
New Generation Cooperatives: *Case Study*

*New Generation Cooperatives and The Future of
Agriculture: An Introduction*

by Jennifer Waner



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The past 50 years have brought major changes in agriculture. Globally, as well as in the United States, agricultural producers have faced greater competition as the capacity to produce and the supply of commodities has increased. In a sense, agriculture has been undergoing an “industrialization” process that has been defined as “the application of modern industrial manufacturing, production, procurement, distribution, and coordination concepts to the food and industrial product chain” (Boehlje 1996, 30).

The industrialization of agriculture has transformed a nation of relatively small diversified family farms into fewer specialized highly technical corporate and private operations. Such enterprises, over the long term, may threaten many of the remaining traditional farms because of an absolute size advantage. Farm producers no longer engage in a subsistence type food production system; instead, they must operate in a global food system. Markets are product-driven and production is increasingly capital dependent.

Many farmers, by operating individually, are simply unable to expand operations to the scale necessary to become involved in processing. This move requires too much capital, expertise, and time. However, by pooling resources, as in a cooperative venture, even small producers can reach the necessary size and output levels to vertically integrate and enter the processing arena. Cooperatives have worked well in some areas because they allow farm producers to retain ownership and control of assets, while achieving economic and political power via membership (Stefanson and Fulton 1997).

Low commodity prices, recent changes in government policy such as the 1996 “Freedom to Farm” Act, and declining rural income and employment make clear that agricultural producers may have to revise their farming operations in order to survive. In fact, conditions such as these have resulted in the formation of numerous successful New Generation Cooperatives (NGCs) since the mid-1970s.

The following case studies examine specific NGCs and ask several questions. Why do some cooperatives succeed while others do not get off the starting line? Theories have been advanced but without clear-cut answers. Because of their recent history, not all that much research has been undertaken of these cooperatives. One fact is certain, however. Creating an NGC can be financially rewarding but is far from a guarantee of survival in an ever-changing market structure.

What is a New Generation Cooperative?

Even though this topic will be discussed in greater detail later, it seems necessary to include a brief description of the concept of NGC’s. They represent the latest generation of cooperatives; the 1920s and 1940s saw the development of previous cooperative generations. The main focal point of NGC’s is value-added processing. Previous cooperatives centered on commodity

marketing, basically acting as a clearinghouse for the members' products (Stefanson, Fulton, and Harris 1995).

NGC's differ markedly from traditional cooperatives in that they have a restricted or closed membership with members having specified delivery rights based upon the number of shares held. A democratic form of organization with one vote per member policies and a board of directors elected by the members from the members is the norm. Earnings are distributed among members on the basis of shares (Cropp 1996).

The price and delivery requirement per share is essentially established by the capital required for financing the development of a processing facility and the capacity of the planned facility (Stefanson, Fulton, and Harris 1995). While members are usually allowed to purchase varying amounts of stock, the members' investment constitutes a legally binding agreement to deliver the predetermined quantity of the commodity. To allow for community involvement and support, many NGC's sell preferred stock. The holders of this stock do not have voting rights.

Some of these cooperatives require only a small amount of startup capital; however, a majority require millions of dollars to be raised before construction can begin. Depending on the specific NGC, the investment and producer requirements can differ substantially.

Cooperative Development

Within the United States, Minnesota and North Dakota have led in developing NGCs. The successes achieved in these states have ignited a wave of NGC development across the Midwest. The question facing potential cooperative members and development agents now is whether this model will work in other areas. Since no one has managed to define a universal plan for NGC development that is common to all existing NGCs, we must look to common critical factors as guides to developing these organizations.

Initially, one or more farmers in an area must decide that there is a significant problem facing the area and must form a consensus among a group of producers. The group then often seeks the assistance of a facilitator or specialist whose task is to assist them in defining the problem, assessing resources available, exploring possible options, and narrowing the focus on the key opportunities to alleviate the problem (**Table 1**).

Table 1. NGC Practice: The Role of the Facilitator

The appropriate facilitator or coordinator is a key element.

The facilitator must:

- know enough about economic and business development to encourage the establishment of sustainable cooperative enterprises,
- have the organizational skills to bring diverse personalities together and create solidarity and cohesion,
- be enthusiastic about the cooperative solutions to problems,
- allow the cooperative to form and make decisions on its own. The facilitator cannot do the job for the members.

Source: Stefanson, Fulton, and Harris 1995, 19.

It is absolutely essential, as noted in the case study of Rancher's Choice Cooperative, that the group work together as a cohesive unit. While reaching a consensus on important issues can be difficult, internal stresses can divert the group from realizing its potential.

According to Stefanson, Fulton, and Harris (1995, 14), "Motivated, determined producers are the most important element in the success of New Generation Cooperatives." Producer-members must spend an immense amount of time working together to develop an NGC. Regardless of individual differences or past disputes, members must band together to develop a unified front.

The specific core group of members is most important and they are the nucleus of the development process. It is this group that must work with lenders, arrange for feasibility studies, develop a business plan, and recruit prospective members. With a strongly motivated central core, the forming cooperative can entice the collaboration and dedication of not only other farmers, but also economic development and perhaps governmental agencies (Stefanson, Fulton, and Harris 1995) (see **Table 2**).

Table 2. NGC Practice: The Importance of a Network of Support

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- Creates the environment within which development can occur.
 - Coordinates development efforts to avoid duplication.
 - Provides a variety of resources and expertise to serve the varying information and service needs of producer groups.
 - Creates an atmosphere of enthusiasm that is contagious.
 - Acts as a network linking producers, resources, funding, change makers, government, and other cooperative projects.
-

Source: Stefanson, Fulton, and Harris 1995, 13.

Critical tools in developing an NGC include a feasibility study and a business plan. A thoroughly conducted feasibility study can point out potential weaknesses in the proposed cooperative production or processing operation. It is much better to spend the necessary funds and time to plan and investigate the potential operation than to rush into the operating stages only to experience major unanticipated drawbacks.

A clear definitive business plan, after the project has been determined feasible, can help prospective members understand precisely what they will be buying into by joining the cooperative. It can also help in obtaining industry and association contributions. While feasibility studies represent a substantial upfront expense, such work can also result in major savings over the long run.

After a project has been determined feasible and a business plan has been created, the equity drive is the next major component in forming a NGC. Without adequate start up capital, the NGC can not be successful in starting and this is often a major deficiency of NGCs. The initial contribution by members is a measure of their commitment to the project. An NGC typically tries to sell enough shares to provide the necessary inputs for processing. Financial institutions

generally want 40-60 percent of the start-up capital to be investor equity, depending on the lender and the nature of the project. The logic behind the financial institutions' requirements is simple. The greater the investment that members of the NGC have in a project, the more committed they tend to be to the project's success. The specific amount of investor equity required is likely to be greater if there is currently no established market for the product, if risk elements involved have never been dealt with before, or if the product is extremely high-tech (Thyfault 1996).

While investing in an NGC may seem too risky for some producers, a well-placed investment can bring many financial benefits. In *Successful Farming*, Thomas Jacobs, whose family has invested in NGCs, offers several tips for investing in an NGC. His suggestions include:

- Read the disclosure statement. It describes risks in addition to past performance.
- Do your homework on management. Do they have experience in this industry? Have they failed in other jobs?
- Learn about the value-added industry. How strong are any competitors?
- Do not borrow too much money to buy stock. Jacobs suggests, for example, that it is not wise to risk the farm on the purchase of stock.

With the recent technological innovations that allow NGCs to produce materials such as particle board and bio-composites, not to mention the food processing products, producers can easily be swept up in the excitement of the future potential of an NGC. David Barton, director of Kansas State University's Arthur Capper Cooperative Center, says that it is crucial to honestly evaluate two questions before continuing on with the development process. Why should we do this? And, why shouldn't we do this? Objectively addressing these issues can substantially lower the risk of the venture's failure, as well as assist in the development of an action plan for the organization (Thyfault 1996).

Cindy Thyfault, writing in *Rural Cooperatives*, proposes an eight-step process to greatly reduce the risk of new business failure. The first four steps study the reasons why the new business could work. The second four steps explore the reasons for not continuing with the project. Her steps are as follows: (1) Assess competitive advantages; (2) Identify a project; (3) Organize a development team; (4) Raise seed capital; (5) Investigate; (6) Develop a comprehensive marketing plan; (7) Develop the business plan; and (8) Raise the necessary capital.

While the start-up process can be frustrating and lengthy, the rewards can be well worth the extra effort if the initial planning process is followed carefully (Thyfault 1996).

The Elements of Success

While there are no guarantees, successful NGCs have had a variety of common elements. Several cooperatives with the similar attributes as NGCs are so successful that their products are household names. For example consider Ocean Spray and Blue Diamond. While they have both been in existence for a number of years and are not considered NGCs, these cooperatives have both succeeded in establishing new and innovative markets for their products.

The Minnesota Association of Cooperatives has proposed several reasons why the state of Minnesota has succeeded in developing and operating NGCs. Specifically, leadership, legislative support, and believers are cited as three keys to Minnesota's success. In fact, residents are very devoted to NGCs and the Minnesota legislature has enacted a variety of laws beneficial to NGCs.

Minnesota has a network of support—believers—who aid in the successes. Institutions such as the St. Paul Bank for Cooperatives, the National Cooperative Bank, the Rural Finance Authority, and many others enable the technical, financial, and legal framework to be set in place for continuing cooperative development.

Thriving NGCs have successfully addressed the risks associated with entering into new markets. They have taken advantage of their strengths and found a niche that had to be filled. They have studied the market and know what consumers want. As shown in subsequent case studies, it takes much more than a strong desire to succeed. Success in a new market requires a dedicated, unified group of producers including those with leadership skills, knowledgeable, informed facilitators, successful, effective management, a strong business plan, a solid market, and supportive financial institutions.

Potential Problems

A variety of problems can contribute to the failure of NGCs but there are once again common characteristics among unsuccessful NGC ventures. Unfortunately, many attempts at NGC formation never get beyond the early developmental stages (**Table 3**).

Table 3. New Generation Cooperatives: Ten Difficulties Most Often Encountered

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1. Plant specifications are not met.
 2. Construction contract problems such as delays and overruns.
 3. Lack of owner commitment.
 4. Noncompetitive business location.
 5. Overly optimistic market projections.
 6. Unrealistically low operating cost projections.
 7. Faulty government-based marketing assumptions.
 8. Management problems.
 9. Excessive debt-to-equity ratio.
 10. Outside promoter rather than producer leadership.
-

Source: Minnesota Association of Cooperatives, *Financing New Wave Cooperative Ventures*, www.mncoop.org

The most disastrous component of an NGC can be the members themselves. If members cannot work together for the benefit of the group as a whole rather than compete with each other, the cooperative is most certainly doomed. Perhaps this is the reason why this model of

cooperation has proven to work quite well in the upper Midwest region. Residents in this area have an ancestral tendency to work well in groups or cooperatives. Nevertheless, cooperatives succeed in other regions also.

Another major hurdle in the formation and operation of an NGC is obtaining capital. When processing facilities can cost more than \$100 million, it can be daunting to even consider finances. However, with a significant number of shares, an unbelievable array of available grants, low interest loans, tax credits, and other financing options, the goal is certainly not unobtainable.

A related obstacle can often be selling potential members on the benefits of joining the NGC. The concept of buying contract shares in a cooperative is relatively new to most farmer-producers, especially when processing is involved. Some producers simply do not see themselves as part of the food production industry, let alone producing fiber, oils, or ethanol. To these producers, the NGC may not seem like a realistic investment.

Members and facilitators devoted to the project with a reasonable amount of technical knowledge are needed to explain what a producer can gain through membership or they may not be willing to invest. However, after realizing the potential for high premiums and returns on stock in addition to a few successful examples, producers can be convinced more easily.

Finally, the location of the processing facility is an important consideration. Such facilities have a wide variety of requirements such as an adequate water supply and land specifications. It may be somewhat difficult to find a suitable building site. An additional problem can arise when members cannot agree on the location of the building site, even if only one is really feasible. Due to the economic potential for the community where the facility is located, members may want the facility in their immediate area when, in fact, the facility should be located based on market considerations. Such conflicts must be resolved early if the NGC is to move forward in the development process. Internal conflicts that are not dealt with tend to erode the enthusiasm, dedication, and commitment of the NGCs organizers until the developmental effort gradually falls apart.

In light of the enthusiasm over the successes of NGCs, caution is necessary to help operations to move in the right direction. Brent Bostrom, Chair of Doherty, Rumble & Butler's Cooperative Law Department has identified ten potential pitfalls for NGCs. These pitfalls are as follows:

1. Lack of a clearly identified mission. NGCs must have specific goals and a clearly defined mission that is accepted by its members. Do not simply form an NGC because others belong to an NGC.
2. Inadequate planning. Detailed plans for achieving the identified goals and mission must be established.
3. Failure to use advisors and consultants. A team of knowledgeable and experienced advisors and consultants is usually necessary for an NGC to succeed.

4. Lack of member leadership. Leadership must come from within the group. The driving force for NGC success should originate within its members. If an external leader has initiated the entire process, what will happen when this external source of inspiration leaves?
5. Lack of member commitment. Members must be committed to the project because it will not succeed without their time, effort, and dedication. Often, the early years of a NGC are slow and frustrating. Member commitment is crucial during these times.
6. Inadequate management. Selecting a manager is an extremely important, but often difficult, task for a NGC's Board of Directors. This person can literally make or break an NGC. Supervising and establishing goals for the manager to achieve are also tasks delegated to the Board of Directors.
7. Failure to identify and minimize risks. Risk is inherent in any new endeavor and, while it cannot be completely eliminated, it can be limited. However, it must first be identified and quantified.
8. Overly optimistic assumptions. Huge future profits may be on members' minds during the organizational phase; however, such profit cannot be automatically assumed and speculation can hurt the cooperative.
9. Not enough capital. As is typically the case with small businesses, projects tend to outstrip the planned costs. To prevent difficulties from budget shortfalls, it is best to make sure that financing is adequate by carefully planning for contingencies.
10. Inadequate communication. During formation and the critical initial years of operation, high levels of communication are essential so that members know what to expect and are not caught short by unexpected difficulties.

Overview of Case Studies

Many, if not most, NGCs are formed in response to some type of market failure, to secure additional profits through value-added enterprises, or as community economic development (Cook 1995). Sometimes, however, a secondary objective may be to support a specific interest or hobby. When successful, these ventures can become secondary income sources. In general, the NGCs presented in this collection of case studies came from one of these approaches with a majority because of adverse market conditions for a processing plant or another market failure of some type.

As you read the following chapters, it can be noted that several characteristics are commonalities among the NGCs researched. Key leaders that get the job done, have the ability to maintain cohesiveness among the group, and remain faithfully devoted to the organization even in the most difficult of times are priceless. Thorough market research and feasibility studies allow the new cooperative members to understand the marketplace they are entering as well as the likelihood of success and practicality of the project. It is often heard that "patience is a virtue." These cooperatives cannot be started overnight. The time and expense to conduct all the

necessary studies and research before beginning construction or operations will be well worth it in the future.

Poultry/Grain Cooperatives

Golden Oval. Golden Oval, was formed in the midst of several successful NGCs. The Renville, Minnesota area is known for the development of several successful cooperatives. The Golden Oval NGC was formed from a need for increased profits because of the aging membership of its parent, Co-op Country Farmers Elevator. The board and management of Co-op Country Farmers Elevator felt that they needed to develop a value-added entity that would increase the profits of the elevator and local farmers by processing a crop grown by member-farmers with a high level of technology. After extensive study, the umbrella organization, Midwest Investors of Renville, Inc., determined that adding value through a liquid egg production operation offered the greatest return on investment for members. The founders of Golden Oval obtained the knowledge needed to enter and thrive in a niche market. The results suggest that they made an excellent choice.

It is interesting that the group also explored a large hog confinement facility, but opted not to pursue that approach. However, interested parties in the group went on to see this option become a reality in ValAdCo. This NGC was formed on the principle of adding value to corn through swine production. The cooperative's facilities have now expanded to span four hog farms with approximately 10,000 sows and breeding, gestation, farrowing, nursery finishing, and boar station units (Merrett, Holmes, and Waner 1999).

Grain and Oilseed Cooperatives

Mountain View Harvest. At the forefront of cooperative development, Mountain View Harvest Cooperative adopted an entirely new approach to marketing. The cooperative was formed in a desperate attempt to save a market for the producers' wheat after a longtime traditional cooperative Farmers Marketing Association went bankrupt. All of the former cooperative's elevators were then under the control of a single company leaving the farmers little, if any, marketing alternative.

The members of Mountain View Harvest Cooperative soon became owners of the nation's first farmer-owned bakery. The group purchased an existing successful bakery without making any management changes, but rapidly expanded the facility as the demand for their product increased. In fact, the need for expansion was so swift that it kept the organization on a tight financial budget even though the group began with a sufficient sum of investment capital. The advantage of purchasing an existing bakery allowed the cooperative to move rapidly into the production stage rather than struggling with construction of a new facility. Plus, the expertise of the employees substantially aided in the prosperity of the products.

Southwest Soy Cooperative. Poor commodity prices and declining farm incomes caused a group of soybean producers to start Southwest Soy Cooperative. This cooperative created a processing facility where soybeans are turned into soybean meal and oil for use in animal feeds. While recently limited by a decline in crush margins, the members plan to retain a greater share

of the profit through the value they add to the soybeans. The cooperative is also studying new markets for its products to increase revenues.

Golden Triangle Energy Cooperative, Inc. Golden Triangle seems to have developed from a slightly different mold. After unsuccessful attempts to bring existing ethanol industry competitors into their state, the Missouri Corn Growers Association and the Missouri Corn Merchandising Council encouraged members to develop an ethanol plant through an NGC.

Other organizations greatly contributed to this cooperative from the beginning. Basically, it was formed more around an economic development concept than because of a market failure. The justification was that the surrounding area would benefit substantially from this facility with both corn producers and the state feeling the impact through potential amplified premiums and tax revenues.

Organic Cooperatives

Heartland Organic Marketing Cooperative. Producers trying to keep more of the added-value in the local economy by completing their own processing founded Heartland Organic Marketing Cooperative. The NGC's organic standards add value to its products. The current facility has reached full capacity and the group plans to expand, creating a greater economic impact on the surrounding communities. The dedication and leadership of the members of Heartland Organic Marketing Cooperative played a major role in this group's success. Key leaders managed the organization, as well as their own farms, as there were no full-time employees in the cooperative's infancy.

Home Grown Wisconsin. HGW was organized to help organic producers to expand their marketing area, as well as increase their profits. Farmers interested in sustainable agriculture set out to cooperatively enter new markets that, without the volume production of the group, they could not meet since the most lucrative markets were restaurants in large cities. After a variety of initial setbacks which would have resulted in the failure of many cooperatives, the cooperative not only increased the volume of high quality local produce purchased in nearby Madison, Wisconsin, but eventually expanded to market the majority of their produce to the Chicago area.

Grape/Winemaking Cooperatives

Northern Vineyards Winery. This NGC was formed in an effort to save the market for members' grapes when an existing winery began making wines from its own grape varieties. The grape producers joined forces to form their own winery using the grapes they produced for wines with a local flair.

The group was fortunate enough to have a member with winemaking equipment and experience to assist them in the early operational stages of production. Another aid to Northern Vineyards Winery is its location. The scenic countryside and rich history combine to create a popular tourist attraction. Since its origin, the cooperative has more than doubled its wine production.

Beef Cooperatives

U.S. Premium Beef. U.S. Premium Beef resulted from an effort by producers to save the beef industry's dwindling market share. Plagued by a difficulty of competing with vertically integrated meat protein sources and inconsistency in beef carcass traits, the beef industry needed revitalization in a short period of time. U.S. Premium Beef developed a coordinated system to help members compete with meat industry giants.

This cooperative had the good fortune to align with an industry powerhouse, Farmland National Beef which is a subsidiary of Farmland Industries. By becoming a partial owner of Farmland National Beef, the cooperative benefited from selling the product under brand names already familiar to a large market segments. The founders of U.S. Premium Beef had timing, knowledge of the industry, a well-known product, and marketing advantage to propel them to success.

Ranchers' Choice Cooperative. Not every NGC is a success, however. Ranchers' Choice Cooperative faced adversity from the beginning. Faced with low commodity prices and a lack of competitive markets for cattle, these ranchers formed an NGC. After numerous complications, the group bought a slaughterhouse to produce a niche market product, kosher beef. Lack of funding, dissension within the group, lack of marketing opportunities, and a natural disaster eventually destroyed the dream of the members.

A lesson learned is that investors must have a thorough understanding of the market they will be entering. Unfortunately, the members of this cooperative were somewhat misinformed about the potential market for the product in several specialty stores. Promising market analysis and feasibility studies must be examined carefully to see if the potential retailers are asked the appropriate questions. It is also important to note the lack of sufficient financing and discontent within in the group that played a key role in the cooperative's demise.

Of the NGCs examined in this collection, eight are operating successfully and one has failed. However, that is not to say that an average of only one in nine NGCs will not make the grade. Actually, the failure rate is probably much higher as it is with small businesses in general.

Market failure or expansion of market share was the main rationale for the formation of six NGCs described in this report. Adding value to the crops currently produced and increasing profits resulted in the creation of two NGCs. Economic development served as the main underlying factor in the formation of another of these NGCs. However discussions with participants in many of the NGCs discussed demonstrated that local economic development was a serious consideration in many, if not most. In fact, expanded economic development is usually a requirement for capital investment by local economic development and financial institutions.

NGCs Across the Nation

During the spring and summer of 1999, the Illinois Institute for Rural Affairs conducted a survey of New Generation Cooperatives in the United States to gather information about sources

of funding, membership, the cost of shares, and other economic considerations. Of the 117 surveys mailed to NGCs and Limited Liability Companies (LLCs), 60 responded (51 percent).

Such ventures seem to be concentrated in the upper Midwest at the present time. However, as the word of the successes of NGCs is spreading, so is the geographic area in which they exist. Of the survey respondents, nearly half are located in Minnesota with another 40 percent in North Dakota and 6 percent in Iowa. Responses were also received from California, Colorado, Georgia, Hawaii, Illinois, Indiana, Kansas, Maine, Maryland, Michigan, Missouri, Nebraska, Oregon, South Dakota, Wisconsin, and Washington.

The most common product of these NGC's was ethanol. Either ethanol or some other corn derivative was the main product of 19 of the 60 responses (32 percent). Various livestock NGCs were the second major group, comprising 23 percent of the responses. Soybeans, other grains, fibers, vegetables, fruits/wineries, sugar beets, and organic products were also major categories of production with at least four NGCs in each of the preceding categories. Responses were also received from dairy, fish, and purchasing and service cooperatives, as well as producer alliances.

Of the responses received, 72 percent were from closed cooperatives. NGCs classified as open cooperatives comprised 24 percent. LLCs only accounted for 4 percent of the responses. Closed cooperatives are not selling new shares, but they may have sales drives from time to time as they expand needing additional capital and commodity supplies.

The overwhelming majority of start-up capital was obtained through equity shares purchased by members (see **Table 4**). Of the 30 respondents to this question, five NGCs relied entirely on sales of equity shares and, on the average, 54.4 percent of the startup capital was funded by the purchase of equity shares. This situation demonstrates the importance of a strong organization to attract members and being able to sell a sufficient number of shares to make the venture viable.

Table 4. Percentage of the NGC/LLC: Startup Capital by Source

| | <i>Mean</i> | <i>Maximum</i> |
|--|-------------|----------------|
| Equity Shares (Membership Fees) | 53.4 | 100 |
| Local Economic Development Grants | 1.6 | 12 |
| Local Economic Development Tools (e.g. TIF district) | 0.6 | 5 |
| Local Economic Development Loans | 3.9 | 50 |
| State Economic Development Grants | 11.7 | 100 |
| Federal Economic Development Grants | 2.4 | 40 |
| Private Lender (Banks, Credit Union, Savings & Loan) | 26 | 73 |
| N=60 | | |

Source: IIRA Questionnaire for Cooperatives or Limited Liability Corporations 1999.

The NGCs and LLCs varied dramatically in the amount of total capital required. Among respondents to this question, the total capital requirement ranged from \$17,500 to \$24,000,000,

with a mean of \$7,820,850. As might have been expected, the cost per share also differed widely. Shares of equity ranged from a minimum of \$2.00 to a maximum of \$1,300,000, with a mean cost per share of \$44,119.

The entities surveyed also differed by size. Current membership of these NGC's ranges from 8,432 to only 3 members. The mean number of members is 743 for 53 respondents to this question. Of course, the number varies greatly depending upon the geographic area covered by the cooperative and the nature of its product(s).

The characteristics of the members differed as well. Five respondents noted that the average farm size of members was fewer than 100 acres, while two cooperatives reported average member farm sizes of 101 to 200 acres. Cooperatives producing fruit and vegetable products, nuts, and fisheries have members with smaller acreages due to the land intensive nature of these commodities. One responded with 201 to 300, three returned an answer of 301 to 400, and five noted an average farm size of 401 to 500 acres. Finally, 16 groups reported over 500 acres per farm. These larger farms are also due to the nature of the commodity produced. Cooperatives in these categories were mostly grain and oilseed cooperatives. However, beef farms were also among the larger size groups due to the land required for pasture.

The geographic distribution of the members involved local groups as well as broad regions. Of 44 responses to a question on the area covered by the cooperative, 41 percent had a membership concentrated within several counties. Eleven percent were statewide organizations. The groups with a membership base covering several states comprised 36 percent while the remaining 11 percent claimed other distributions. This variance can partially be explained by the local or regional nature of production of some commodities such as grapes or vegetables, while others can easily be produced in a much broader area such as wheat and corn. In addition, some perishable items must be grown in close proximity to one another for marketing purposes. On the other hand, some NGCs such as U.S. Premium Beef have members in an extremely diverse geographic area.

Consistent with previous discussions, survey results show that capturing more of the added value of crops and low commodity prices are the dominant factors in NGC/LLC formation (see **Table 5**). Other issues of notable importance include vertical integration of production and declining farm supports. Surprisingly, replacement of an existing processor was not an important factor for the sample as a whole, although it provided the immediate stimulus for several. This comparison shows the widely divergent reasons for NGCs and the fact that they can be used to address many concerns of producers.

The survey also asked who was instrumental in initiating discussions regarding the formation of the NGC/LLC. Fifty-seven responses were received to this question. Farmers-producers initiated the process in 86 percent of the cases. An existing grain elevator cooperative was responsible in 21 percent of the responses. Local economic development groups were the driving force in 17 percent; investors seeking to enter new domestic markets initiated 2 percent; and the remaining 10 percent came from other sources.

Table 5. Reasons Stimulating the Establishment of the NGC/LLC

| | <i>Mean</i> |
|--|-------------|
| Low prices for commodities | 4.559 |
| Need to create local jobs in rural community | 3.118 |
| Attempt to capture more value from crops | 4.914 |
| Replace a processor that had closed | 1.500 |
| Raise capital to expand existing business. | 1.545 |
| Experience with previous cooperative(s). | 2.588 |
| Free trade and globalization of markets. | 2.594 |
| Vertical integration of production. | 4.242 |
| Environmental regulations. | 3.206 |
| High unemployment among farm families. | 2.909 |
| Declining farm supports. | 4.156 |
| Increasing costs of technology. | 2.939 |
| Tax advantages of cooperative or LLC. | 2.886 |

Coding: 1=not important; 3=moderately important; 5=very important. N=60

Source: IIRA Questionnaire for Cooperatives or Limited Liability Corporations 1999.

The specific organizing group naturally depends on the commodity or product being created. For grain operations, it only makes sense for elevators to actively participate. It is especially important that farmer-producers were the main driving force in a majority of cases.

The time lapse between the initial discussions about forming a cooperative or LLC and it becoming operational ranged from 6 to 18 months. Of 38 responses, 13 percent had become operational in fewer than six months. Those requiring 6 months to one year for operations to begin represented 29 percent and 32 percent needed one year to 18 months to be operational. Nearly one in five (18 percent) reported a time lapse of from 18 to 24 months, while only 8 percent required more than two years. The main point from this comparison is that when farmers-producers realized the need and became committed it did not take very long to bring the idea to fruition.

Obstacles

Formation of an NGC/LLC can present many obstacles (**Table 6**). According to this survey, the most significant obstacles were marketing the product, borrowing funds from local financial institutions, and attracting enough members to participate. These issues, of course, must be addressed early in the process and should be reflected in the feasibility study or business plan. Somewhat unexpected is that finding members to replace those who quit does not seem to be a problem. Perhaps the cooperatives were well enough established at this point that the cooperative is perceived as successful, or likely to be in the future.

Table 6. Obstacles to NGC/LLC Formation or Operation

| | <i>Mean</i> |
|---|-------------|
| Attracting enough members to participate. | 3.382 |
| Borrowing funds from local financial institutions. | 3.469 |
| Retaining members during the early or unprofitable years. | 3.129 |
| Finding members to replace those who quit. | 2.400 |
| Attracting an experienced manager. | 3.000 |
| Developing a plan of operations from the start. | 2.906 |
| Hiring a qualified labor force. | 2.710 |
| Marketing the product. | 3.781 |
| Low commodity prices. | 2.897 |

Coding: 1=insignificant obstacle; 3=moderate obstacle; 5=significant obstacle. N=60

Source: IIRA Questionnaire for Cooperatives or Limited Liability Corporations 1999.

Competition. Competition from other businesses was a factor for many groups forming NGCs. Among those surveyed, 55 percent had to face existing competitors in their industry. Of these respondents, 44 percent met severe difficulty from the competitors. Examples of competition include other NGCs/LLCs (7 percent) and local elevators (29 percent). Since the NGCs are, in fact, businesses operating for a profit, they must compete with other businesses or agencies providing similar products or services and the NGC is usually the newcomer trying to break into an established industry. For this reason, it is crucial that the location of the processing plant relative to unserved markets be advantageous.

Management. Having an experienced and skilled full-time manager can help combat many obstacles. Of 38 respondents, 68 percent have a professional full-time manager. Thirty-four replies noted that the cooperative has full- or part-time employees with the mean number of full-time employees at 50. One cooperative has 800 full-time employees. The maximum number of part-time employees is 300 with a mean of 14.

Technical Assistance. Most NGCs need and seek some type of technical assistance in starting operations. In fact, a variety of different sources are frequently utilized in combination. Over 38 percent of NGCs surveyed sought assistance from the Cooperative Extension Service, 46 percent from local economic development agencies, 56 percent from state economic development agencies, 41 percent from the U.S. Department of Agriculture, 23 percent from the Farm Bureau, 38 percent from private consultants, 46 percent from lending institutions, 47 percent from their state department of agriculture, and 38 percent from other NGCs.

However, the usefulness of this assistance may be great or leave much to be desired. In the survey, NGCs were asked to rate the quality of the assistance received from each source used on a scale of one to five with one being not helpful, three being moderately helpful, and five as very

helpful. Other NGCs received the highest rating with a mean of 3.818. State departments of agriculture followed with a mean rating of 3.640. State economic development agencies and private consultants were ranked third with means of 3.500. Local economic development agencies (mean = 3.464), the USDA (mean = 3.346), lending institutions (mean = 3.333), and the Cooperative Extension Service (mean = 3.192) all were rated better than average. The Farm Bureau was rated slightly lower with a mean of 2.545.

Factors Contributing to Success

The surveyed agencies rated factors contributing to the success of the cooperative (**Table 7**). Successful marketing of the product is very important. Other critical factors include accurate perception of the need for the product, financial commitment of the members, favorable market conditions, and effective management practices. Employing an experienced professional manager and the availability of local finance are also extremely important as might be expected.

Figure 7. Factors Contributing to the Success of the NGC/LLC Effort

| | <i>Mean</i> |
|--|-------------|
| Accurate perception of need for product. | 4.600 |
| Financial commitment of members. | 4.600 |
| Employing an experienced professional manager. | 4.424 |
| Effective management practices. | 4.514 |
| Favorable market conditions. | 4.543 |
| Availability of local finance or capital. | 3.939 |
| Successful marketing of product. | 4.833 |

Coding: 1=not important; 3=moderately important; 5=very important. N=60

Source: IIRA Questionnaire for Cooperatives or Limited Liability Corporations 1999.

These ratings compare closely with important points in the case studies to follow. U.S. Premium Beef and Mountain View Harvest Cooperative obtained a competitive edge in the marketing arena by buying into existing branded products that consumers were already familiar with. Ranchers' Choice Cooperative failed largely due to a misconstrued perception of the need for their product. The financial commitment of the members is notable in nearly all of the NGCs studied. A professional manager can make a tremendous impact on a cooperative's sales and operations. For example, Home Grown Wisconsin switched managers and witnessed a total change in the sales focus of the organization. Golden Triangle was fortunate enough to have a large sum of the necessary financing provided by community organizations.

Financial Success. The general financial status of the NGCs/LLCs was also addressed in the survey and 38 NGCs responded. Only 3 percent were not financially successful, 13 percent were not yet profitable but expected to be in the near future. Eighteen percent were currently at the breakeven point and moving toward financial success. The largest group, 36 percent, was listed

as very profitable. However, 21 percent noted that it was too soon to tell, and 10 percent did not know the status of the finances. The mean time for an organization to operate profitably was 20 months with a maximum time of 156 months.

Finally, the trends in sales during the past five years were analyzed. Only 27 responses were received, but the NGC/LLC had to have sold a product for at least five years to be included. Consequently, the possible responses were limited. Sales more than met expectations for 33 percent of the respondents. Forty-eight percent felt that sales matched expectations, however, for 19 percent, sales were less than expected.

As with the ingredients of forming a successful NGC, these results indicate that it is not necessarily the type of NGC that guarantees successful sales. Cooperatives with less than hoped for sales produced everything from fruit to cotton to ethanol. Likewise, NGCs with sales over expectations produce sugar, organic produce, fish, turkey, and once again, ethanol.

So what is it that differentiates these cooperatives? The high sales NGCs are typically located in areas with strong ties to cooperatives—and how to make them succeed. The majority have a fairly substantial number of members compared to the average NGC and a full-time manager. However, this is also the case with some of the low sales cooperatives. It seems that producers must carefully evaluate the market and the need for the product in the trade capture area. A locality already concentrated with ethanol plants is unlikely to be a successful environment for a new ethanol facility.

Like any agricultural producer already knows, sometimes even the most extensive planning, hard work, and a good product may not yield the most profits. It also takes timing, anticipation of need, and a little cooperation from “Mother Nature” to have a successful year—and even the best of years is no promise of what the next will bring. Of course, a little good luck never hurts either. Agriculture is constantly changing and so is the demand for its products. NGCs must stay on top of their game or be left in the dust.

Summary

NGCs offer agricultural producers an opportunity to compete in today’s global marketplace. By adding value to farm products through processing, these cooperatives help keep a greater portion of the profit in the hands of producers. Working together, the economies of scale needed for vertical integration can be obtained. NGCs often result from a group effort to correct a market failure. Low commodity prices and eroding rural economies have brought more focus to such topics. Rural economic development efforts are more often being focused on agriculture.

While there is no recipe for success in developing an NGC, the number of current thriving operations allows for comparison of characteristics. A strong and committed membership core with leadership capabilities, strong equity financing, and technical guidance can help develop a successful NGC.

The possibilities with increasing technology and expanding niche markets are only limited by the imaginations of farmer-producers. NGCs, LLCs, and other ventures offer many opportunities for producers to participate more fully in the value chain as the food products head

for the consumers' tables. NGCs are only one approach but as will be shown in subsequent discussions, they have been very effective in helping producers organize in such a way that they can capture a larger share of the food dollar. NGCs can truly help America's rural population enter the new millennium with a much better future.

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