm supports disappeared and credit was largely unavailable to farmers and entrepreneurs. In September 2000, ACDI/VOCA led the push to establish the Bai-Tushum Financial Foundation to facilitate access to credit in rural areas in the Kyrgyz Republic and provide underserved borrowers — especially small-scale farmers without other resources — useful financial products and guidance. The project was launched with the support of USAID, USDA and CARITAS, a Swiss relief agency.

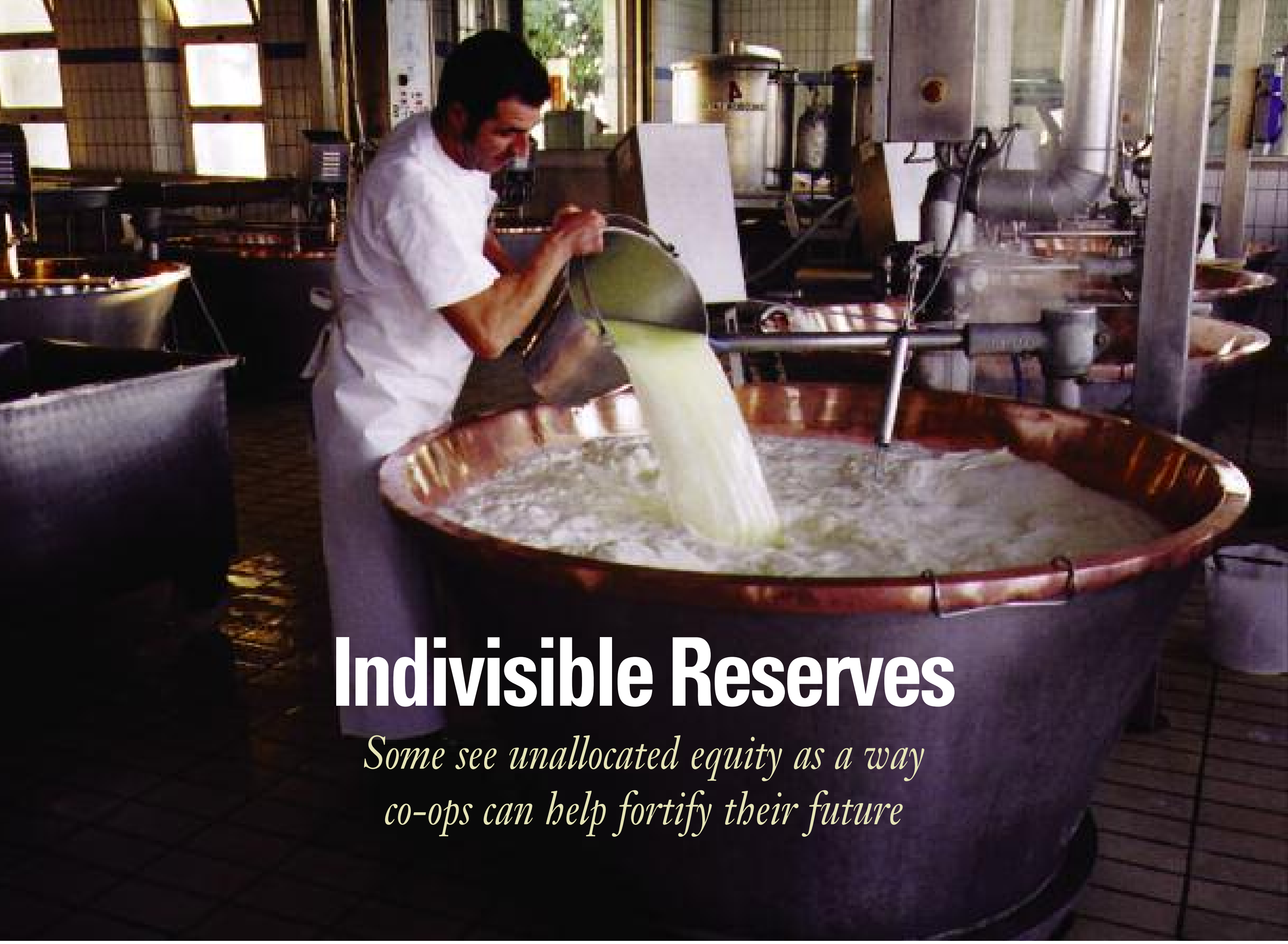
Since then, Bai-Tushum has served thousands of borrowers. The initial project officially ended in August 2005, by which time Bai-Tushum was operationally and financially sustainable. In 2012, it became the first microfinance institution in Central Asia to obtain a full banking license from the National Bank of the Kyrgyz Republic. Now it is the seventh largest bank in the Kyrgyz Republic, with more than 30,000 clients and assets of $100 million. Its many branch offices offer financial services from accredited, experienced bankers.

50 years of spreading co-op skills, values

For 50 years, ACDI/VOCA’s vision has been a world in which people are empowered to succeed in the global economy. Its projects promote economic opportunities for cooperatives, enterprises and communities through the innovative application of sound business practice.

“We know development works and that all benefit when economic opportunities expand,” says Carl Leonard, ACDI/VOCA’s president and CEO. “We’re grateful for our support from U.S. cooperatives and Farm Credit banks and proud that we’ve been able to carry the co-op banner overseas.”

For more information about ACDI/VOCA, including opportunities for volunteer overseas assistance assignments, visit: www.acdivoca.org. ■



Indivisible Reserves

Some see unallocated equity as a way co-ops can help fortify their future

The Emilia-Romagna region of northern Italy is home to 15,000 cooperatives that account for about 45 percent of the region's gross domestic product, including hundreds of farmer and worker co-ops. It is the birthplace of Parmesan cheese, production of which is seen here and on opposite page. Photos by Carlo Guttadauro, Courtesy Parmigiano-Reggiano Cheese Consortium

By Bruce J. Reynolds, Ag Economist
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Recent interest in food cooperatives and worker ownership of businesses has introduced organizational ideas that have not been widely discussed in agricultural cooperative education forums and publications (Lund) (NCBA) (Cook). In addition, the 2012 United Nations International Year of Cooperatives generated discussion of different financial practices and principles throughout the world. One practice in particular deserves more attention in the United States cooperative community: the use of indivisible reserves (IR).

The International Co-operative Alliance (ICA) specifies IR as a component of its 3rd cooperative principle: "member economic participation." This co-op principle addresses several financial policies, including allocation of surpluses or residual earnings. A few alternative uses of surpluses are recommended, such as distribution of member dividends and "….setting up reserves, part of which, at least, would be indivisible" (ICA).

Several western European cooperatives have used IR to sustain the economic well-being of both present and future members. This type of unallocated equity is not available for distribution to members, even if a cooperative were to be dissolved. Apart from IR, European worker cooperatives allocate some of their earnings to member capital accounts to be distributed to members for their retirement.

Indivisible reserves are exempt from taxation at varying percents, depending on the tax laws of different nations. Tax exemption is justified because cooperatives contribute to stabilization of personal incomes and employment.

Three main purposes for IR

There are at least three purposes for building IR accounts: (1) reduce incentives for demutualization (or changing the business to a non-cooperative structure); (2) distribute funds for cooperative development in the event that organizations demutualize or close; (3) that provide cooperatives with permanent capital to strengthen their solvency and to stabilize income.

Purposes (1) and (2) benefit future members by helping to secure a continuing presence of cooperatives. The constraint on current members of not having access to IR funds is balanced by the benefits of purpose (3) in providing capital to build a cooperative's solvency and stability, proponents of this practice say.

When purposes (1) and (3) are accomplished a cooperative sustains itself, generating benefits for current and future members. Activation of purpose (2) may provide a source of funding for new cooperative enterprise.

Disincentives for demutualization

Many cooperatives, especially in the agriculture and insurance sectors, have high market values and may become targets for acquisition. Converting cooperatives into investor-owned businesses eliminates the unique benefits that cooperatives provide (Mooney).

An IR makes a cooperative less attractive for conversion or sale. Unallocated equity can be distributed to members as ownership shares to be offered in the event a cooperative were to be demutualized. In contrast, an IR is unavailable as owner equity to sellers of a business or as a cash reserve to buyers.

Limiting cooperatives as targets for acquisition helps sustain them for future generations. IR may also prevent current members from making short-term decisions to sell-out that they may later regret.

Contributing to cooperative development

An IR from a dissolved or converted cooperative is a source of funds for new cooperative development in countries with laws mandating this procedure, including Spain, Italy and France (Corcoran). The availability of funds from dissolutions is obviously not a steady source of funding cooperative development. Cooperatives in bankruptcy are likely to have leveraged their IR in their efforts to stay solvent, and claims from lenders would likely diminish their assets.

Demutualization usually involves cooperatives with high enterprise value so that IR would be available for future cooperative development. Offsetting this potential transfer is the disincentive for members to demutualize when they have no access or claim to IR.

Fortunately, funding for cooperative development is met in several West European countries by other ongoing programs. They mandate relatively small percentages of annual earnings to be diverted to national funds or to federations for cooperative development. (Giszpenc).

Income stabilization

Purpose (3) of an IR is to provide some proportion of capital that belongs to cooperatives and not to members. While cooperatives fulfill a commitment to return profits to members, as is usually accomplished with patronage refunds, ongoing benefits are more secure when a portion of earnings is dedicated to a reserve that provides some non-revolving capital on the balance sheet.

Some European countries not only offer worker cooperatives tax exemptions for IR but also mandate a certain percent from annual earnings to be credited to these capital accounts. Members have generally supported allocation to IR in excess of the amount required. In France, a minimum of 15 percent is required, yet co-ops there allocate, on average, from 40 to 45 percent to IR (Corcoran).

During the period 1977-2002, the Italian government regarded all worker cooperative allocations of net earnings to IR to be tax free. After 2002, the tax free portion of allocations to IR was limited to 70 percent of annual profits by cooperatives with more than 50 percent member business, with further limits for cooperatives doing less than 50 percent of their business with members. Nevertheless, average allocations to IR have held at 80 percent or higher (Navarra) (Giszpenc).

Worker cooperatives account for about 6 percent of Italy's total employment. A recent study showed that cooperatives have had far less employee layoffs than other forms of business. Their co-op system involves member commitment to accept slightly lower wages in exchange for more secure employment.

The author of that study, Cecilia Navarra, concludes: "Moreover, the share of reserves a firm allocates to IR is negatively related with the average wage it pays and positively related with value added per worker. IR can thus be interpreted as a common pool where profits are cumulated in good times and that allows to smooth wages over time." Since IR provides a basis for securing credit, these cooperatives are incentivized to maintain the value of such accounts.

Italy is currently in an economic recession, with much of its citizenry opposed to austerity measures. Navarra's research describes how members of worker cooperatives have used IR to self-manage austerity for accomplishing more secure employment. As workers retire with their capital accounts, IR stays with the cooperative to support solvency and employment for new members.

Running a forge press at Zappettificio Muzzi, a worker-owned agricultural implement manufacturing cooperative in Imola, Italy. Worker co-ops account for 6 percent of jobs in Italy. Courtesy of the Ohio Employee Ownership Center

Permanent capital

U.S. farmer cooperatives have traditionally distributed earnings with qualified patronage refunds, used in part as member equity investment. This source of equity has an expiration date in the sense that it must eventually be paid back to members, so that it is not regarded as permanent capital.

Permanent capital is owned by the cooperative, usually as unallocated equity. It has become an important form of capital, as pointed out by Cook and Chaddad: "A continuing challenge for cooperative management is that of replacing capital that is revolved or redeemed to members… This has led to a trend of increasing the percentage of non-allocated equity… The unallocated equity can be thought of as permanent risk capital." Definitions of "permanent capital" vary, but the term is used here to mean equity capital that is not assigned for redemption to members.

Permanent capital is also accumulated in U.S. agricultural cooperatives by means of direct investment by members in transferrable stock shares or in offerings of preferred stock to members and to the public. As in the United States, Western European agricultural cooperatives distribute earnings as allocated member equity but they have generally accumulated higher percentages of unallocated, permanent capital than have their U.S. counterparts. This has been due to differences in government agricultural policies and more extensive use by European agricultural cooperatives of majority ownership in publically listed companies (Cook).

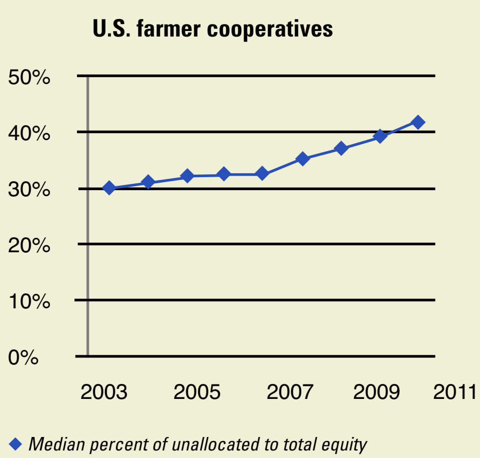
In regard to decisions about distribution of earnings to either member or to unallocated equity, the share of the latter has increased for U.S. agricultural cooperatives. From 1954 to 1976, average unallocated reserves increased from 12 to 15 percent of total equity (Griffin).

The graph on page 15 of the unallocated share of equity for 2003 to 2011 for U.S. farmer co-ops shows an increasing median percentage, rising from 30 percent to more than 40 percent. The median, rather than the average, measure is used because many cooperatives either allocate all earnings to cash dividends and to member equity or have assigned operating losses to unallocated equity. For example, 97 out of 1,209 cooperatives that reported their equity holdings in 2011 had zero unallocated equity.

IR may not be an attractive type of unallocated equity for U.S. farmer cooperatives unless it comes with tax exemption status. U.S. cooperatives pay taxes on unallocated retained savings. In addition, if unallocated equity were to be distributed to the membership, all such distributions would be taxable to the member.

Even with a tax exemption, IR might be deemed less attractive than unallocated equity, since the latter can be distributed to members, usually in the event of either a dissolution or sale of a cooperative. However, these two types of permanent risk capital are not mutually exclusive and could coexist on a cooperative's balance sheet. Revisions in states' incorporation statutes for cooperatives would be needed to address these policy changes.

Unallocated share of total equity:



Source: USDA/RD/Cooperative Programs, STSS annual surveys.

Cooperative longevity

All businesses, whether a cooperative or otherwise, are subject to adverse changes in the market or faulty decisions and planning that can lead to their closure. Some businesses have a life-cycle, such as small, family-owned enterprises that are unattractive to a new generation of owners. In contrast, cooperatives have a large base of owners in their members. When new members replace those who retire, there are usually sufficient incentives for a cooperative to stay in operation for the future.

Some successful cooperatives become targets for acquisitions. An agricultural cooperative may inadvertently increase member incentives for an investor-owned conversion by having built-up reserves of permanent capital in the form of unallocated equity. However, some financial experts point out that members regard their cooperatives as integral to the success of their farm businesses and would therefore not be motivated to sell out from having unallocated equity (Dahlgren).

Yet, IR would offer the same strengthening of capital structure as provided by unallocated equity but with lower taxes and an explicit deterrent to demutualization. Some of the value of many cooperatives is often based on contributions from previous generations of members. Although a new generation of farmers can start a new cooperative in the wake of a demutualization, it may take decades to redevelop the same business and service capabilities.

Intergenerational cooperation

Agricultural cooperatives in the United States and Western Europe have adhered more closely to individual ownership principles than have worker cooperatives, while also making extensive use of non-member capital. Nevertheless, establishing permanent capital has been important for both types of cooperatives.

Whether or not IR can offer advantages for agricultural cooperatives is worth consideration, and, at the very least, the purposes of this financial principle can be appreciated.

Given the unique role of cooperatives in benefiting members — including greater assurance of market access or employment — IR can help provide perpetuity for these benefits. Indivisible reserves reflect a principle of extending the benefits of cooperatives to multiple generations of members. ■

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Birds of a Feather

Squab producers 'flock together' to process, market through co-op

By Stephen Thompson, Assistant Editor

Most Americans have never eaten pigeon, but one cooperative in Northern California has found a profitable niche supplying squab — the meat of young pigeons that have not yet flown — to restaurants, ethnic markets and individuals. The biggest problem Squab Producers of California faces today is filling all its orders.

Squab Producers, headquartered in Modesto, Calif., has about 70 members, each with an average of 1,000 producing pairs of birds. "For most of them, it's not their primary income. But they like the farm lifestyle," says Dalton Rasmussen, the co-op's president. "It's more supplemental [income]; most of them have other jobs."

One mated pair of birds can produce an average of 15 to 17 squabs per year. The cooperative provides marketing and processing services to its members as well as technical support, a quality assurance program and purchasing of some supplies.

Squab has been considered a delicacy for centuries — not only in Europe, but also in North Africa and China. Squab meat is dark, tender and flavorful and is served at many up-scale restaurants in the United States. Currently, the co-op sells the birds for $3.90 per pound, 30 cents of which the co-op retains.

"We sell to markets in New York and San Francisco, as well as export to Canada. We get quite a few Internet orders as well," Rasmussen says.

Co-op operates processing plant

The cooperative has its own processing plant that also offers processing services to other poultry producers in the area. "Our niche is the squabs," says Rasmussen, "but because our processing plant is very up to date — and we have bills to pay for new equipment — it just makes sense to do custom processing for other companies. We sell some Cornish game hens and also do a lot of custom processing for chickens and other species. So we're able to capitalize on our investment at the processing plant. It also helps out our employees. We can do our squab processing fairly quickly, so it helps to keep our employees occupied and keeps turnover down."

Raising pigeons requires different skills and infrastructure than other types of poultry. Pigeons form couples that mate for life and cooperate in raising the young, requiring pigeon houses with covered nests for each couple. Squab producers use pigeons specially bred for meat production. As with other types of livestock, the quality of breeding stock is crucial to success, so the cooperative requires that members use approved stock.

"There's a lot more to it than raising a chicken or turkey," says Tim Beck, a co-op member with more than 3,600 pairs. "You're not just growing the squab, you're raising breeding stock. You can't just throw down a bunch of chicks on the ground."

The cooperative provides technical assistance, including a staff veterinarian. It conducts a quality-assurance training course that covers rodent control, handling techniques, animal-welfare requirements and disease prevention and control. Attendance by producers is required at least every two years.

Members are also required to conform to the co-op's quality-assurance program, says Rasmussen, to ensure that antibiotics are not being fed to their flocks. "It's more of a food safety and animal-welfare issue," he notes. They also must agree to a produce-sale agreement specifying that their birds will be sold through the co-op.

"Most of them are really happy about that," says Rasmussen, "because they don't want to market the birds themselves, which would be very hard for individual farmers. So this is a way it [farming] can fit into their lifestyles, especially if they have other jobs."

Membership costs $200, refundable upon leaving the co-op. "It's mostly to make sure they're serious about joining," says Rasmussen. "The board normally likes to have people who are already producing, but we know that's hard for people starting out. So people can join before they have birds — but they have to have a plan in place and have to be approved by the board of directors. If they have good contacts, if they know members that they're going to buy their breeders from, and get advice, it's not hard to get in."

Co-op seeks more production

The co-op also helps members by purchasing certain bulk items, such as grit and sanitation supplies. Members are asked not to sell breeding stock outside the co-op without board approval.

Growers are paid $3.60 per pound, with 30 cents retained for a revolving capital fund.

The co-op makes deliveries around the San Francisco Bay Area three or four times each week. Rasmussen says the co-op's biggest market is restaurants and meat markets in San Francisco's Chinatown.

"Some of our biggest sales are during Chinese New Year," he says. The cooperative has a marketing agreement with a distributor that sells to New York and Hawaii, and it also sells some birds through its Web page. In addition to squabs, the co-op fills out its line with Cornish hens and poussin — a specialty chicken that is sold when it is about a week younger than Cornish hens. Both are grown by some of its members.

Tim Beck started raising squabs in high school. "My dad and uncle got me started. They were raising pheasants and game birds," he says. The co-op offered lower processing fees for members, "So my dad and uncle got my cousin and me started with the squabs. That got them into the co-op with their game birds. They bought the birds for us and it was like, 'Here, learn some responsibility,'" he chuckles. That was in 1987.

Today, Beck is a full-time farmer, growing walnuts and almonds as well as raising squabs. "We've done pretty good with squabs," he says. "It's not as profitable as it used to be, with [high] feed prices now, but it's still good money." He estimates that a quarter to a third of his total farming revenue comes from squabs. "They have a market for every bird I produce," he says.

Rasmussen and Beck agree on the need to expand production. "This is a very strong market," says Rasmussen. "Our biggest problem for the past few years has been that we don't have enough supply. My goal is to effectively market the birds and get better prices, but it's hard to market something when you don't have the supply. In the winter, when our production is down a bit, we have a lot of customers we have to limit the orders on."

Beck says that the processing plant can handle about four times as many birds as members can supply. Custom processing for non-members helps take up the slack and keep the employees working. Unfortunately, says Beck, competition from other poultry processors has begun to make it difficult to keep the plant running full-time. "Two of our biggest customers that we processed chickens for have gone bankrupt and stuck us for big bills," he says. Only some of the resulting debt has been recovered in the bankruptcy liquidations.

"I'm expanding [production] because I'm good at it and I make money," says Beck. However, he cautions potential squab growers: "Make sure you really want to do it by contacting someone who's been doing it for a while. I've seen a lot of guys who hear about it and they think 'oh, that's easy money.' And they jump right into it without any coaching. It's a disaster, because they haven't got the proper training. They find out it's more work than they thought it was, and that there's a lot more to it than raising a chicken or turkey."

Keeping pace with regulations

Keeping state and local regulators happy is becoming more of challenge for the co-op and its members. The co-

continued on page 42

Equity Elevator & Trading Co.

joins century club

The Equity Elevator & Trading Co. in Woodlake, Minn., has reached a milestone, thanks to the support of its loyal members. The elevator, celebrating 100 years of business, was recently inducted into the Minnesota Grain and Feed Association's Century Club. Reaching the anniversary says a lot about the cooperative's members, says elevator general manager Rod Winter.

"They have been very supportive of the business," Winter says. "They are the key to the success of the elevator."

While some elevators have multiple locations, Equity has one location in Wood Lake.

There have been other elevators in the southwest Minnesota community. As settlers homesteaded in Wood Lake Township, they plowed the prairie soil and planted small grains. When a new rail line was built from Hopkins to Watertown, S.D., a flurry of business started in the town — including the Pacific Elevator Company, which established a grain buying station.

The first grain delivery arrived in 1884. Soon a second and third elevator were built to handle the grain.

By Carol Stender

Editor's note: *This article is reprinted courtesy the Rochester (Minnesota) Post Bulletin.*

Opposite page: Marking their co-op's centennial year, employees of Equity Elevator & Trading Co. form the number "100." The co-op, which has 718 members, still operates a single facility (in Woodlake, Minn.) where it handles corn, soybeans and wheat. Photos courtesy Equity Elevator & Trading Co.

Co-op part of "Elevator Row"

Equity Elevator & Trading Co. was formed on July 3, 1912, but didn't receive its charter until Sept. 12. It started operations in existing elevators with 64 charter members.

Wood Lake had five elevators by 1919 in what became known as "elevators row." There was the Allas Elevator, The Great Western Grain Co. Elevator, Pacific Elevator Co., and two elevators operated for Equity. Business was good and Equity added a feed mill in 1925.

The next decade wasn't stellar. A lack of rainfall, the Great Depression and bankruptcy were hard on the enterprises. Equity Elevator voted in 1932 to discontinue its dividends on flour, feed and coal and to sell on a smaller margin of profit. Corncobs were selling for almost as much as the corn. The cobs garnered $3 per load. Farmers received 18 cents a bushel for corn and paid $10 per ton for soft coal.

Because of the decrease in grain receipts, both the Great Western and Wood Lake elevators closed. Eventually, Equity Elevator & Trading Co. stood alone.

In its first quarter century of business, the elevator paid dividends of more than $300,000 to members. Even in 1934, at the close of the business year, the elevator showed dividends of $5,955.22. Not bad, considering the poor corps and low grain prices.

It thrived after going through the Depression. By 1950, the elevator constructed a 120,000- bushel-capacity concrete elevator that reached 138 feet in height. At the time, it was the tallest structure in Yellow Medicine County.

The elevator continued to build to meet patrons' needs. In 1959, the elevator received approval to build six, 15,000-bushel steel grain bins for more storage. It purchased the land it was built on from the Chicago and North Western Railroad.

A grain dryer was constructed and a fertilizer plant was built. Annexes for more grain storage, a shop and new office were completed.

More than a place to market grain

As Melanie Gatchell gathered the elevator's history, updated for the centennial by Anne Anderson, they noted that the elevator is more than a place where farmers buy and sell grain. "It is a beacon that alerts others to the presence of a town from miles away," they wrote. "It dominates not only the landscape of rural towns, but also the social life of those who live and work there."

The elevator is a place to get the grain prices, find out the weather forecast, buy some dog food, read the auction bills, drink coffee, eat peanuts, gossip and tell jokes.

"Elevators are a part of life in rural Minnesota," they continued. "The logo for Equity Elevator is two hands shaking. Those hands don't just represent deals being made, they represent the elevator and the community working together to strengthen the community from which they live and work — a pact, if you will, a promise for a better tomorrow."

Today, Equity Elevator & Trading Co. has 718 shareholders and handles corn, beans and wheat; grain drying; feed grinding and mixing; seed; fertilizer; ag chemicals and custom spraying. ■

The Lure of Distant Shores

Co-ops share export strategies during USDA Outlook Forum

By Dan Campbell, Editor
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It's not just the expected growth in world population during the next 20 years, it's the rising wave of middle class consumers in many developing countries that has U.S. agricultural exporters excited about the potential for substantial increases in overseas sales. China, in particular, has a rapidly expanding middle class with disposable income to spend on imported foods and is thus a major focal point for interest among U.S. food companies.

These demographic trends are hardly going unnoticed by U.S. agricultural cooperatives. Many farmer-owned co-ops are already among the export leaders for their industries and are now looking to hone their global marketing strategies to capitalize further on opportunities in markets that once held little promise. Three such cooperatives were in the spotlight at USDA's annual Agricultural Outlook Forum in Washington, D.C., in February: CHS Inc., Blue Diamond Growers and Accelerated Genetics. They each provided an overview of their export marketing strategies and what their success overseas means for their members at home.

Session moderator Doug O'Brien, then the deputy under secretary for USDA Rural Development (which includes Cooperative Programs), said the subject of the co-op panel talk was fitting for a conference with "Managing Risk in the 21st Century" as its theme.

"After all, two of the most successful strategies farmers have used to manage risk include, first of all, banding together in cooperatives to reach the scale and sophistication to be able to compete in the domestic market and, more and more, to compete in export markets," O'Brien said.

Asia's demand for grain and other products continues to grow and U.S. cooperatives are answering the call. CHS Inc. — a partner in the TEMCO export terminal joint venture that includes this Tacoma, Wash., facility — meets that demand by moving its members' grain from the nation's heartland to Pacific Northwest ports and more than 65 countries worldwide. Photo courtesy CHS Inc.

"The second way is to manage risk by diversifying; exporting is a way of diversifying your markets."

U.S. agricultural exports are a bright sector of the nation's economy, generating an estimated record value of $143.5 billion in 2012, O'Brien said, noting that this surpassed the previous record of $137.4 billion, set in 2011. Further, more than 1 million American jobs are reliant upon agricultural exports, including those in food processing, packing and transportation, as well as on-farm jobs and related support industries.

Farmer- and rancher-owned co-ops are a major part of the U.S. farm economy, setting a sales record of $213 billion in 2011 and bettering the previous mark, set in 2008, by $10 billion. So there is a great potential to grow co-op presence in export markets.

"When producer-owned cooperatives thrive, it's good news for rural America," O'Brien said, "and not just for the farmers and ranchers who own the co-op." Because the profits of a co-op flow back to farmers and ranchers, rather than to distant investors, they help boost the rural economy, he observed.

The co-op representatives said being a cooperative holds some advantages in overseas markets. One reason is that, as producer-owned businesses, buyers know they are dependable suppliers because they have an assured supply from their members. Further, overseas customers may be other co-ops, as in the case of Accelerated Genetics, which prefer doing business with other farmer-owned businesses.

Following are highlights from the presentations made by three farmer co-ops that have found success on distant shores.

Long-range work in China pays off for almond co-op

Construction work for a new subway system (rear) doesn't stop the flow of shoppers in the central business district in Changsha, China. Asia has now nearly equaled Europe as the major export market for U.S. almonds (see chart, opposite page).

Despite being the world's most populous nation, China was a rather lonely place in 1975 for an almond sales rep. That's when Blue Diamond Growers' made its initial, exploratory marketing trips to China, which, at that time, had almost no tradition of consuming almonds. It also had a state-controlled economy that held tight reins on imports allowed into the country. So it was not the most promising export market for the Sacramento, Calif.-based co-op, which has more than 3,000 members (more than half of all U.S. almond growers).

In the 1970s, almond exports began to exceed domestic sales, with Europe being by far the leading destination. But Blue Diamond was also beginning to have success in Japan and India at that time. China was obviously another huge potential Asian market that was then on the cusp of an astounding industrial revolution which would transform it into the world's second largest economy by 2010. While there was no way of knowing in 1975 just how much, and how fast, the Chinese economy would grow, Blue Diamond nonetheless felt it was not a matter of "if," but rather "when" China would become a major market.

Patience can be a virtue for exporters

What followed those early sales trips to China in the 1970s were "many years of leg work and investment, without much to show for it," recalled Bill Morecraft, general manager of Blue Diamond's Global Ingredients Division. "Ironically, the toehold that got us established in China was gained through our Oregon Hazelnut Division." Customers who had been purchasing in-shell hazelnuts from the co-op for many years eventually became its first major customers for almonds.

In the past dozen years, China has emerged as the No. 1 export nation for California almonds, Morecraft said. In just the past five years, China has gone from buying 25 million pounds of almonds annually to nearly 250 million pounds, worth about $750 million.

These consumption gains have been largely driven by the rapid growth of the middle class in China, which Morecraft said has increased from 120 million people in 2006 to 239 million in 2011.

Japan and India are also strong markets in Asia for U.S. almonds. As was the case in China, almonds were a new food in Japan when Blue Diamond first began marketing there in the 1960s. A chocolate-covered almond introduced by a major Japanese confectionary company in 1970 proved to be a huge hit, and that in turn sparked interest in almonds.

By contrast, India had been consuming almonds for many centuries, where tradition has it that almonds benefit mental capacity. But India had a much smaller middle class than Japan, so that market has grown more slowly, although it too is now expanding at a faster rate.

The Middle East has been a long-standing almond export market (and is the cradle of almond cultivation) that continues to show strong growth. Turkey, in particular, has a growing appetite for California almonds, both for its own consumption and for re-export to other Middle Eastern and North African nations, Morecraft said.

Rapid growth boosts economy, creates jobs

The growth trend for almonds has been so steep in Asia that today it imports only slightly less than Europe, which in 1990 imported three times more almonds than Asia. In just the past five years, the overall export value of California almonds has risen from $1.9 billion to an estimated $5 billion for the 2012 crop (which is still being marketed at this point). "That's a growth rate of more than 100 percent," Morecraft stressed.

Meeting this phenomenal growth in global demand has, of course, required a corresponding growth in almond production. The U.S. almond industry (almost entirely based in California) was producing just 5 million pounds per year in 1910, when 200 almond growers joined forces to form Blue Diamond Growers (originally as the California Almond Growers Exchange). It took another 70 years for production to reach 400 million pounds, and then only another 30 years for production to soar to 1.6 billion pounds.

Today, the U.S. accounts for about 88 percent of the world's almond supply. Spain and Australia rank second and third, respectively. The crop is now planted on 800,000 acres, primarily in Central California, from around Bakersfield in the south to Chico in the north. Per-acre yields continue to rise sharply as growers improve orchard management and planting strategies.

Evidence of what this export success means back home can be seen outside Turlock, Calif., where Blue Diamond this spring will be opening its third processing plant. Overall, the almond industry supports 50,000 jobs. Most of the dollars paid to growers flow back into their communities to help support local economies.

Tips for exporters

Morecraft stressed a number of factors for would-be exporters to consider, including:

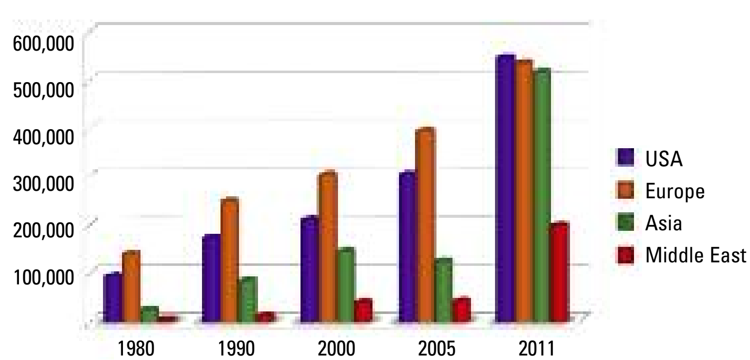
- Growing an export market requires a long-term perspective and a reliable supply. The "phenomenal production growth" in California is ultimately what made the export gains possible. Morecraft praised the Almond Board of California for doing "a tremendous job of partnering with growers" and expanding domestic advertising efforts to include international, generic advertising.
- Long-term investment is needed. Morecraft noted that in China, it took 30 years – from 1975 until 2005 – to see meaningful results.
- Understand and respect different cultures and know how various "food cultures" will incorporate your product into their diets.
- An ag exporter must "be in the market" with a physical presence and be on call 24 hours a day. With modern communications technologies, it may be tempting to feel you can market overseas from your desk in the United States, "but the reality is that there is no substitute for being in the market, face to face with customers," Morecraft stressed.
- The economy of a nation must be capable of buying your exports. The market in Japan was developed 40 years earlier than in China, but both markets were built on the same foundation: the development of a purchasing class with disposable income. Japan's middle class emerged much earlier than China's and was already well developed in the 1960s when marketing efforts began there.
- Know and use available resources. "USDA has been a fabulous resource; we make use of USDA's Foreign Agricultural Service (FAS) when overseas," Morecraft said. He cited USDA's Market Access Program (www.fas.usda.gov/mos/programs/map.asp) for providing crucial help in developing overseas markets. The California Almond Marketing Order, under which growers assess themselves about $60 million annually to promote their industry, has also provided key help.

"If you are new to exporting, FAS is a great resource to help in getting your feet wet in a country," he said. Visiting FAS offices can be helpful even just to establish key contacts overseas should unexpected issues arise. "The USTR (U.S. Trade Representative) office can also be very helpful when more complicated issues arise, such as helping to remove the tariff and non-tariff trade barriers that can pop up in every region of the world."

- Last, but not least: have a great product. "We are fortunate to have a healthy, whole food that people are becoming more aware of. Blue Diamond and the rest of the California almond industry have been growing together for over 100 years. We have a fabulous export success story and we appreciate the support we get from USDA." ■

Korea is the destination for these Blue Diamond almonds.

California Almond Exports, 1980-2011



Global expansion reinforces CHS as a market leader

CHS opened its first international office in Sao Paulo, Brazil, in 2003. Today, the cooperative has operations in about two dozen countries, including Vittoria, Brazil (seen here), and two others in South America from which it exports grain and imports fertilizer. Photo by David Lundquist, courtesy CHS Inc.

Just 10 years ago, CHS Inc. was a U.S.-only based business. Then, in 2003, the nation's largest cooperative opened its first foreign office, in Sao Paulo, Brazil, staffed by 15 employees. That was the start of something big.

Today, this St. Paul, Minn.-based grain, foods and energy/supply co-op has offices in 24 nations staffed by about 1,000 employees and does business in 65 countries. It not only sells U.S. agricultural products around the globe, it also does foreign sourcing of both crops — to supplement the production of its own members — and farm inputs, primarily fertilizer. This is helping CHS reinforce its status as a reliable, year-round supplier to its customers, said Rick Dusek, CHS vice president, North America Grain.

"The goal of our foreign operations is to add value to our producer-owned system here in the U.S.," Dusek said. CHS is owned by local and regional farmer co-ops and also has direct farmer and rancher members.

Its global expansion is far from complete. Today, CHS is investing in a new port facility in Brazil, is exploring potential infrastructure investments in key demand regions and it recently opened an office in Winnipeg, Canada, where the co-op is looking for new business opportunities in the wake of the Canadian Wheat Board losing its status as sole marketer of Canadian wheat.

CHS is also expanding its export facilities in the United States, including its ports in the Pacific Northwest. As one of the nation's five largest grain marketers, CHS handles about 2 billion bushels of grains and oilseeds annually, a growing amount of which is destined for export.

Breakup of Soviet Union: a game-changing event

While the pace of its global business has increased dramatically in the past decade, CHS and its predecessor co-ops (the largest of which were Cenex and Harvest States Cooperatives, which merged in 1998) have long been involved in exporting. In the Pacific Northwest, it began exporting grain to Asia in the 1930s. It built its own export facility in Superior, Wis., in the 1940s and was a supplier for the U.S. "Mercy Wheat Program" that helped Europe recover after World War II. In the 1960s, it built an export terminal in Kalama, Wash., and in the 1970s was a major supplier to the Soviet bloc nations.

Dusek said a game-changing event for grain marketers was the replacement of government-based buying entities with large, private buying companies in the former republics of the Soviet Union and some other nations. While there have been significant improvements in grain transportation and storage systems around the world since then, none of these systems can compare to that of the United States, Dusek said. "The U.S. system is phenomenal — it is still unmatched in the world."

Photo by David Lundquist, courtesy CHS Inc.

A key market driver in export markets is world population growth. "Even though the rate of growth is slowing, middle classes are growing significantly in many markets," Dusek said, citing projections showing that from 2012 to 2020 the number of people in the world classified as middle class will grow from 1.8 billion to 3 billion. By 2030, the number is expected to grow to 5 billion.

"Our core business will remain in the U.S., but our strategy is to enhance our grain export infrastructure," Dusek said. The co-op divides its markets into four basic regions: North America (for origination and sales); South America (primarily for grain origination); the Black Sea/Middle East/North Africa (for origination and sales) and Asia/Pacific (sales). The co-op's marketing strategy dictates "having boots on the ground" in all of these regions.

Grain exports to double by 2050

Growth in global population and income levels is expected to fuel a doubling of grain exports by 2050, Dusek said. The growing middle classes will continue to demand "more meat and more protein," which, in turn, will mean more feed grain going to livestock producers.

Projections show China's middle class will likely grow to 700 million by 2020, or about double the size of the current U.S. population, he said, calling the growth rate "staggering." "Someone is going to have to produce the protein to meet that soaring demand," he said, noting that CHS plans to play a major role.

The trend "has huge ramifications for companies like ours," Dusek said. "As a U.S. farmer-owned company, what does it mean for export competition and our position in the global marketplace? How will we need to grow to participate in this market?" These are the key questions the co-op is considering as it develops future marketing strategy.

Of course, international competitors are also looking at these numbers and responding to them. "There is a tremendous amount of money being invested in infrastructure, not only in the U.S., but around the world," Dusek said.

Private equity is pouring into the grain markets, he continued. "Just 10 or 15 years ago, it was almost unheard of to see private equity being invested in the ag sector. So the competition has changed tremendously." The global commodity boom is increasing supply-chain value, he said, which is "why others are expanding, and why we are expanding."

The amount of resources and working capital needed to compete in this market has increased sharply, he said. "It takes a tremendous more amount of money to participate than it did even 5 or 10 years ago." That demand for more capital is a big factor driving consolidation in the grain industry, with regional companies seen as prime takeover targets, Dusek noted.

Benefits of a "bigger global footprint"

Buying foreign grain and oilseeds to sell to its customers might seem contradictory, since these grains compete with the output of CHS' own members, Dusek said. "But to stay relevant for customers and be competitive in global markets — and to provide the most value to our producers — we feel this is absolutely necessary; our whole system is behind it," he said, because it enables their co-op to be a player in world markets.

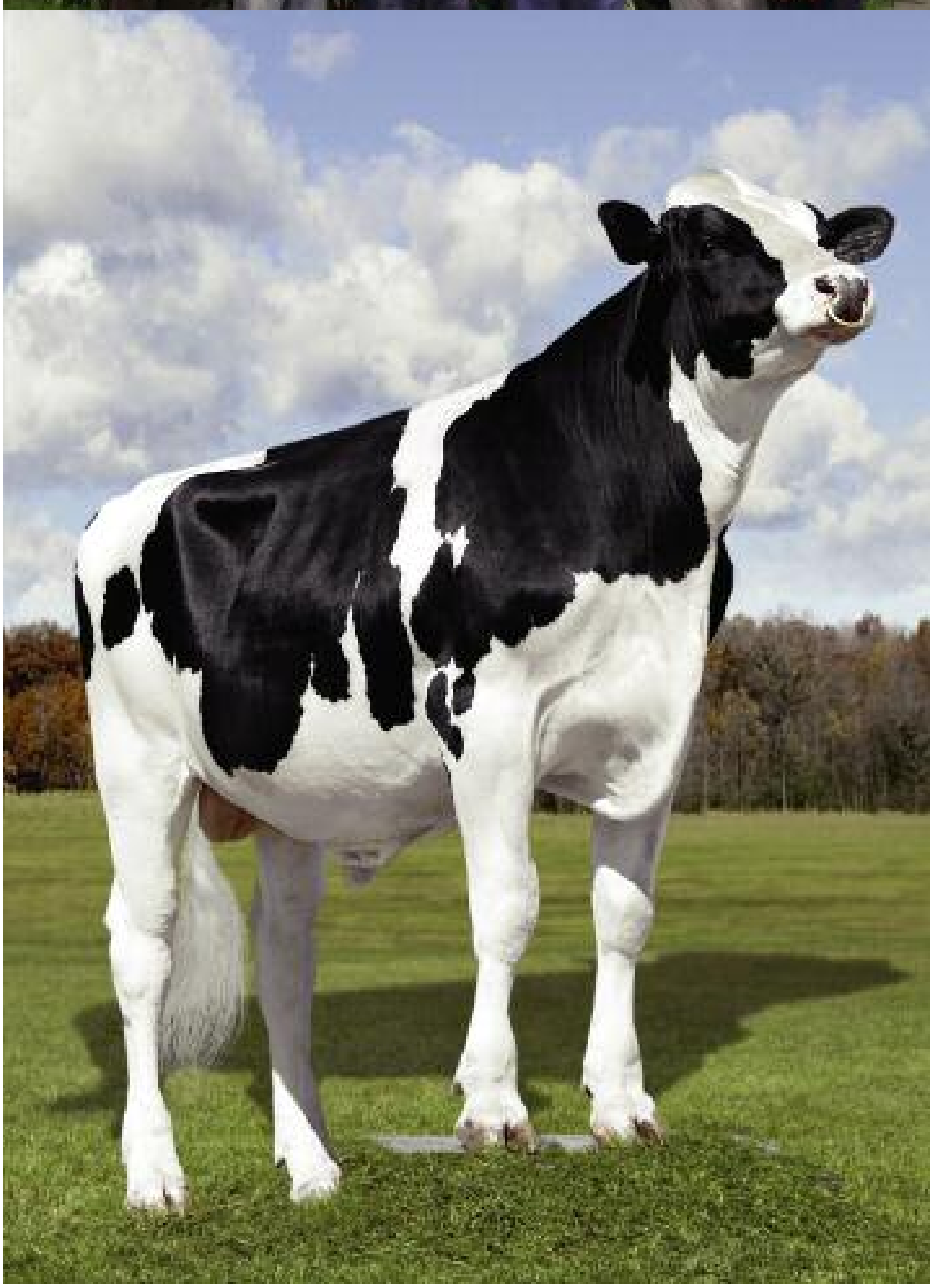
"What does that bigger global footprint bring us? The biggest thing is market knowledge and price discovery," Dusek said. For example, the soybean export market today is dominated by three suppliers: the United States, Brazil and Argentina.

"If we are a U.S.-only company supplying China, we are only seeing about one-third of the picture. Customers over there demand a full scope of the market picture each and every day." They want to know global crop prices, vessel freight rates and where there are quality concerns, he continued. "If we were a U.S.-only company, we would only see part of the picture, so having a global footprint adds security for CHS customers."

In Asia alone during the past decade, CHS has opened marketing offices in Hong Kong and Shanghai in China, as well as in Seoul, South Korea. It has established an Asia-Pacific headquarters office in Singapore and is exploring new storage and distribution opportunities throughout Asia.

Outside investors are often attracted by short-term returns rather than the long-term health of the industry, he noted. CHS' risk-management philosophy is to help customers make informed decisions. These customers appreciate that CHS is "not in this game for one or two trades; we are in it for the long term. We've been in it for 80-plus years and plan to be in it for 80-plus more years." ■

World demand for U.S. cattle genetics fuels export growth



Genetics is the foundation for building a stronger dairy or beef herd, and many producers around the world are looking to the United States for breeding products and technology to improve their productivity. This has translated into growing global sales for companies such as Accelerated Genetics, a Baraboo, Wis.-based livestock breeding cooperative.

The U.S. cattle genetics industry has seen its export sales grow five-fold in the past 30 years, topping $142 million in 2012. That's up from just $20 million in 1984, said Joel Groskreutz, president and CEO of Accelerated Genetics. His cooperative has successfully cultivated foreign business for its products and services, which in 2012 accounted for 48 percent of its business, up from 39 percent in 2000.

Much of its foreign sales are carried out through World Wide Sires Ltd., a joint venture it owns with another U.S. livestock breeding cooperative, Select Sires. Since these two producer-owned co-ops

Top — Co-op representatives meet Asian cattle producers during a recent tour of cattle operations in Asia. Photos courtesy Accelerated Genetics.

Lower — Man-O-Man 2-ETN, one the co-op's top bulls, embodies the genetic traits desired by livestock breeders around the world. Photo by Cybil Fisher purchased Visalia, Calif.-based World Wide Sires in 2001, its sales have tripled, Groskreutz said. “This is an example of how two co-ops, which are competitors in the domestic marketplace, can cooperate to pursue international markets,” he said. “It’s been very profitable for both co-ops.”

Created through mergers

Accelerated Genetics’ roots go back to 1941, when its predecessor co-ops were founded. In 1947, the Vernon County Breeders and Trempealeau County Breeders Cooperative merged to create Tri-State Breeders Cooperative. The name of the co-op was changed to Accelerated Genetics in 1994 to “dispel the myth that we were a small, regional company,” Groskreutz said.

Today, the business remains a farmer owned and controlled co-op that does business in all 50 states and in 96 countries. It has 234 employees, 126 dealers and 156 independent sales representatives. Accelerated Genetics’ production facility is located near Westby, Wis., about 90 miles west of its administration headquarters in Baraboo. In the United States, Canada and Latin America, it does business under the Accelerated Genetics banner, while sales in all other nations are done through World Wide Sires.

Genetic Visions Inc., a wholly owned subsidiary of Accelerated Genetics, is celebrating its 25th anniversary with a sales increase of 40 percent, fueled by increasing foreign demand, Groskreutz said. It is one of only three testing labs in the nation certified to perform genome typing on bull semen, he noted. It also conducts many other types of genetic testing for customers. The co-op most recently expanded with the purchase of Nebraska Bull Service in McCook, Neb.

Top — Bull semen is stored in "straws" and frozen in tanks of liquid nitrogen.
Bottom — Accelerated Genetics' breeding facility near Westby, Wis.

USDA program key to export strategy

The Emerging Markets Program (EMP), administered by USDA’s Foreign Agricultural Service, has been a key factor in the co-op’s development of overseas sales, Groskreutz said. The co-op uses the program to conduct market assessments, for technical assistance and to deal with trade barriers.

While most EMP awards go to trade associations, private firms can also apply for them if their efforts appear likely to benefit the overall industry, Groskreutz said. Among the nations where the EMP has helped the co-op are Pakistan, India, China, Albania, Armenia and Bangladesh, he said. (Editor’s note: for more information about USDA’s EMP program, visit: http://www.fas.usda.gov/mos/em-markets/em-markets.asp.)

In 2011, World Wide Sires and Accelerated Genetics opened the Global Training Center in Prosser, Wash. This center offers intensive management and reproductive training for dairy managers and artificial insemination (AI) technicians from around the globe. The curriculum includes hands-on and classroom instruction, conducted by top industry experts.

Because semen is classified the same as a live animal when exported, it is subject to the same regulations as a live bull or cow, even though many of the diseases being screened for are not a risk with frozen semen, Groskreutz said. U.S. industry standards are regulated by the Certified Semen Services (CSS) group, which oversees semen handling and processing, semen straw labeling and bull health and sanitation.

CSS has had a memorandum of understanding with USDA that allows it to stand in place of them when inspecting bull studs for export. While many foreign nations accept CSS standards, many others have additional requirements. Recently, the memorandum of understanding has been “re-interpreted” in some markets, hindering sales while the industry strives to resolve the issues raised, Groskreutz said.

Future focus

The co-op’s focus for the future is to continue participating in the Emerging Market Program and utilize the World Wide Sires’ Global Training Center as an avenue for greater education of dairy managers and A.I. technicians around the globe.

It will also conduct market research to help determine what investments are necessary for enhanced product growth in key markets. These investments may include additional personnel to assist in sales and training, increasing the number of distributors and/or dealers, and investing in livestock facilities.

The co-op will also work with the National Association of Animal Breeders and the federal government to attempt to minimize trade barriers and limitations for exporting U.S. genetics. ■

Photo courtesy CHS Inc.

USDA programs help ag exporters

The Foreign Agricultural Service (FAS) is USDA's lead agency for addressing the challenges and opportunities of the rapidly changing global marketplace. The agency works to open, expand and maintain access to foreign markets, where 95 percent of the world's consumers live.

FAS offers several international market development programs that have helped co-ops, small businesses and other agricultural stakeholders take advantage of market opportunities through the years. Knowing and using these available resources is essential for U.S. agricultural exporters to successfully sell their products overseas.

- The **Market Access Program (MAP)** is the agency's largest market development program. Through MAP, USDA partners with U.S. producers, exporters, small businesses, state regional trade groups and nonprofit trade organizations to finance overseas marketing and promotional activities. Participants have used the program to help attend trade shows, fund market research and consumer promotions, and provide technical assistance and educational seminars.

MAP is a cost-share program that uses funds from USDA's Commodity Credit Corporation (CCC). The funds are used for generic marketing and promotion activities and for promotion of branded products by small businesses and cooperatives. MAP funds are awarded to applicants that demonstrate effective performance based on a clear, long-term strategic plan.

- The **Foreign Market Development (FMD) Program**, also known as the Cooperator Program, aids in the creation, expansion and maintenance of long-term export markets for U.S. agricultural products. Under the program, USDA partners with agricultural producers and processors, who are represented by nonprofit commodity or trade associations to pool their technical and financial resources to conduct overseas market development activities. Promotional activities focus on generic U.S. commodities, rather than brand-name products, and are targeted toward long-term development.

In 2010, an independent report concluded that from 2002 to 2009, for every additional $1 expended by government and industry on MAP and FMD activities, U.S. food and agricultural exports increased by $35. Additionally, the report showed that in 2009, U.S. agricultural exports were $6.1 billion higher than they would have been without the increased investment in market development.

With the growing number of middle class consumers in many developing countries, U.S. agricultural exporters should also be aware of:

- The **Emerging Market Program (EMP)**, which is designed to improve market access and develop or promote U.S. agricultural products to low- and middle-income emerging markets through technical assistance activities. The program also covers activities that help reduce potential trade barriers in emerging markets. Projects under EMP that endorse or promote branded products are not eligible.
- The **Quality Samples Program (QSP)** helps U.S. agricultural trade organizations provide small samples of their products to potential importers in emerging markets. Participants export samples of their commodity or product and then provide the importer the technical assistance necessary to use the sample properly. When a project is finished, USDA reimburses the participants for the costs of procuring and transporting the samples. The technical assistance component is a requirement of the QSP but is not reimbursable.
- The **Technical Assistance for Specialty Crops (TASC)** Program provides funding to U.S. organizations for projects that address sanitary, phytosanitary and technical barriers that prohibit or threaten the export of U.S. specialty crops. Using TASC, USDA has successfully helped U.S. exporters regain market access for millions of dollars of products, from almonds to zucchini. Examples of project activities include seminars and workshops, study tours, field surveys and pest and disease research.

All FAS market development program applications undergo a competitive review process. Applicants submit proposals to the agency through the Unified Export Strategy (UES) process, which allows applicants to request funding for several programs using a single proposal.

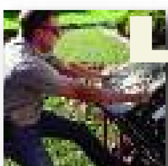
FAS market development programs help stimulate interest and demand for the U.S. brand of agriculture. Agricultural exports boost rural economies, support about 1 million American jobs and play a key role in helping achieve the President's National Export Initiative goal of doubling all U.S. exports by 2015.

For more information on USDA/FAS market development programs, visit: www.fas.usda. gov. ■

Energy-efficiency programs yield dividends for co-ops and members

Co-op members enjoy energy-efficiency benefits through a home weatherization program carried out through Hoosier Energy and its member cooperatives.

By Anne Mayberry,
Rural Utilities Service
USDA Rural Development



Like most rural electric cooperative utilities nationwide, Hoosier Energy Cooperative in Bloomington, Ind., is an expert at serving parts of the country "where all the population is not." That definition of "rural" comes courtesy of Tom Van Paris, vice president of member services and communications at Hoosier, while speaking on a panel talk, "Energizing Rural Economies," held in February as part of USDA's annual Agricultural Outlook Forum.

Moderated by John Padalino, acting administrator of USDA's Rural Utilities Service (RUS), the panel also included Martin Lowery, executive vice president, external affairs, for the National Rural Electric Cooperative Association, and Nivin Elgohary, assistant administrator of RUS Electric Programs.

The rural electric cooperative utility serves two masters, Van Paris said. "We offer our consumers tools to better manage their electric bills in an era of rising rates, and we work to help defer the need for new capacity, which can be costly." Hoosier's solution has been to develop and expand energy-efficiency programs, including the distribution of more than 1,400 carbon fluorescent lighting fixtures to replace incandescent bulbs.

Hoosier Electric is also striving to help co-op members increase the efficiencies of their heating, ventilation and air conditioning (HVAC) systems, using strategies to offset incremental cost differences. Last year, the cooperative increased incentives for commercial and industrial customers to reduce demand during Hoosier's peak-load cycles.

Program gaining 800 homes annually

"On average, we've been expanding these services to cover about 800 homes per year," Van Paris said. "To help with loan control, we have about 13,000 end-use devices under our control. Our customers are receptive to incentives to change out their HVAC systems and move to more efficient models."

The program also includes efforts to convince consumers to recycle old appliances. "One-third of our consumers have two or more refrigerators running in their homes, and 8 percent have four or more," he said. "So we have a bounty program for old equipment."

NRECA's Lowery noted that Hoosier's efforts to boost energy-efficiency could be a model program for co-ops nationwide, and he discussed the possibilities of implementing similar programs across the entire rural electric cooperative network. "One-half of the total electric distribution lines (those delivering power to consumers) nationwide are co-op owned," Lowery said. "Combined with renewed efforts toward modernization, resiliency and cyber security, co-ops have special duties to develop programs to modernize equipment and increase efficiencies."

Lowery noted that stronger rural economies build economies globally. "The co-op business model is the strongest worldwide for rural areas, especially those focused on development efforts." Lowery said. "Understanding how energy-efficiency programs can support the economy long term is important."

Lowery explained that two key factors — the role of electric utility generators and the reduction in peak-demand load — play key roles in energy conservation. Energy-efficiency programs are a win-win both for co-ops and add to the economic model, leading to a better understanding of how energy-efficiency programs perform. Studies have found that well-designed energy-efficiency programs have the potential to yield a tremendous amount of energy savings while greatly diminishing greenhouse gases.

The rule will help leverage and expand energy-efficiency programs to include a re-lending program that will enable rural utilities and cooperatives to efficiently control electricity use during peak-demand periods.

In Hoosier's case, each dollar invested has shown a $3 return, Van Paris said, pointing to the value of audits and screening programs. Measurement and verification are crucial to the program's success. In Indiana, blow-in insulation is one of the energy-efficiency winners for rural homes, he added.

Hoosier's energy-efficiency program is part of a comprehensive portfolio of options to better manage power use. Called "demand-side management," the effort is composed of energy- efficiency programs (such as weatherization), conversion to compact fluorescent lighting, HVAC upgrade incentives, load control and appliance recycling, as well as other home and commercial/industrial efficiency programs. The co-op's cumulative energy savings have reached more than 110,000 megawatt-hours and helped to increase satisfaction of its consumer-members.

Higher consumer satisfaction ratings may be the result of people in a rural electric cooperative's service territory benefiting from energy-efficiency programs, noted RUS' Padalino. "As anyone who runs an electric cooperative will tell you, the least expensive kilowatt is the one you don't have to produce, especially during peak periods, when extreme heat or cold put stress on the system. We are getting much better at reducing consumption.

"Our 650 [utility co-op] borrowers are entering into contracts with customers, blowing insulation into older, drafty homes and helping customers and member-owners caulk, weather strip and replace older, inefficient appliances with new ones," Padalino added.

Once the rule becomes final, it is expected to help make energy-efficiency programs more affordable through increased availability of financing and, in turn, may help boost rural economies. ■

"The least expensive kilowatt is the one you don't have to produce, especially during peak-demand periods," John Padalino, administrator of USDA's Rural Utilities Service, says during a panel discussion held during USDA's annual Ag Outlook Forum. Seated, from left, are: Martin Lowery, Tom Van Paris and Nivin Elgohary.

and their consumer-owners. "Smart energy" technologies and load control together can be used to reduce peak demand.

Boosting sales and services

Energy-efficiency programs can also increase sales and services, producing direct job benefits in rural communities. Retrofits, including caulking and insulation, and sales of state-of-the-art heat pumps create work for local contractors. Cooperatives work to provide training and certification programs so that rural residents are equipped to do the work to meet program standards that measure and verify results.

USDA's Rural Utilities Service expects to release a new rule this year that allows co-ops to make loans to expand these energy-efficiency programs. RUS' Elgohary said that such standards will help quantify gains lend to businesses or homeowners. Eligible projects include consumer energy-efficiency efforts; modifications that reduce electricity consumption; increased efficiency of electric generation, transmission and distribution; and the use of renewable fuels.

Utilities participating in the program would submit an energy-efficiency work plan and seek reimbursement for costs. The proposed rule also establishes requirements to allow borrowers to re-lend funds for energy-efficiency efforts.

Funding for home energy audits

USDA could fund a variety of energy-efficiency improvements that meet criteria established by the new rule. For example, projects to conduct home energy audits and finance improvements necessary to reduce electricity use would be eligible for financing, as would demand-side management projects designed to more

USDA funds help reopen town's only grocery

By James Crandall, Elaine Cranford, Amanda Bergstrom

Editor's note: *Crandall and Cranford are co-op business development specialists with the Nebraska Cooperative Development Center (NCDC); Bergstrom is a graduate assistant at NCDC.*

The loss of a grocery store in a rural community can be a devastating blow, especially when it is the only, or at least major, source of local groceries. Not only do people then have to travel farther and expend more time and money to get their groceries, but it can also make it difficult on community pride and make it harder to attract new residents and businesses.

When the only grocery store in Elwood, Neb., closed in January of 2012, community leaders quickly responded, organizing a community meeting to consider opening a cooperatively owned grocery store. Jim Crandall of the University of Nebraska-Lincoln Cooperative Development Center (NCDC), which receives funding under the Rural Cooperative Development Grant program administered by USDA Rural Development, was the primary speaker at this first meeting. He explained the concept of community ownership through a cooperative.

The meeting attracted more than 100 people, almost all of whom felt that a grocery store was vital to the future of their community. Prior to, and following, the initial meeting, community leaders developed and distributed a survey to gauge interest in opening a co-op grocery store.

Survey shows broad support for co-op

The community response showed widespread support for the concept of a grocery co-op. A committed, hard-working steering committee was formed to begin the process of studying the feasibility of a grocery store and the cooperative business model and creating pro-forma financials.

The 10-member steering committee formed subcommittees that focused on facilities, business and finance issues and incorporation options, with NCDC providing guides and outlines for each subgroup. Expert advice was sought from a local attorney, insurance agents, former store owners, neighboring stores and managers of grain co-ops in nearby towns (one grain co-op also owned a grocery store).

Ideas were also sought from cooperative accountants, area economic developers and grocery suppliers. A financial plan was developed for remodeling the store, and progress and information was shared at two more community-wide meetings. All indications still showed continued support for opening the new grocery store.

The steering committee received a small grant from the NCDC to help with organizational costs, such as attorney fees, brochure printings and mailings. The committee met weekly or biweekly as a group, with subcommittees meeting at additional times to move the process forward quickly.

Membership drive launched

The cooperative was incorporated in May 2012 as the Elwood Hometown Cooperative Market. The steering committee, now a board of directors, conducted a membership drive to capitalize the new business allowing them to purchase and remodel the former store, hire a manager and purchase the inventory.

More than 140 people have bought ownership shares in the cooperative, and new members are still being added to the ownership base. Co-op members, board members and other volunteers were involved in the remodeling of the store, installing coolers, freezers and shelving.

Board members, co-op members and volunteers scanned inventory and stocked all the shelves in preparation for opening. The market has been advertising locally and through social media.

The Elwood Hometown Cooperative Market celebrated its official "soft" opening on Feb. 3, with a preview of the new store for co-op members and donors. The store opened for business to the general public the next day. The market was slated to hold a grand opening on May 25, including a ribbon cutting and additional activities. ■

Co-op Development Action

Stronger Together: Cooperative Farms

***Editor's note:** This article is provided courtesy the Cooperative Development Institute.*

Farmers and consumers are using worker, consumer, shared-services and marketing cooperatives to turn farm-to-fork trends into businesses based on local community connections. The five farmers who own the Diggers Mirth Collective, a worker cooperative, grow 50 different kinds of herbs and vegetables for local stores, restaurants and consumers in Burlington, Vt.

One of their neighbors, the Intervale Community Farm Cooperative, is organized as a consumer co-op that hires farmers to grow produce for 500 families in the Burlington area. Both co-ops farm on leased land owned by the nonprofit Intervale Center. Both are members of an equipment and facilities sharing co-op that helps increase productivity while keeping capital costs in check.

In New Hampshire, eight independent farms in as many towns coordinate production, cropping plans and harvests into a multi-farm community supported agriculture co-op which gives more than 300 consumers in the Concord, N.H., area access to fresh produce through three seasons. Fishermen and consumers along the New Hampshire seacoast are adapting the model to a multi-stakeholder community supported fisheries co-op.

These co-ops are part of a series of case studies the Cooperative Development Institute (CDI) is putting together. The case studies, along with workshops, will be used to launch a local food systems initiative built on consumer, farmer, fishermen and multi-stakeholder cooperatives. These co-ops include shared land, facilities, equipment, labor and other resources, while also adhering to co-op values and providing livable wages and affordable food.

Community supported agriculture (CSA) members pick herbs at the Intervale Community Farm in Burlington, Vt. Photo courtesy Intervale Community Farm Cooperative

To support these efforts, CDI is organizing technical assistance and referral partnerships with farm preservation organizations, such as the Equity Trust in Massachusetts, Land for Good in New Hampshire, and the Maine Farmland Trust, which are leading efforts to transform how farmland is transferred, owned and used. Financing partners for the effort include CoBank, Farm Credit, the Cooperative Fund of New England and the U.S. Department of Agriculture. These partnerships ensure that potential cooperators are fully supported.

Lynda Brushett, CDI's food system specialist, notes that the initiative came about in response to an upsurge in the number of requests for assistance in organizing cooperatively operated farms. "These folks want to change the region's food system to one rooted in values, built on community involvement and structured to last — and that means cooperatives."

More than 70 new and established farmers shared experiences and explored options for collaboration at the "Stronger Together: Cooperative Farms" workshop in February 2013, at Harvest New England, an annual marketing conference and trade show for farmers hosted by state departments of agriculture in the region.

Cooperative Development Institute is a member of CooperationWorks!, a national organization of cooperative development centers and practitioners that span the breadth of the United States. Using innovative strategies and proven business practices, CooperationWorks! centers provide expertise across all aspects of co-op enterprise development, including feasibility analysis, business plan development, business launch and on-going training for operational success.

For more information, visit: www.cooperationworks.coop or e-mail: Sarah Pike at info@cooperationworks.coop. ■

Co-op food market planned in South Carolina

By Mary Ann Cleland and Debbie Turbeville

Editor's note: *Cleland is marketing director for Hub City Cooperative; Turbeville is an agricultural marketing specialist with USDA Rural Development in South Carolina.*

A new community-owned and community-governed food co-op is being planned in Spartanburg, S.C., that will promote local products by focusing on natural and regionally sourced foods offered in a warm, friendly environment. Hub City Cooperative will be one of the first retail-consumer food co-ops in the state. The Hub City grocery store, with 5,000 square feet of retail space, is projected to open in 2014. Co-op leaders say the store is expected to make about $2 million in sales its first year.

Hub City Cooperative will provide a wide selection of fresh, healthy food products in an area currently designated as a "food desert." Co-op leaders say the community-owned market will provide 30 permanent jobs and support other local jobs through a "ripple effect." They say the co-op will provide a sales outlet for local growers and agricultural producers and help educate the community about the critical importance of building a local food system and promote healthy diet and nutrition.

To house the new facility, the co-op's start-up board has acquired a vacant building in Spartanburg, which was the site of an open house last October. During the open house, the co-op announced the hiring of a local architectural firm to lead the renovations, made possible by a $10,000 matching grant from the Food Co-op Initiative (FCI). FCI is a nonprofit cooperative development center that provides training and resources to new retail food co-ops across the United States.

With USDA support, FCI offers "seed grants" to rural communities to help kick-start their organizing efforts. Stuart Reid, FCI executive director, attended the open house as part of National Co-op Month celebrations. Also attending was Jesse Risher, acting assistant state director and Community Facilities Program director for USDA Rural Development in South Carolina, and Martin Eubanks, deputy director of the South Carolina Department of Agriculture, among a number of other officials.

During the open house, the Edward Via College of Osteopathic Medicine, located in Spartanburg, announced a $10,500 sponsorship that is providing the funds to retain a nationally recognized store planner to oversee the design of the grocery store's interior. Eubanks said he hopes the co-op will serve as a model for others in the state. The co-op was first proposed in 2009 and has been raising money and recruiting member-owners since 2010. Currently, more than 940 members of the small community have shown their support by purchasing ownerships. USDA Rural Development has offered technical assistance during the co-op development process.

An all-volunteer team has done the "heavy lifting" for development of the co-op, attending national cooperative grocery conferences, visiting other food co-ops, securing the store site and recruiting member-owners and sponsors. The cooperative is working to raise its membership to 2,000 local residents before the store opens. Hub City Co-op plans to raise 66 percent of the needed equity from member-owners, with the store expected to be profitable in its fifth year of operation. Further information is available at its web site: www.hubcity coop.org. ■

Newsline

Co-op developments, coast to coast

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

Traceability wins Top Innovator honor for PCCA division

American Denimatrix, the textile and apparel division of Lubbock, Texas-based Plains Cotton Cooperative Association (PCCA), has been named a 2013 Top Innovator for its traceability program by *Apparel Magazine* in its May issue. American Denimatrix is among 40 top apparel companies recognized for "demonstrating exceptionality through an information technology-related implementation, product launch, or other outstanding business strategy."

The cooperative's traceability program allows consumers to trace their denim jeans back to the farms that produced the cotton used to make the fabric. A hang-tag containing a quick response (QR) code on the jeans can be scanned with a smart phone, which takes the consumer to a website that features profiles of some of the farms and farm families. The profiles can contain general location, photographs, history, and environmental stewardship information about the farming operations. A major retail chain in 2012 used the traceability feature with one of its proprietary line of jeans manufactured by American Denimatrix.

With a smart phone, consumers can learn about the farms where the cotton was produced for their jeans. They just scan the quick response (QR) code on the back of the tag, which comes attached to denim apparel produced by American Denimatrix, a subsidiary of Plains Cotton Cooperative Association.

MMPA pays $1.8 million cash patronage

Michigan Milk Producers Association, Novi, Mich., recently paid $1.8 million in cash patronage refunds to its dairy farmer members. This cash allocation represents 25 percent of the $6.3 million net earnings generated by the cooperative in fiscal year 2012. The cash patronage returned includes 100 percent of the co-op's farm supply earnings and 25 percent of milk marketing earnings.

All members who marketed milk through MMPA in fiscal 2012 received a portion of the $1.8 million. Including other cash payments, members have received more than $7.1 million in the past 10 months.

During 2012, MMPA members earned $27.2 million in total premiums. These premiums are a combination of quality, volume, over-order premiums and a "13th" milk check and serve as a reflection of MMPA's financial strength.

"The return of cash patronage refunds, premiums and allocated equities continues to occur as a result of successful operating results of MMPA," says Clay Galarneau, MMPA general manager. "The high quality of our milk supply and continuing growth of our milk production is an attractive combination that has helped strengthen our financial position."

MMPA is owned by about 2,000 dairy farmers in Michigan, Indiana, Ohio and Wisconsin.

Wickstrom to succeed Roche at Minn-Dak

Kurt Wickstrom has been hired to succeed Dave Roche as president and CEO of Minn-Dak Farmers Cooperative, a sugarbeet growers' co-op based in Wahpeton, N.D. In a notice posted on Minn-Dak's website in April, Board Chairman Brent Davidson says Wickstrom will join the co-op in July and assume CEO duties from

Roche upon his retirement this Aug. 31.

Wickstrom is currently president of Betaseed Inc., a hybrid sugarbeet breeding business in Shakopee, Minn. Davidson recently became chairman following the retirement from the board of Doug Etten, of Foxhome, Minn., who had served the maximum 15 years on the board, including five years as president.

Consumer co-op leader Sally Jewell new Interior Secretary

Sally Jewell has left her job as president and CEO of the REI sporting goods consumer cooperative to become the 51st secretary of the U.S. Department of the Interior. Jewell guided REI for the past eight years as CEO and spent five years prior to that as chief operating officer.

She began her service to the co-op as a member of its board before moving into management. During her tenure as CEO, REI grew to nearly $2 billion in annual sales. In addition to helping lead its business success, Jewell also helped REI heighten the company's commitment to environmental stewardship, volunteerism and engaging more people, especially youth, in the outdoors.

Co-op leader Sally Jewell is the new U.S. Secretary of the Interior. Photo courtesy REI

"Speaking on behalf of REI's board and staff, we thank Sally for her 17 years of service to the co-op and wish her all the best with her new adventure in the 'other Washington,'" says Brian Unmacht, REI's Interim CEO. "Thanks to her outstanding leadership, REI is in strong shape and well positioned for the future. As she did at REI, Sally Jewell will lead the Interior Department with integrity, balance and wisdom."

Founded in 1938 by a group of Pacific Northwest mountaineers seeking quality equipment, REI is committed to promoting environmental stewardship and increasing access to outdoor recreation through volunteerism, gear donations and financial contributions.

USDA, dairy producers working to reduce greenhouse gas

Agriculture Secretary Tom Vilsack in April renewed a historic agreement with U.S. dairy producers to accelerate the adoption of innovative waste-to-energy projects and energy efficiency improvements on U.S. dairy farms, both of which help producers diversify revenues and reduce utility expenses on their operations. The pact extends a memorandum of understanding (MOU) signed in Copenhagen, Denmark, in 2009.

"Through this renewed commitment, USDA and the Innovation Center for U.S. Dairy will continue research that helps dairy farmers improve the sustainability of their operations," Vilsack said. "This vital research also will support the dairy industry as it works to reach its long-term goal of reducing greenhouse gas emissions by 25 percent by 2020."

Vilsack signed the agreement at the White House, where he was joined by representatives of the Innovation Center for U.S. Dairy and Dairy Management, including Thomas P. Gallagher, CEO of the center. One objective of the MOU is to increase the construction of anaerobic digesters and explore innovative ways to use products previously considered waste streams from dairy production, processing and handling.

USDA support for agricultural and waste-to-energy research has played a key role in the agreement's success to date. Since signing the MOU, USDA has made nearly 180 awards that helped finance the development, construction, and biogas production of anaerobic digester systems through Rural Development programs, such as the Rural Energy for America Program (REAP), Bioenergy Program for Advanced Biofuels, Business and Industry Guaranteed Loan Program, and Value-Added Producer Grants, among others. These systems capture methane and produce renewable energy for on-farm use and sale onto the electric grid. During this period, USDA also awarded about 140 REAP loans and grants to help dairy farmers develop other types of renewable energy and energy efficiency systems.

Wisconsin food hub co-op organizes

The Wisconsin Food Hub Cooperative has officially been organized, with members gathering in Waunakee in April to elect officers, meet new General Manager Lynn Olson and kick off their programs, according to the *Wisconsin State Farmer*. The co-op is launching with 12 farmer-members but plans to expand to 15 to 20 farms by the end of this year. Its leaders hope this co-op food hub business model will expand to other parts of the state if it proves successful.

The goal is to provide small and medium-sized producers access to larger markets.

Several large food buyers were at the organizational meeting, the *Wisconsin State Farmer* reported, demonstrating their interest in buying local produce. The co-op will limit up-front risks for its farmers by providing sales, marketing and logistic services for commodity-type produce — such as potatoes and sweet corn — as well as specialty produce, meats, cheese and value-added products, Olson said.

Wisconsin Farmers Union (WFU) is a key partner in the development of the Food Hub Cooperative. Tom Quinn, executive director of WFU, said the project really fits with several missions of Farmers Union, including cooperative development and helping farmers market their products at a fair price.

AMPI reports $1.7 billion in sales

Associated Milk Producers Inc. (AMPI) had sales of $1.7 billion and earnings of $9.3 million in 2012, it was announced during the co-op's annual meeting in Bloomington, Minn., in March. About 350 delegates and guests attended the annual meeting of the co-op, which is owned by 2,900 Upper Midwest dairy farmers.

Slicing cheese at an AMPI plant.

Cheese production, which represents 57 percent of total sales, grew by more than 11 million pounds compared to 2011. Butter production continued to grow steadily, increasing by 5 million pounds. Consumer-packaged cheese and butter represented nearly half of the cooperative's sales.

"Our cheese-packaging plant in Portage, Wis., and the New Ulm, Minn., butter plant were major contributors to the cooperative's bottom line," said AMPI President and CEO Ed Welch. "In the last five years, our consumer-packaged cheese and butter sales have grown exponentially," he added, indicating that orders from food-service customers fueled much of the growth.

AMPI Board Chairman Steve Schlangen discussed the cooperative's strategies for long-term performance. "As a dairy farmer-owned cooperative, AMPI is uniquely positioned to market our locally produced dairy products to food service, retail and food ingredient customers across the nation," Schlangen said.

Strengthening AMPI's manufacturing portfolio — with a renewed focus on cheese, butter and powdered dairy products — led to the sale of two businesses in 2012. "Selling the Cass-Clay plant and brand in Fargo, N.D., and our cheese sauce and pudding business in Dawson, Minn., was a bold step," Schlangen said. "However, these two businesses accounted for only 5 percent of AMPI's total annual revenue."

FARM program participation at 70 percent

The dairy industry's animal care program has achieved an important milestone, with 70 percent of the nation's milk production now participating in the program. With the recent addition of several major cooperatives in the National Dairy FARM Program (Farmers Assuring Responsible Management), more than two-thirds of the nation's cows will be covered by the industry's animal well-being effort, according to the National Milk Producers Federation (NMPF).

NMPF started the FARM program three years ago to provide a consistent, national, verifiable means of showing consumers and the food value chain how dairy products are produced. "Consumers and customers don't expect perfection, but they do expect us to collectively demonstrate our industry's responsible practices and our commitment to quality animal care," says Jerry Kozak, president and CEO of NMPF.

Even with the increased participation in the FARM program, "We need more farms, more cooperatives and more companies to commit themselves to this program," Kozak says. "The expectations are out there. The questions are being asked. We have to provide clear answers."

The FARM program's guidelines, contained in the National Dairy FARM Animal Care Manual, are in the final stages of an extensive review and revision process. They will be revised slightly to reflect the latest knowledge and best practices about proper dairy animal care. Revisions to the animal observation component also relied on analysis of over 360,000 animal observations collected through on-farm evaluations for the FARM program over the last three years.

If the NMPF board approves the revisions in June, the newly revised manual will be available on the FARM website: www.nationaldairyfarm.com.

Ric Sundal named COO of Moark

Moark LLC, the egg subsidiary of Land O' Lakes, has named Ric Sundal as chief operating officer, succeeding Craig Willardson, who retired April 1. "Ric has a strong background for this role with more than 25 years of management experience across the food and agriculture industry, including work in the egg business," says Dan Knutson, chairman of the Moark board of managers.

Prior to his new role, Sundal was senior director of Purina Animal Nutrition's specialty businesses and international. He was previously director of Purina's national accounts, and director of corporate internal audit, finance strategy and business development for Land O'Lakes Inc. Prior to joining Land O'Lakes, Sundal was COO of Ergotron and chief

WAGES launches successful worker co-ops

***Editor's note:** This article provided courtesy the National Cooperative Business Association.*

During the past 14 years, WAGES (Women's Action to Gain Economic Security) has successfully incubated five cooperative businesses that are now fully self-sustaining. Each co-op provides eco-friendly housecleaning services in the San Francisco Bay area. These worker-owned co-ops now generate more than $3 million in sales and sustain more than 100 jobs — 90 percent of which are held by co-op members.

Worker-owners in these co-ops receive benefits — including medical leave, time off and disability. Their individual incomes have grown by up to 158 percent, and median household incomes have increased by 70 to 86 percent. The average member tenure in a WAGES co-op ranges from 4.2 to 6 years.

As a result of launching these five businesses, WAGES has gathered a series of best practices and lessons learned in worker-owned cooperative development. For the past 10 years, WAGES has also provided technical assistance to other co-op developers.

In a webinar hosted by the National Cooperative Business Association (NCBA) in January, titled "The Role of Nonprofits in Developing Worker Cooperatives," WAGES staff shared their story with other nonprofits that are considering adding co-op development to their portfolio of services.

Alex Armenta (associate director), Fernando Bernasconi (co-op general manager and WAGES business advisor) and Elena Fairley (communications and development associate) spoke candidly about the ups and downs of the WAGES journey. They described how the organization progressed from a nonprofit service provider deeply rooted in its community to a successful co-op developer with the necessary business acumen to incubate and launch successful, self-sustaining cooperative enterprises.

Throughout, WAGES has remained focused on serving one specific community: low-income Latinas in the San Francisco Bay area. The vast majority of those they serve are women immigrants from Mexico and Central America. More than 90 percent are mothers, and many support family members outside their immediate household. Few have more than a high school education, and almost all of these women speak only Spanish.

WAGES believes the cooperative business model has a very special contribution to make in serving the needs and aspirations of women in this community. With carefully timed and orchestrated support from WAGES, Latinas who have dreamed of opening a business are empowered to become worker-owners of a self-sustaining cooperative enterprise.

WAGES uses an incubation approach — providing heavy subsidies, training and technical assistance to cooperatives during their early, formative years. But the goal from the outset is to help each new co-op evolve to a point where it can operate as an independent business and "fly the nest," no longer relying on WAGES' financial or technical support.

A cooperative graduates from incubation to maturity under the WAGES model when:

- The co-op can cover all costs on its own without subsidies from WAGES;
- The co-op develops and maintains a reserve worth approximately three months of operating expenses;
- Members have developed skills to manage the business with only light managerial support from WAGES staff.

WAGES provides proven programs in small business development that have been customized for co-ops as well as intensive, culturally appropriate training for each worker-owner. It also shares business services and network support across all the co-ops that WAGES has created.

WAGES staff added a cautionary note for other nonprofits considering a similar move into cooperative development: be sure you have clearly defined your resource and expertise requirements for each stage of the cooperative development process, from incubation to launch. Perhaps most importantly, make sure you have a solid understanding of where the capital will come from to support each stage in the growth of the cooperative business. ■

financial officer and managing partner of Best Brands. He has a Bachelor's degree in accounting and economics from the University of Minnesota.

Sunkist turns 120 with strong fiscal showing

Sunkist Growers, Sherman Oaks, Calif., marked its 120th year with a third consecutive year in which revenue topped $1 billion while payments to members also made solid gains. At its annual meeting in February, Sunkist President and CEO Russell Hanlin announced payments to members of $840 million, up from $803 million in 2011.

Among the highlights of 2012 were Sunkist's formation of a joint venture to improve the co-op's juice business. "Developing the joint venture with juice processor Ventura Coastal has resulted in better pricing and created efficiencies," Hanlin said.

Another important stride forward for Sunkist was the launch of an annual dividend program for its growers. "Positive results and cost reductions across the business have positioned Sunkist to launch an annual dividend program for growers," Hanlin said. The first distribution was made to growers in March.

Looking forward, the company remains focused on broadening the Sunkist portfolio of consumer products. "Sunkist's customer-focused approach guides everything we do," said Mark Gillette, re-elected chairman of Sunkist's board and president of Sunkist-affiliated Gillette Citrus Inc. "Our growers, including myself, are expanding production of newer varieties consumers favor because we know it will continue to improve our sales success for years to come."

Innovations in packaging and retail display support have also been customer-driven. Sunkist's full range of cartons, bags, display masters, bins and reusable plastic containers (RPCs) have been designed with customers' needs in mind.

"Sunkist, at its core, is a cooperative of family farms," said Kevin Fiori, vice president of sales and marketing. "Our culture is one of family and collaboration with growers and most definitely customers to drive the desired results for all."

Sunkist enjoyed its third consecutive year in which sales topped $1 billion.

Foremost Farms consolidates cheese operations

In a move to consolidate cheese manufacturing capacity and capitalize on recent investments in its processing network, Foremost Farms USA has announced that it is moving cheese production from two plants located in western Wisconsin to its plants in Appleton, Richland Center, Milan and Marshfield, all in Wisconsin.

The cooperative's Alma Center, Wis., plant will close permanently on June 30, 2013; its Waumandee, Wis., cheddar cheese plant will be idled indefinitely.

"In recent years, our members have invested over $50 million in our plant system to increase cheese production capacity, maximize throughput and enhance processing capabilities," Dave Fuhrmann, president of Foremost Farms USA, said in a press release. "These investments have grown our processing capacity here in Wisconsin as our members' milk volume has grown.

"Last year our members marketed a record 6 billion pounds of milk. Even though we are reducing our plant and employee numbers, we are not downsizing the volume of cheese produced by Foremost Farms or reducing our ability to handle our members' milk. Rather, we plan to further expand Foremost Farms' cheese production from last year's record of 525 million pounds to an even greater level."

The Alma Center plant produces mozzarella cheese for food-service markets. The closing will result in the loss of 52 jobs. About 50 employees will be indefinitely laid off at the Waumandee plant, which produces American-style cheese (primarily cheddar).

"Our employees are very dedicated and experienced, and we are working to ease the transition as much as possible by offering severance packages to the individuals who are permanently losing their jobs," said Fuhrmann. The impacted employees can apply for openings at other Foremost Farms facilities. Milk from Foremost Farms' member-farms will be directed to other dairy plants owned by the cooperative. There will be no changes in terms of milk pick-up, sampling, testing or field service.

Record year for Westby Cooperative Creamery

Westby Cooperative Creamery, Westby, Wis., reported more than $50 million in total revenue in 2012, a new record. Addressing more than 100 member-owners, employees and guests at the co-op's 109th annual meeting in January, General Manager Pete Kondrup reported that the co-op had $30 million in manufactured dairy food sales and nearly $20 million in fluid milk sales.

A record of just under 25 million pounds of dairy foods were manufactured, including cottage cheeses, sour creams, dairy dips, yogurts, butter, cheese curds, soft cheeses and hard cheeses. Member-owners supplied nearly 125 million pounds of conventional and certified-organic fluid milk to their creamery, also a record.

All milk supplied by members is growth-hormone-free and comes fresh from local family dairy farms. Membership numbers also hit a new record of just over 160 local family dairy farms, up about 10 percent.

The co-op also increased its workforce during fiscal 2012, in part due to the opening of a new distribution center and general offices, including 6,000 square feet of office

A record of just under 25 million pounds of dairy foods was manufactured last year by Westby Cooperative Creamery.

space and 10,000 square feet of refrigerated warehouse space. The warehouse includes "five-high racking" for up to 1,000 pallets of manufactured dairy food products.

"Our new distribution center is providing the efficiencies in better serving our customers of Westby-brand retail products, private-label manufactured products and food service and food ingredient products," Kondrup said. "This was an investment in the present and long-term growth of our business."

VAPG grants support local producers, bio-based initiatives

Agriculture Secretary Tom Vilsack has announced the selection of 110 Value-Added Producer Grants (VAPG) to agricultural cooperatives, producers and rural businesses that will help create jobs and develop new products. The grants help agricultural producers increase their income by expanding marketing opportunities, creating new products or developing new uses for existing products.

"This support will benefit rural businesses and the communities where the recipients are located," Vilsack said on May 1. "These awards also will advance USDA's goals to develop a bio-based economy and support local and regional food systems."

The awards include 11 projects involving bio-based products, some of which will convert corn stover into anhydrous ammonia. Others will convert miscanthus grass fiber, wood and goat manure into biochar and enhanced compost; still other projects will convert sorghum into electricity and fertilizer.

Wisconsin Food Hub Cooperative in Madison, Wis., (see related news item, page 35) will use a $150,000 working capital award to assist in the startup of a regional fresh produce food hub and packinghouse that was created to enhance access to wholesale markets for the local farm economy and create private-sectors jobs. The food hub will aggregate local produce sold under the Wisconsin Farmed brand.

A number of Native American applicants will also receive support for their projects. For example, the Ute Mountain Ute Tribe Farm & Ranch Enterprise of Colorado will receive more than $92,000 to bring a cornmeal product to market. This grant will help the tribe market and distribute the Indian cornmeal products and secure customers. This year marks the first time that tribal entities have received funding through the VAPG program.

Glenmary Gardens in Bristol, Va., will use a $213,000 grant to expand the processing and marketing of locally grown fruits and vegetables into jellies, ice cream, and flavored syrups. Glenmary Gardens is a family-owned operation providing freshly grown berries, fruits and vegetables to the Virginia and Tennessee Tri-City area.

Value-Added Producer Grants are an important element of USDA's Know Your Farmer, Know Your Food initiative, which coordinates USDA's work to support local and regional food systems. Previous VAPG awards supporting local and regional projects are mapped on the Know Your Farmer, Know Your Food compass, http://www.usda.gov/maps/maps/kyfcompassmap.htm.

Since the start of the Obama administration, the VAPG program has helped more than 600 agricultural co-ops, producers and rural businesses. For more information about VAPG and other USDA Rural Development programs, visit: www.rurdev.usda.gov.

NCBA program to help credit unions protect members

The National Cooperative Business Association (NCBA) has a community development initiative that is launching with a program to certify credit union staff as financial counselors, ready to protect their most vulnerable members from predatory lenders. The Community Development Certified Financial Counseling (CDCFC) program trains credit union staff to identify financial distress and work directly with members to prevent financial catastrophe. CU Strategic Planning created the CDCFC training, and NCBA is the certifying body for the program.

"Working people have been having a difficult time in this economy," says NCBA President and CEO Mike Beall. "All cooperatives — especially credit unions — have a role to play in improving the lives of their members. Having a concern for the community is one of the core principles of cooperatives."

The community development initiative complements existing programs by providing practical tools, training and capacity building that aid cooperatives in becoming more capable of participating and succeeding in community development work.

Pelican State Credit Union, Baton Rouge, La., has recognized the value of the CDCFC program as a way to assist its 33,530 members. CEO Jeff Conrad noticed that over the past five years, the credit scores of Pelican's members had dropped, sometimes leaving them ineligible for loans for which they formerly qualified. Conrad certified all of his staff through the CDCFC program so that every staff member is empowered to help members build wealth and improve their financial status.

CoBank appoints new executives

CoBank CEO Bob Engel has announced the appointments of Mary McBride as bank president and Thomas Halverson as chief banking officer, effective July 1.

"Over the past few years, CoBank has become a larger and more complex business, particularly in the wake of our recent merger with U.S. AgBank," Engel said. "Given the increased breadth and scope of our operations, I am delighted to be announcing these new appointments, which will enhance the overall capacity of our executive team."

McBride will report to Engel and have responsibility for all of the bank's lending units, as well as its credit, banking services and corporate communications functions. McBride has been with CoBank since 1993 and has served in a variety of executive positions during her 20-year tenure.

Halverson comes to CoBank after more than 15 years at Goldman Sachs. He will report to McBride and have responsibility for the bank's portfolio of loans to customers in all 50 states, including corporate and regional agribusinesses, Farm Credit associations, rural electric cooperatives, rural water and wastewater companies, and rural communications service providers. He will also oversee the bank's agricultural export finance division.

Farmer Co-op Conference Nov. 7-8

Co-op leaders are urged to mark their calendars now to attend the 16th annual Farmer Cooperative Conference, Nov. 7-8 in Minneapolis. Presented by the University of Wisconsin Center for Cooperatives, the conference is a unique opportunity to explore current issues that will shape the future for farmer-owned cooperatives.

Early confirmed speakers include: Liam Herlihy, board chair of Glanbia Co-operative Society, Ireland; Carl Casales, CEO of CHS Inc.; Jeff Stroburg, president and CEO of West Central; and Molly Jahn, professor of horticulture, University of Wisconsin-Madison.

For more information, contact: Anne Reynolds at: atreynol@wisc.edu.

USDA program promotes job creation

Agriculture Secretary Tom Vilsack announced in April that applications are being accepted from qualified, nonprofit and public organizations (intermediaries) to provide loans to support rural businesses and community development groups. Funding, which is intended to spark business expansion and create jobs, will be made available through USDA's Intermediary Relending Program (IRP).

"This program is a part of the Obama Administration's ongoing effort to leverage private investments with public funds to create jobs and expand economic opportunity for rural entrepreneurs," Vilsack said. "Intermediaries serve as a critical component to boosting local economies."

The Intermediary Relending Program is USDA Rural Development's primary program for capitalizing revolving loan funds. USDA lends money to economic development intermediaries (nonprofits and public bodies) which, in turn, re-lend the funds as commercial loans to rural businesses (ultimate recipients) that might not otherwise be able to obtain such financing. The repayment of the ultimate recipients' loans allows the intermediary to continue to make more loans to new recipients, supporting sustainable economic development.

The program has created or saved an estimated 20,000 jobs since 2009. For more information about the IRP, visit: www.rurdev.usda.gov.

Land O'Lakes' Krikiva retiring; Veazy, McBeth appointed

Land O'Lakes Government Relations Director Steve Kirkava is retiring after 36-years working in communications and government and member relations with the St. Paul, Minn.-based cooperative. Autumn Veazey has been named as the new director of government relations. Veazey had been counsel for U.S. Senator Thad Cochran of Mississippi. She will be based in Washington, D.C., and will be responsible for leading the companywide government relations strategy and identifying issues that affect the cooperative's members and its businesses.

The co-op also announced that Daryn McBeth has joined the co-op as director of state affairs and industry relations. McBeth had been president at the Minnesota Agri-Growth Council. Based in Minnesota, McBeth will be responsible for developing the Land O'Lakes strategy for state-level

Cooperative Hall of Fame inductees for 2013 were feted during a banquet at the National Press Club in Washington, D.C., in May. Left to right are: Joy Cousminer, who helped fill a void for banking services in New York City's South Bronx by founding Bethex Federal Credit Union, of which she is now CEO; Steven Dawson, a leader in the worker co-op movement who helped found ICA Group and Cooperative Home Care Associates; Rebecca Dunn, a leader in co-op finance who oversaw a co-op development fund in New England that has grown from $130,000 to $15 million; Leland Ruth, longtime leader of the Agricultural Council of California who helped found the California Center for Cooperative Development and the California Association for Cooperatives. Photo courtesy Cooperative Development Fund

government relations.

United Cooperatives sales hit $643 million

United Cooperative, Beaver Dam, Wis., had 2012 sales of $643 million, up $119 million from 2011. The core cooperative business generated $25.8 million in profits, up $5.8 million from 2011, President and CEO David Cramer reported in April during the co-op's annual meeting in Juneau, Wis.

"Our investments in ethanol did not perform as well as 2011, but still contributed $1.8 million in profits to our net income," Cramer said. "In addition, patronage from our regional cooperatives equaled almost $6 million. Adding everything, United Cooperative had a total net income after taxes of almost $35 million." That matches the co-op's record year in 2011.

United Cooperative is returning almost $20 million in total patronage to members, with $8 million being paid in cash and the balance in equity credits. ■

Commentary

continued from page 2

management accountable for results, and not let sentiment interfere with business judgment. If the demographics of a co-op's territory are changing, yet it chooses to serve only its traditional clients, it runs the risk of failing. Co-op managers and directors need to be constantly "looking around the corner" to develop new products and services.

USDA's Value-Added Producer Grant (VAPG) program has benefited many cooperatives, and many more should be using it. By helping to fund feasibility studies and develop business plans, it can help start new businesses or expand the product offerings of existing co-ops and other rural businesses. (For information on all USDA Rural Development programs, visit: www.rurdev.usda.gov).

One of most important things we in the co-op community must do is to continue to "evolve" the co-op system by stressing the core foundation principles adhered to by generations of co-ops. Many co-op associations teach co-op principles, but we need to grow that effort to ensure that all co-op officers and employees have a sound grasp of co-op fundamentals and what makes a co-op different from other types of business.

I believe the co-op business model can address practically any need. Success will ultimately depend on the soundness of the business plan and the level of dedication of the members. If people have a collective need for a service or product, they should consider a co-op.

I would be remiss if I didn't say something about our USDA Rural Development staff, which has been reduced in size by about 18 percent in recent years, but which continues to provide an amazing amount of services and resources to rural people and business. This includes the additional $21 billion Rural Development made available through the Recovery Act, which has benefited virtually every rural American in some way. I am deeply appreciative for the support I have received both among our incredibly committed staff and the clients we serve.

Finally, I salute all of you in the cooperative sector who do so much to keep us fed, clothed and the power on, and for caring not just about your members, but your communities. To all the people who sit on co-op boards and committees, to all the employees who keep the gears turning, and to all the members who support their co-ops — thank you. You prove each and every day that the co-op way is the American way. It has been my good fortune and privilege to serve you. ■

Start me up

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then this probably wasn't a good fit. It was about building the community that was working together for everyone's success."

There is no such thing as too much education. When organizing a co-op, especially when members may have little knowledge of co-ops or the industry, organizers and prospective members need as much education as possible on how cooperatives are organized, financed and operated. This lesson extends beyond start-up. Board members should continue to develop their skills and expertise and members need to be reminded of the value of their co-op.

Don't rush the process. Many groups feel pressured to open their co-op as quickly as possible. Some of these pressures are internal, fear of burnout or loss of momentum. Others are external, such as the start of the growing season or a rapidly approaching grant deadline. Groups should resist these pressures and make sure that clear goals, agreements and expectations are in place before moving forward.

Allow different roles for different people and personalities along the development path. The personality and talents of visionaries often differ from those of project planners and implementers. Successful start-ups recognize these differences and utilize different skill sets at the appropriate stages.

Tap into assistance. From private consultants and industry associations to public universities and peer co-ops, there is an abundance of assistance available to start-ups. Many of the co-ops in this study partially credited their success to help from outside advisors and other cooperatives.

Every co-op is different. The recommended planning approach differs depending on the industry, timing and individuals involved. The ways to start a co-op are as diverse as the sector itself, so it is best to avoid the one-size-fits-all approach. For example, in co-op conversions, the planning process tends to be an ongoing dialogue focused on the cooperative structure and conversion process, rather than making a business case for the concept. But in the case of consumer-owned co-ops, the planning process includes a strong grassroots organizing component in order to attract and mobilize new members.

Have fun! Starting a co-op can take time and require a lot of effort. It is important to build non-work activities and relationship building into the process. One grocery co-op's steering committee turned its weekly meetings into potluck meals. These shared working meals strengthened their community and kept committee members engaged for the long haul. Groups are sure to make mistakes along the way; the key is to learn from them, move on and stay flexible.

Conclusions

This research was based on a small sample of food- and agriculture-related co-ops in the Upper Midwest. There were several inherent challenges in conducting this study.

The two main challenges were the diversity of the co-ops included in the study and the lack of an existing set of quantitative data on cooperative start-ups. This made it difficult to benchmark our sample or to draw any major conclusions from the data.

While certain challenges are common to all co-ops, many of the issues are specific to the sector, the community or the size of the venture. We hope this initial study will start a broader conversation about cooperative start-up success factors and best practices in cooperative development. ■

Birds of a feather

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op was originally located in the Bay Area city of Hayward, but the high cost of doing business there caused it to pull up stakes in the 1980s and relocate to Modesto, about an hour's drive to the east. Today, new sewage requirements in Modesto are forcing the co-op to purchase equipment for the processing plant to ensure that its effluent has the proper pH level.

But it's local building codes that are causing the most problems for Beck. In the past, putting up a pigeon coop, even for a large number of birds, wasn't too big of an undertaking. Basic wooden framework, roof and chicken-wire sides would do the trick in Central California's warm, dry climate. But new codes impose higher costs, Beck says. "On the last structures I built, I had to meet the same codes as if I were building a house." That meant hiring an engineer and producing blueprints.

Building codes also required heavier roofs and stronger foundations. "The cement requirements meant I had to meet [conditions for] 120-mph wind-shear, even though we don't have hurricanes here."

Despite these higher costs for doing business, Beck continues to be optimistic about the business and recommends it to people who are willing to do the work and learn the ropes. "The market's good," he says. "We've been able to raise prices, but not enough to keep up with expenses. It used to be for every three bucks I spent, I'd clear $2. Now it's $1. So our expenses have just about doubled." But he still thinks the profits are well worth the effort.

"Mostly I enjoy it" he says. "I've been doing it a long time and I love it." ■

Tune up your Co-op

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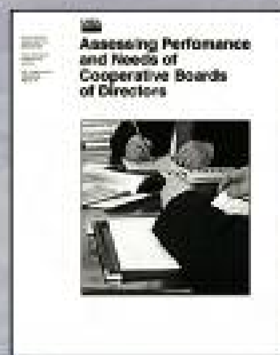
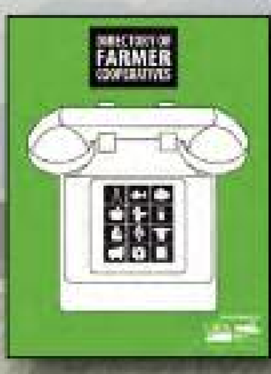
Co-ops 101: An Introduction to Cooperatives (CIR 55)
Probably the most-read co-op primer in the nation, this report provides a bird's-eye view of the cooperative way of organizing and operating a business. Now in an exciting new full-color format.



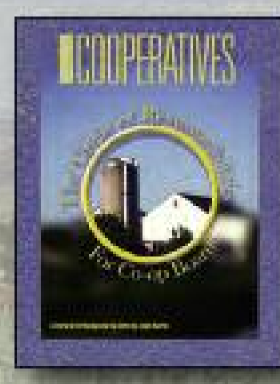
Assessing Performance and Needs of Cooperativce Boards of Directors (CIR 58)
This report helps directors assess a) their individual abilities and areas needing improvement; b) how well the board performs and how it can improve; and c) the productivity and effectiveness of board meetings.

Cooperative Employee Compensation (RR-228) (Web only)
Employee compensation is the largest expense item for most cooperatives, averaging 4 percent of sales. This publication provides a comprehensive survey of compensation rates and benefits of U.S. agricultural co-ops.



Directory of Farmer Cooperatives (SR-22)
Contains a listing, by state, of over 1,200 farmer-owned marketing, farm supply, service, fishery, and bargaining cooperatives. Includes each cooperative's contact information, type of cooperative, and products sold. Online version updated every month. Find it along with all other USDA co-op publications, at: http://www.rurdev.usda.gov/BCP_Coop_LibraryOfPubs.htm.

Strategic Planning Handbook for Cooperatives (CIR-48)
Presents a method for facilitating the strategic planning process. Facilities, personnel, and equipment associated with the process are described. The five phases of strategic planning are described in detail—agreeing to plan, gathering facts, evaluating facts, defining the plan, and evaluating results. Hints for success are provided throughout.



The Circle of Responsibilities for Co-op Board Members (CIR 61)
All boards of directors are under increasing pressure to perform well and justify their decisions. Cooperative boards are no exception. This series of articles, originally printed in USDA's *Rural Cooperatives* magazine, lays out fundamental guidelines for cooperative directors to follow.

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Food Hubs

A new strategy for marketing local foods

Local food sellers know that consumers are willing to pay a premium for locally- and regionally-produced food products. But they lack distribution systems for getting their products to mainstream markets.

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The Role of Food Hubs in Local Food Marketing, Service Report 73, is a comprehensive look at this growing new trend. Free of charge, it's available in hard copy or electronically.

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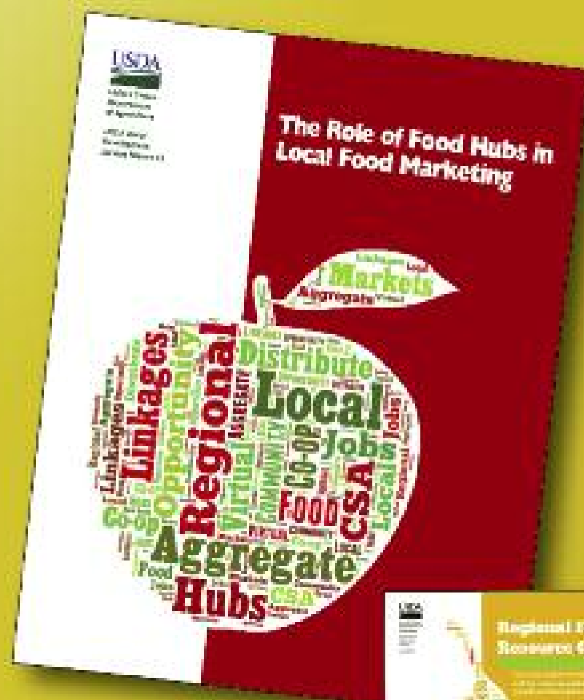

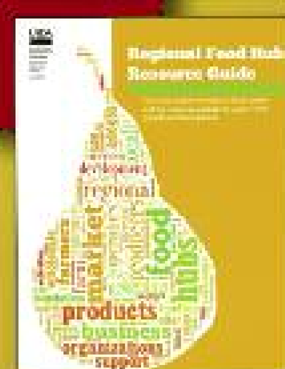

Also Available

SR 73's companion publication, the Regional Food Hub Resource Guide, from USDA Agricultural Marketing Service.

A collection of information and resources, providing background on everything needed to develop or participate in a regional food hub. Outlines funding opportunities, support resources, best practices, strategies to address challenges, and more.

Look for it at www.ams.usda.gov/foodhubs
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